

Clean, Strong, Improving



adaro



Why Adaro?

1

High quality assets. Large reserves of ultra-low sulphur and low ash coal which remains in firm demand despite the current downturn in the growth of the thermal coal market.

For more details, see page **88**

2

Second largest coal producer in Indonesia.

For more details, see page **50**

3

Professional, dedicated and supportive shareholder team.

For more details, see page **42**

4

Professional, focused and execution-oriented management with a proven growth record.

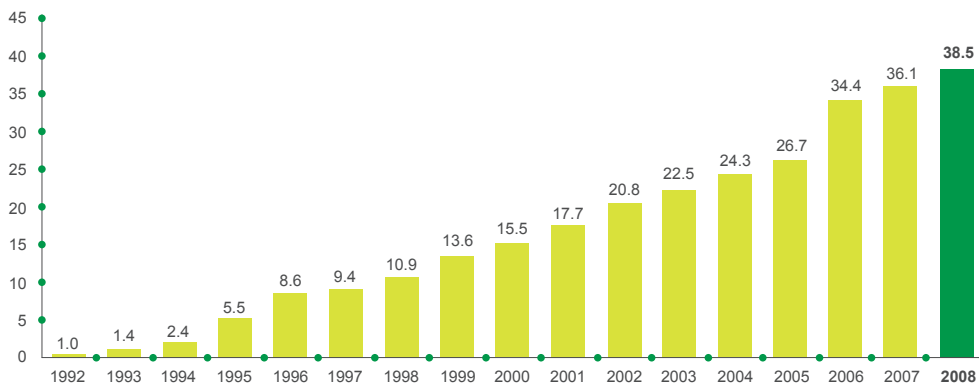
For more details, see page **44**

5

Continuously upgrading corporate governance standards.

For more details, see page **108**

Consistent Production Growth Since 1992
(Million Tonnes)



Vertically-integrated to better control operations and lower costs. Further integration to continue.

For more details, see page **29**

6

Average prices for 2009 will increase and boost free cash flow.

For more details, see page **74**

7

Plan to increase output to 80 million tonnes remains unchanged. Power plant construction going ahead, which will drive an overland conveyor, to also boost efficiency.

For more details, see page **92**

8

Management focused on maximizing shareholders' returns either through investment or a cash dividend.

For more details, see page **101**

9

Plan to integrate further and completely from pit to port by acquiring a barging and ship loading company.

For more details, see page **95**

10

“ Welcome to the inaugural Annual Report of PT Adaro Energy Tbk. With this 2008 Annual Report, which will be distributed to all of our shareholders either in hardcopy, CD or by way of an emailed link to our website, we hope to provide you with balanced and important information to help you make an informed investment decision about Adaro Energy.”



Garibaldi Thohir
President Director

Annual Report Mission

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

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Five Year Financial Highlights

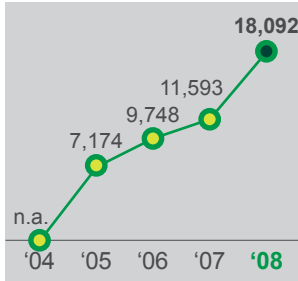
PT Adaro Energy Tbk	2004	2005	2006	2007	2008
Key Financial Highlight (in million Rupiah)					
Net Working Capital	(67,526)	998,572	86,562	(120,298)	1,135,172
Total Assets	158,599	13,853,244	13,343,393	14,688,683	33,720,170
Total Liabilities	167,453	13,109,053	12,372,336	11,979,726	19,692,546
Interest Bearing Debt	166,246	10,138,968	9,630,632	7,426,288	11,038,941
Total Equity	(9,941)	305,837	387,021	2,150,554	14,009,245
Net Sales	-	7,174,651	9,748,068	11,592,640	18,092,502
Cost of Revenue	-	5,836,588	7,787,558	9,089,223	13,149,270
Gross Profit	-	1,338,063	1,960,510	2,503,417	4,943,232
Operating Income	(1,641)	1,174,501	1,741,214	2,252,519	4,211,858
EBITDA	(1,303)	1,172,836	1,906,251	2,423,080	4,454,674
Net Income	(2,106)	65,892	141,133	88,534	887,198
Weighted average of ordinary shares outstanding	12,500	482,927	1,436,280	1,436,280	25,469,531
EPS (Rp/shares)	(168)	136	98	62	35
Capex	50,784	914,247	897,197	914,312	2,200,916
Operating cash flow	(44,986)	(201,004)	464,093	2,990,704	678,382
Free cash flow	(95,769)	(988,406)	(198,520)	2,339,934	791,984
Financial Ratios					
Gross Margin	n.a.	19%	20%	22%	27%
Operating Margin	n.a.	16%	18%	19%	23%
Net income Margin	n.a.	1%	1%	1%	5%
ROA	-1.3%	0.5%	1.1%	0.6%	2.6%
ROE	21.2%	21.5%	36.5%	4.1%	6.3%
Return on Invested Capital	-1.3%	0.5%	1.1%	0.7%	6.3%
Quick Ratio	0.03x	0.83x	0.64x	0.85x	0.92x
Total Debt to Assets	1.05x	0.45x	0.45x	0.51x	0.33x
Net Debt to Equity	n.a.	27.7x	22.9x	2.3x	0.5x
Net Debt to EBITDA	n.a.	7.2x	4.7x	2.0x	1.7x
Operating Statistics					
Consolidated Sales Volume ('000 tonnes)	-	26,298	34,720	37,550	41,099
Production ('000 tonnes)	-	26,613	34,285	36,078	38,524
Cash Cost, Excluding Royalty (US\$/tonne)	-	20.2	21.6	23.6	28.8

Notes

2004: Established in July 2004, the company was still in the pre-operating stages. Financial results from major subsidiaries had not been consolidated.

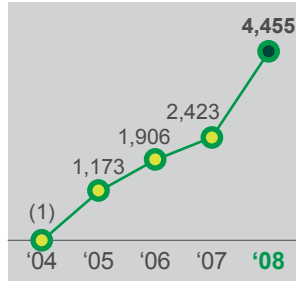
2007: Restated to reflect the impact of additional interest in SIS, ATA & MSW which were accounted for using the pooling of interest method and adjustments to the Corporate Income Tax expense for fiscal years 2004, 2005, 2006 and 2007 due to the different interpretation of taxation regulations relating to the Leveraged Buyout transactions. The previous year's financial statements presented above have not been restated for these changes.

Net Sales
(Billion Rupiah)



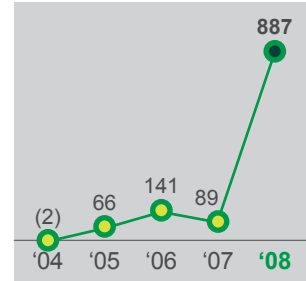
Continuous growth of coal sales volumes and higher coal prices caused sales revenues to increase.

EBITDA
(Billion Rupiah)



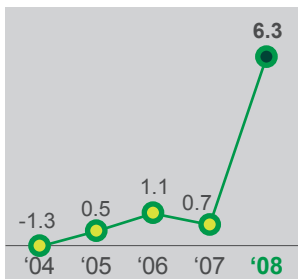
Strong EBITDA growth supported by strong sales performance and improvement of cost efficiency.

Net Income
(Billion Rupiah)



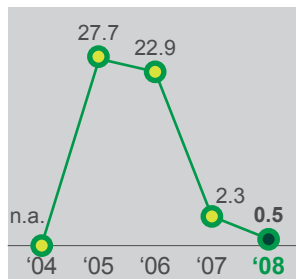
Increase in net income driven by strong operational results and better debt management.

Return on Invested Capital
(%)



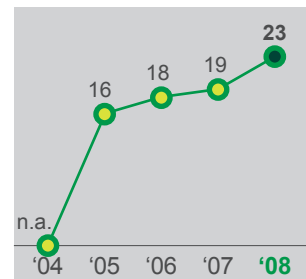
Strong operational results and improvement in financial structure have caused ROIC to soar.

Net Debt to Equity
(Times)



Financial structure improved resulting from post-LBO refinancing activities and IPO.

Operating Margin
(%)



Favorable market conditions and cost control kept operating margin consistently growing.

Financial Highlights of the Subsidiaries

PT Adaro Indonesia	2004	2005	2006	2007	2008
Key Financial Highlight (in US\$)					
Total Assets	231,652,217	1,270,358,449	1,282,558,518	1,113,451,006	1,285,154,749
Total Liabilities	215,163,453	1,166,753,846	1,130,410,606	1,006,701,805	1,029,304,944
Interest Bearing Debt	5,000,000	898,344,657	855,103,268	550,000,000	520,387,077
Total Equity	16,488,764	103,604,603	152,147,912	106,749,197	255,849,803
Net Sales	580,654,627	697,086,053	1,003,221,834	1,146,339,836	1,617,765,114
Cost of Revenue	539,523,585	564,058,761	808,806,539	942,726,224	1,182,905,511
Gross Profit	41,131,042	133,027,292	194,415,295	203,613,612	434,859,603
Operating Income	30,641,754	121,535,916	180,303,509	183,503,030	380,659,352
EBITDA	45,476,428	129,030,431	189,003,732	134,423,671	309,470,531
Net Income	17,055,709	47,815,839	48,543,309	35,958,100	163,080,454
Capex	11,667,147	20,864,703	15,150,928	13,365,743	22,384,711
Operating Statistics					
Sales Volume ('000 tonnes)	25,113	26,094	34,455	36,576	39,798
Production Volume ('000 tonnes)	24,380	26,613	34,285	36,078	38,524
Cash cost, Excluding Royalty (\$/tonne)	19.5	19.2	20.8	23.4	28.9
Average Stripping Ratio (planned)	3.10	3.30	3.57	4.25	4.25
Average Stripping Ratio (actual)	2.71	3.20	3.57	3.30	4.14

Note

2007: Restated to reflect the adjustments to the Corporate Income Tax expense for fiscal years 2004, 2005, 2006 and 2007 due to the different interpretation of taxation regulations relating to Leveraged Buyout transactions. The previous year's financial statements presented above have not been restated for these changes.

Refinancing activities done post LBO has improved the financial structure of Adaro. Higher cost debt level has been refinanced by using lower cost debt.

PT Indonesia Bulk Terminal	2004	2005	2006	2007	2008
Key Financial Highlight (in US\$)					
Total Assets	92,957,505	174,285,241	172,453,932	176,110,220	176,673,962
Total Liabilities	31,801,965	76,225,543	55,939,394	38,135,673	29,563,933
Interest Bearing Debt	25,524,570	26,074,326	38,245,923	30,165,353	1,871,045
Total Equity	61,155,540	98,059,698	116,514,538	137,974,547	147,110,029
Revenue	37,159,015	37,638,455	44,740,238	50,366,881	34,266,097
Operating Expenses	15,342,333	16,066,020	21,311,462	23,553,530	24,172,816
Operating Income	21,816,682	21,572,435	23,428,776	26,813,351	10,093,281
EBITDA	27,317,443	26,364,254	28,128,980	32,370,316	15,924,671
Net Income	14,960,391	15,970,016	18,454,840	21,460,009	9,135,480
Capex	419,135	301,434	858,100	514,908	1,698,244
Operating Statistics					
Coal Tonnage Handled (in 000 tonnes)					
Related Parties	7,039	6,293	8,952	10,719	6,270
Third Parties	938	1,373	733	1,246	1,803
Coal Tonnage Handled (in 000 tonnes)	7,977	7,667	9,685	11,965	8,073
Vessels Loaded	135	120	146	185	125

Improvement in capacity utilization from 2004 to 2007 and better cost efficiency maintain a consistent increase in EBITDA. As Adaro moved its export tonnage back to Taboneo Anchorage to gain more cost efficiencies, EBITDA in 2008 decreased.

Coaltrade Services International Pte. Ltd.	2004	2005	2006	2007	2008
Key Financial Highlight (in US\$)					
Total Assets	33,402,946	62,272,428	57,221,905	244,427,695	231,541,248
Total Liabilities	23,475,416	35,957,793	32,811,586	226,178,428	185,814,397
Interest Bearing Debt	-	-	-	200,000,000	157,654,590
Total Equity	9,927,530	26,314,635	24,410,319	18,249,267	45,726,851
Revenue	223,496,296	216,044,104	334,938,661	315,647,939	383,175,342
Operating Expenses	191,802,055	168,839,051	297,990,180	280,424,162	346,794,965
Operating Income	31,694,241	47,205,053	36,948,481	35,223,777	36,380,377
EBITDA	31,711,304	47,211,549	37,001,928	36,129,739	45,002,861
Net Income	28,494,742	42,400,611	33,102,034	31,578,948	32,561,164
Capex	17,503	6,644	137,618	6,637	18,961
Operating Statistics					
Total Coal Sales (in 000 tonnes)	7,712	6,441	10,095	9,325	7,957
• Adaro	6,714	6,187	5,617	7,479	6,995
• Third Parties	998	254	4,477	1,846	962

Coaltrade has been able to maintain its operating margin and has also been able to serve its allocated debt inherited from the LBO.

PT Saptaindra Sejati	2004	2005	2006	2007	2008
Key Financial Highlight (in million Rp)					
Total Assets	151,013	1,183,420	2,043,288	2,964,865	4,390,190
Total Liabilities	66,907	966,607	1,757,501	2,473,239	3,902,928
Interest Bearing Debt	13,412	826,370	1,537,943	2,191,716	3,592,941
Total Equity	84,106	216,497	285,634	491,624	487,260
Revenue	134,442	602,404	1,108,011	1,404,062	1,857,009
Cost of Revenue	102,141	449,791	907,357	1,101,637	1,561,696
Gross Profit	32,301	152,613	200,654	302,425	295,313
Operating Income	17,378	129,143	157,689	246,566	174,748
EBITDA	30,002	193,188	324,464	436,606	464,216
Net Income	10,682	51,391	70,154	2,376	(460,482)
Capex	17,066	522,107	753,449	742,269	1,114,272
Operating Statistics					
Overburden Removal (Mn BCM)	9.80	23.06	46.78	60.73	85.80
Coal Getting (Mn tonnes)	3.20	4.35	8.61	11.93	11.36

With strong back up from two of the largest coal mining companies, SIS is able to maintain its operating margin. Initiatives to improve productivity and cost efficiency are continuously made to enable SIS to increase competitiveness.

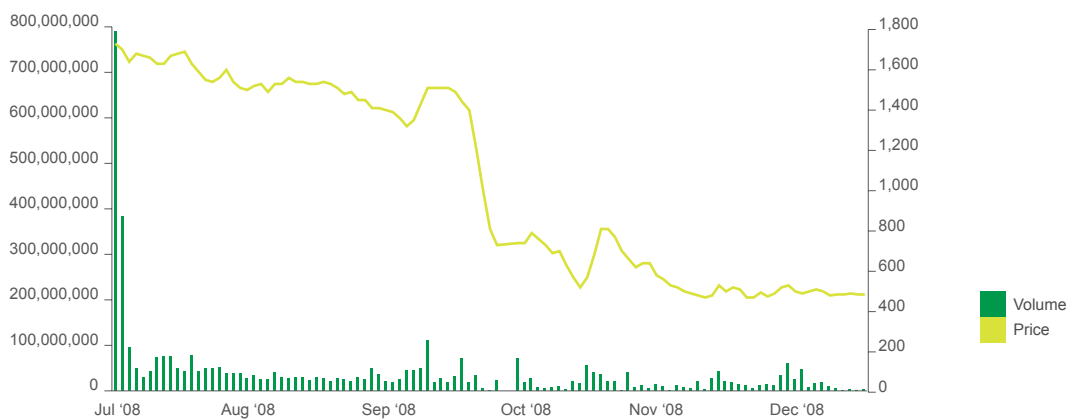
Going Public to Grow and Improve

Initial Public Offering

Adaro Energy listed 32 billion of its shares publicly on the Indonesian Stock Exchange in an Initial Public Offering on July 16, 2008 of 35% or 11 billion shares of the company, raising Rp 12.2 trillion, or around US\$1.3 billion.

The IPO was conducted in order to make acquisitions so as to simplify the corporate structure, into a single holding company with independent, yet integrated, operating subsidiaries acting as profit centres. The increase of control of the subsidiaries will enable Adaro Energy to better control and strengthen its coal supply chain, create synergies amongst the different business units and create a more efficient, profitable, and bigger Adaro Energy.

Share Price Performance



Notes: ADRO shares were temporarily suspended on 14 and 15 October 2008 due to potential share buyback in significant amount.

Shareholder's Information

Market Capitalization (as of April 23, 2009): Rp 31,986 billion

Share Price and Volume Year 2008:

- IPO Price Rp 1,100/share (listed July 16, 2008)
- Share Price Range: Rp 470 - Rp 1,730
- Average Daily Share Price: Rp 1,053
- Average Daily Volume: 37.1 million shares
- Relative Share Price Performance:
 - vs the Jakarta Composite Index (JCI): - 28%
 - vs the Mining Index of the JCI: 49%

Seats were limited during Adaro Energy's pre-IPO Public Expose.



Analysts Covering Adaro Energy

- | | |
|--|--|
| 1. Andreas Bokkenheuser, UBS | 12. Rahmi Sari Marina, NISP |
| 2. Wee Kiat Tan, Morgan Stanley | 13. Ricardo Silaen, Kim Eng |
| 3. Katherine Hermawan, Bahana Securities | 14. Surabhi Chopra, Mandiri Sekuritas |
| 4. Yusuf Adiwinoto, DBS Vickers | 15. Jordan Zulkarnaen, Kresna |
| 5. Daisy Suryo, Merrill Lynch | 16. Haider Ali, Credit Suisse |
| 6. Adam Worthington, Albert Saputro, Macquarie | 17. Arief, Optima Securities |
| 7. David Chang, UOB Kay Hian Securities | 18. Adi Hartadi, Trimegah |
| 8. Herman Tjahjadi, Schroders | 19. Cherie Khoeng, Deutsche Bank |
| 9. Rania Rahmundita, CIMB | 20. Ariyanto Kurniawan, AM Capital |
| 10. Erindra Krisnawan, Citigroup | 21. Jemmy Paul, PT Waterfront Securities Indonesia |
| 11. Ahmad Solihin, CLSA | 22. Sylvia Darmaji, Ciptadana |

Analysts Recommendations:

Firm Name	Analyst	Recommendation	Target Px (Rp)	Date
UBS	Andreas Bokkenheuser	Buy/Short term Sell	1,100	01/22/09
Morgan Stanley	Wee Kiat Tan	Overweight/ Attractive	1200	01/21/09
Bahana Securities	Katherine Hermawan	Hold (reduce from Buy on 12/04/08)	550	01/05/09
DBS Vickers	Yusuf Adiwinoto	Buy	830	12/03/08
Merrill Lynch	Daisy Suryo	Buy	912 (reduce from 1,400 on 09/17/08)	12/04/08

Shareholders Holding More than 5%:

Name	Shares	Ownership (%)
Citibank Hongkong S/A Cbkh-Cpbg-Pt Saratoga Investama Sedaya	4,775,524,806	14.93
PT Triputra Investindo Arya	4,268,347,697	13.34
PT Persada Capital Investama	3,520,995,975	11.01
GS NY SEG AC-LOCKUP ACCOUNT	3,180,703,000	9.94
PT Trinugraha Thohir	2,496,384,062	7.80
Garibaldi Thohir	2,496,384,062	7.80
Ubs Ag Singapore S/A Atticus Investments Pte Ltd – 2091144083	1,835,021,500	5.74
Total	22,573,361,102	70.57

* As at December 31, 2008

Dividend Policy

Adaro Energy will target an annual dividend payout ratio up to 45% of consolidated net profit. Adaro Energy may also pay interim dividends. Due to the terms of their loans Adaro Energy's operating companies can only distribute dividends of up to 50% of their net profit.

Adaro Described

Our Vision

To be the largest and most efficient integrated coal mining and energy company in South East Asia.

Our Mission

We are in the business of coal 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; and
- maximize shareholders' value.

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. With a present capacity of approximately 45Mt per year, the company is planning to increase production capacity to 80Mt per year by the end of 2013. The company has approximately 3.5 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.



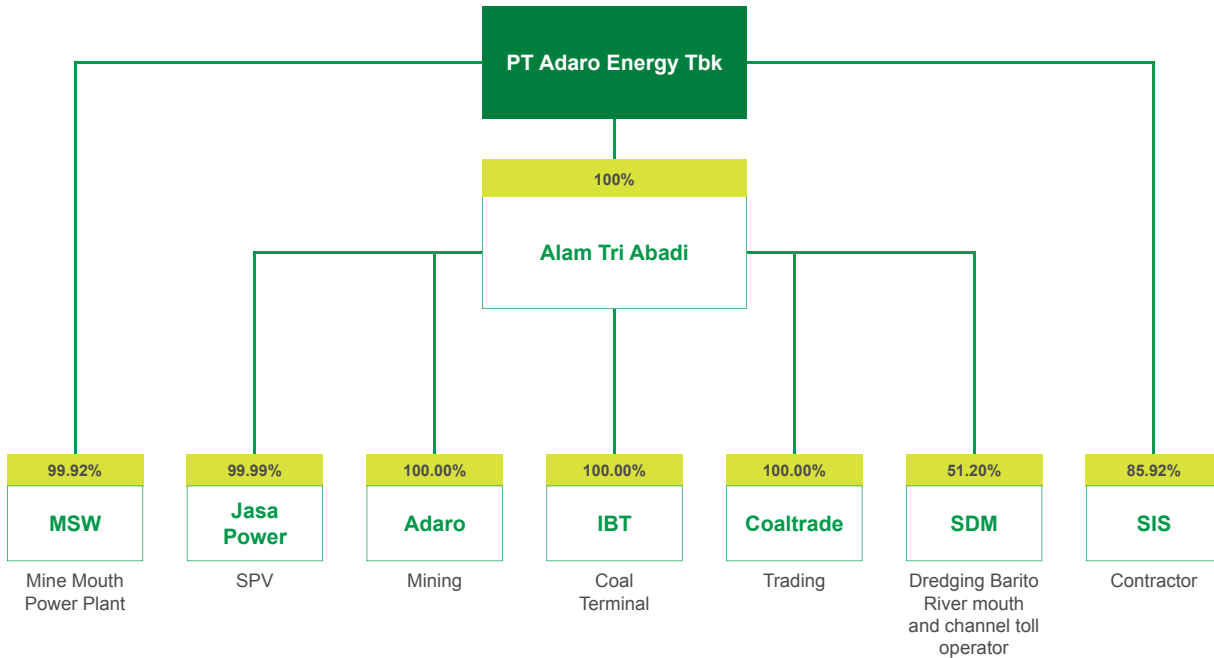
Adaro at a Glance

2009 Production/ Sales Volume	42-45 million tonnes 10 Years CAGR of 13.4%
Envirocoal	Sub bituminous, moderate CV, high moisture coal, ultra-low pollutants
Customers	41 customers in 17 countries Substantially all blue-chip power utilities
Pricing	All annual price negotiation or index-linked, with adjustment for energy level
Cost	Low to middle production cost compared to peers
Resources – JORC Compliant	3.5 billion tonnes
Location	Tanjung District, South Kalimantan
License	First Generation CCA valid until 2022
Operations	The largest single coal mine in Indonesia Vertically integrated
Growth Strategy	Expand production, market focus on Asia and to further integrate the operations
IPO & Market Cap	July 16, 2008 Market Cap as of April 23, 2009: Rp 32.0 trillion (US\$2.9 billion)

Current Annual Capacity

1. Mining equipment: 45 Mt
2. Hauling road: 60Mt
3. Kelanis: 45Mt but by end of February it will increase to 55 Mt (new crushing system)
4. Barges: 70 barges (from affiliated and 3rd party companies), 50 Mt.
5. Taboneo: 100,000 tonnes per day using 5 floating cranes
6. IBT: 12 Mt
7. Barito River Channel: 200 Mt.

Corporate Structure



Each unit is positioned to be an independent profit centre enabling us to have a reliable and competitive coal supply chain which will create optimum value added for its stakeholders.

Key Shareholders

- Edwin Soeryadjaya’s Company
- Theodore Rachmat’s Company
- Garibaldi Thohir’s Company
- Benny Subianto’s Company
- Sandiaga S. Uno
- International consortium including Noonday Asset Management Asia Pte. Ltd. (a subadvisor of Farallon Capital Management, L.L.C.), GIC Special Investments, Kerry Coal (member of the Kuok group), a proprietary investing group within Goldman Sachs and Citigroup Global Special Situations Group

Some of Our Lenders



How We Did

The audited consolidated net profit for the year ended December 31, 2008 increased 902% to Rp 887 billion from the Rp 89 billion year ended December 31, 2007. Adaro Energy's 2008 basic earnings per share (EPS) was Rp 35. The significant increase is attributed to higher achieved selling prices of coal as well as increased production, which increased revenue 56% to Rp 18,093 billion. Meanwhile, the cost of revenue increased at a lesser rate of 45%, boosting the gross margin from 22% in 2007 to 27% in 2008. Adaro Energy's operating income increased 87% to Rp 4,212 billion, resulting in a wider operation margin, which increased from 19% to 23%.

Summary of Full Year 2008 Performance

	2007	2008	% change
Production Volume (Mt)	36,078	38,524	7%
Sales Volume (Mt)	37,550	41,099	9%
Net Revenue (Bn Rp)	11,593	18,093	56%
Cost of Revenue (Bn Rp)	9,089	13,149	45%
Operating Income (Bn Rp)	2,253	4,212	87%
Net Income (Bn Rp)	89	887	902%
EBITDA (Bn Rp)	2,423	4,455	84%
Return On Invested Capital	0.7%	6.3%	5.6%
Total Assets (Bn Rp)	14,689	33,720	130%
Cash and Cash Equivalents (Bn Rp)	832	2,416	190%
Available for Sale Investments (Bn Rp)	1,734	1,096	(37%)
Interest Expense and Finance Charges (Bn Rp)	1,726	616	(64%)
Total Interest Bearing Debt (Bn Rp)	7,426	11,039	49%
Cost of US\$ Bank Loans	6.4%-17%	2.3%-6.9%	
Stockholders' Equity (Bn Rp)	2,151	14,009	551%
Number of Shares Outstanding (thousand unit)	20,624,780	31,985,962	
Quick Ratio	0.85x	0.92x	
Net Debt to Equity	2.26x	0.54x	
Total Debt to Assets	0.51x	0.33x	

Adaro Energy's Vice President Director, Mr. Christian Ariano Rachmat said:

"We had an extraordinary year in 2008. We are delighted we achieved our 2008 production and sales targets, despite sometimes difficult and challenging conditions. Our EBITDA increased 84% to Rp 4.5 trillion on the back of wider margins as the rate of revenue growth outpaced the increase in cost of revenue. With a good cash position, moderate and manageable gearing and higher prices we are well positioned to have a good year in 2009."



2008 Important Dates

February

Feb 29

Adaro Indonesia enters syndicated loan facility in the amount of US\$80 million.



April

Apr 3

Adaro Energy completes the acquisition of mining contractor SIS.



Apr 23

MSW enters into an Engineering, Procurement, and Construction Agreement with Punj Lloyd for construction of a 2x30MW coal fired power plant.

May

May 5

Adaro Energy enters into an MOU to purchase Orchard Maritime Logistics Pte. Ltd., a barging company.

June

June 5

Adaro Energy enters into a Conditional Sales and Purchase Agreement with PT Rahman Abdijaya to purchase PT Sarana Daya Mandiri (SDM), a dredging company and channel toll operator.



July

The first of a series of three 12,000t capacity self-propelled barges begin serving the domestic market.

Jul 11

MSW and IFC enter a loan agreement for US\$122 million.



Jul 13

Adaro receives the PROPER environmental award.

Jul 15

Adaro Energy completes the acquisition of ATA.



Jul 16

Adaro Energy's Initial Public Offering.

August

Adaro Energy pays US\$60 million to Astra Agro Lestari to settle a land claim.

Aug 13

SIS secures a US\$300 million syndicated loan for debt refinancing and equipment purchases.

Aug 28

SIS obtains the Indonesia Sustainability Report Award (ISRA) 2008.

September

Partial repayment of the term loan facility in the amount of US\$100 million.

Sept 26

Floating Loading Facility begins operation - increases ship loading capacity for Adaro Energy.



Oct 23

Adaro Energy successfully completes the trial-run of the new channel at the mouth of the Barito River.

Oct 31

Adaro Energy holds an Extraordinary General Meeting of Shareholders.



Oct 29

Acquisition of 51% of SDM by ATA.



November

Nov 28

SIS secures an additional leasing facility of up to US\$95 million from PT Komatsu Astra Finance.

December

Dec 23

Adaro Energy completes the acquisition of 99.92% of MSW.



Our Management, Our Governance

The Board of Directors



Our management style is one that encourages debate and discussion. A horizontal structure encourages regular interaction and less formality in creating and implementing our growth strategies. Results-oriented, the Board is comprised of members who have been with Adaro since extracting the first tonne of Envirocoal and relatively new members who have served with international firms abroad. A wealth of experiences and complimentary skills and approaches ensures the best decision is made to grow to a bigger, better Adaro Energy.

The Board of Commissioners



Our approach to corporate governance is based on the premise that good governance is a good business decision. We are not owned by a single family, but controlled by a group of five families and individuals. This naturally creates checks and balances to make sure decisions are made in the best interest of Adaro Energy and its varied stakeholders. We view improving corporate governance as an ongoing and dynamic endeavour and that there is no single formula. The Board of Commissioners includes members who founded and operated PT Astra International Tbk, one of Indonesia's most respected corporations and their knowledge will help instill best practices in Adaro Energy. As a newly public company we are continually implementing improvements in several areas of corporate governance.

Our People

In Adaro, we believe human resources are the most important capital in our operation. Like any other capital, human resources need to be acquired, maintained, and expanded to work productively. Our human resources strategy is to align skills and career development with the overall strategy and growth of Adaro Energy. To achieve this, the management activities concentrate on recruiting the best talent in the market, providing clear career path choices, increasing productivity and quality through objective performance assessments and individual development plans, and ultimately nurturing the Adaro culture in every individual so they can optimally perform as an individual or as a team.



Our Communities and the Environment

We engage in intensive dialogue with the communities associated with our operations to ensure that their social and economic requirements are addressed. One focus has centered on initiatives relating to health and education. Examples of this are a mobile cataract clinic that has performed more than 3,000 free cataract operations for local villagers to date and a series of mobile libraries for schoolchildren which are stocked with 18,000 books and 6,000 titles.

We fund cooperative programs in agriculture and plantation industries such as rubber and palm oil plantation developments and are involved in livestock and poultry breeding projects. The objective is to provide assistance which not only benefits the present generation but will also be self-sustainable into the future.

To strengthen the local economy we are funding a micro-financing scheme in conjunction with a finance company that allows local villagers to obtain low interest loans for small scale home and light industrial businesses.

Environmental management and rehabilitation is a prime focus in the mining and terminal operations of our operating units and strict environmental standards, policies and planning are applied on all phases of the operations to ensure that the impact is minimized through continuous monitoring and control.

Land affected by the operations is reclaimed as soon as possible and made available to the local communities. Reclaimed land is used for planting of commercial and plantation crops, livestock and poultry breeding projects and developing recreational areas. Reclamation is also used as an opportunity for agricultural training.

Strict programs for air, water and waste handling and control are an integral part of Adaro's Environmental Management Program. The Environmental Department's field personnel and on-site laboratory are equipped with an extensive range of equipment to handle all aspects of monitoring and analysis.



Our Awards



PROPER Award 2008



Safety Award 2002



Safety Award 2003



Safety Award 2004



Social Environment Award 2007



Exporter Performance Award 2007



President Director Garibaldi Thohir accepts congratulations for receiving an award for Best Performing Exporters from Indonesia's President Susilo Bambang Yudhoyono

In September 2008 we were honoured to receive the prestigious green level PROPER award from the Ministry of the Environment for environmental rehabilitation excellence, the highest level ever attained by an Indonesian coal mining company. PROPER is an environmental evaluation program that is designed to be complimentary to environmental law so that environmental quality improvements can be implemented more efficiently and effectively.

Award Category	Remark
Environment	PROPER Award, green level, for the year 2006-2007. The award was presented by the State Minister for the Environment of the Republic of Indonesia. Adaro Indonesia was the only coal mining company to receive the green level PROPER Award.
Overburden Management	Silver Rank, achievement in Overburden Management Above 50Mbcm. The award was presented by Directorate General of Mineral Coal and Geothermal - ESDM.
Social Empowerment	Social Empowerment Award, May 24, 2007. The award was presented by the Coordinating Minister for People's Welfare of the Republic of Indonesia.
Exporter Performance	Primaniyarta Award for Best Performing Exporters, December 18, 2007. The award was presented by the National Export Development Agency.
Safety (note: the Ministry stopped this award program in 2005)	Pratama Award for Mining Safety (2004, 2003, 2002).

Our Reserves



Estimates of our coal reserves and resources are 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 reserves and resources.

The table below shows Adaro Energy's coal reserves and resources as at December 31, 2008, based on JORC 2004:

Borehole Spacing	Resources				Reserves			
	<250m	>250m <500	>500m <1,000		IN-SITU			Recoverable
	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)	Proven (Mt)	Probable (Mt)	TOTAL (Mt)	TOTAL (Mt)
Location								
Tutupan	695	705	825	2,225	459	167	626	588
Wara 1	292	268	337	897	212	92	304	282
Wara 2	118	134	110	362	-	-	-	-
Total	1,105	1,107	1,272	3,484	671	259	930	870

Exploration is concentrated in the eastern part of North Tutupan, Wara 1 and Wara 2. The activity is prioritized to areas that require drilling to obtain more reliable geological, hydrological, and geotechnical data. Our exploration activities are conducted by our subsidiary Adaro Indonesia and drilling activities are outsourced but closely monitored by our Pit Geology and Quality Control divisions.

Our Product - Envirocoal

Our coal is a moderate energy sub-bituminous coal which is one of the cleanest fossil fuels in the world because of its ultra low sulphur, ash and nitrogen contents. It has been trademarked internationally as 'Envirocoal'.

Our coal has been widely used since 1992 throughout Europe, Asia, the Americas and domestically for use in power generation, cement manufacturing and industrial applications where environmental restrictions are stringently controlled or as a blending coal with more common high ash, high sulphur coals. Results have consistently shown significant environmental improvement because of its utilization.

Because of these unique qualities, Envirocoal also provides excellent economic and technical benefits because of lower maintenance and operating costs and improved combustion, ash handling and ash disposal efficiencies making it the most environmentally acceptable and cost effective solid fuel available.

Product Features

Ash Content 1%-2% (adb)	<ul style="list-style-type: none"> 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. This is significant in countries such as Japan, with limited ash disposal areas. Low ash levels in Envirocoal also reduces deposition rates in boilers improving thermal efficiency and reducing maintenance costs. 	<p>Coal Brands Within Global Export Trade</p>
Nitrogen Content 0.9% (daf)	<ul style="list-style-type: none"> Envirocoal is amongst the 10 lowest coals by nitrogen content. Low nitrogen content enables consumers to reduce the costs associated with removing nitrous oxides from the flue gases. This results in more net power for sale and lower electricity production costs. 	<p>Coal Brands Within Global Export Trade</p>
Sulphur Content 0.1% (adb)	<ul style="list-style-type: none"> 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. 	<p>Coal Brands Within Global Export Trade</p>



Our Operations

We are currently Indonesia’s second largest thermal coal producer and operate the largest single coal mine in Indonesia. We are a significant supplier to the global seaborne thermal coal market. The company is planning to increase production capacity to 80 million tonnes per year by the end of 2013 and can support this from a JORC-compliant reserve and resources base of 3.5 billion tonnes.

Our company is nearly completely integrated from exploration through to marketing with subsidiaries involved in almost all aspects of the coal supply chain, except for barging and open anchorage ship loading. Besides coal mining activities, the company has bulk terminal and contract mining operations and has trading activities which handle both internal production and third party tonnage.

Other subsidiaries are involved in infrastructure developments in support of coal production expansion. These include the maintenance and management of the key river channel within the Adaro coal chain and development of a mine mouth coal fired power station which will supply the power for a proposed overland conveyor to improve efficiency as coal production increases.



Excavating Envirocoal: one of the world’s cleanest coals

Consolidated Production Volume and Sales

	Units	2007	2008	% change
Production	'000 t	36,077.54	38,523.97	7%
Sales *)	'000 t	37,550.07	41,098.84	9%

*) Including coal sold by AE and AI for FY07; and AE, AI and CTI for FY08

	Units	Actual 2008	2008 target**)	% of Full year 2008
Production	'000 t	38,523.97	38,124.73	101%
Sales	'000 t	41,098.84	38,124.73	108%

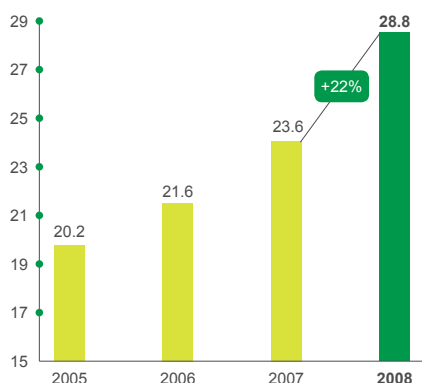
**) As submitted to Bapepam and IDX

Stripping Ratio

	2005	2006	2007	2008
Stripping Ratio	3.3	3.57	4.25	4.25

Adaro Cash Cost (excl. Royalty)

(US\$ /T)

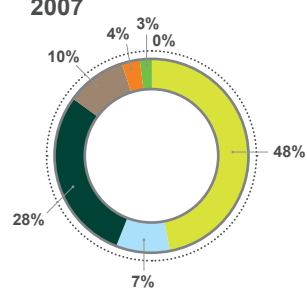


Mine characteristics, operating strategy and location enable Adaro to produce coal at attractive cash cost levels.

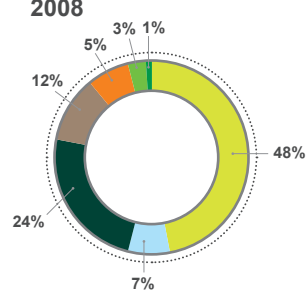


Cost of Revenue Breakdown

2007



2008



Changes in Inventory
Mining
Coal Processing
Freight and Handling
Royalties
Coal Purchased
Depreciation & Amortization

PT Adaro Indonesia

	Units	2007	2008	% change
Overburden	Mbcm	119.87	159.31	33%
Coal Transported	'000 t	36,077.54	38,523.97	7%
Coal Sold	'000 t	36,576.19	39,797.76	9%
Coal Inventory	'000 t	852.47	214.93	-75%
Strip Ratio	BCM/tonne	4.25	4.25	

Our Markets and Customers



Adaro Energy's Envirocoal is sought after by power companies around the world for its ultra-low levels of pollutants.

Since the commencement of mining operations in 1992, Adaro's markets have expanded rapidly in Asia, Europe and the Americas as well as to the domestic market in Indonesia. Today Adaro's position as a major global supplier of its ultra low sulphur, ash and nitrogen "Envirocoal" is well established.

The year 2008 was characterized by a strong runup in international thermal coal prices in the first half of the year, in part a result of coal supply issues, and then a down turn in the second half of the year as the extent of international financial credit issues became apparent.

The demand for Adaro's Envirocoal remained strong through the year with sales increasing by 3.2 million tonnes or 9% over 2007 levels, reaching 39,797,764 tonnes and is continuing firm through 2009 as evidenced by contracts covering all the planned 2009 production.

During the year, three new long term contracts were signed covering much of the planned increased production in 2009. A number of existing customers also requested increased supply with the result that new customers are not being sought for 2009. A coal supply contract was signed for supply to a new power plant starting in 2010.

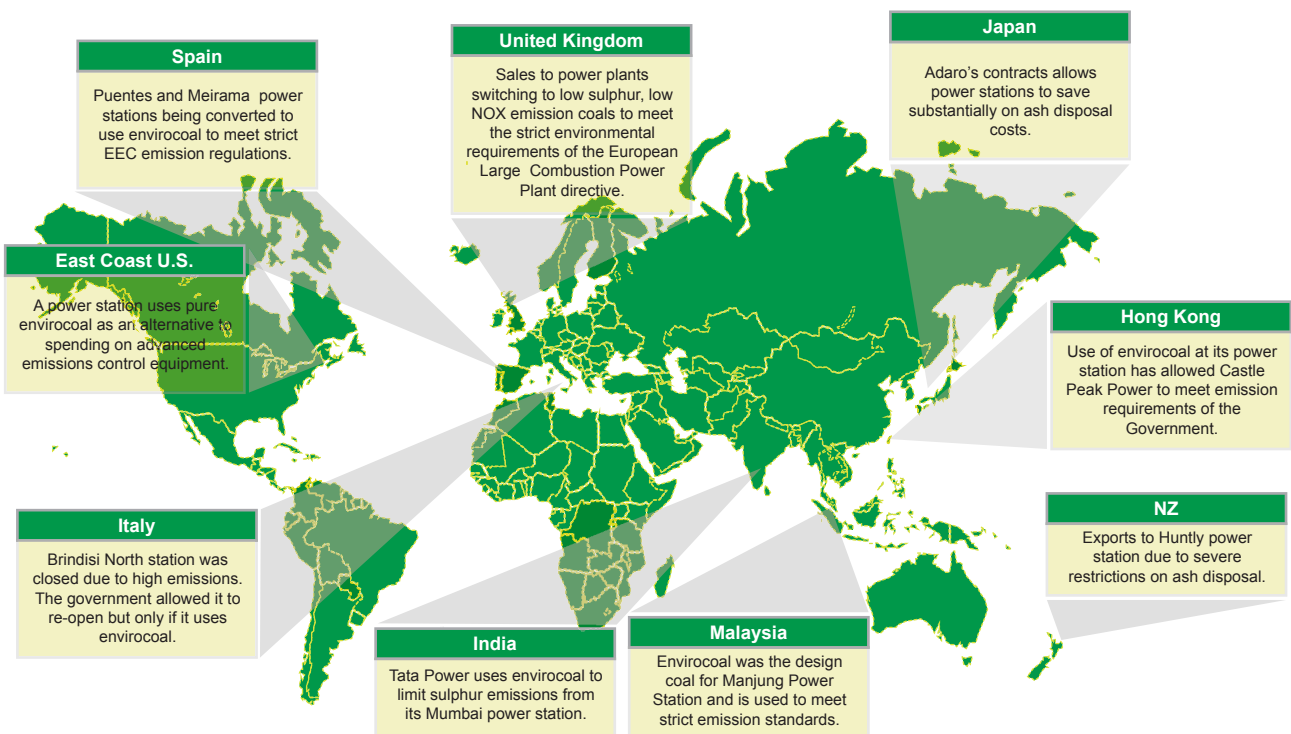
Indonesia remained our largest market and in turn we remained the largest supplier of coal to domestic consumers in all the markets of power, cement and other industries delivering 9.6 million tonnes to Indonesian customers of which 6.3 million tonnes went to power plants. PT Paiton Energy's 1,200MW plant remained the largest consumer taking 3.3 million tonnes during the year.

In the last quarter we signed contracts for additional supply to a number of domestic power plants to supply coal over a four month period to meet the power plants stockpile requirements.

Geographic diversity in sales was maintained as Envirocoal was supplied to 41 customers in 17 countries. During the year Adaro's top ten customers took 25.1 million tonnes, 63% of the coal sold.

Spain remained our largest international customer, taking 3.8 million tonnes in the year, followed by 3.7 million tonnes exported to Japan and 3.5 million tonnes to the USA. Other major export destinations included Hong Kong with 3.1 million tonnes, Taiwan with 2.5 million tonnes and India with 2.3 million tonnes

Proven Global Acceptance: 41 Customers in 17 Countries



Our Balance Sheet

In June 2005, an international consortium of investors acquired Adaro Indonesia, IBT and CTI through a Leveraged Buyout financing scheme, which consisted of US\$50 million of equity financing and US\$923 million from a senior credit and mezzanine facility, both extended to affiliated companies of Adaro Indonesia and guaranteed directly and indirectly by the acquired companies.

Since then, through a series of strategic actions, we have continuously improved the level and cost of indebtedness to create a strong financial structure. High cost LBO debt has been refinanced at a lower rate. To lock in low rates the group swapped the floating interest rate portion (LIBOR) with a fixed interest rate. As of December 31, 2008, our net debt was reduced to approximately US\$763 million (including lease payables of US\$93 million).

We raised US\$1.3 billion during the Initial Public Offering on July 16, 2008, which also strengthened the financial structure of the group. Our net debt to equity improved from around 14.9x in 2005 to 0.5x at the end of 2008.

We believe our solid balance sheets will allow us to withstand the potential credit crunch. We will continue to maintain healthy and moderate gearing levels, as we seek external funding to finance growth initiatives.

Facility	Borrower	Security	Outstanding	Tenor
US\$750 Million Facility¹⁾ which consists of : • US\$650 Million Term Loan Facility • US\$100 Million Revolving Credit Facility	• PT Adaro Indonesia and Coaltrade	• Clean	US\$600 Million	5 years until December 2012
US\$80 Million Revolving Credit Facility	• PT Adaro Indonesia	• Clean	US\$80 Million	1 year
US\$122 Million Investment IFC Loans	• MSW	• All assets of Borrower • Pledge of shares in the Borrower • All project documents and concessions	No drawdown has been made	12 years
US\$300 Million Senior Credit Facility	• SIS	• All assets of Borrower • Assignment of contract • Assignment of insurance claim	US\$240 Million	Until June 2013
US\$40 Million Multicurrency Revolving Facility	• PT Adaro Indonesia	• Clean	No withdrawal has been made	3 years
US\$65 Million Letter of Credit Facility Agreement	• Coaltrade	• Clean	No withdrawal has been made	1 year

1) As of December 31, 2008, we have paid US\$150 Mn out of the US\$750 Mn

Our Industry in 2008

For the thermal coal market 2008 was the year of two halves.

In the first half of the year, the booming world economy saw record high oil prices, record high freight rates and, more importantly, record high term and spot coal prices due to strong demand and coal supply issues.

In the Pacific Region there was particularly heavy demand from China and India. Supply was affected by weather related production disruptions in Australia, Indonesia and China and there was a slowdown in China's exports and continuing infrastructural bottlenecks in Australia. In the Atlantic, higher oil and gas prices, declining European coal production and increased electricity markets also saw coal demand increase strongly while traditional Atlantic suppliers such as South Africa also had supply constraints.

The end result was record high coal prices being achieved in all markets. The Japan - Australia benchmark price for term contracts was settled at \$125 per tonne, an increase of 125% over 2007's benchmark of \$55 per tonne. The spot FOB index prices for both the Atlantic and Pacific increased from an average of \$95 per tonne in January to above \$185 per tonne at the beginning of July.

However, from that high point in July the global economic boom rapidly reversed itself and went into near collapse by October. Oil prices fell by more than 70% and spot coal prices following suit although not to the same extent. By year's end the average coal spot prices for both regions had fallen to \$77 per tonne, a drop of 59%, with the downward trend looking set to continue into 2009.

There was also mounting pressure on term prices as it became clear that settlement of the Japan-Australia benchmark was expected to be at considerably lower levels than 2008's price.

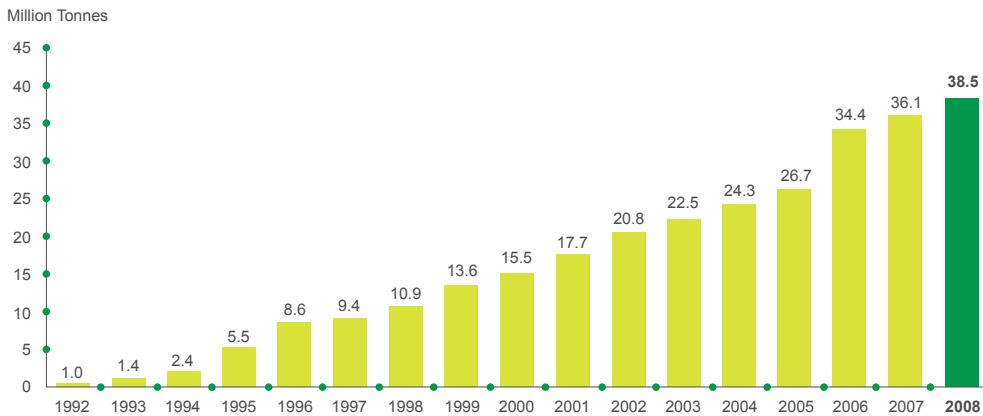
However, it can be noted that the coal prices at the end of the year were still relatively high particularly when compared with the average combined spot FOB price in August 2002 of \$21.41 per tonne.

International Coal Prices
(US\$/tonne)



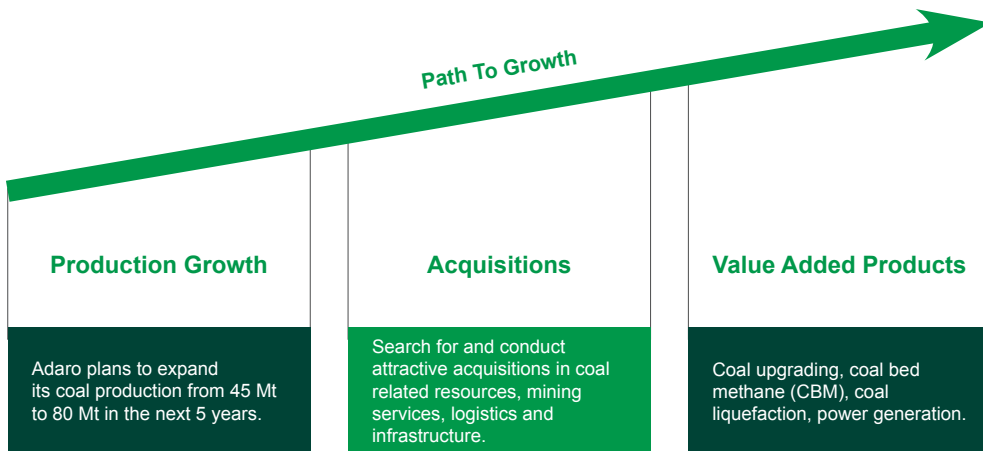
Adaro Energy operates the largest single coal mine in Indonesia

Our Strategy: Growth and Increased Integration



Consistent Production Growth Since 1992

Our business model is one of integration of the coal supply chain, so as to be efficient in the delivery of our coal to best meet the needs of our customers. As an inland mine with moderate heat value coal, we can be a preferred supplier by keeping our costs to a minimum, offering a reliable high quality product and providing dependable customer service. In implementing this model we focus on increasing our reserves, improving cost efficiency, developing our infrastructure, fostering strong community relations and developing and retaining our long term loyal blue chip customers.



2009 Guidance

	2009	2008
EBITDA (million US\$)	750-1,000	350-400
Production volume - in million of tonnes	42-45	38-39
Stripping ratio - blended (bcm/tonne)	4.50-4.75	4.25

Our Growth Projects

Following a review of how to best grow the company despite the changes brought about by the 2008 economic downturn, we decided to continue with the plan to further integrate and improve the coal supply chain to create long term and sustainable value.

We are focused on our core business of coal mining and marketing and will continue with the plan of further integration and efficiency and producing increasing volumes; the 5 year target is to produce 80Mt of coal. To improve efficiency we plan to build a mine mouth power plant and an overland conveyor. After acquiring a mining contractor in 2002, sealing the 75km haul road in 2005, de-bottle necking the Barito River in 2008, we are ready to implement the next phase of further integration and efficiency improvements.

After assessing several options, the plan is to acquire an affiliated barging and ship loading company. The deal will be done openly and at a fair arm's length price. It is strategically important to have pit to port integration, which can lower barge and crane rates, reduce demurrage, and create other efficiencies and synergies.

President Director Garibaldi Thohir said:

“Our response to the current difficult market conditions is to go back to basics. Mining is a long term, capital intensive, slow yielding sector. We must continue to implement our long stated business model of further integration and improve our existing operations. We are taking a number of initiatives that will help create a bigger and better Adaro Energy.”



	Background	Current Status	Target Completion	Project Costs
Power Plants	<ul style="list-style-type: none"> 2x30 MW power plants planned to be set up by MSW to support future power requirements. The plants will use Wara Coal 	<ul style="list-style-type: none"> Financial closure for \$122 Mn from IFC EPC & equipment supplier has been selected 	2012	US\$140-160 Mn
Overland Conveyor	<ul style="list-style-type: none"> Overland conveyor may transport up to 40 Mt. Upon completion, it will provide an alternative mode of transportation to reduce operating costs by US\$2/tonne compared to trucking. 	<ul style="list-style-type: none"> Reviewing feasibility. 	TBD	US\$350 Mn
Kelanis Expansion	<ul style="list-style-type: none"> Increase capacity to match the production ramp-up 	<ul style="list-style-type: none"> Gradual expansion work done in house 	2009-2011	US\$20-30 Mn by internal cashflow
Barito Channel	<ul style="list-style-type: none"> Adaro Group through its subsidiary, SDM, has completed dredging the new channel tripling the capacity to 200Mt. SDM will operate the waterway toll and collect fees. 	<ul style="list-style-type: none"> Up and running Trip through the channel reduced by 50% to 1.5 hours 	Started January 2009	US\$42 Mn By internal cashflow
Fuel Storage	<ul style="list-style-type: none"> To secure diesel fuel supply to Adaro operations Join with Shell under Build Operate Transfer arrangement 	<ul style="list-style-type: none"> Fuel tank and jetty contractors have been selected. 	End 2009	Built and funded by operator

From Pit to Port



Director of Operations, Chia Ah Hoo said:

“As our coal mine is located quite far inland it is imperative we acquire direct control of the inland waterway transportation and ship loading. We already control a portion of the mining and overland transportation and own a port facility; now we can be completely linked from pit to port.”



Our Coal Supply Chain



1. Tutupan mine



2. Exploration drilling



3. Overburden stripping



4. Overburden dumping



5. Coal mining



6. Hauling coal to the pit stockpiles



7. Loading coal into coal haulers



8. Trucking coal on the haul road



9. Dumping coal at Kelanis



10. Coal crushing at Kelanis



11. Coal stockpiling at Kelanis



12. Barge loading at Kelanis



13. Barging coal on the Barito River



14. Barging coal at the Taboneo anchorage



15. Bulk carrier self loading with its own cranes



16. Bulk carrier being loaded by floating cranes



17. Bulk carrier loading at the IBT terminal

Adaro Energy will acquire direct control of this remaining part of the coal supply chain in 2009

Letter from the Board of Commissioners



Edwin Soeryadjaya
President Commissioner

Dear Shareholders,

In 2008, Adaro Energy performed as expected in terms of operations and financial results despite difficult and challenging conditions. Production increased by 7% to 38.5 million tonnes, while consolidated revenue grew by 56% to Rp 18,093 billion. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) rose 84% to Rp 4,455 billion. Net Income increased significantly by 902% to Rp 887 billion.

Poised for Growth

With the success of our IPO in July 2008, which raised more than Rp 12,253 billion, Adaro Energy is poised to further integrate its business and reach its vision of becoming the largest and most efficient integrated coal mining and energy company in South East 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 of thermal coal to the global seaborne market. The Company is vertically integrated either directly or indirectly and controls all aspects of its business from exploration through to marketing. With a present capacity of approximately 45 million metric tonnes per year, the Company is executing plans to double production capacity to 80 million metric tonnes per year. The Company has approximately 3.5 billion tonnes of coal reserves and resources.

Adaro Energy is continuing to make infrastructure and other improvements along the coal supply chain to remove bottlenecks and improve efficiencies. Such improvements include investment in PT Sarana Daya Mandiri (SDM), operator of the Barito River Channel tollway which has removed tidal restrictions for loaded coal barges transiting from the river to the open sea, and investment in a new crusher at the Kelanis River port – when this new crusher installation is completed in February 2009 annual capacity will increase from 45 million metric tonnes to 55 million tonnes.

In addition to those investments, to further support operational efficiency and to boost production capacity, Adaro Energy is finalizing its power plant and conveyor belt projects.

Governance and CSR

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

Adaro Energy has made commitments to integrate with the community and create sustainable community programs. The aim is to address the social, economic and environmental impacts and issues created in subsistence level rural communities by open cut coal mining and other operations such a way that they will provide positive benefits to the community both during and beyond the life of these projects. The basis for this is communication, by informing all levels of the community of all ongoing planning relating to the project developments and operations, and then listening to what the community requires. Importantly, an established support structure ensures that the two-way communication process remains an inherent part of community service programs. The key to Adaro Energy's community service program has been this two-way dialogue, which has ensured the success of its community based business development projects and its educational, religious and social welfare programs.

In addition to the community programs, Adaro Energy recognizes that coal mining will have an impact on the surrounding environment and local communities and 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 as soon as possible and made available to the local community. The reclamation includes planting of commercial crops, creating fish farms and developing recreational areas. Continuous monitoring of air and water quality as well as strict programs for air, water and waste handling and control are an integral part of the environmental program with an extensive range of equipment to handle all aspects of monitoring and analysis.

In line with our increased responsibility as a public listed Company, we have met the statutory requirements of the capital market and bourse authorities, and continue to build our governance structure in line with best practices. This includes the establishment of the Audit Committee and the Internal Audit Unit in January 2009, and plans to form the Nomination and Remuneration Committees as well as the Risk Management Committee in the future. We understand the need to improve our corporate governance and risk management. Although we believe that none of our core values are contradictive to the principles of good corporate governance, we always seek ways to better govern ourselves.

We believe good corporate governance should be more than just a set of procedures or policies that comply with prevailing rules and regulations. Most importantly good corporate governance should be practiced and become an inherent part of our business. It is our intention to develop good corporate governance as a perpetual system that ensures the interests of both our shareholders and stakeholders are safeguarded and to ensure the Company's sustainability.

Change of the Board Members

The Extraordinary General Meeting of Shareholders in October 2008 approved the appointment of Lim Soon Huat as a new member of the Board of Commissioners. With experience of more than 15 years in the financial industry, we expect he will strengthen the oversight function of the Company.

Despite our ongoing improvements, we must remain attentive and alert in the coming years, especially while we are still facing the global financial crisis. The role of the BOC shall be continually improved by strengthening oversight. As the Company faces an increasingly uncertain economic outlook ahead, we need the capability to anticipate future trends and reflect these in the formulation of our business strategies. In light of this, the monitoring and controlling of the Company's operations will become even more important in responding to future conditions.

The progress and the results we have achieved would not have been possible without the patronage and strong support from our customers and partners, and the commitment, dedication and hard work of the Board of Directors, Senior Management and staff.

Finally, we would like to thank all of our stakeholders who have supported our endeavors in 2008, and count on their continuing trust and support to ensure our sustainable growth in years to come.



Edwin Soeryadjaya
President Commissioner

Letter from the Board of Directors



Garibaldi Thohir
President Director

Dear Shareholders,

This is our first letter to you. With this letter, and this annual report, we hope to give you a deeper understanding of our newly listed company, PT Adaro Energy Tbk. We recognize we are new kids on the block and are still relatively unknown to public equity markets. There is a lot to know and one report will never be enough to get the full story. We hope we can begin an on going dialogue with you so you can come to know who we are, where we are going and how we will get there.

Our vision is to be the largest and most efficient integrated coal mining and energy company in South East Asia. This will not be achieved quickly. Mining is a slow yielding, capital intensive and long term sector. But as evidenced by the past performance of the group of companies that today make up what is Adaro Energy, we believe we have high quality assets with a consistent track record of volume growth and low costs, a highly experienced and skilled management and workforce, a supportive group of controlling shareholders and other competitive advantages to steadily grow and improve to build a bigger and better Adaro Energy.

The theme of this year's annual report is "Clean, Strong and Improving." While this has various meanings, for us it means we have clean coal and clean management practices; it means we operate a resilient business model that has grown production volumes without fail each year since operations began in 1992 and are focused on continuing to implement that business model despite difficult conditions or economic crises; it means that we are constantly improving and will strive to improve our efficiency, our reliability and dependability, our customer service, our skills and now that we have become a publicly listed firm (a big improvement in itself) to improve our transparency and disclosure and corporate governance in general.

The year 2008 was a phenomenal, unprecedented year. It is a year that can be described in many different ways. It was a year of extreme highs and extreme lows. It was a year of tremendous challenges and of testing our strategy and operations to overcome these challenges to deliver unsurpassed performance. It was a year of exceptional transition as we made the move to become a publicly listed company. It was a year in which we experienced unexpected and extraordinary increases in global coal and commodity prices. It was a year in which the global economy entered into the worst downturn in decades, the depth and breadth of which not many had anticipated.

2008: Another Year of Higher Production, Increased Profits

In 2008, the group of companies that would become Adaro Energy had a record breaking year in terms of profitability and production and sales volume. Due to a 9% increase in sales volumes to 41 million tonnes, on the back of a 7% increase in production to 38.5 million tonnes, our net sales increased 56% to a record Rp 18,093 billion. The increase was also a function of higher prices, with our average achieved selling price increasing 34%. Meanwhile, margins widened as we kept our rate of cost increases lower, with the cost of sales increasing 45% to Rp 13,149 billion. Our cash cost of production, excluding the royalty, increased by 22% to US\$28.80 per tonne. The increase is mostly due to a higher stripping ratio of 4.25, which is comparatively low, and higher prices for most supplies and services. The rate of cost increase was kept lower than the net sales increase, partly due to a new policy, as part of the strategy of further integration, of purchasing fuel for future delivery. Buying fuel in bulk, which tends to be in backwardation, and for most of the entire coal supply chain, Adaro Energy was able to create cost efficiencies. As a result, our operating margin increased to 23% and our Earnings Before Interest Tax and Depreciation, increased 84% to Rp 4,455 billion. Mostly due to acquisitions, our total assets increased 130% to Rp 33,720 billion, and equity increased 550% to Rp 14,009 billion. As a result, our balance sheet strengthened, with net debt to equity decreasing to 0.5 times from 2.3 times.

The Initial Public Offering; After a Classic LBO

In looking back at such a year there are many highlights which we can focus on but perhaps the most important is the transition we made by taking our operation public on July 16, 2008. As part of a long stated strategy of growing production and improving efficiency through increased vertical integration and greater control of our coal supply chain, we raised Rp 12.2 trillion, or US\$1.3 billion by listing 35% of our shares on the Indonesian Stock Exchange. Our Initial Public Offering was the largest in the history of the IDX in Rupiah terms (second largest in US Dollars), and was the fourth largest IPO in 2008 in Asia ex-Japan.

We used the bulk of the IPO funds to conduct acquisitions and take full control of our operating subsidiaries, which include PT Adaro Indonesia, which has coal mining, exploration and river port interests in Indonesia, PT Indonesia Bulk Terminal (IBT), a coal port company, PT Saptaindra Sejati (SIS), a coal mining contractor, Coaltrade Service International Pte. Ltd. (Coaltrade), a coal marketing and coal blending company, and PT Makmur Sejahtera Wisesa (MSW), which is to build Adaro's 60MW mine-mouth power plant. We also used US\$100 million to further reduce our debt, part of our continuous efforts to strengthen our financial structure, balancing the needs of funding our growth without taking on too much risk. The acquisitions give us greater control over our coal supply chain, they simplify and consolidate the entire operation and create a foundation upon which we can build a bigger and better Adaro Energy.

To understand the need for greater control via consolidation and integration, we feel it is important to look back at the recent history of Adaro Energy. Before April 18, 2008, Adaro Energy was known as PT Padang Karunia, which was established on July 28, 2004. Padang Kurnia was essentially the vehicle through which Adaro Energy's controlling shareholders held their stakes in the various operating companies of the group.

In the middle of 2005, Adaro Energy's five controlling shareholders, who at the end of 2008 owned 65% of the company, together with an international consortium of 5 blue-chip, financial investors, conducted Indonesia's largest leveraged buyout (LBO), to acquire control of most of the operating subsidiaries of what is today Adaro Energy. The US\$973 million LBO was 95% debt financed, with US\$923 million of debt and US\$50 million of equity. The group of companies was managed by representatives of each of the shareholders by way of a "governing council".

In order to secure the necessary financing from the LBO banks and provide assurances as regards the ability to repay the newly acquired debt, Adaro Indonesia adopted a more defensive marketing strategy, by locking in not only volumes but also prices for the long term. A number of these contracts, what we call our "legacy contracts" still remain. In 2008, 20 million tonnes of our sales volumes were legacy contracts. In each of 2009 and 2010 we have 20 million tonnes of legacy contracts and finally 10 million tonnes in 2011.

Immediately following the LBO the decision was made to improve the efficiency of the operation and boost output by chip sealing, or paving, the 75 kilometer hauling road from the mine to the river terminal. Part of the long stated strategy to create pit-to-port integration, this resulted in an immediate 30% jump in production in 2006 and was followed in subsequent years by further production increases.

Since 2005, in combination with improved performance, the group consistently refinanced and recapitalized its debts, thus improving its capital structure and reducing costs. However, while effective, the structure of the group was quite complicated, and so to improve and streamline decision making, it was decided to conduct an IPO to fund acquisitions and reorganize into a simplified corporate structure, by putting all control into Padang Karunia (later to be renamed Adaro Energy) and liquidating any unnecessary companies.

Many capital market observers have indicated that we have executed a "classic" LBO, in terms of heavily debt-financed acquisitions, followed by improving performance, lowering debt levels and costs through refinancing, and finally conducting an IPO. Perhaps one difference from the text book LBO, rather than change the existing management the new group of shareholders retained the highly experienced and skilled marketing and operational teams, appointing the heads of each to the Board of Adaro Energy. Another difference, perhaps due to the recognition of the high quality coal assets owned by the group, the international financial investors did not choose to "cash out" by way of the IPO, but instead chose to participate in the IPO and own a portion of Adaro Energy.

The IPO was undoubtedly the biggest transition for the group and arguably our biggest achievement in 2008. It was also arguably our biggest challenge. It was the culmination of three years of hard work to improve performance and lower debt. It was conducted in the midst of a heightened level of scrutiny for the Indonesian coal industry, which demanded heightened levels of disclosure and attention to make sure the IPO could go forward. We felt a certain sense of urgency as we wanted to complete the IPO well before the national elections in 2009. Although we did not foresee how drastically the credit crisis in the US and Europe was to affect the economies of Asia, we are pleased we pushed forward to complete our IPO, for had we pushed back the listing back even a few months, the economic crisis would have hit Asia and the IPO might not have occurred.

We see the immediate benefits of the IPO in terms of how greater control and vertical integration of our coal supply chain will improve efficiency and lower costs, allow us to provide better customer service, and lay the ground work

to grow production volume to 80 million tonnes in five years, and perhaps move into the power industry. However there are also many other benefits from being a publicly listed company, such as obtaining a market valuation for the firm, increased access to capital, a lower cost of capital, better corporate governance and improved recognition and credibility amongst numerous stakeholders including the government, customers, suppliers, contractors, and our employees.

2008: Operational Highlights

An important part of 2008 was that PT Adaro Indonesia, our wholly-owned coal mining company, and the second largest source of our revenue, became the largest coal producer in Indonesia. Every year since operations began, production volume has increased, and over the last ten years production volume has increased at a compound annual growth rate of 13%. We believe production is the single most important performance indicator, as so many variables must be managed to increase production. We also believe in hitting our targets. By increasing our production 7% to 38.5 million tonnes, we exceeded our budgeted target of 38.1 million tonnes. It is our understanding that that level of production places our Tutupan mine as the fourth largest single coal mine in the world.

One of the important highlights of 2008 was overcoming the extremely and unusually bad weather at the beginning of 2008 to still meet our target. Unlike many of our competitors we decided not to declare force majeure due to the bad weather and to make good on our customers orders. In combination with the extreme weather, there were huge supply constraints for services, such as barges and floating cranes, spare parts and equipment, so a backlog of coal deliveries began to form, and we incurred extraordinary demurrage charges. Demurrage is the charge a seller must pay when a customer's vessel is delayed while waiting to be loaded. Together with the unusually high demurrage rates due to the booming economic conditions, we incurred an US\$83 million charge for demurrage. However, we know that our customers appreciated our efforts to keep delivering our coal despite the difficult circumstances, when others had declared force majeure.

Notable achievements during 2008 include the resurfacing, by our major contractors, of the major pit ramps at Tutupan, to create all weather roads to reduce the impact of poor weather, the biggest risk to our achieving our targets. Good relationships with our contractors are so important. By building shared vision and working together towards a common goal we have been able to deliver consistent production growth year after year. In 2008, we were happy to positively conclude contract negotiations with our contractors for their mining and transportation services. Another important achievement by the end of 2008, was the securing, by our contractors, of 90% of the mining equipment required for 2009.

In 2008, barging and crane loading capacity increased as the five contractors made investments in additional barge sets and floating cranes. By the end of 2009, we had completed 90% of the expansion of the handling capacity of Kelanis to 55 million tonnes per year, with the construction of an additional crusher.

On the environmental front, we were delighted to be the only coal company to achieve a Green ranking from the PROPER Environment Award. During 2008, we rehabilitated 1,584 hectares of land, through replanting and rehabilitation, resulting in net land disturbed of 2,382 hectares.

We also received Corporate Social Responsibility awards for our efforts to improve the well being and support the development of the communities that surround our operations. As the owner of a single mine, we take community relations and the support of the local communities very seriously.

Corporate Governance

The Boards of Adaro Energy take corporate governance seriously, with the recognition that not only is corporate governance good for our stakeholders and society at large, but it is also good for our business. In the highly regulated and scrutinized mining industry, without the support of the local communities, governments and other stakeholders, a company cannot be successful and profitable if it does not behave in a fair, accountable, responsible and transparent manner. Our governance standards grew after the leveraged buyout in 2005, as the governing council which oversaw the group's management and the LBO banks required decisions be made properly and openly and in the best interest of Adaro. No single controlling shareholders has a majority, such that we have a natural system of checks and balances to grow and improve our business. Finally, the IPO has required us to raise the level of corporate governance again. We feel this will be an ongoing and continual task, supported by the close scrutiny of the markets and the public as a whole.

Dredging the Barito Channel

One of our most important achievements in 2008 was the completion of the new Barito channel. At a cost of approximately US\$42 million, and carried out by a world class maritime contractor Van Oord, the new, deep, straight 15 kilometer channel through the mouth of the Barito River increased the capacity of the river from 60 million tonnes per year, to around 200 million tonnes per year. It is an essential move to enable us to achieve our production target for this year and to grow to 80 million tonnes in the next five years. This important de-bottlenecking is another step in the continuous process of further improving and strengthening our coal supply chain from pit to port.

An important aspect of the dredging of the Barito Channel was the 2008 acquisition of 51% of the dredging subcontractor, PT Sarana Daya Mandiri (SDM). SDM bid successfully on the tender to become the dredging subcontractor to a joint venture owned by the state port authority and the South Kalimantan government. SDM will generate revenues every year by collecting a toll of US\$0.30/tonne to those who use the channel. The acquisition of the 51% stake from PT Rahman Abdijaya, by way of a related party transaction, cost Adaro Energy Rp 128 million, a nominal sum.

Cost Reduction

We preserve cash and improve operations by investing in cost reduction initiatives. One such project is the new channel at the mouth of the Barito River. This has increased the capacity of the river delta and will reduce costs by halving the time and number of tugs it takes to transit barges through the river mouth. Additionally, we will be making greater use of the Taboneo anchorage for ship loading activities, which decreases barging distances. Due to lower oil prices globally, Adaro's fuel costs, a significant cost component, will decrease. To preserve cash we cancelled a proposed share repurchase program.

Additionally, we implemented a group-wide cost cutting program, across all levels with all members of the group asked to reduce their costs. I had previously said, "During this period of global uncertainty we intend to get back to basics and focus on our core business."

Marketing

We first began selling coal from our concession in 1992, and after so many years we developed a market understanding of the merits of Envirocoal and our reliable, dependable service. Of the 41 customers we sell to in Indonesia and 17 countries around the world, substantially all are power companies. Many market players have said it was Adaro that actually created the international market for sub-bituminous environmental coal.

But 2008 was a year of extremes and unlike anything we have ever experienced before. At the beginning of the year international coal prices were increasing to new highs. In keeping with our current strategy of annual price negotiation, we were locking in prices for 2009 delivery at substantially higher prices than in the past, and had demand for our coal well in excess of our expected production volume. We sell none of our coal on the spot market and normally only a small percentage is linked to an index. Even when combined with the legacy contracts, priced many years before with third party customers as part of our defensive marketing strategy to satisfy the LBO banks, we expected significant increase to our 2009 average achieved selling price.

However, at the beginning of the second half of 2008 we received written instruction from the government to renegotiate the 2009 prices of our legacy contracts. Of the fourteen customers, eleven agreed to the new minimum price as set by the government. With three customers, on December 3, 2008, we had to suspend deliveries and declare force majeure. As at the end of 2008, we still had not reached an agreement with the three customers. As part of our contract with the Government of Indonesia (the owner of the coal), we must get the following year's business plan, including sales prices, approved by the government.

Obviously we had to handle the renegotiations with extreme care and attention as we value our customers' long term loyalty and our reputation as a reliable and dependable coal supplier. As a result of the high price environment in which we negotiated coal for delivery in 2009, together with the renegotiations of our 2009 legacy contracts, we are expecting our 2009 average achieved selling price to be higher than in 2008.

Debt

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. Substantially all of our borrowings are held in US Dollars, which matches the currency of substantially all of our revenues and a significant portion of costs. At the end of 9M08, we had reduced long-term borrowing net of current maturities by Rp 325 billion, or 4% to Rp 7,944 billion. However due to the weakening Rupiah in the fourth quarter, at the end of 2008, despite not having taken on any additional debt and having repaid an additional US\$17.4 million our long-term borrowings net of current maturities rose 52% to Rp 9,010 billion. In US Dollars, due to the consolidation of a loan to CTI, our long term borrowings net of current maturities increased 31% to US\$823 million.

Capital Expenditures in 2008

In 2008, Adaro Energy spent US\$255 million on capital expenditures, an increase of 155% (in US\$) over the amount spent in 2007. The breakdown of 2008 capital expenditures is as follows: US\$115 million (equipment purchases by Adaro Energy's mining contractor, SIS), US\$60 million (Cakung land acquisition), US\$42 million (dredging Barito Channel), US\$10 million (MSW mine mouth power plant), US\$15 million (road maintenance and others), US\$13 million (Kelanis river port).

Our Coal Supply Chain

Adaro Indonesia operates the Tutupan coal mine, located near Tanjung in South Kalimantan. The concession area also includes the Wara deposit, and in total there are 3.5 billion tonnes of JORC-compliant sub-bituminous coal

reserves and resources. Our coal, which has been branded Envirocoal in 18 countries, has ultra-low, levels of sulphur, ash and nitrogen. As a moderate heat value coal, with a calorific value of approximately 5,200kcal, we sell the coal at a pro rata discount to higher heat value bituminous coals. However, due to the low pollutants as well as other benefits such as higher thermal efficiency, lower operating and capital costs as well as exceptional customer service in terms of reliability and dependability, Envirocoal is sought after by power companies around the world.

Excavation, overburden removal and hauling are carried out by four contractors, one of which, SIS, is 86% owned by Adaro Energy. Around half of the production volume is mined and hauled by PT Pamapersada Nusantara, owned by PT United Tractors Tbk, with PT Bukit Makmur Mandiri Utama, SIS and PT Rahman Abdijaya responsible for approximately 20%, 20% and 10% respectively. From the mine site, the coal is transported by truck along our private 75km haul road, to our wholly-owned Kelanis River Facility, one of the largest inland bulk terminals in the world. At Kelanis, the coal is simply crushed, as no further processing or washing is required, loaded onto barges owned and operated by our five contractors, and transported 240 kilometers down the Barito River to our open anchorage near Banjarmasin, to be loaded onto our customers vessels for export, or to continue on to our wholly-owned coal port, IBT. At IBT our coal is then stockpiled or blended, before being loaded onto customer vessels. Coal sold domestically is barged directly to the customer at various ports around Indonesia. As Adaro Indonesia cannot handle third party coal, Coaltrade, the wholly-owned marketing division of Adaro Energy based in Singapore, buys and blends around 20% of Adaro Indonesia's production of Envirocoal for sale mostly to international power companies.

Strategy – Improving The Coal Supply Chain, Pit to Port Integration

Our business model is one of integration of the coal supply chain. As an inland mine of moderate heat value coal, we can keep cost to a minimum, offer a more reliable high quality product and provide even more dependable customer service. We are focussed on increasing our reserves, improving cost efficiency, developing our infrastructure, fostering strong community relations and so important, developing and retaining our long term loyal blue chip customers.

An important part of this strategy is the continual integration and improvement of our coal supply chain. The better and more reliably that we can move our coal from our pit to our port, the more competitive we will be and more able to increase production to 80 million tonnes in the next five years. Pit to port integration has long been our strategy. In 2002 we acquired our first shares in our mining contractor SIS. In 2008, using the IPO funds, we acquired additional shares in SIS, bringing our ownership to 86%. Without SIS we could not have achieved 38.5 million tonnes of production in 2008. In the years ahead, provided that SIS performs well, their share of our production will increase to 50%. In 2005, after the LBO, we chip sealed the 75km haul road from Tutupan, which boosted production by 30% in 2006, improved efficiency and helped keep costs down. In 2008, we dredged a new channel through the mouth of the Barito River, a move that will allow us to grow our production and improve the reliability of our coal supply chain.

The next move in pit to port integration will be to bridge the only gap in our coal supply chain, which is barging and shiploading. In 2009, we plan to acquire one of our barging and ship loading contractors. While our contractors have provided us a good service in the past, there is no substitute for direct control. In 2008, due to the tight supply conditions and booming commodity markets, we found it sometimes difficult to get reliable and dependable service. With control of a barging and ship loading company, we will have better control of the supply chain and less counter party risk. Operations Director Chia Ah Hoo said of the transaction, "as our coal mine is located quite far inland it is imperative we acquire direct control of the inland waterway transportation and ship loading. We already control a portion of the mining and overland transportation and own a port facility; now we can be completely linked from pit to port."

Another move we will make to improve the pit to port integration and efficiency of our coal supply chain is to build an overland conveyor alongside our existing 75 kilometer haul road. The conveyor will be powered by a coal-fired 60 megawatt mine mouth power plant, to be built at our mining concession and fueled by our coal. The overland conveyor is being built for efficiency reasons as we are not restrained by our existing haul road in terms of ramping up coal transportation from the pit to the river. The power plant will be built by our 99.92% subsidiary PT Makmur Sejahtera Wisesa ("MSW").

Impact of the Economic Crisis: Back to Basics, Forge Ahead

When the full impact economic crisis hit Asia at the end of the third quarter of 2008, we were surprised, like many, with the depth and breadth of its impact. Our initial reaction to the crisis was to put our growth plans on hold, take measures to preserve cash, ensure sufficient cash holdings and to reassess our strategy for future growth. After a few months of reassessment we decided to forge ahead with our plans. After our assessment, I said, "our response to the current difficult market conditions is to go back to basics. Mining is a long term, capital intensive, slow yielding sector. We must continue to implement our long stated business model of further integration and improve our existing operations. We have a number of initiatives we are taking which will help create a bigger and better Adaro Energy."

Outlook for 2009

Capital Expenditures

We have planned capital expenditures in 2009 of US\$251 million slightly less than the US\$255 million we spent in 2008. We expect to fund all of the capital expenditures out of existing cash holdings, operating cash and existing debt facilities.

The breakdown of our 2009 capital expenditure is as follows: US\$60 million (equipment purchases by SIS), US\$52.5 million (MSW), US\$20 million (land acquisition), US\$20 million (road maintenance), US\$10 million (Kelanis river port), US\$10 million (Barito Channel maintenance), and US\$78 million (acquisition of barging company).

SIS will normally target around US\$30-40 million on equipment purchases. Our other three mining contractors have their own capital expenditure plans. We may begin to make capital expenditures in 2009 on the overland conveyor.

Cash Costs

While our fuel prices are decreasing, due to increased hauling road distances and a higher strip ratio (although still relatively low at 4.5-4.75), we expect our cash costs, excluding the royalty, to remain flat compared to 2008. This continues to be a relatively low cost position in the industry.

Access to Capital and Debt

We expect our access to capital to remain good as most of our bankers continue to support us and our long term growth plans. In the beginning of 2009, we were able to secure US\$185 million of short to medium term loans from a syndicate of international banks, to refinance an existing US\$80 million revolving facility and for trade credit and other working capital requirements.

We consider our debt levels to be moderate and manageable. We will only gear up if necessary and in full consideration of the associated risks.

2009 Production Volume and Prices

We continue to target 42-45 million tonnes of production in 2009 although the actual number may end up in the lower part of that range. In the beginning of 2009, production was continuing as planned, despite the wet weather conditions.

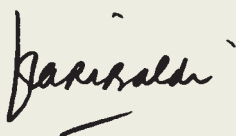
We remain optimistic we can achieve our 2009 price targets. Our volumes are sold out for 2009 and as at April 2009, 80% of our volumes had been priced, with substantially all on a negotiated basis.

Dividend

Given the current uncertainty we are closely monitoring our existing and expected cash flows and cash requirements, together with debt levels and capital expenditures. In consideration of these points, we will seek to maximize the dividend to return value to shareholders, but not in excess of what is allowed by the group's lenders, and so as to maintain a strong capital structure.

We would like to thank all those people who helped make 2008 such an extraordinary year for Adaro Energy. We look forward to 2009 for another year of increasing production, lower costs and boosting profitability and achieving our main goal of maximizing shareholder returns.

On behalf of the Board of Directors,



Garibaldi Thohir
President Director

PS - We encourage you to contact our Investor Relations department (see back of report for contact details) and find out more about our company; arrange a meeting with management and perhaps organize a trip out to see our coal mine, one of the world's largest. Hope to hear from you.



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Board of Commissioners

Edwin Soeryadjaya – President Commissioner

Indonesian citizen, 58, was awarded his Bachelor of Business Administration degree from the University of Southern California in 1974.

He currently holds the position of President Commissioner of PT Adaro Energy Tbk, PT Global Kalimantan Makmur, PT Saratoga Power, PT Lintas Marga Sedaya, PT Adaro Indonesia, PT Saratoga Sentra Business, PT Tenaga Listrik Gorontalo, ATA, Dianlia, PT Alberta Investama Sedaya, PT Mitra Global Telekomunikasi Indonesia, PT Saratoga Investama Sedaya, PT Pandu Dian Pertiwi and PT Saratogasedaya Utama. He is also a Commissioner of PT Baskhara Utama Sedaya, PT Mitra Pinasthika Mustika and PT Alberta Capital. As well as holding the title of President Commissioner and Commissioner, he is also the President Director of PT Batara Ismaya, PT Aria Infotek and PT Unitras Pertama.

Mr. Soeryadjaya joined PT Astra International (Astra) in 1978, where he held the position of Vice President Director. From 1987 to 1990, he successfully restructured Astra's financial structure and in February 1990 successfully handled Astra's IPO.



Theodore Permadi Rachmat – Vice President Commissioner

Indonesian citizen, 64, completed his education in Machine Engineering from the Bandung Institute of Technology in 1968.

He currently is the Vice President Commissioner of PT Adaro Energy Tbk, a Commissioner of ATA, PT Adaro Indonesia, IBT, JPI and Dianlia, as well as the President Commissioner of PT Adira Dinamika Multifinance Tbk and Commissioner of PT Unilever Indonesia Tbk. He started his carrier 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 Commissioner (1981-1984), Commissioner (1998-2000), President Director (2000-2002) and President Commissioner (2002-2005). He once held the position of President Director (1977-1984) and Commissioner (1984-1999) of PT United Tractors.

He was a prior member of the National Economic Board (1999-2000) and Commissioner of PT Multi Bintang Tbk. (2002- 2007).



Ir. Subianto – Commissioner

Indonesian citizen, 65, completed his education at the Bandung Institute of Technology in 1969.

He is currently a Commissioner of PT Adaro Energy Tbk, ATA, PT Adaro Indonesia, JPI, SIS, MSW and IBT. He is also the President Director of PCI, PT Tri Nur Cakrawala, PT Pandu Alam Persada and a Commissioner of PT Persada Capital.

He began his career at Astra in 1969. He held various management positions at several affiliated companies and subsidiaries of Astra. From 1969-2006, he was the Director (1979-1990), Vice President Director (1990-1998), Commissioner (1998-2000) and Vice President Commissioner (1997-1999). He was also the President Director (1989-1999) and Commissioner (1999-2006) of PT Astra Agro Lestari Tbk.

He also held several key positions at PT United Tractors, including Director (1972-1979), Vice President Director (1979-1984), President Director (1984-1997) and President Commissioner (1997-1999).

In the coal mining industry, he served as the President Commissioner (1995-2001) and Commissioner (2001-2003) of PT Berau Coal.



Djoko Suyanto – Independent Commissioner

Indonesian citizen, 57, completed a variety of military education including the Air Force Academy of the Republic of Indonesia in 1973, School of Air Force Pilots in 1975, School of Air Force Unit Command in 1989, Join Services Staff College, Australia in 1994 and National Defense Institution of KRA XXXII. He was awarded a Bachelor's degree from the Faculty of Social Science and Politics of Open University in 1992.

He had a decorated military career, receiving many awards including, among others, Dharma Star, Yudha Darma Utama Star, Swa Bhuwana Paksa Utama Star, Kartika Eka Paksi Utama Star, Jalasena Utama Star, Bhayangkara Utama Star, The Meritorious Service Medal First Class of the Republic of Singapore, Darjah Paduka Keberanian Laila Terbilang Yang Amat Gemilang (DPKT) of the Sultan Brunei Darussalam and The Brave Commander of Malaysian Army of the Malaysian Government.

He formerly was a Commander of Squadron 14 F-5 Tiger (1990-1992), Commander of Jayapura Air Base (1992-1994), Commander of Iswahyudi Madiun Air Base (1997-1999), Commander of Kosek Hanudnas I Jakarta (1999-2001), Commander of Operational Command of Air Force II of Makasar (2001-2002), Commander of Air Force Education Command (2002-2003), Assistant Operation of KASAU (2003-2005), Air Force Chief Staff (2005-2006) and Commander of the Indonesian National Army (2006-2008).

**Ir. Palgunadi Tatit Setyawan** – Independent Commissioner

Indonesian citizen, 69, he earned a Bachelor's degree from the Bandung Institute of Technology in 1962 and a Dipl. Ing. Ballistic Engineer from the University of Belgrade, Yugoslavian Military Science and Industry Institute in 1966 and Army ABRI Sesko education in 1979.

He currently is a Commissioner of PT Adaro Energy Tbk. He is also a member of the Audit Committee of PT Info Asia Tbk., Independent Commissioner and Chairman of the Audit Committee of PT Pembangunan Jaya Ancol Tbk., Head of Management & Entrepreneurship Development Institution of Al Azhar Indonesia (UAI) University, Independent Consultant of Corporate Governance, Internal Audit and Corporate Culture.

Formerly, he also held the position as Manager, Director, then Commissioner of PT United Tractors Tbk. (1982-1998), Senior Vice President of Astra (1989-1997), President Director of PT Astra Mitra Ventura (1992-1997), Director for Asia Region in GIBB Ltd., UK (1997- 1999), and Executive Vice President in Raja Garuda Mas (2000-2002).

**Lim Soon Huat** – Commissioner

Malaysian citizen, Lim Soon Huat, 43, has had more than 15 years financial and corporate management experience within the Kuok Group of companies in Singapore, Thailand, Hong Kong, China and currently holds several senior managerial positions in Kuok Group's subsidiaries in Indonesia.

Previously he was the General Manager/Director, Kerry (Thailand) Co., Ltd. (1994-2001), Executive Director, The Shangri-La Hotel PLC, Thailand. (1996-2005), Executive Director, The Post Publishing PLC, Thailand (1998-2003), Executive Director, Kerry-Glory Flour Mills, Thailand (1995-2002), Executive Director, Siam Seaport Warehouse & Terminal, Thailand (1995-2002), Group General Manager, Kerry Beverages Limited, HK. (2002-2003), General Manager, Dalian Coca-Cola Company, PRC. (2003-2005).

Currently he is the President Director of PT Pemukasakti Manisindah, Indonesia (2007-now), President Director of PT Pundi Kencana, Indonesia (2007-now), President Director of PT Swadharma Kerry Satya (2008-now), President Director of PT Estetika Binagria (2008-now), Director of PT Saripuri Permai Hotel (2006-now), Director of PPB Group Berhad (a Company listed on KLSE, Malaysia) (2008-now).



Board of Directors

Garibaldi Thohir – President Director

Indonesian citizen, 43, earned a Bachelor's degree from the University of Southern California in 1988 and an MBA from Northrop University, Los Angeles, United States of America in 1989.

He currently is the President Director of PT Adaro Energy Tbk, ATA, PT Adaro Indonesia, Dianlia, JPI and a Director of IBT as well as a Commissioner of MSW.

He is also the President Director of PT Trinugraha Thohir, PT Allied Indo Coal, PT Padangbara Sukses Makmur and is the President Commissioner of PT Trinugraha Food Industry, PT Wahanaartha Harsaka, PT Wahanaartha Motorent and is a Commissioner of PT Karunia Barito Sejahtera, PT Wahana Ottomitra Multiartha Tbk.



Christian Ariano Rachmat – Vice President Director

Indonesian citizen, 36, earned his Bachelor of Industrial Engineering from Northwestern University in 1995.

He is the Vice President Director of PT Adaro Energy Tbk, Director of ATA, PT Adaro Indonesia, IBT, JPI, MSW, SIS and Dianlia. He is also the President Director of PT Anugerah Buminusantara Abadi.

Past experience includes the position of Business Analyst at A.T. Kearney (USA) (1995-1996); Business Analyst at Triputra Group (1999-2005) and as an Operations Researcher and Supply Chain Manager of Toyota Motors (1996-1998).



Andre J. Mamuaya – Director of Corporate Affairs and Corporate Secretary

Indonesian citizen, 38, 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.

He is the Director of Corporate Affairs and Corporate Secretary of PT Adaro Energy Tbk. He is also a Director of ATA, JPI, SIS, SMP, MSW, Dianlia and PCI, and is a Commissioner of PT Pandu Alam Persada and PT Tri Nur Cakrawala.

He has served as a Director of PT Anugrahtimur Sejatiperdana (1997- 2000).



Sandiaga S. Uno – General Director

Indonesian citizen, 39, graduated summa cum laude earning a Bachelor of Business Administration degree from the Wichita State University in 1990 and a Master of Business Administration from George Washington University in 1992.

He is a General Director of PT Adaro Energy Tbk, President Director of IBT, PT Saratoga Infrastruktur, PT Baskhara Utama Sedaya, PT Interra Indo Resources, PT Tenaga Listrik Gorontalo, PT Saratoga Sentra Business, PT Saratoga Investama Sedaya, PT Mitra Global Telekomunikasi Indonesia, PT Alberta Investama Sedaya, PT Saratogasedaya Utama, and PT Alberta Capital. He is also a Director of ATA, PT Adaro Indonesia, JPI and SMP and is a Commissioner of SIS and MSW.

He started his career as a Finance and Accounting Officer at the Summa Group (1990-1993), he was also a Financial Analyst at Seapower Asia Investment Limited (currently named Pacific Century Regional Developments Limited) (1993-1994), Executive Vice President and Chief Financial Officer in NTI Resources Limited in Calgary, Canada (1995-1998). Since 1998, he has held the position of Managing Director of PT Saratoga Investama Sedaya, a private equity and direct investment company.

He is also a Director of Interra Resources Limited, President Commissioner of PT Capitalinc Investment Tbk, and a Commissioner of PT Darmo Satelit Town and PT Unitras Pertama. He currently is the Chairman of the Permanent Committee of the UMKM Market Information Development of the Indonesian Chamber of Commerce (KADIN).



David Tendian – Director of Finance

Indonesian citizen, 43, 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 Tbk's Finance Director, Chief Financial Officer and Director in PT Adaro Indonesia and IBT. He formerly held senior level positions of Sakura Bank, Standard Chartered Bank, Chase Manhattan Bank and Citibank in the USA and Indonesia from 1991 to 1999 and 2001 to 2002; Vice President Project Finance at PwC Canada (1999-2001); Financial Adviser to PT Bumi Resources Tbk. (2002-2004) responsible for the financial affairs of PT Arutmin Indonesia; Chief Financial Officer of ANTV (2004-2005), and coordinated company acquisition transactions of Principia Management Group (2005-2006).

**Chia Ah Hoo** – Director of Operations

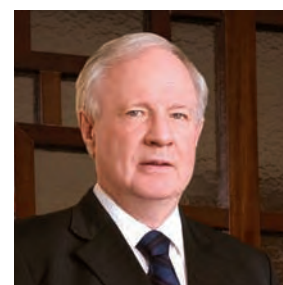
Malaysian citizen, 50, earned his Bachelor of Applied Science (Civil Engineering) from the University of Windsor (Canada) in 1984.

He is the Director of Operations of PT Adaro Energy Tbk, Chief Operating Officer and a Director of PT Adaro Indonesia and IBT. He joined Adaro in 1991 as an Operations Manager for the mine operation in South Kalimantan and as General Manager from 1998. He is a Director of the World Coal Institute and was a Director of the Indonesian Mining Association (2002). He has over 20 years experience in civil construction projects and open mining projects in South East Asia.

**Alastair B. Grant** – Director of Marketing

New Zealand citizen, 67, earned his B.E. (Mining) and M.E. (Mining Engineering) from Otago University (Dunedin, New Zealand) in 1963 and 1965; in 1982 he graduated with a Bachelor of Arts (Economics) from the University of New England (N.S.W., Australia) and has over 41 years of experience working in the mining and energy industries.

He is the Marketing Director of PT Adaro Energy Tbk, PT Adaro Indonesia and IBT. Formerly he was a Mining Engineer in Cobar Mines Pty., Ltd. Australia (1966-1969), Senior Mining Engineer at the Utah Development Company, Australia (1969-1974), Project Manager of Southeast Asia for Utah International Inc. (1974-1980), General Manager at PT Tropic Endeavour Indonesia (1980-1982), General Manager at Arutmin (1984-1986), General Manager at Utah Pacific Inc. (1986-1988), Managing Director for MEM Gold Exploration and Mining Ltd (1988-1990), General Manager for PT Adaro Indonesia (1990-1998) and Marketing Manager at PT Adaro Indonesia (1999-2007).



Human Resources Management

The year 2008 was an extremely challenging and successful year for Adaro Energy’s employees, and the Boards are extremely proud of the productivity and improvements that were evident throughout the year. Adaro Energy’s approach to Human Resources starts with the premise that a company is not an inanimate object, but a group of people organized in pursuit of a shared vision or collective goal. Without developing and retaining the best people, we can never hope to continue to build and bigger and better Adaro. In order to do this we are continually recruiting highly skilled and educated people from all walks of life and all corners of the world. We treat our workforce fairly, reward good performance and offer career advancement to those that excel. We encourage debate and employ a horizontal management structure.

Adaro Energy believes it is important for our people to have good characters to support our operations. All of our employees are expected to have good attitudes, be determined in achieving their goals, be responsive, care for others, be creative, and be of good integrity. Adaro Energy’s management must create an environment that fosters such attributes and creates team work.

Adaro Energy’s approach to HR is that the relationship between management and employees is similar to that of a harmonious family. By implementing the philosophy that every Manager is a Human Resources Manager, we are able to fully nurture the potential of our employees.

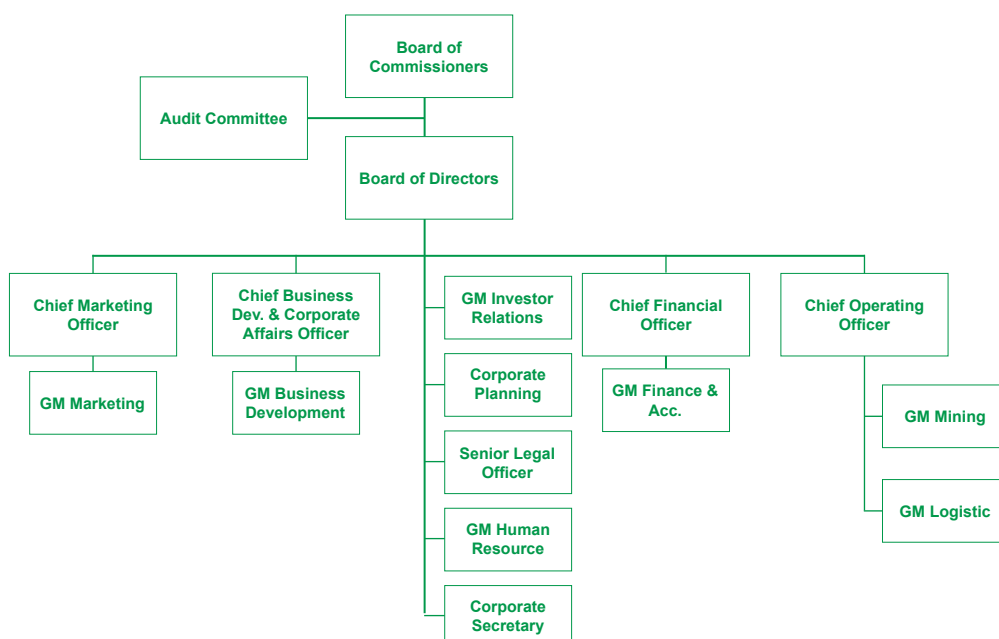
Training Programs

The mission of the HR department is to support management by providing future leaders. This is achieved through good training programs, which also helps to improve productivity. Adaro Energy offers various training programs of both soft and hard skills. Examples of training programs held in 2008 include: on site learning of the proper and safe use of all mining and hauling equipment, training on the safe use of explosives, continuous leadership programs, English and Japanese language training, Bloomberg skills enhancement, and psychological training such as the Myers-Briggs Type Indicator training which helps people understand their personality type and how to better form cohesive teams.

Employee Composition by Education

Education Background	AE	AI	ATA	IBT	MSW	SDM	SIS	CTI	JPI
High School	2	255	0	209	5	3	2,654	2	0
Diploma	3	57	6	21	2	1	224	2	0
Bachelor Degree	12	150	17	40	10	11	522	4	2
Master Degree	8	6	2	0	4	0	2	1	0
Total	25	468	25	270	21	15	3,402	9	2

Our Organizational Structure



Recruitment Policy

Our recruitment policy is to look for the best talent in the market. We believe our ability to recruit talent is not only because we are one of the largest coal mining companies in Indonesia, but also because we create environments that value individual achievement. Our recruitment policy also emphasizes non-monetary factors.

Organization Development

Adaro intends to retain the best talent, by increasing both the technical and managerial skills of current employees and new recruits.

Remuneration Policy

Remuneration is largely based on performance and should be competitive enough to retain our employees. Each individual has predetermined annual performance indicators, which are monitored closely by their supervisors and upon which salary increases and bonuses are determined.

Pension Fund Management

Adaro's post-retirement benefits are managed through a contribution benefit plan, on top of what is required by Labour Law No.13/2003 and the Indonesian Labour Social Security Program (Jamsostek).

Employee and Labor Relations

Adaro's management attempts to create a work environment where employees and management behave and treat each other as a family, and social events for both management and employees are encouraged. In 2008, Adaro held or sponsored family gatherings, and religious, sports and arts events. A regular HR newsletter internal magazine is published to help employees understand their rights and obligations and as a means for employees and management to communicate.

Labor relations are managed through a Collective Labor Agreement, and employees have the right to form certain labor unions. Labor unions have formed at Adaro's operating subsidiaries and management intends to maintain harmonious relationships with these unions.

Compliance to Government Requirement

The Government of Indonesia now requires all Indonesian citizens obtain a tax number (NPWP). To ensure all employees obtain their tax number and report their tax properly, in 2008, Adaro held several sessions to educate employees on how to fill their tax forms and also provided a tax consultant.

Members of Adaro Energy's HR department discuss training and skills development.



Clockwise from top right of the table:
Ario Bimo, Tuti Magdalena, Harianto Simin, Ayu Saraswati, Belina Citra, Hery Mustofa

Profile of Garibaldi Thohir

As William Feather once said, “Nobody succeeds in a big way except by risking failure.” And nobody knows this better than Mr. Garibaldi Thohir, President Director of PT Adaro Energy Tbk, Indonesia’s second largest thermal coal producer.



Garibaldi Thohir
President Director

For in the 17 years since he entered the coal mining business and indeed throughout his professional career, he has constantly had to take big calculated risks - so necessary to succeed as an entrepreneur. He has come a long way: starting out by risking everything to acquire a minority interest in a small coal joint venture in South Sumatra, to today co-owning and running a US\$2.9 billion dollar coal and energy group with nearly 3.5 billion tonnes of coal reserves and resources.

It was 1991, and Mr. Thohir, armed with his newly-awarded MBA from Northrop University, Los Angeles, California, got the idea that he could earn a good living by owning and running a coal mine in Indonesia. He believed Indonesia was well endowed with natural resources and was geopolitically well-positioned near the fast-growing economies of Asia Pacific. With a lifetime passion for Indonesia, he realized a well run mine could also help national development. These ideas occurred to him long before it was common knowledge, and his family and friends were skeptical. He risked everything and bought a small stake in PT Allied Indocoal, a joint venture company 80% owned by an Australian firm.

Initially, it looked like the investment was a failure. Coal prices were low and production costs were very high. When the economic crisis began in 1998, the foreign partners wanted to get out. Although it was extremely risky, as an entrepreneur and as an Indonesian, Mr. Thohir decided to buy the foreigners out. During the volatile years that followed, which also included problems with illegal miners, Mr. Thohir persevered to make Indocoal a profitable company. He says of this experience, “I didn’t lose any money from Indocoal, and the experience I gained was invaluable in terms of not only the know-how, but the know who.”

It was the “know who”, or the large network of connected players in the industry and government, that have helped Mr. Thohir create new investment opportunities. Through his contacts in banking, in 2003, despite Indocoal making very little money, Mr. Thohir took the risk to acquire PT Padangbara Sukses Makmur, an underperforming South Kalimantan coal company. Believing in the trust of good friendships and value of teamwork, Mr. Thohir asked Mr. Teddy Rachmat to join him. The timing could not have been better – the commodity boom was just getting underway, and the company has flourished ever since.

In 2005, leveraging on his past success in the coal sector, Mr. Thohir came upon an opportunity to work together with trusted good friends to make a successful entrepreneurial investment. Learning that another South Kalimantan coal company, Adaro Indonesia, was potentially for sale, Mr. Thohir spearheaded a takeover plan. At that time Mr. Thohir could not afford to buy Adaro, so he formed a consortium with foreign investors to conduct a leveraged buyout. The acquisition of Adaro eventually propelled Mr. Thohir to the ranks of Indonesia’s business elite. Pursuing his vision of 17 years ago has paid big dividends. However at only 43 years of age, he has no plans to slow his ambitious plans.

Mr. Thohir says, “you must believe in yourself and your idea. But more important than perseverance and working hard is the ability to take calculated risks.”



President Director Garibaldi Thohir discusses upcoming appointments with Dian Puspitarini.



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Corporate Overview



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. With a present capacity of approximately 45Mt per year, the company is executing plans to double production capacity to 80Mt per year. The company has approximately 3.5 billion tonnes of coal reserves and resources and is integrated from exploration through to marketing.

Snapshot of Adaro Energy

2009 Production/ Sales Volume	42-45 million tonnes 10 Years CAGR of 13.4%
Envirocoal	Sub bituminous, moderate CV, high moisture coal, ultra-low pollutants
Customers	41 customers in 17 countries Substantially all blue-chip power utilities
Pricing	All annual price negotiation or index-linked, with adjustment for energy level
Cost	Low to middle production cost compared to peers
Resources – JORC Compliant	3.5 billion tonnes
Location	Tanjung district, South Kalimantan
License	First Generation CCA valid until 2022
Operations	The largest single coal mine in Indonesia Vertically integrated
Growth Strategy	Expand production, market focus on Asia and to further integrate the operations

Current Annual Capacity

1. Mining equipment: 45 Mt
2. Hauling road: 60 Mt
3. Kelanis: 45 Mt but by end of February it will increase to 55 Mt (new crushing system)
4. Barges: 70 barges (from affiliated and 3rd party companies), 50 Mt.
5. Taboneo: 100,000 tonnes per day using 5 floating cranes
6. IBT: 12 Mt
7. Barito River Channel: 200 Mt.

General Information

Adaro Energy was established under the name PT Padang Karunia, a limited liability company established in Indonesia in 2004. On April 18, 2008 Padang Karunia changed its name to PT Adaro Energy Tbk in preparation for becoming a public company. Adaro Energy's vision is to be the largest and most efficient integrated coal mining and energy company in South East Asia.

Adaro Energy and its subsidiaries currently deal in coal mining and trade, coal infrastructure and logistics, and mining contractor service. Each operating subsidiary is positioned as an independent and integrated profit centre so that Adaro Energy has competitive and reliable coal production and a coal supply chain that produces optimum shareholder value. In the future, Adaro Energy may publicly list the strong performing subsidiaries to support further growth and development.

In addition to large coal reserves, Adaro Energy has high quality assets to support the operation such as the 75 kilometer haul road connecting the mine location to the Crushing Facility in Kelanis and Coal Terminal in Pulau Laut. As well, through its subsidiaries, Adaro Energy has a full mining fleet including Drilling Machines, Bulldozers, Wheel Dozers, Excavators, Graders, Articulated Trucks, Dump Trucks, Wheel Loaders, Head Trucks, Vessels, Dollies, Crushers, etc.

Brief Chronology of Adaro Energy's History

1982	A contract to explore and develop coal resources was signed between the Spanish Government minerals exploration and analysis company, ENADIMSA, and the Indonesian Government. The CCA is valid until 2022. The Spanish shareholders determined that the mine development would require a high level of coal mining expertise to enable the resource to be mined with the potential for partial export to Spain.
1989	An Agreement was reached for New Hope (Australia), and other Indonesian Interests to take equity in PT Adaro Indonesia and take over management of the concession.
1991	Adaro acquired international trademarks for Envirocoal because of its ultra low ash and sulphur and low NoX.
1992	The Spanish sold their remaining shareholding in the company to New Hope Corporation
1996	Mission Energy (USA) became a shareholder through MEC Indocoal BV
2001	New Hope reduced its shareholding in Adaro from 50.0% to 40.83% to satisfy the CCA requirement for majority mine ownership by Indonesian shareholders after 10 years of operation.
2002	PT Dianlia acquires 40% shares in Adaro.
2003	PT Dianlia became a 51% shareholder in Adaro through the purchase of the shares of the existing Indonesia shareholders of Asminco, along with New Hope (40.83%) and MEC Indocoal BV (8.17%)
2004	Adaro increased its production to 24 Mt per year
2005	New Hope and MEC Indocoal BV both sold their respective 40.83% and 8.17% stakes in Adaro to a consortium of investors led by leading financial investors such as Noonday Asset Management (subsidiary of Farallon Capital), Government Investments Corporation of Singapore ("GIC"), the Kerry Group, Goldman Sachs and Citigroup.

Adaro was acquired by a consortium of Indonesian and Foreign investors through an LBO in June 2005 entailing debt funding of US\$923 million and equity of US\$50 million.

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 (99.92%)
6. PT Sarana Daya Mandiri ("SDM"): Barito channel dredging and toll operator

PT Adaro Indonesia

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

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. At Kelanis, Adaro Indonesia crushes and loads the coal onto barges for transportation along 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.



Priyadi, GM-Operations

- Graduated from UPN Veteran Yogyakarta in Mining Engineering
- Joined PT Adaro Indonesia in 1991 as Mine Planning Engineer. From 1991 – 1998 he held numerous positions as Production Superintendent, Senior Planning Engineer. From 1999 – 2006 he worked in Jakarta Headquarter as Administration Manager then promoted as General Manager External Relations. In 2007 he was appointed as General Manager Operations as well as Head of Mining Engineering
- Previously worked for PT Tanito Harum from 1990 – 1991



Andris Pauls Svilans, Division Head - Mining and Hauling

- Joined Adaro in February 2004
- Over 30 years of experience in open cut mining, predominantly in coal, but also iron ore, lead-zinc-silver and gold
- A variety of roles in planning, operations and project management
- Graduate of the University of Melbourne with a degree in Mining Engineering



PT Saptaindra Sejati (SIS)

SIS, which started its commercial operation in April 2002, provides a broad range of coal mining services including exploration, drilling, transportation and logistical support, overburden removal and coal mining services. The Company currently provides contract coal mining services for six coal producing companies in Kalimantan, namely PT Adaro Indonesia, PT Borneo Indo Bara and PT Sumber Kurnia Buana in South Kalimantan Province and PT Berau Coal, PT Interex Sacra Raya and PT Indomining in East Kalimantan Province. Under each contract, the Company provides labour, equipment and material for overburden removal, coal mining, and coal and overburden hauling.

Contracts expiring at the end of 2008 or early in 2009 were negotiated and extended in 2008. SIS is currently handling around 21% of PT Adaro Indonesia's production and has plans to gradually increase to 50% of future production.



Anis Sulistiadi, CEO

- Graduated from the Bogor Agriculture Institute in Agriculture Mechanization and Technology
- Joined PT Sapta Indra Sejati in January 2008 as Director of Systems and in October 2008 as CEO of SIS
- Held positions from 2001-2007 for PT United Tractors Group as Managing Director of PT United Tractors Engineering (manufacturing & support for mining industry), Managing Director of PT Pandu Daya Tama Patria (manufacturing for automotives and heavy equipment industry) and Managing Director of PT Bina Pertiwi (distributor and rental of agriculture & heavy equipment), member of Astra Quality Management Committee
- Worked for PT United Tractors Tbk from 1981-1989 as Parts Manager (management team)



Coaltrade Services International Pte. Ltd.

Coaltrade is an international coal trading company that was established in Singapore in the year 2000 to participate in the growing trade in thermal coal in the international energy market. Its principal activities include:

- trading in thermal coal
- acting as an Agent/Representative for both producers and consumers
- providing technical and coal combustion consulting services
- providing shipping and logistics services for coal supply

Coaltrade was also formed to handle the blending of Adaro Indonesia's coal with other coals for value added purposes. Envirocoal is the world's lowest in sulphur and ash and amongst the lowest in terms of nitrogen content. It therefore has particular value as a blending coal with other coals of inferior qualities and consequently lower value. Prior to the establishment of Coaltrade this increased value by blending was being captured by the customer as Adaro Indonesia cannot under its CCA handle third party coal. Coaltrade trades coal purchased from third parties, provides coal blends and Envirocoal sourced directly from Adaro Indonesia.



Edwin Tsang, Director

- Joined the senior management team of Coaltrade in October 2006 and is currently a Director of Coaltrade
- Over 25 years of experience in the coal industry
- Held position of Managing Director of Total Energy Hong Kong, the regional office of the Coal Division of the French Total Group, from 1999
- Joined the Sydney based mineral and energy consultancy firm, Barlow Jonker, as a member of the coal consultancy team in the early 1990's
- Worked for China Light & Power in Hong Kong as Fuel Supply Engineer in the 1980's, where he was responsible for procuring coal and freight for the coal fired Castle Peak Power Station
- Graduated from Hong Kong University with a Bachelor of Science degree in Mechanical Engineering and an MBA degree from the Chinese University of Hong Kong



PT Indonesia Bulk Terminal (IBT)

IBT is the operator of the common user Pulau Laut Coal Terminal on the southern tip of the island of Pulau Laut which has a rated throughput of 12M tonnes per annum and is able to load vessels of up to 80,000 DWT.

The terminal maintains eight stockpiles with a total capacity of 800,000t of coal and a stockpile reclaiming system which can provide accurate blending of coals from different stockpiles to meet end-users precise specifications. The terminal is also an ideal location for cargo assembly of coal production from smaller producers and traders.

In past years the terminal has focused on handling Adaro Indonesia's coal. However as Adaro is a single product producer and because of its high output Adaro Indonesia does not benefit from or need the terminal's blending and cargo assembly capabilities and has the capacity to load all its coal through the Taboneo anchorage.



Barry Jones, General Manager - Terminal Service

- General Manager of IBT, having joined Adaro in 1996 holding various positions including Maintenance
- Superintendent at the Kelanis Crushing and Barge Loading Facility, Coal Handling and Processing Department Head; Coal Processing and Shipping Division Head
- Awarded a Diploma in Electrical Engineering from the Mt. Isa Technical College in 1973, Graduate Certificate in Maintenance Management from the University of Central Queensland in 2003, Graduate Certificate in Management from the University of Central Queensland in 2005 and is presently studying for Master of Management (Industry) from the University of Central Queensland



PT Makmur Sejahtera Wisesa (MSW)

PT Makmur Sejahtera Wisesa is a 99.92% subsidiary of PT Adaro Energy. MSW's 21 employees are led by President Director Vinod Laroya, Finance Director Rahul Puri and Project Director Joseph Chong.

The MSW project objective is to build and operate a 2x30 megawatt (MW) coal-fired power plant to run the planned overland conveyor which will run along the existing haul road from the mine site to the Kelanis River facility. The project is expected to commence commercial operations in early 2011.

On March 1, 2006, MSW entered into an agreement for management services with PT Akraya International. On February 14, 2007, a PPA (Electricity Supply Agreement) between MSW and Adaro was signed, which will expire on October 1, 2022.



Vinod Laroya, President Director, PT Akraya International

- President Director, PT. Akraya International – Jakarta, Indonesia, 2004 – Present
- President Director, PT. Indorama Synthetics – Jakarta, Indonesia, 1976 – 2004



PT Sarana Daya Mandiri (SDM)

PT Sarana Daya Mandiri is based in Banjarmasin, South Kalimantan. The 11 employees are led by two Directors and two Commissioners. PT SDM is the contractor to PT Ambang Barito Persada, a joint venture between the South Kalimantan government (60%) and state-owned port operator PT Pelindo III (40%), which owns a concession to build and operate a river channel through the mouth of the Barito River. Adaro Energy, with an existing capacity of 45 million tonnes per year will be the largest coal company to use the channel.



Business Opportunities

The demand for energy has encouraged Indonesia to increase production to where it is now the world's largest exporter of thermal coal.

With increased awareness of the environment, alternative coals with low levels of pollutants are more in demand by power companies and their regulators. This creates a unique opportunity for Adaro Energy's Envirocoal, as it is an environmentally friendly coal with low contents of ash, sulfur, and nitrogen.

The likely continuation of firm demand for coal in the future creates the opportunity for Adaro Energy to develop independent businesses that support the coal mining industry including mining services, infrastructure development and coal logistics. As well, there is the opportunity to move further downstream into the power generation business.

Competitive Advantages

Adaro Energy and its group of subsidiaries have numerous competitive advantages, including:

1. Low cost producer: The mine location and characteristics of the deposit, as well as the operating strategy and execution create the capacity to produce coal at low cost level.
2. Large operation: Adaro Energy and its subsidiaries own and operate the largest coal mine in Indonesia, is the second largest coal producer in Indonesia, has the largest single location open pit mine in the southern hemisphere and the fourth largest in the world.
3. Unique coal: Adaro Energy's environmentally friendly coal is trademarked around the world as Envirocoal. Growing concern for the environment, as well as understanding of Envirocoal's other benefits, such as lower operating costs, will keep demand for Envirocoal firm.
4. Highly skilled work force with many years experience: A large and varied work force and management, made up of people with decades of experience from Indonesia and around the world. Many consider Adaro as responsible for establishing the international market for sub-bituminous environmental coal.
5. Diversified loyal blue chip customer base: Adaro Energy and its subsidiaries sell Envirocoal to a geographically diverse customer base of 41 companies in 17 different countries around the world. Most have been customers for many years and substantially all are power companies.
6. Not restricted by infrastructure: Adaro Energy's existing infrastructure, gives the company the capacity to increase production rapidly with minimal capital expenditure and can quickly adjust production volume based on market demand and conditions.
7. A collection of integrated profit centers: Adaro Energy's plan is forward thinking in that it plans for each subsidiary to become, while fully integrated into the Adaro coal supply chain, an independent profit center. The profit from these subsidiaries will assist the group's overall income growth. Each subsidiary may become publicly listed.
8. Experienced subsidiaries: Adaro Energy's strategic business units are experienced in the sectors of mining, trading, mining contractor service and infrastructure & logistics.
9. High quality assets: As well as the 3.5 billion tonnes of coal reserves and resources, Adaro Energy has a complete production fleet in the form of equipment, and facilities for crushing, stockpiling, transportation, loading, and production and other supporting roles.

The marketing team discusses new potential markets for Envirocoal.



From right to left:
Leony Cellini, Novriza Zen, Alastair Grant, Edwin Tsang, Geoff Palmer

Special Focus: The Benefits of Envirocoal

Envirocoal is the best environmental solid fuel available. Gaseous emissions and particulate airborne emissions are lower than any other solid fuel. The amount of captured ash wastes are very small on an absolute basis and very low compared to other coals. The chemical composition of airborne and captured ash wastes renders them benign and suitable for recycling.



Environmental Benefits

Sulphur Oxides

The occurrence of sulphur in Envirocoal is lower than nearly all coals in the world. Because of this, sulphur dioxide or SO₂ emissions will be in the range 50 – 100 ppm or 0.20 – 0.26 lbSO₂/mmBTU, lower than other coals, sometimes even with flue gas desulphurisation.

Nitrogen Oxides

The use of Envirocoal in most furnaces has resulted in lower nitrogen oxide or NO_x emissions compared to other coals. In many cases, NO_x emissions were reduced by as much as 40% when using Envirocoal as the sole feed. The exact amount of reduction will vary from unit to unit and also depends on the operating conditions.

Dust Emissions

In most dust collectors the particulate emissions of Envirocoal are approximately the same or less than other coals however some electrostatic precipitator tests have shown a marked reduction in emissions due to a combination of the very low inherent ash and the favourable fly ash resistivity.

- SO₂ emissions decrease
- NO_x emissions decrease
- Opacity decreases
- Wastes decrease

Economic Benefits

Once a power plant has been built, the cost of electricity or steam is aggregated into three cost areas. Envirocoal brings economic benefits to each of these.

Fuel Cost

Market conditions determine the fuel cost. With its expanding sales Envirocoal has shown itself to be competitive with higher rank coals on a per unit of energy basis

Maintenance Cost

Maintenance costs of pulverisers, coal pipes, boiler tubes and other equipment along the coal path are reduced because of the lessened impact of the ash.

Operating Cost

Envirocoal can be used to meet environmental regulations without the need for flue gas desulphurisation (FGD). This brings significant reductions in capital and operating costs by eliminating the need for a limestone scrubbing plant and its operating costs.

Also in many cases it is possible to eliminate the cost of selective catalytic reduction (SCR) systems for NO_x removal as Envirocoal's emissions are low enough to meet the most stringent standards.

- Impact on equipment decreases
- No FGD required, or not required to operate
- No SCR, or less NH₃ and catalyst
- More net power for sale
- Unit availability increases
- Less wastes for disposal

Technical Benefits

Storage

Envirocoal is a low sulphur, low ash sub-bituminous coal that is easily stored with no detrimental effect to the environment. The leaching of the coal by rainwater during storage will occur however the characteristics of trace metals, chemical species and radionuclides in the coal are amongst the lowest in the world.

Combustion

Envirocoal is a reactive coal and in most cases it is not necessary to grind the coal as fine as other coals to burn well. This can result in less energy being required to grind the coal. The high surface area, combined with higher volatile matter, results in excellent ignition, stable combustion and near complete char burnout. Combustion efficiency is often greater than 99.7%.

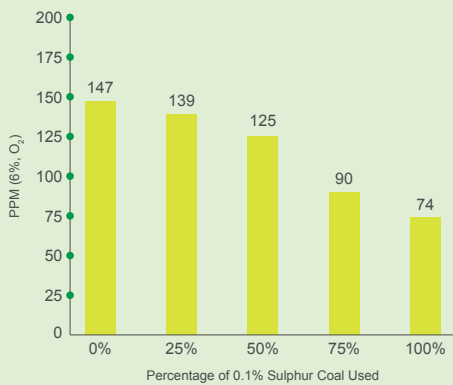
Ash

In envirocoal, the amount of silica and alumina can be less than 60% with pyrites being low or non-existent and ash particles being relatively small in size. This will result in much less wear and erosion when using Envirocoal.

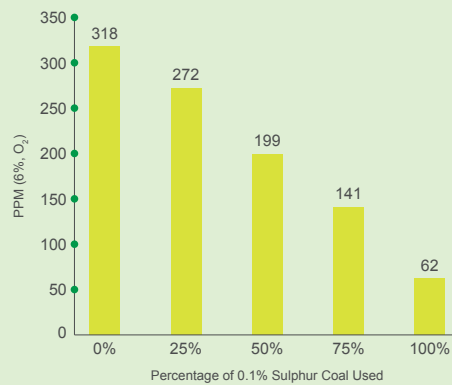
Ash Deposition

Ash deposition is always a potential problem in coal-fired furnaces. The deposition rate from Envirocoal is much lower and sometimes non-existent. The experience from using the coal is that slagging is generally very low. The use of wall blowers and soot blowers, which reduce thermal efficiency, can be reduced significantly. Fouling is non-existent.

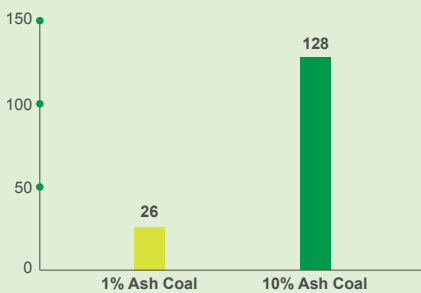
NO_x Emissions



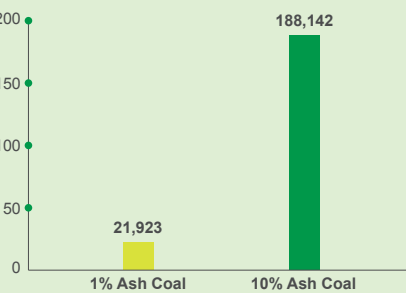
SO₂ Emissions



Ash Emissions (Mg/Nm³)



Ash For Disposal (Tonnes Per Year)



Distribution of Sales



PT Adaro Indonesia – Historical Sales Record

Year	Sales	
	Annual	Cumulative
1991	159,361	159,361
1992	979,919	1,139,280
1993	1,214,386	2,353,666
1994	2,510,906	4,864,572
1995	5,589,530	10,454,102
1996	8,333,945	18,788,047
1997	9,616,828	28,404,875
1998	11,244,273	39,649,148
1999	13,830,049	53,479,197
2000	16,237,523	69,716,720
2001	18,779,489	88,496,209
2002	21,245,436	109,741,645
2003	23,072,652	132,814,297
2004	25,112,926	157,927,223
2005	26,094,004	184,021,227
2006	34,455,270	218,476,497
2007	36,576,195	255,052,692
2008	39,797,764	294,850,456



Looking out for an approaching barge of coal on the floating loading facility, Ratu Barito.

Marketing

Adaro Indonesia started marketing its sub-bituminous coal in 1990 and today the coal is widely known around the world under the trademark “Envirocoal” because of its unique environmental qualities. Marketing efforts were first focused in Europe and the USA where regulations limiting the emissions of coal-fired power plants had been introduced. Soon thereafter, Adaro Indonesia focused its attention on Asian markets taking advantage of the geographical proximity, which lowers transportation costs for customers.

Adaro Indonesia supplies coal predominantly direct to end-users and the rest via trading firms. The company has 41 customers, located in 17 countries. Adaro Indonesia is also the largest supplier of coal to the domestic market, providing around 20% of total demand. Adaro Energy is represented by an agent in each of the countries to which it exports Envirocoal.

Geoff Palmer, General Manager - Marketing

- Joined Adaro in March, 1997
- Over 35 years of experience in the mining industry, 20 years in coal operations and 10 in marketing
- Managed the wash plant for Westar Mining's Canadian operations in the 80's and 90's
- Worked for Kaltim Prima Coal prior to joining Adaro
- Graduated from British Columbia Institute of Technology with degree in Physical Metallurgy



Adaro Energy conducts technical marketing throughout the world. Highly qualified coal combustion consultants retained by Adaro travel to all customers advising on how to optimize their boilers and operations when using Envirocoal. Aside from consistent quality, reliability and dependability, this after sales service and attention provides a top class customer service.

Corporate Structure

Pre-IPO Structure

In mid 2005, an international and local consortium of investors acquired 100% of the shares of Adaro, IBT, Coaltrade and certain intermediate holding companies. Former shareholders, New Hope Corporation Ltd., Consolidated Bulk Handling Pty. Ltd., Andrew Holdings Pty Ltd. and Beheeren Belegging-smaatschappij Jydeno B.V., along with some of the Indonesian shareholders who joined the international consortium of investors, sold 100.0% of their respective interests to the international consortium.

The financing of the acquisition involved a US\$ 923 million debt financing (senior credit facility and mezzanine), both extended to Arindo Global (Netherlands) B.V and guaranteed by the directly or indirectly acquired companies, and a \$50 million equity financing. Through an intercompany loan structure, the proceeds from the senior credit facility and the mezzanine facility were lent to the investors to finance the acquisition.

This acquisition financing has been refinanced several times since December 2005, which involved a combination of US\$400 million 8.5% 5 years senior secured notes and US\$ 200 million senior credit facility, until December 2007, when a syndicated term loan and revolving credit facilities of US\$750 million were extended to Adaro and Coaltrade.

After a number of restructurings, PT Padang Karunia, a vehicle controlled by local shareholders, indirectly owned 61% of Adaro Indonesia, 62% of IBT and 59% of Coaltrade via PT Alam Tri Abadi. PT Padang Karunia also directly owned 72% of PT Saptaindra Sejati, the mining contractor. The international consortium controlled their ownership in Adaro Indonesia, IBT and Coaltrade through Ariane Investment Mezzanine Pte. Ltd. ("AIM"), Agalia Energy Investments Pte. Ltd. ("Agalia") and Ariane Capital Singapore Pte. Ltd ("Ariane Capital").

Post-IPO Structure

In July 2008, PT Padang Karunia which was renamed PT Adaro Energy Tbk. conducted an Initial Public Offering of 34.8% of 31,985,962,000 shares issued and fully paid at Rp 1,100/share, raising approximately Rp 12.2 trillion or US\$1.3 billion. The shares offered to the public in the IPO were listed on the Indonesia Stock Exchange on July 16, 2008. The proceeds from the IPO were used to increase the investments in ATA whereby ATA would use the fund to buy the shares from the international consortium held under AIM, Agalia and Ariane Capital and purchase minority shares in ATA. The Company has effectively increased its direct and indirect ownership to 100% in Adaro, IBT and Coaltrade from these transactions. The proceeds were also used to purchase shares in SIS owned by some local shareholders which effectively increased the Company's ownership to 85.92%. Some of the proceeds were also used to pay off a portion of the syndicated loan of Adaro and Coaltrade, and to fund capital expenditure and working capital of SIS.

Adaro Energy liquidated several intermediate holding companies to simplified its complex corporate structure inherited from the LBO, in October 2008. Revere Group Ltd., Decimal Investments Ltd., Saluno Investments Pte. Ltd., Rachsing holdings Pte. Ltd., AIM, Ariane Capital and Agalia were liquidated and investments in Biscayne (100%), Viscaya (100%), Rach(M)(100%), Rachpore (100%), Arindo Holdings (0.3%) and Arindo Global (67%) were transferred to ATA. There were no changes in the Company's effective ownership in Adaro, IBT and Coaltrade.

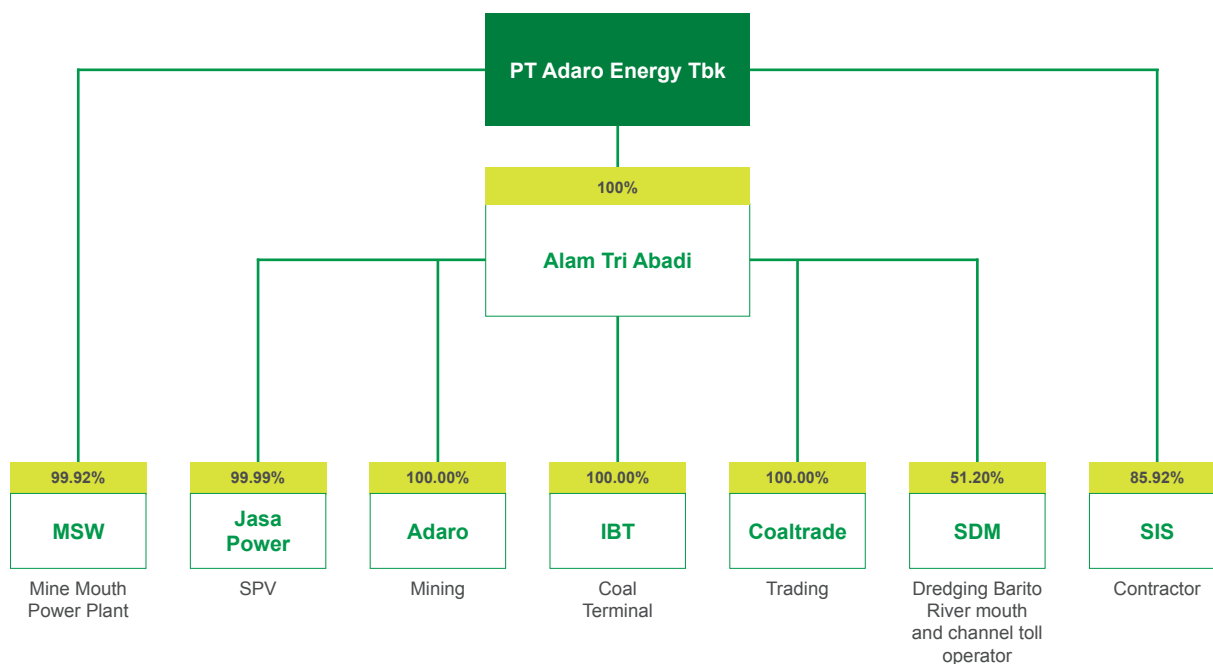


Equipped with GPS units and well maintained, the hauling rigs and trailers are safe and reliable.

In October 2008, ATA acquired a 51.2% interest in SDM, to dredge the channel at the mouth of Barito River and operate a water toll.

The target is for Adaro Energy to have a simplified corporate structure as follows:

Corporate Structure



Each unit is positioned to be an independent profit centre enabling the Company to have a reliable and competitive coal supply chain which will create optimum value added for its stakeholders.

Royalty Arrears/VAT Refund Audit

In May 2006, the Ministry of Energy and Mineral Resources alleged that Adaro Indonesia 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 an offset against the Government's obligation to reimburse Adaro Indonesia for its Value Added Tax ("VAT") payment as prescribed under the Coal Cooperation Agreement. 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 September 26, 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.

However, in June 2006, the Ministry of Energy and Mineral Resources granted authority to the Committee for State Claim Affairs (the "Committee") to pursue 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 the Jakarta Administrative Court granted an order restricting the Committee from taking any further administrative steps on the issue until a final and binding judgment was delivered. On February 15, 2008, the Jakarta Administrative Court issued a decision in favour of Adaro. The Jakarta High Administrative Court concurred with the Jakarta Administrative Court on July 1, 2008.

In December 2008, the State Development Finance Comptroller (BPKP) completed an audit on royalties that were allegedly withheld by Adaro and five other coal miners. The BPKP audit has found that the royalties withheld by the six major Indonesian coal mining companies are almost equal to the amount of VAT refund claims. A final decision on the matter is pending.

Until a VAT refund mechanism is established, Adaro will continue to offset royalty payments with the amount of VAT to be refunded.

Corporate Strategy and Growth Targets

Our business model is one of integration of the coal supply chain to improve control and reliability, lower costs and become more efficient. In implementing this model we focus on increasing our reserves, improving cost efficiency, developing our infrastructure, fostering strong community relations and developing and retaining our long term loyal blue chip customers.

For 2009, Adaro Energy continues to target 42-45 million tonnes of production although the actual number may end up in the lower part of that range. In the beginning of 2009, production was continuing as planned, despite the wet weather conditions.

In the next five years Adaro Energy plans to increase production capacity to 80 million tonnes per year. However, given the changing conditions in the global economy, Adaro Energy is making adjustments regarding how to best achieve this growth, with a view to maximizing shareholder value and minimizing risk. The different options to achieve 80 million tonnes a year include building an overland conveyor over half the original distance, upgrading the existing road, and/or building in-pit conveyors. The planned overland conveyor would significantly reduce transportation costs, but is not essential to ramp up annual production to 80 million tonnes.

Further Integration from Pit to Port

An important part of Adaro Energy's business model is to further increase the vertical and horizontal integration of the operations, so as to further improve control and efficiency. In 2009, Adaro Energy will likely not make large growth investments. However, as well as making investments to improve the infrastructure and routine investments such as procuring mining equipment and purchasing land, Adaro Energy will be making investments to further integrate the operations.

Government Regulations and Requirements

Price Renegotiations

On December 11, 2008, Adaro Energy announced that Adaro Indonesia had temporarily suspended deliveries and declared force majeure to three customers after negotiations with them failed to achieve a required new price by December 3, 2008. The repricing negotiations and the deadline were required by the Government of Indonesia. By the end of 2008, Adaro had made progress in price renegotiations having reached an agreement with two buyers, and the proposed settlement was pending Government's approval. Adaro is hopeful of achieving a satisfactory outcome. The outcome of the price renegotiations is not expected to impact on Adaro's 2009 volume or price guidance.

Impact of the New Mining Law

On December 16, 2008, Indonesia passed Law Number 4 of 2009, which is known as the new Mining Law. The new Mining Law, which came into effect on January 12, 2009 and which supersedes the previous Mining Law, known as Law No. 11 of 1967, contains many provisions, such as those concerning maximum concession size, royalties and taxes, using affiliated parties and subsidiaries, using foreign contractors, etc. The impact of the new mining law cannot be determined until the government issues its regulations on how the new mining law will be implemented. Adaro Energy's legal department, together with external counsel, is reviewing the new Mining Law in regards to Adaro Energy's operations and expansion plans.

Customer Service Management Program

Adaro provides global support to customers through two marketing offices and an extensive network of representatives. These offices and representatives provide administrative assistance on deliveries and a clear communications link between Adaro and its customers. Adaro's technical support team is available for expert advice on the handling and combustion of Envirocoal. Team members include a consulting combustion engineer with more than 30 years experience in the utilization of sub-bituminous coals and lignites in power stations and other specialist consultants on power plant operations. The team makes regular visits to all the plants world wide using envirocoal and provides expert advice on its utilization in power plant and industrial boiler operations. Advice is also available on an as-required basis to all customers. Adaro sells on either an FOB or CIF basis as required by the customer. Adaro's shipping department in its Jakarta office is available to provide expert and independent advice on the optimal logistics solution for each customer as freight markets change. Adaro's operational staff are expert in the handling and storage of "Envirocoal". This advice, including on-site visits before and during coal deliveries, is available to all customers.



Legal staff Bima Sinung and Sylvia Trianasari assess the potential impact of the new mining law.

Understanding Coal – The Where, What, Who and How



Where it Came From

Coal is a fossil fuel. It is a combustible, sedimentary, organic rock, which is composed mainly of carbon, hydrogen and oxygen. It is formed from vegetation, which has been consolidated between other rock strata and altered by the combined effects of pressure and/or heat over millions of years to form coal seams.

Coal was formed from the altered remains of prehistoric vegetation that originally accumulated in swamps and peat bogs. The build-up of silt and other sediments, together with movements in the earth's crust (known as tectonic movements) buried these swamps and peat bogs, often to great depths. With burial, the plant material was subjected to high temperatures and pressures. This caused physical and chemical changes in the vegetation, transforming it into peat and then into coal.

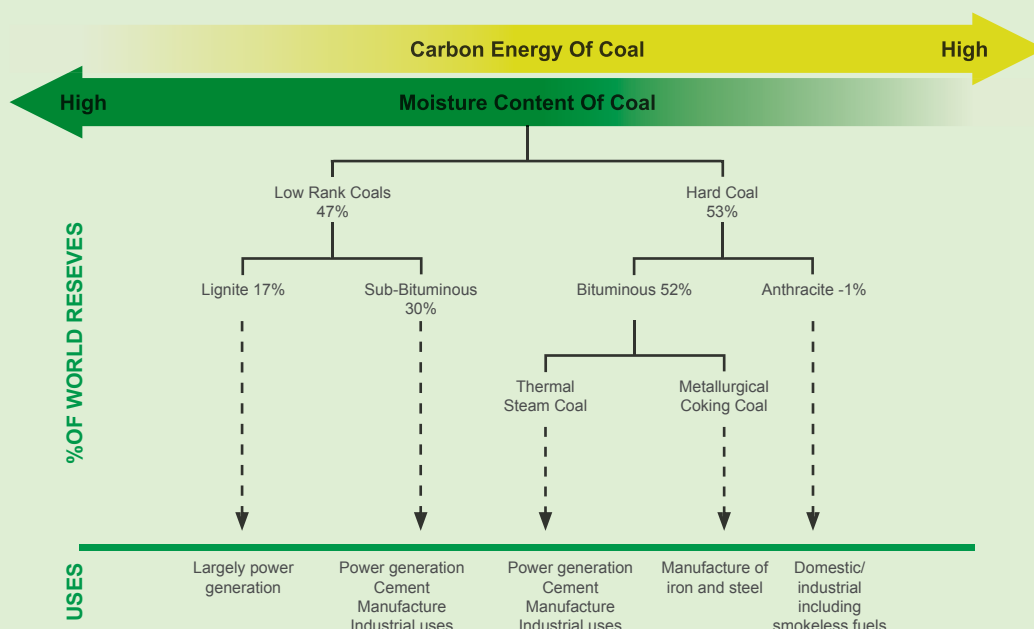
Coal formation began during the Carboniferous Period – known as the first coal age – which spanned 360 million to 290 million years ago. The quality of each coal deposit is determined by temperature and pressure and by the length of time in formation, which is referred to as its 'organic maturity'. Initially the peat is converted into lignite or 'brown coal' – these are coaltypes with low organic maturity. Lignite in its colour can range from dark black to various shades of brown.

Over many more millions of years, the continuing effects of temperature and pressure produces further change in the lignite, progressively increasing its organic maturity and transforming it into the range known as 'sub-bituminous' coals. Further chemical and physical changes occur until these coals became harder and blacker, forming the 'bituminous' or 'hard coals'. Under the right conditions, the progressive increase in the organic maturity can continue, finally forming anthracite.

What are the Types

The degree of change undergone by a coal as it matures from peat to anthracite – known as coalification – has an important bearing on its physical and chemical properties and is referred to as the 'rank' of the coal. Low rank coals, such as lignite and subbituminous coals are typically friable materials with a dull, earthy appearance. They are characterised by high moisture levels and low carbon content, and therefore a low energy content. Higher rank coals are generally harder and stronger and often have a black, vitreous lustre. They contain more carbon, have lower moisture content, and produce more energy. Anthracite is at the top of the rank scale and has a correspondingly higher carbon and energy content and a lower level of moisture

Types Of Coal



How Much is There

Coal reserves are available in almost every country worldwide, with recoverable reserves in around 70 countries. At current production levels, proven coal reserves are estimated to last 133 years. In contrast, proven oil and gas reserves are equivalent to around 42 to 60 years. Over 67% of oil and 66% of gas reserves are concentrated in the Middle East and Russia.

Coal: Proved Reserves at End 2007

Million tonnes	Anthracite and bituminous	Sub-Bituminous and lignite	Total	Share of Total	R/P ratio
Total North America	116,592	133,918	250,510	29.6%	224
Total S. & Cent. America	7,229	9,047	16,276	1.9%	118
Total Europe & Eurasia	102,042	170,204	272,246	32.1%	224
Total Middle East & Africa	50,817	174	50,991	6.0%	186
Total Asia Pacific	154,216	103,249	257,465	30.4%	70
Total World	430,896	416,592	847,488	100.0%	133

Where is it Sold and Who Sells it

The world currently consumes over 5,500 Mt of coal. Coal provides 26% of global primary energy needs and generates 41% of the world's electricity. Coal is used in a variety of sectors including power generation, iron and steel production, cement manufacturing and as a liquid fuel however the majority of coal is either utilized in power generation, either thermal coal or lignite or in iron and steel production with coking coal.

Global Energy Consumption by Fuel*

Million tonnes oil equivalent	2006				2007			
	Oil	Coal	Others	Total	Oil	Coal	Others	Total
North America	1,130.2	605.7	1,058.1	2,794.0	1,134.7	613.3	1,090.6	2,838.6
S. & Cent. America	239.9	20.9	272.3	533.0	252.0	22.4	278.5	552.9
Europe & Eurasia	969.0	532.6	1,508.1	3,009.7	949.4	533.7	1,504.4	2,987.5
Middle East	281.2	8.9	267.2	557.3	293.5	6.1	274.6	574.1
Africa	132.1	101.9	94.2	328.3	138.2	105.9	100.4	344.4
Asia Pacific	1,158.5	1,771.7	690.5	3,620.7	1,185.1	1,896.2	720.4	3,801.8
Total World	3,910.9	3,041.7	3,890.4	10,843.0	3,952.8	3,117.5	3,969.0	11,099.3
% Of Total	36.1%	28.1%	35.9%		35.6%	28.6%	35.8%	

Over 5,543 Mt of coal was produced in 2007, a 38 % increase over the past 20 years. Coal production has grown fastest in Asia, while Europe has actually seen a decline in production.

The largest coal producing countries are not confined to one region, the top five producers are China, the USA, India, Australia and South Africa. Much of global coal production is used in the country in which it is produced with only around 18% of hard coal production being destined for the international coal market.

Top Ten Hard Coal Producers 2007

(Million Tonnes)

China	2,549	Russia	241
USA	981	Indonesia	231
India	452	Poland	90
Australia	323	Kazakhstan	83
South Africa	244	Colombia	72

Global coal production is expected to reach 7 billion tonnes in 2030 with China accounting for around half the increase over this period. Steam coal production is projected to have reached 5.2 billion tonnes, coking coal 624 million tonnes and brown coal 1.2 billion tonnes by that time.

Coal is traded all over the world with coal shipped long distances by sea to reach markets. Over the last twenty years, seaborne trade in thermal coal has increased by 8% each year with the international trade in thermal coal reaching 718 Mt in 2007 however while this is a significant amount of coal it is still only approximately 18% of total coal consumption.

Transportation costs account for a large share of the total delivered price of coal, therefore international trade in thermal coal is effectively divided into two regional markets, the Atlantic and the Pacific. The Atlantic market is made up of importing countries in Western Europe, notably the UK, Germany, Holland, Spain and Italy and exporting countries including Colombia, Venezuela, USA, Russia and South Africa. The Pacific market consists of Japan, South Korea, Taiwan, China, Malaysia and India while the exporters comprise Indonesia, Australia, Canada and China. The Pacific market currently accounts for approximately 60% of world thermal coal trade.

Top Thermal Coal Importers 2007

(Million Tonnes)

Japan	128
Korea	65
Taiwan	61
India	31
UK	43
China	42
Germany	36

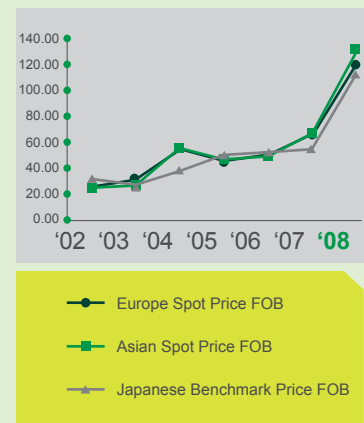
Top Thermal Coal Exporters 2007

(Million Tonnes)

Indonesia	171
Australia	112
Russia	85
Colombia	67
South Africa	66
China	51
USA	24

Inter-regional trade occurs primarily due to inter-regional price variances so South African coal can be found in the Pacific area especially India while Indonesian and Australian coal can be found in the Atlantic region.

International Coal Prices (US\$/tonne)



How it is Priced

The international thermal coal market is essentially divided into two sectors, the Asia Pacific region and the Atlantic region. The forces affecting coal pricing within these region are different though pricing in one region does affect pricing in the other.

Both markets are highly competitive with numerous coal suppliers and traders from a large number of supply countries, vying for market share. In addition in most markets coal competes against gas and/or nuclear power as the fuel for power generation, the major market for thermal coal.

Most of the thermal coal is sold in term contracts of one year or longer, with only about 5% to 10% sold on the spot market. The coal is sold either FOB or on a delivered basis depending on the customers requirements. The international trade in coal is almost always priced in US dollars.

In the Atlantic market considerable use is made of indexes to set prices. Several indexes are available and suitable. In many cases the buyers hedge their thermal coal buying with power sales to reduce their exposure to price movements in both markets.

In the Asia-Pacific market pricing on indexes is also used but a lot of pricing is negotiated on an annual basis and often related to the Japan/Australia price. This price is that set by annual price negotiations between a major Japanese power utility and a large Australian coal producer. The exact price and other details are often not revealed but a ballpark price or price range becomes available to the market which is then accepted as the reference price for Japan/Australia thermal coal contracts.

This price is then used as the starting point for setting annual pricing, notably in Taiwan, Malaysia and Korea as well as Japan. The actual price is dependant on a number of features such as the coal quality, payment terms, method of delivery and the tonnage involved.

Tenders for coal supply are also used in both regions, though more often in the Asia Pacific region and particularly in Korea and Taiwan. The tender results are usually made public and thereby also become a factor in price negotiations and price setting.

Sources : World Coal Institute, Barlow Jonkers, Wood MacKenzie, BP Statistical Review of World Energy 2008, International Energy Agency

How We Manage Risk

The main objective of Adaro's risk management is to ensure the continuity of our businesses, through reliable supply of coal to our customers while making adequate margins to support future growth and provide returns to our shareholders. Therefore we have defined risks as all events that prevent the company from achieving its objectives, growth, and development. Management undertakes regular reviews on all key business activities.

We believe it is important to have a systematic and accountable process to anticipate new risks. We believe past success tends to shadow future failure. Therefore, as new risks emerge everyday, it is important to allow information to be effectively communicated between operations and management.

Risk Management at Strategic Level

To ensure that management understands all risks related to the achievement of objectives, during regular Board meetings, a review of on-going plans and actual progress is made. All issues that require immediate attention and support from the Board are discussed.

The strategy to achieve production growth and reliable supply to our customers is realized with good risk management.

To reduce the risk of price fluctuation, Adaro secures long-term sales contracts with customers. To ensure Adaro is able to meet the terms of these long-term sales contracts, Adaro secures long-term contracts with its contractors and helps to develop their capabilities. Since most of Adaro's sales contracts are in US Dollars this provides a natural hedge of the risk of exchange rate fluctuation.

In addition, to reduce risk of fluctuating interest rates, Adaro conducts interest rate swaps from variable to fixed rates.

To secure the supply of fuel for mining operations at competitive prices, Adaro enters into forward contracts with fuel suppliers.

Risk Management at Operational Level

To ensure our coal mining operates efficiently with minimum disruptions, policies and procedures are in place to anticipate operational risks. These policies and procedures primarily cover mine safety and provide protection for the company's assets.

To mitigate risks at the operational level, Adaro conducts financial planning and budgeting, develops policies and procedures, and holds regular meetings. The effectiveness of these control activities will be reviewed by the Board and Audit Committee on a periodic basis.

Another important risk initiative is the optimization of insurance coverage. Insurance is considered more than just risk transfer but also the foundation of a better risk culture. Controls on claims frequency, increase in claim value, and premiums paid are controlled by each insuring department. Adaro together with reputable insurance brokerage firms ensure efficient and effective coverage. Insurance purchases are constantly reviewed to ensure adequacy of cover.

Operational Risk Assessment

In February 2008, Adaro Indonesia together with Terence Wilsteed and Associate (TWA), an independent third party, completed an operational risk assessment. TWA confirm that the technical risk and safeguards appear to currently meet acceptable industry standards.

Management has acknowledged and made some control improvements following previous comments on Adaro Indonesia's risks.

From these risk assessment exercises, management at the strategic and operational levels have identified some common key risks between them. These risks have been communicated to the departments concerned for implementation of integrated action plans to mitigate these risks. Implementation of these action plans have been monitored during Board of Directors and operational meetings.



Hauling two 40 tonne trailers of Envirocoal along Adaro's privately owned road.

The following table provides a summary of our business risks in 2008:

Risks
Market Risks
The effect of high fluctuation of coal price on the income of the Company and subsidiaries.
Business competition.
Discontinuation or non-renewal of contracts with customers.
Operational Risks
Dependency of the Company and subsidiaries on contractors.
Dependency of the Company and subsidiaries on main installation, equipment, production facilities and other supporting facilities to undertake the mining activity and other activities.
The ability of the Company and subsidiaries to obtain and provide fuel, spare-parts and other operational materials.
The increase of fuel price.
The limitation of coal transportation services may interfere with the operational activities of the Company and subsidiaries.
High production of the main mining subsidiary comes from only one mining location
Natural disasters, weather and accidents may harm the operational activities of the Company and subsidiaries.
The coal production may be affected by unpredicted geological conditions
Adjustment to proven and probable coal reserves could adversely affect the Company and its subsidiaries development and mining plans.
Legal, Socio-Political and Macroeconomic Risks
The terms of the CCOW giving authority to the mining strategic business unit, Adaro, to conduct mining
VAT compensation made to the Government by the mining strategic business unit, Adaro, may not be recognized by the Government
The Government may require adjustment to Adaro's tax obligations.
The operational activities of mining strategic business unit, Adaro, may be influenced by the provisions of the prevailing laws and regulations in forestry and environment.
The risk that Adaro's mining area may overlap with other mining areas or other non-mining areas of third parties.
The operational activities of the Company and subsidiaries depend on their ability to obtain, defend and renew all licenses and approvals required.
The application of new laws and regulations either in the sectors of mining, environment, harbor affairs, shipping, finance, forestry or other sectors, or the existing interpretation or implementation of the new laws and regulations may have negative impacts on the operational activities and licenses held by the Company and subsidiaries.
Relations with the surrounding communities may affect the business areas of the Company and subsidiaries.
Under the CCOW, all fixed assets and equipments purchased in connection with the mining activity of the mining strategic business unit, Adaro, and the coal reserves found in the mining area of Adaro are owned by the Government.
Organization and People Risks
Company's dependence on subsidiaries.
Legal Claim against Dianlia, one of the Company's subsidiaries, in relation to the legality of Dianlia's ownership in Adaro and IBT shares.
The ability of the Company and subsidiaries to operate effectively may be harmed, if they lose key employees or if the Company, subsidiaries and their mining contractors cannot recruit and maintain skilled and trained manpower.
Control by the Ultimate Shareholders.
Financial Risks
The change of exchange rates on the record of the Company's consolidated financial statements.
The change of interest rates in relation to outstanding loan of the subsidiaries

Review of Operations



PT Adaro Indonesia – On Track to Achieve Targets

Mining and Hauling (Contractors)

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”) conducts around 10% of the mining operations.

Overburden Removal

During the year a total of 159.31 million bcm was excavated and hauled by the mining contractors which was a 33% increase over the production figures for 2007. October was a record breaking month in terms of overburden removal with 672,749 bcm being excavated on October 21 while the best average overburden removal per day, not including the two non-working holidays was 561,000 bcm per day, compared to 511,000 bcm per day in August. The monthly total was also the best to date with 16.2 million bcm being removed. During the year rainfall totalled 3,010 mm, and given the wet conditions especially in November and December with a total of 51 raindays and an increase in the amount of water being stored in the pit sumps, this was an excellent performance by the contractors.

Full year overburden removal was 87% of the plan, due to the poor weather at the beginning of the year.

Coal Mining

Total coal production for the year was 38.48 million tonnes which was a 7% increase over 2007's production and maintained Adaro's record of continuous annual increases since production commenced in 1991. This was a creditable achievement by the contractors given that production in the first quarter had been severely curtailed due to bad weather.

Coal production in July was the highest ever at 3.73 million tonnes while a new daily record was set on November 9 with production at 127,878 tonnes.

Production & Sales

	2002	2003	2004	2005	2006	2007	2008
Coal Sales (million tonnes)	21.25	23.07	25.11	26.09	34.46	36.58	39.80
Coal Production (million tonnes)	20.80	22.48	24.38	26.61	34.29	36.08	38.52
Overburden Stripping (million bcm)	48.06	55.97	66.07	85.16	122.40	119.87	159.31
Average stripping ratio (planned)	2.29	2.50	3.10	3.30	3.57	4.25	4.25
Average stripping ratio (actual)	2.31	2.49	2.71	3.20	3.57	3.30	4.14

Logistics, Hauling, Barging and Ship Loading

Deliveries of andesite road rock arrived to surface and improve traction on the major mine roads, with major pit ramps being completed by the end of 2008. This surfacing gives all-weather hauling capability to these roads which previously were subject to reduction in usage during any rain periods. The efficiency of this system was proven in November and December where both overburden removal and coal production was maintained at high levels even though these two months experienced the highest rainfall for the previous five years.

In order to improve safety and efficiency along Adaro Indonesia's 85km haul road from the mine site to the Kelanis River facility, the company continued to take delivery of GPS units, to be fitted to the to coal hauling trailer rigs. By the end of 2008 more than 200 units were fitted to coal haulers.

The coal haul road continued to be upgraded and has all weather capacity well above current usage levels.

Avoiding backlogs along the coal supply chain requires a constant effort. With adequate coal supply, barging and loading capacity, Adaro Indonesia can keep demurrage to a minimum level. Demurrage is the penalty charged for late delivery to customers' vessels.

During the year, Adaro Indonesia continued installation of a new crushing system to boost capacity at Kelanis which when completed will increase the coal throughput capacity at kelanis to 55 million tonnes.

In 2008, coal shipments were at a record high although time was lost in barging due to short term groundings in the Barito River Channel. A new channel was dredged by the end of 2008 which will eliminate this problem.

Adaro had contracted 75 barges during the year with average capacity of 10,300 tonnes.

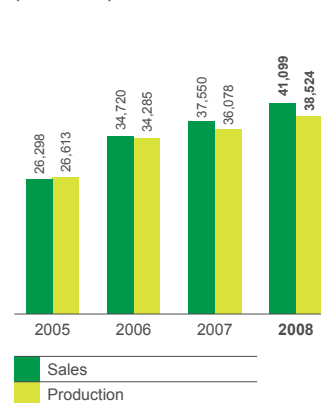
During the year a new transshipment barge commenced operations at the Taboneo anchorage. This floating transhipper, known as a Floating Loading Facility (FLF) has a loading capacity of 40,000 tonnes per day and uses two cranes and conveyor systems to achieve this high loading rate. This FLF augmented the three high capacity cranes already in exclusive operation for Adaro.

With this new equipment Adaro Indonesia now has a loading capacity at the Taboneo anchorage, offshore Banjarmasin, of over 100,000 tonnes a day to gearless vessels as well as the capacity for vessels to load with their own gear and grabs.

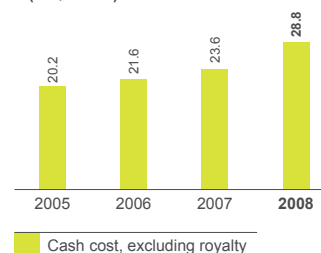
Self-Propelled Barges

One of Adaro Indonesia's barging contractors began operating the first of three 12,000t capacity self-propelled barges that will transport coal from the Kelanis barge loading facility on the Barito River to domestic and international markets. The barges have a loaded speed of 10 knots, which is double the speed of conventional towed barges and are operationally most successful.

PT Adaro Energy Tbk
Sales and Production Volumes
('000 tonnes)



PT Adaro Energy Tbk
Cash Cost
(US\$/tonne)



The marketing department's shipping section discusses new requirements for shipping documentation.

The barges will help maintain a reliable and efficient supply to domestic customers in all weather conditions. The second self-propelled barge went into service in December, with the third to begin operating in early 2009 (see the Project Development chapter).

Adaro Indonesia has plans to use larger 15,000t self-propelled barges that will be able to transit the new Barito channel, the first of which will become operational by the end of 2009.

Quality of Coal

Envirocoal has a 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.

During 2008, the energy level of the coal (measured as kilocalorie per kilogram) on a Gross As Received (GAR) basis ranged between monthly averages of 5,089kcal and 5,114kcal.

Rainfall and Pit Dewatering

Rainfall was above average for the period which had an impact on the haulage of overburden and coal out of the pit in the first half of the year as the ramps became slippery in the rain and unsafe to use.

In the third quarter, Adaro Indonesia started bringing in suitable crushed rock material from Java to pave the main pit ramps. This reduced the impact of wet weather. This program will continue.

Marketing

Adaro Indonesia supplies coal predominantly direct to end-users and the rest via trading firms. The company has 41 customers, which are mostly high quality power utilities, located in 17 countries.

Adaro Indonesia is also the largest supplier of coal to the domestic market, providing about 9.6Mt, or 20% of total 2008 domestic demand. Of the sales for the year, 29% of Adaro Indonesia's total sales were to domestic customers and 71% of sales were to international customers.

Sales to the international market totalled 31.17 million tonnes with Asia taking the largest tonnage with 49% share, followed by Europe at 18% and the Americas with 4%.

All of Adaro Indonesia's planned 2009 production is already contracted under term coal supply agreements. During the year Adaro entered into three new long term coal supply contracts with international customers to cover the increased production planned for 2009. Adaro is currently not seeking new customers. Nearly 70% of pricing for 2009 had been completed by the end of 2008.

The Department of Energy and Mineral Resource of the Republic of Indonesia stated in writing that, based on their evaluation, the coal price in certain 2009 deliveries was too low and that Adaro was to renegotiate the price so it reflected current prices.

Most users can switch a certain percentage of their coal requirements between bituminous (higher energy/more expensive) and sub-bituminous at any time depending on price relativity and coal availability. However, despite the softening conditions, the demand for Envirocoal remains satisfactory. Adaro Indonesia has a certain degree of protection against coal quality switching as three major customers can only operate if they burn 100% of Envirocoal and a number of other customers must use some percentage of Envirocoal.

Others demand factors include reliability of supply, reliability of quality and long term relationships.

Coaltrade Services International Pte Ltd – Developing New Markets

Coaltrade works closely with IBT, which is one of the few terminals in Indonesia with the capacity to blend and stockpile coal in multiple stockpiles. By using the terminal facilities Coaltrade purchases coal from a variety of producers from South and East Kalimantan and blends them to arrive at a product meeting customer's quality requirements.

Coaltrade trades coal purchased from third parties, provides coal blends and Envirocoal sourced directly from Adaro Indonesia.

Rainfall

2008	Total Rain (millimeters)	Rain Days
Total	1,128	67
Five Year Average	788	49



Customer's vessels wait to be loaded in the busy Taboneo anchorage.

China is a key market for Coaltrade. The Chinese coals are different from Indonesian coals and Coaltrade was the leader in opening up the very large southern China market for both blends and direct feed of Envirocoal. The China market is a target market, along with India and the domestic market, for Adaro Indonesia's production growth.

Coaltrade sold 7,957,156 tonnes of coal in 2008, of which 961,842 tonnes was third party coal. In 2007, the Company sold 9,325,299 tonnes of coal.

Coal Traded

	2002	2003	2004	2005	2006	2007	2008
PT Adaro Indonesia	1.76	4.42	6.71	6.19	5.62	7.48	7.00
Third party	0.52	0.50	1.00	0.25	4.48	1.85	0.96
Total	2.28	4.92	7.71	6.44	10.09	9.33	7.96

*in million tonnes

PT Indonesia Bulk Terminal (IBT) - Seeks New Customers for Freed Export Capacity

Since 2007, IBT has been focusing on a significant expansion of coal throughput from smaller producers and traders with operations in Southeast Kalimantan who can obtain real efficiency benefits from using the terminal's features. While Adaro Indonesia and Coaltrade are still the major terminal users with Envirocoal throughput, this tonnage as a percentage of the total is dropping as is reflected in the terminal throughputs for 2008 compared to 2007 and will continue to drop further in the coming years.

While IBT focuses on increasing throughput from third party users, Adaro has moved export tonnage back to the Taboneo anchorage where it can achieve greater efficiencies and cost reduction through reduced barging and transshipment costs. Even so, IBT will always remain a strategic ship loading port for Adaro Indonesia as it offers a high capacity backup to the Taboneo transshipment operations during periods of peak demand.

IBT shipped 8,072,636 tonnes of coal on 125 vessels in 2008, or 66% of the plan and a 33% decrease compared to the 11,965,395 tonnes loaded on 185 vessels in 2007. Of the total amount, 1,802,460 tonnes were third party shipments, while for 2007, 1,246,190 tonnes were third party shipments.

Mining Contracting – PT Saptaindra Sejati (SIS)

Overburden removal of 85,799,000 bcm was 6% below the plan for 2008 but a 41% increase compared to 2007. Closer to planned levels, during 2008, SIS transported 8,478,000 tonnes, mined 11,358,034 tonnes and barge loaded 1,292,000 tonnes. Both coal transported and coal mined decreased 1% and 6% compared to 2007 due to a higher strip ratio of 7.26 compared to 5.08. Barge loading grew by 2% compared to 2007.

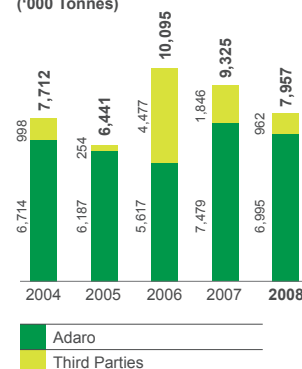
Production (all contract)

	2004	2005	2006	2007	2008
Overburden removal (million bcm)	9.80	23.06	46.78	60.73	85.80
Coal production (million tonnes)	3.20	4.35	8.61	11.93	11.36

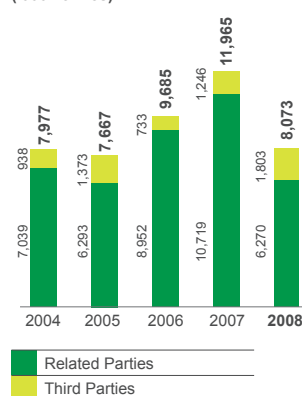
During 3Q08, SIS borrowed US\$300 million at economic rates. US\$240 million was used for refinancing and additional working capital and US\$60 million, which has yet to be drawn down, will be used for capital expenditures, mostly on mining equipment.

Coaltrade Service International Pte. Ltd.

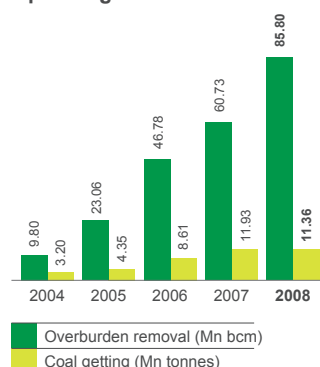
Coal Sales
(*'000 Tonnes)



PT Indonesia Bulk Terminal Coal Tonnage Handled
(*'000 Tonnes)



PT Saptaindra Sejati Operating Statistics



Cost Reduction

As well as postponing large capital expenditure on growth, Adaro Energy is preserving cash and improving operations by investing in cost reduction initiatives. One such project is the US\$42 million investment made in 2008 to dredge the new channel at the mouth of the Barito River. This has increased the capacity of the river delta and will reduce costs by halving the time and number of tugs it takes to transit barges through the river mouth. Additionally, Adaro Energy will be making greater use of the Taboneo anchorage for its shiploading activities, which decreases barging distances. Due to lower oil prices globally, Adaro’s fuel costs, a significant cost component, will decrease. To preserve cash Adaro Energy has also cancelled the share repurchase program.

Additionally, Adaro Energy has implemented a group-wide cost cutting program, across all levels with all members of the group asked to reduce their costs.

President Director Garibaldi Thohir said:

“During this period of global uncertainty we intend to get back to basics and focus on our core business.”



Safety

Adaro Energy is committed to achieving and maintaining the highest standards of occupational health and safety program through an extensive Health Safety and Environmental management program that conforms to the highest international standards with personnel involved in continuous training and monitoring to minimize the risk of work related fatal accidents, injury and illness.

These standards are applied to all Adaro Energy’s companies involved in field operations including PT Adaro Indonesia, PT Indonesia Bulk Terminal and PT Saptindra Sejati.

The combined Lost Time Injury Frequency Rate (LTIFR) statistics for the above mentioned operating subsidiaries were:

	2007	2008
PT Adaro Indonesia	0.69	0.49
PT Indonesia Bulk Terminal	0	1.68
PT Saptaindra Sejati	1.66	0.43



Financial Review

The audited consolidated net profit for the year ended December 31, 2008 increased 902% to Rp 887 billion from the Rp 89 billion year ended December 31, 2007. Adaro Energy's 2008 basic earnings per share (EPS) was Rp 35. The significant increase is attributed to higher achieved selling prices of coal as well as increased production, which increased revenue 56% to Rp 18,093 billion. Meanwhile, the cost of revenue increased at a lesser rate of 45%, boosting the gross margin from 22% in 2007 to 27% in 2008. Adaro Energy's operating income increased 87% to Rp 4,212 billion, resulting in a wider operation margin, which increased from 19% to 23%.

Summary of Full Year 2008 Performance

(in millions of Rupiah)

	2007	2008	% change
Production Volume (Mt)	36,078	38,524	7%
Sales Volume (Mt)	37,550	41,099	9%
Net Revenue (Bn Rp)	11,593	18,093	56%
Cost of Revenue (Bn Rp)	9,089	13,149	45%
Operating Income (Bn Rp)	2,253	4,212	87%
Net Income (Bn Rp)	89	887	902%
EBITDA (Bn Rp)	2,423	4,455	84%
Return On Invested Capital	0.7%	6.3%	5.6%
Total Assets (Bn Rp)	14,689	33,720	130%
Cash and Cash Equivalents (Bn Rp)	832	2,416	190%
Available for Sale Investments (Bn Rp)	1,734	1,096	(37%)
Interest Expense and Finance Charges (Bn Rp)	1,726	616	(64%)
Total Interest Bearing Debt (Bn Rp)	7,426	11,039	49%
Cost of US\$ Bank Loans	6.4%-17%	2.3%-6.9%	
Stockholders' Equity (Bn Rp)	2,151	14,009	551%
Number of Shares Outstanding (thousand shares)	20,624,780	31,985,962	
Quick Ratio	0.85x	0.92x	
Net Debt to Equity	2.26x	0.54x	
Total Debt to Assets	0.51x	0.33x	

Subsidiary Performance

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

	Adaro	IBT	CTI	SIS	MSW
Revenue	15,659,966	331,696	3,628,879	1,857,009	-
Cost of Revenue	(11,450,525)	(233,993)	(3,255,743)	(1,561,696)	-
Gross Profit	4,209,441	97,703	373,136	295,313	-
Operating Income (Loss)	3,684,395	97,703	354,926	174,748	(6,095)
Net Income (Loss)	1,578,619	88,431	315,192	(460,511)	(1,266)
Total Assets	14,072,445	1,932,771	2,556,820	4,390,190	371,268
Interest bearing debt	5,698,238	-	1,747,762	3,592,941	-
Capital Expenditures	216,684	16,439	184	1,114,272	101,444

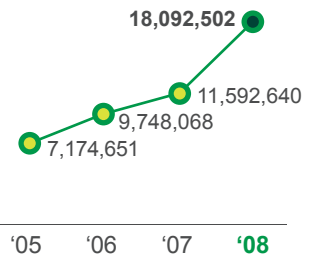
Quality Earnings

(in millions of Rupiah)

	2007	2008
Net income	88,534	887,198
Extraordinary items, net of tax	-	372,741
Amortization of goodwill	32,027	360,233
Amortization of mining rights	5,600	137,621
Foreign exchange loss (gain)	117,459	318,750
Pre-acquisition income	38,048	126,390
Quality Earnings	281,668	2,202,933
Quality Earnings (equivalent in 000 US\$)	30,831	233,774

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 Rp 126 billion of pre-acquisition income and the Rp 373 billion one time extraordinary item related to the unusual wet weather conditions in the beginning of the year which caused high demurrage costs. This results in income of Rp 1,387 billion. If we further adjust to look at the "quality earning" of Adaro Energy, by adding back the "paper" loss of Rp 319 billion attributed to foreign exchange loss due to the weakening Rupiah in the fourth quarter of 2008 (net of tax) and the non-cash expense of Rp 498 billion related to the amortization of goodwill and mining properties, we arrive at 2008 income of Rp 2,202 billion.

Adaro Energy's Net Sales (in Million of Rupiah)



Net Sales

Due to continued firm demand, combined sales volumes, which include 1.3 million tonnes of third party coal trading, increased by 9% to 41.1 million tonnes as production volumes increased 7% to 38.5 million tonnes.

This result is slightly ahead of the annual volume target for full year 2008 of 38.1 million tonnes, despite seasonally difficult weather conditions at the beginning of the year and minimal starting inventory. Good team work is a major factor in achieving the annual target, which was reached safely.

Marketing Director, Alastair B. Grant said:

"The demand for Adaro's Envirocoal remained strong through the year and is continuing firm through 2009 as evidenced by contracts covering all the planned 2009 production."



Due to increased average achieved selling prices and higher comparative volumes, in full year 2008, Adaro Energy's audited consolidated total revenues rose 56% to Rp 18,093 billion or US\$1,869 million. Up until January 2008, Adaro Energy only had minority stakes in CTI. As such its results are not consolidated in the FY07 consolidated performance figures. Adaro Energy's combined average achieved selling price increased due to higher demand and some supply constraints in the market for seaborne thermal coal.

Adaro Energy accounts for three business segments: Coal mining and Trading, Mining Services and Others. In full year 2008, the combined revenues from coal mining and trading, which is substantially all from Adaro Energy, Adaro Indonesia and Coaltrade, rose 56% to US\$1,735 million (Rp16,797 billion), and accounted for 93% of Adaro Energy's total revenues. Adaro Indonesia generated coal revenues of US\$1,618 million (Rp15,660 billion), of which US\$268 million (Rp 2,592 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\$1,350 million (Rp 13,068 billion). By conducting related as well as third party trading activities, Coaltrade's revenues were US\$375 million (Rp3,629 billion) during FY08.

Exports, substantially all coal mining and trading, accounted for 72% of Adaro Energy's 2008 revenues. In 2007, Rp 1,946 billion of revenues from coal mining and trading, or 17% of total revenues, and 18% of mining and trading revenues, were with a related party, which was Coaltrade before Adaro Energy acquired a majority stake in 2008 and consolidated Coaltrade's revenues into the group.

Mining services, which are conducted by the company's mining contractor SIS, generated revenues (after elimination of inter-company transactions) of Rp 1,069 billion, a 59% increase, due to higher services fees and increased volumes. Down from 69% in 2007, in 2008, a 56% portion of mining services revenues were with related parties, such as mining company PT Berau Coal.

Other revenues of Rp 226 billion, resulted mostly from the activities of Adaro Energy's port facility and coal terminal operation, IBT. They were 83% domestic sales and less than 1% with related parties.

Related Party Revenue

In 2008, Rp 600 billion of revenue was generated through sales to related parties, an amount of less than 4% of total revenue. This is a 75% reduction from the Rp 2,412, or 21% of revenue attributed to related parties in 2007. The large reduction is due to the acquisition and subsequent consolidation of Coaltrade into Adaro Energy. Coaltrade’s portion of the 2007 revenues amounted to Rp 1,946 billion. The largest share of revenue in 2008 came from coal miner PT Berau Coal.

Revenue Information Per Subsidiary

Adaro Indonesia

Adaro Indonesia, the coal mining subsidiary 100% owned by Adaro Energy, and the major contributor to Adaro Energy’s income, exceeded its 2008 production and sales targets of 38.1 million tonnes.

Coal production increased 7% in FY08 to 38.5 million tonnes, while sales volumes increased 9% to 39.8 million tonnes. Adaro Indonesia’s planned strip ratio, which is measured as bcm of overburden per tonne of coal in situ, stayed the same as in 2007 at 4.25, well below the average for Indonesian coal mines.

In FY08 sales revenues increased 41% to US\$1,618 million (Rp15,660 billion).

Coaltrade

During FY08 Coaltrade revenues were US\$375 million (Rp3,629 billion), a 19% increase compared to the same period last year. Coaltrade sold 8.0 million tonnes of coal in FY08, of which 0.96 million tonnes was third party coal. In 2007, Coaltrade sold 9.3 million tonnes of coal.

IBT

During 2008, IBT revenues decreased 32% to US\$34 million (Rp332 billion), which after elimination for interrelated transactions revenues amounted to Rp 125 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. In 2008, IBT loaded 125 vessels and shipped 8.1 million tonnes of coal, of which 1.8 million tonnes was for a third party.

SIS

During FY08, SIS revenues increased 32% to Rp 1,856 billion (US\$192 million), which after elimination for interrelated transactions revenues amounted to Rp 1,069 billion (US\$110 million). Serving Adaro Indonesia and other customers, SIS removed 86 million bank cubic meters (bcm) of overburden and mined 11.4 million tonnes of coal.

Cost of Revenue

Adaro Energy’s cost of revenue for the year ended December 31, 2008 increased 45% to Rp 13,149 billion, due to higher mining costs and increased production. The cost of revenue is accounted for according to segment.

Fuel

As part of its business model of further integration, Adaro Energy has taken over substantially all of the fuel procurement activities for the entire group, from mining through to barging and other areas. By combining fuel purchase activities, Adaro Energy is able to benefit from bulk prices and greater efficiency. As well, by purchasing fuel forward, from a number of reputable international suppliers, Adaro Energy is able to lock in affordable prices and to benefit from the backwardation that normally exists in the fuel market. Fuel is not accounted for as a separate line item. In 2008, Adaro Energy consumed 339 million liters of fuel at an average price of \$0.87/ltr, which accounts for approximately 22% of Adaro Energy’s cost of revenue.

Coal Mining and Trading (mostly Adaro Indonesia and Coaltrade)

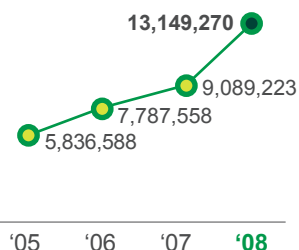
The costs of coal mining and trading are substantially all attributed to Adaro Indonesia and Coaltrade. In 2008, the cost of coal mining and trading increased 43%, or Rp 3,629 billion, to Rp 12,130 billion and was the largest segment of Adaro Energy’s cost of revenues, accounting for 92%. It encompasses the cost of the excavation, land transportation, crushing, barging, marketing and for some customers, the delivery of Adaro Indonesia’s envirocoal.



Christina Hiu and Budi Rachman of SIS attend a “Results of Activities” meeting.

Adaro Energy’s Cost of Revenue

(in Million of Rupiah)



Mining and Coal Processing

Coal mining increased 42% to Rp 5,803 billion, while coal processing, or crushing, increased 25% to Rp 774 billion. The increases are due to production volume increases as well as higher rates. Coal mining is the largest single component of Adaro Energy's cost of revenues, accounting for 44%. Coal processing accounts for 6% of the cost of revenue and is the fourth largest component.

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 and haul.

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 costs of mining and crushing activities make up the total production cost of coal mining and trading, which increased 40% to Rp 6,577 billion and accounted for 50% of Adaro Energy's cost of revenue.

Freight and Handling

Adaro Energy's freight and handling cost was the second largest cost component, accounting for 22%. In 2008, freight and handling increased 22% to Rp 2,924 billion, due to higher volumes and barge and crane rate increases.

Royalties to Government

Royalties were the third largest cost component and account for 11% of the cost of revenues. In 2008, Adaro Energy's royalties increased Rp 587 billion, or 67% to Rp 1,458 billion. Royalties are paid to the Government of Indonesia. The payment is calculated using a rate of 13.5%, levied against the net sales price arrived at by reducing for any charges incurred for transporting the coal beyond the final processing facility. Adaro Indonesia's final processing facility is the Kelanis River Terminal.

Purchase of Coal

Substantially all related to coal purchases made by Adaro Energy and Coaltrade, which buy and sell third party coal for either blending or marketing purposes, Adaro Energy's coal purchases increased 107% to Rp 648 billion with the purchase of 1.3 million tonnes of coal.

Depreciation and Amortization

The depreciation and amortization component of Adaro Energy's cost of coal mining and trading increased 100% to Rp 407 billion due to the Rp 197 billion amortization of mining properties. Essentially none existent in 2007, Adaro Energy's amortization of mining properties jumped significantly due to the acquisition of PT Adaro Indonesia. Depreciation and other amortization increased 3% to Rp 210 billion.



Floating cranes load customer's vessel in the Taboneo anchorage.

Analyst Feedback

Entering 2009, ADRO's balance sheet is set to strengthen with stronger cash balance and lower net gearing. Profit is also expected to surge, driven largely by improvement in sales volume and price. ADRO has an excellent reputation amongst its customers due to its top rated services. These qualities will serve ADRO well to sail ahead of these turbulent times amid lingering pressure on the coal price.

Yusuf Winoto, CFA
Analyst
DBS Vickers

Adaro Energy's mining properties increased significantly, accounting for the difference between the book value and the acquisition price of Adaro Indonesia. At the end of 2008, following the IPO-funded acquisition, Adaro Energy's mining properties had jumped to Rp 10,470 billion from Rp 118 billion the year before. Mining properties have little tangible value on the balance sheet of the company that has been granted the use of those properties. Once an event occurs such as the takeover of a permit holder, the mining property will increase in value. Adaro Energy's mining properties shall be amortized using the unit of production method.

Mining Services (mostly SIS)

Adaro Energy's mining services are substantially all associated with the firm's mining contractor, SIS. The cost of mining services increased Rp 367 billion, or 69%, to Rp 898 billion. The largest increase is attributed to consumables, which are largely fuel and explosives. The Rp 140 billion, or 61% increase, is due to higher volumes and prices. In 2008, SIS spent US\$115 million on mining equipment to expand its operations. As such, depreciation and amortization increased 84% to Rp 166 billion. Due to the addition of several new, mostly local employees, as well as due to salary increases, the employee cost component increased 73% to Rp 126 billion. Repairs and maintenance increased 78% to Rp 112 billion.

Mining services is a distant second to coal mining and trading, accounting for 7% of Adaro Energy's cost of revenues.

Others (mostly IBT)

The costs associated with the Others segment account for just 1% of the total cost of revenues. Mostly related to the cost of running Adaro Energy's port, IBT, due to twelve times increase in the price of consumables to Rp 72 billion, the Others cost of revenue rose 112% to Rp 121 billion.

Significant Suppliers

PT Pamapersada Nusantara ("Pama") is the sole supplier having transactions of more than 10% of total consolidated purchases. In 2008, Pama's transaction value decreased 4% to Rp 1,757 billion. The decrease in 2008 occurred as the 2007 amount includes the fuel expenses.

Related Party Cost of Revenue

Related party transactions accounted for 9% of the 2008 cost of revenue compared to 7% in 2007. An increase of 12% to Rp 1,157 billion, the largest three companies accounted for substantially all of the costs and provided mining and coal transportation services.

Gross Profit and Margin

Due to higher volumes and higher prices, revenues increased 56% to Rp 18,093 billion. The cost of revenue increased at the lower rate of 45%, to Rp 13,149 billion. As such Adaro Energy's gross profit increased to Rp 4,943 billion. The gross margin increased from 22% to 27%.

Operating Expenses

Adaro Energy's total operating expenses increased 192% to Rp 731 billion due to higher sales commissions, linked to higher sales revenues, as well as higher employee costs. Operating expenses amount to 4% of revenue.

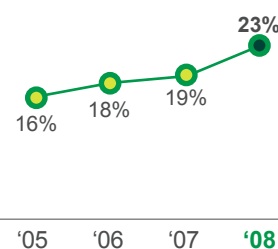
Selling and Marketing

Adaro Energy's selling and marketing expenses increased 205% to Rp 528 billion, almost entirely due to the 215% increase of sales commissions to Rp 504 billion. Sales commissions increased in relation to higher sales prices and increased sales volumes.

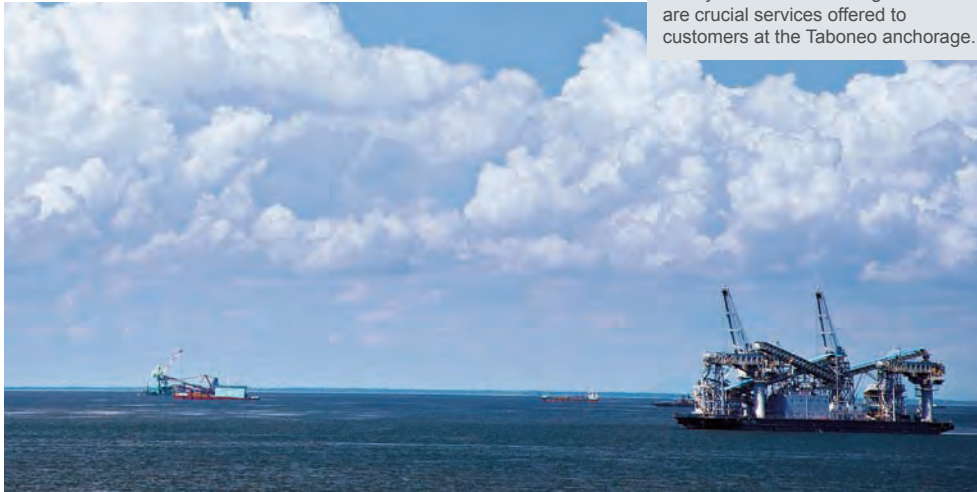
General and Administration

Adaro Energy's general and administration expenses increased 161% to Rp 203 billion due to the 141% increase of employee costs to Rp 106 billion, as well as Other expenses increasing 185% to Rp 91 billion.

Adaro Energy's Operating Margin (%)



The Ratu Barito floating loading facility and several floating cranes are crucial services offered to customers at the Taboneo anchorage.



Operating Income and Margin

Adaro Energy's operating income increased 87% to Rp 4,212 billion, resulting in an operating margin increase from 19% to 23%.

Other Expenses

Adaro Energy's Other Expenses declined 1% to Rp 1,287 billion. A significant decrease in interest expense and finance charges was offset by much lower interest income, much higher foreign exchange losses and higher amortization of goodwill.

Interest Expenses and Finance Charges

Due to the refinancing in November 2007 of a mezzanine borrowing as well as the early redemption of corporate notes, Adaro Energy's interest expenses and finance charges dropped 64% to Rp 616 billion. The mezzanine facility and the notes both had higher interest rates than the syndicated bank loan used for refinancing. As well, in 2007 Adaro Energy had to pay early redemption charges.

In November 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 (Syndicated Loan). In March 2008, Adaro Energy locked in this low interest expense by swapping the US\$-LIBOR portion of the syndicated term loan to a fixed rate, resulting in an interest rate below 4.5%.

Foreign Exchange Loss

At the end of the first nine months of 2008, Adaro Energy had booked a slight foreign exchange gain. Due to the steep depreciation of the Rupiah in the fourth quarter following the onset of the global economic crisis, Adaro Energy incurred a foreign exchange loss of Rp 455 billion, a 171% increase over the same period of 2007. The foreign exchange loss is attributed mainly to the US Dollar debt held by the Company's subsidiary SIS. As it is a better match to revenues, costs and debt, all of Adaro Energy's operating subsidiaries report their books in US Dollar, except for SIS. At the end of 2008, SIS had drawn down US\$240 million from a US\$300 loan facility. Due to the significant fall of the Rupiah, this borrowing became worth substantially more in Rupiah terms and thus incurred the foreign exchange loss.

Interest Income

Interest income dropped 92% to Rp 48 billion in 2008. Loans to related parties fell as Adaro Energy completed 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 Rp 95 billion from the sale of subsidiaries.



A barge loaded with Envirocoal ties up to a customer vessel that has its own gear.

Gain from Sale of Available-For-Sale Investments

On December 17, 2007, Adaro Energy and two of its subsidiaries entered into a one year fund management agreement with PT Recapital Asset Management ("Recapital"). Adaro Energy appointed Recapital to manage a fund of Rp 1,728 billion. Part or all of the funds will be invested in a discretionary fund of mutual funds, bonds, marketable securities, shares, convertible bonds and warrants. In August 2008, Adaro Energy made partial redemptions amounting to Rp 653 billion. The realised gain on investment for 2008 amounted to Rp 49 billion, compared to nil in 2007. At the end of 2008 Adaro Energy decided to extend the management of funds for another six months. At the end of 2008, the marked to market value of the available-for-sale investment was Rp 1,096 billion. In February 2009, Adaro Energy made an additional partial redemption amounting to Rp 256 billion and a realised gain of Rp 8 billion.

Amortization of Goodwill

The amortization of goodwill increased 1,025% to Rp 360 billion. The increase is linked to the increase of goodwill on the balance sheet to Rp 9,128 billion from Rp 1,226 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

Adaro Energy's profit before income tax increased 209% to Rp 2,925 billion. The 2008 income tax expense increased 144% to Rp 1,602 billion, with an effective tax rate of 55%. Under the terms of its Coal Cooperation Agreement of 1982, Adaro Indonesia, which is the main income earner, has an income tax rate of 45%. Lower than the effective tax rate of 69% in 2007, the higher effective tax rate is due to non-deductible expenses related to the amortization of goodwill and interest expense related to the LBO, among others.

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, 2008. As such Adaro Energy's net income is reduced by the share of subsidiaries' incomes that Adaro Energy did not own, amounting to Rp 126 billion.

Net Income

Adaro Energy's net income increased 902% to Rp 887 billion and the net margin increased from 1% to 5%.

Earnings per Share (EPS) was Rp 35 for 2008. For 2007, EPS was Rp 62, however this is prior to the increase capital stock made in January 2008 and during the IPO.

EBITDA

Adaro Energy's EBITDA increased 86% to Rp 4,455 billion from Rp 2,423 billion in 2007. The EBITDA margin increased from 21% to 25%.

Returns

Returns on Assets and Return on Equity increased to 3% from 1% and to 6% from 4%.

	2007	2008	% Change
ROA	0.6%	2.6%	2.0%
ROE	4.1%	6.3%	2.2%
ROIC	0.7%	6.3%	5.6%

Cash Costs

While Adaro Energy's fuel prices are decreasing, due to increased hauling road distances and a higher strip ratio (although still relatively low at 4.5-4.75), Adaro Energy expects its cash costs to remain flat compared to 2008. This continues to be a relatively low cost position in the industry. The Company will continue to make every effort to reduce costs and improve efficiencies.



David Tendian CFO and Indra Aman Chief Legal Officer meet with mine managers.

BALANCE SHEET

Total Assets

Adaro Energy's total assets increased Rp 19,031 billion or 130% to Rp 33,720 billion by the end of 2008. The increase is mostly due to the jump in value of mining properties and goodwill, due to the acquisitions, funded by the July 2008 IPO. However, significant jumps in cash and cash equivalents and fixed assets also contributed to larger total assets.

Current Assets

At the end of 2008, Adaro Energy's total current assets had increased 157%, or Rp 2,859 billion, to Rp 7,857 billion, representing 23% of total assets. The main reason for the substantial increase is due to large increases of cash and cash equivalents, third party trade receivables and advances.

Cash and Cash Equivalents

Cash and cash equivalents, which were 85% US Dollars, increased by Rp 1,584 billion to Rp 2,416 billion, a 190% increase, mostly due to a higher average achieved selling price and higher volumes. Most of the rise is due to the Rp 1,021 billion, or 173% increase of US Dollar cash in banks. While also holding Rupiah, Singapore Dollars, and Euros, US Dollars accounted for 85% of all Adaro Energy's cash in banks. Another significant increase was the Rp 520 billion of on call deposits, of which 85% were held in US Dollars. The interest rates on the Rupiah on call and time deposits rose from a range of 4.3% - 6% in 2007, to 6% - 10.8% in 2008, while the interest rates on the US Dollar on call and time deposits decreased from 3% - 4.5% in 2007 to 0.3% - 4.3% in 2008. Cash and cash equivalents accounted for 31% of current assets.

Available-for-Sale Investments

At the end of 2007, Adaro Energy and two of its subsidiaries appointed Recapital to manage a fund of Rp 1,728 billion. In August 2008, Adaro Energy and its mining contractor subsidiary, SIS made full redemptions amounting to Rp 228 billion, while another subsidiary, JPI, made partial redemptions amounting to Rp 425 billion. The realised gain on investment for 2008 amounted to Rp 49 billion, compared to nil in 2007. At the end of 2008, the marked to market value of the available-for-sale investment was Rp 1,096 billion. On December 17, 2008, JPI extended the management of the fund for another six months.

In February 2009, JPI made an additional partial redemption of Rp 256 billion, with a realized gain of Rp 8 billion.

Trade Receivables

The second largest contributor to the increase of current assets was the Rp 963 billion, or 83% increase in third party trade receivables, to Rp 2,116 billion. Related party receivables decreased 46% to Rp 216 billion. Of the total trade receivables of Rp 2,332 billion, 98% were current and overdue 1 – 30 days. The top three parties were PT Paiton Energy, Taiwan Power Company and EON Kraftwerke, all bluechip customers, which were responsible for 30% of the third party trade receivables. Adaro Energy is of the opinion that these receivables will be collected in full.

Advances and Prepayments

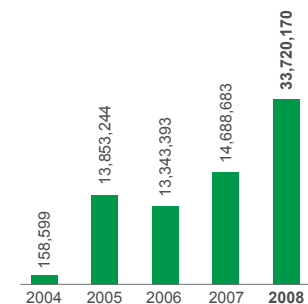
Adaro Energy's advances and prepayments rose 578% to Rp 568 billion. The largest increase was the Rp 277 billion advance to suppliers, a 47 times increase over 2007, and was mostly for an advance payment for construction of the 60 megawatt mine mouth power plant which will drive the conveyor. Another significant increase was the 6 times increase to Rp 253 billion for advance payment of fuel.

Inventories

Inventories increased 28% to Rp 305 billion, with the largest increased attributed to tools and supplies, valued on a first-in, first out basis, which increased 237% to Rp 169 billion. Coal inventory, which is valued at the lower of cost or net realizable value, dropped 58% to Rp 55 billion.

Adaro Energy's Total Assets

(in Millions of Rupiah)



Prepaid Taxes

Due to higher corporate income tax at the subsidiary level, which more than doubled to Rp 193 billion, Adaro Energy's prepaid taxes increased 86% to Rp 287 billion.

Recoverable Tax

Under the terms of Adaro Indonesia's Coal Cooperation Agreement (CCA), the company must pay income tax and a sales tax and is not subject to any new taxes. If new taxes are paid during the course of running the business, Adaro can seek reimbursement from the Government of Indonesia.

Beginning January 1, 2001, raw coal was no longer subject to value added tax (VAT). Since that time, Adaro has been unable to seek reimbursement for VAT input, which is paid on services received. As such, since 2001, Adaro has offset the claim for VAT input against royalty payments due to the Government of Indonesia. From 2001 until the end of 2008, the amount offset totalled Rp 1,990 billion (US\$215 million). For the year ended December 31, 2008, Adaro had offset the claim for VAT input amounting to US\$50.9 million.

Adaro Energy's recoverable tax increased 238%, or Rp 500 billion, to Rp 710 billion. VAT input receivable, which is value added tax that has yet to be offset against royalties owed to the Government of Indonesia, rose 104% to Rp 430 billion.

In 2008, the Government of Indonesia, through the Financial Comptroller conducted an industry-wide audit of those coal companies that had offset VAT reimbursements against royalties for the period from 2001-2007. The results have not been issued. As a matter of "good faith", in September 2008, Adaro Energy paid Rp 150 billion to an escrow account in the name of the Government of Indonesia in relation to the settlement of any payments the audit by the Financial Comptroller may determine are owed.

Adaro Energy believes, in accordance with its CCA, that this manner of VAT reimbursement is appropriate and the outstanding balance of VAT input can be fully recovered.

Adaro Energy will be compensated Rp 130 billion for payments of vehicle fuel tax, as this is a new tax according to the provisions of the CCA.

Liquidity

Adaro Energy's liquidity improved compared to 2007 due to higher current assets, mostly due to an increase in cash and cash equivalents. Working capital increased to Rp 1,135 billion from negative Rp 120 billion in 2007. The liquidity ratio increased to 1.18 times from 0.97 times.

Non-Current Assets

Fixed Assets

Adaro Energy's fixed assets increased 66% to Rp 5,924 billion by the end of 2008. The largest component of acquisition costs during 2008 was Rp 579 billion 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 second largest addition was the Rp 373 billion spent on machinery, operational equipment and vehicles, mostly for Adaro Energy's mining services subsidiary, SIS. By comparison in 2007, Adaro Energy added Rp 1,287 billion of machinery, operational equipment and vehicles. The second largest component of acquisition costs in 2007 was the Rp 198 billion of additional infrastructure related to the consolidation of IBT. During 2008 Adaro Energy spent Rp 73 billion on additional capacity at the Kelanis crushing and handling facility.

Another significant contribution to the rise of fixed assets was construction in progress which increased nearly 8 times to Rp 722 billion from Rp 96 billion in 2007 for river channel dredging, power plant and coal crushing and handling. Leased operational equipment, for use primarily by mining contractor SIS, rose 174% to Rp 264 billion from Rp 264 billion.



Luckman, Fanti Elvira, Hendri and Hendry Chandra, from Adaro Energy's finance department, discuss a pending audit.

Mining Properties

Mining properties, arises from the acquisition of Adaro Indonesia. Due to the large differences during the IPO-funded acquisition between the fair value of the acquired company and the acquisition value, the asset value of Adaro Energy's mining properties increased 89 times to Rp 10,470 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 (i.e. dividing the mining properties with amount of reserves, to come up with the amortization expense/ton). At the end of 2008, the amortization expense was roughly around Rp 9,000/tonne. The amortization of mining properties in 2008 does not account for a full year of production, as the acquisition was not completed until July 2008.

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 SIS, IBT, CTI and other companies. Goodwill is amortized using the straight line method, mostly over a period of 20 years. This translates to approximate amortization of goodwill of Rp 460 billion rupiah per year. Amortization of goodwill in 2008 (Rp360 billion) was less as some of the acquisitions were not completed until July 2008. The value of goodwill increased to Rp 9,128 billion from Rp 1,225 billion.

Loans to Related Parties

Loans to related parties decreased 100% to nil from Rp 4,498 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 2008, Adaro Energy's total liabilities had increased Rp 7,713 billion, or 65%, to Rp 19,693 billion. The increase is due to the Rp 1,604 billion, or 31%, increase of current liabilities to Rp 6,722 billion due mostly to doubling short-term bank loans, increased third party trade payables and higher taxes payable. The largest increase was the Rp 6,109 billion, or 89% increase of non-current liabilities to Rp 12,971 billion, due to increased bank loans and higher deferred tax liabilities. Total liabilities accounted for 58% of Adaro Energy's total assets.

Current Liabilities

Short-term Borrowings

Adaro Energy's short-term borrowings, which were all bank loans denominated in US Dollars, increased 37% to Rp 876 billion. Short-term bank loans increased 96% to Rp 876 billion as Adaro took on US\$80 million of new debt to finance working capital. As well, two short-term bank loans from 2007 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 Rp 876 billion (US\$80 million) short-term syndicated loan was provided in February 2008 by several banks with DBS Bank Ltd acting as the facility agent (Syndicated Short term Loan). In 2008, Adaro made a full drawdown on this facility, which expired February 28, 2009 and has similar terms as the long-term syndicated bank loan led by DBS Bank Ltd. On February 24, 2009, Adaro Energy successfully refinanced the revolving loan facility, to be repaid in four instalments until the final maturity date on February 25, 2010.

On December 31, 2008 the interest rates on Adaro Energy's short-term bank loans were 2.3% - 5.0% down from the 7.4%-8.7% of December 31, 2007.

Trade Payables

Adaro Energy's third party trade payables increased 59% to Rp 2,392 billion. Related party trade payables increased 37% to Rp 249 billion. Substantially all of the payables were due in 30 days, 85% were in US Dollars and 10% 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 Rp 736.5 billion was with Adaro Indonesia's largest mining contractor, PAMA, followed by Rp 300 billion owed to PT Bukit Makmur Mandiri Utama and Rp 261 billion owed to PT Petronas Niaga Indonesia. The largest related party payable of Rp 148 billion was with Orchard Maritime

Logistics Pte Ltd for barging services, followed by Rp 61 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 increased 13% to Rp 1,151 billion as corporate income tax payable at the subsidiary level increased 23% to Rp 1,115 billion.

Accrued Expenses

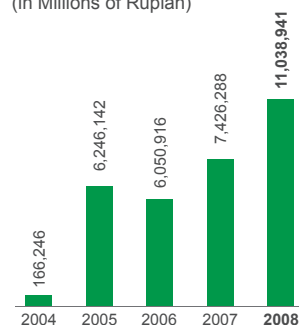
Accrued expenses decreased 13% to Rp 265 billion due to lower freight, accrued interest and others.

Current Maturities of Long-Term Borrowings

Adaro Energy's current maturities of long-term borrowings increased Rp 279 billion or 32% to Rp 1,153.5 billion, due mostly to the current portion of lease payables which increased Rp 209 billion or 165% to Rp 335 billion. Lease payables increased due to leases of mining equipment from PT Komatsu Astra Finance nearly tripling to Rp 899 billion. Bank loan current maturities increased 9% to Rp 818.5 billion.

Adaro Energy's Interest Bearing Debt

(in Millions of Rupiah)



Director of Finance, David Tendian said:

“Since the 2005 LBO, we have exercised financial discipline and have worked very hard to improve the capital structure of Adaro to ensure it will solidly support the growth strategy of the Company. The pinnacle of this financial discipline was achieved in July 2008 through the successful IPO of Adaro Energy. As a result, Adaro has strengthened its balance sheet to weather this unprecedented economic and financial turmoil. To date, our access to capital remains good despite the liquidity constraint around the world.”



History of Adaro's Debt Restructuring Since the LBO

	LBO	Dec 05	Dec 06	23 Mar 07	Dec 07
Banks	<ul style="list-style-type: none"> US\$ 570 million Interest LIBOR+450 bps 	<ul style="list-style-type: none"> US\$ 200 million Interest LIBOR+325 bps 	<ul style="list-style-type: none"> US\$ 153 million Interest LIBOR+200 bps 	<ul style="list-style-type: none"> US\$ 190 million Interest LIBOR+200 bps 	<ul style="list-style-type: none"> US\$ 750 million Sub 4.5%
Bonds	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> US\$ 400 million Interest 8.5% 	<ul style="list-style-type: none"> US\$400 million Interest 8.5% 	<ul style="list-style-type: none"> US\$400 million Interest 8.5% 	<ul style="list-style-type: none"> Fully refinanced
Mezzanine	<ul style="list-style-type: none"> US\$353 million Interest 17% 	<ul style="list-style-type: none"> US\$300 million Interest 17% 	<ul style="list-style-type: none"> US\$300 million Interest 17% 	<ul style="list-style-type: none"> US\$265 million Interest 11.25% 	<ul style="list-style-type: none"> Fully refinanced
Interest	<ul style="list-style-type: none"> US\$ 121 million 	<ul style="list-style-type: none"> US\$ 113 million 	<ul style="list-style-type: none"> US\$ 107 million 	<ul style="list-style-type: none"> US\$ 87 million 	<ul style="list-style-type: none"> US\$ 34 million
Security	<ul style="list-style-type: none"> All debts secured with Mezzanine having second ranking Mezzanine having conversion rights 	<ul style="list-style-type: none"> All debts secured with Mezzanine having second ranking Mezzanine having conversion rights 	<ul style="list-style-type: none"> All debts secured with Mezzanine having second ranking Mezzanine having conversion rights 	<ul style="list-style-type: none"> All debts secured with Mezzanine having second ranking 	<ul style="list-style-type: none"> Unsecured
Key Ratios	<ul style="list-style-type: none"> DSCR 0.79 Net Debt to EBITDA 5.27 FCCR 1.45 	<ul style="list-style-type: none"> DSCR 0.95 Net Debt to EBITDA 4.45 FCCR 1.67 	<ul style="list-style-type: none"> DSCR 1.08 Net Debt to EBITDA 3.09 FCCR 2.29 	<ul style="list-style-type: none"> DSCR 1.59 Net Debt to EBITDA 2.53 FCCR 3.64 	<ul style="list-style-type: none"> DSCR 1.93 Net Debt to EBITDA 2.43

Royalties Payable

Government royalties payable, net of VAT to be reimbursed, held steady, declining 1% to Rp 576.5 billion. 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.

Substantially all of Adaro Energy's borrowings are held in US Dollars, which matches the currency of substantially all of Adaro's revenues and a significant portion of costs. At the end of the third quarter 2008, Adaro Energy had reduced long-term borrowing net of current maturities by Rp 325 billion, or 4% to Rp 7,944 billion. However due to the weakening Rupiah in the fourth quarter, at the end of 2008, despite not having taken on any additional debt and having repaid an additional US\$17.4 million Adaro Energy's long-term borrowings net of current maturities rose 52% to Rp 9,010 billion. In US Dollars, due to the consolidation of a loan to CTI, Adaro Energy's long term borrowings net of current maturities increased 31% to US\$823 million. Not including lease payables Adaro Energy's interest bearing long term debt increased 50% to Rp 8,326 billion (US\$760 million). The November 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. The interest rates on December 31, 2008 on the US Dollar long-term bank loans decreased from 7.5%-16.9% to 3.3-6.5%.

The non-current portion of Adaro Energy's lease payables increased 181% to Rp 684 billion, due to a 198% increase in lease payables to PT Komatsu Astra Finance for mining equipment and a new lease for Rp 53 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 November 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 (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 outstanding loan from a mezzanine credit facility led by Goldman Sachs Credit Partners, the US\$144 million outstanding loan from a syndicate of banks, and the US\$ 400 million outstanding amount from the 5-year, Adaro Finance BV. 144-A Notes, with a maturity date of December 7, 2010. The cost of the Syndicated Loan was much lower than the combined interest expense of the bank loans, mezzanine facility and the Notes. For the early settlement of the above mentioned syndicated mezzanine facility, syndicated loan and Notes, Adaro Energy paid finance charges of US\$60 million (Rp548 billion). As well as lowering borrowing costs, the Syndicated Loan further improved Adaro Energy's financial structure as it is unsecured.

Of the US\$750 million Syndicated Loan, by the end of 2008, Adaro Energy had an outstanding balance of US\$600 million. 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 US\$-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.



Road trains await their cargo of coal before embarking upon 75km journey along haul road to Kelanis River Terminal.

Analyst Feedback

"For analysts and institutional investors, the major shareholders and management team of Adaro Energy are easily recognizable and remembered for being founding shareholders and senior management who established Astra International which has a history of excellent performance and management track record. We believe that Adaro would continue to maintain its high standards of performance excellence, good corporate governance and transparency."

David Chang
Director of Research
UOB Kay Hian

Loan Repayment Schedules:

- a) For the balance of the US\$750 million facility (Adaro and CTI had repaid US\$150 million at December 2008):
- | | |
|------|--------------|
| 2009 | : US\$50 Mn |
| 2010 | : US\$50 Mn |
| 2011 | : US\$160 Mn |
| 2012 | : US\$240 Mn |

Revolving facility of US\$100 million shall be paid in 2010 but it can be extended to 2012

- b) For the balance of the US\$80 million short term loan facility of Adaro Indonesia:
- | | |
|------|-------------|
| 2009 | : US\$60 Mn |
| 2010 | : US\$20 Mn |
- c) For the balance of the US\$240 million SIS loan (SIS had repaid US\$5 million at December 2008):
- | | |
|------|-----------------|
| 2009 | : US\$24.75 Mn |
| 2010 | : US\$ 46.2 Mn |
| 2011 | : US\$ 50.85 Mn |
| 2012 | : US\$ 53.25 Mn |
| 2013 | : US\$ 60 Mn |

Deferred Tax Liabilities

At the end of 2008, Adaro Energy's deferred tax liabilities had increased Rp 2,670 billion or 563% to Rp 3,144 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 41% to Rp 596 billion, in line with an increase in the actual stripping ratio. In 2008, Adaro Indonesia increased overburden removal by 33% to 159 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 2008 as planned, as Adaro began to excavate from deeper areas of the pit. The 2008 planned stripping ratio stayed the same as in 2007 at 4.25, well below the average for Indonesian coal mines. However the actual average stripping ratio for the Tutupan mine increased from 3.3 in 2007 to 4.14 in 2008, 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 2007 and 2008 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 2008 Adaro Energy's total equity had increased 551% to Rp 14 trillion. Adaro Energy publicly listed its shares on the Indonesian stock exchange on July 16, 2008, at a price of Rp 1,100 per share, raising approximately Rp 12 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 2008, Adaro Energy has authorized share capital of 80 billion shares. After the IPO, the total of issued and fully paid shares increased to 32.0 billion shares with a par value of Rp 100 from 20.6 billion shares with a par value of Rp 100 at the end of 2007. As such the authorized share capital increased 55% to Rp 3,199 billion. Additional paid in capital, or the excess of IPO proceeds over the par value less the estimated share issuance costs of Rp 407 billion amounted to Rp 10,733 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 fair 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 of the acquisition price and book value is accounted for as an increase or a decrease in equity. Due to this accounting treatment, equity was reduced by Rp 192 billion at the end of 2008, compared to an increase of Rp 325 billion at the end of 2007.



Grading the hauling roads for safety and efficiency.

Financial Structure	2007	2008
Net Debt to EBITDA	2.01x	1.69x
Net Debt to Equity	2.26x	0.54x

CASH FLOWS

Cash Flows from Ordinary Operating Activities

Cash flows from ordinary operating activities decreased 56% to Rp 1,326 billion. This does not include an extraordinary payment of Rp 647 billion for demurrage, caused by unusual weather circumstances. Cash flows from operating activities after the extraordinary demurrage payment decreased 77% to Rp 678 billion. Due to increased sales volumes and higher prices, receipts from customers rose 52% to Rp 17,469 billion. Also due to higher volumes and prices, and a very tight supply market for most of the year, payments to suppliers increased 84% to Rp 12,462 billion. Payments to employees rose 50%, to Rp 458 billion. Due to the consolidation of related party loans following the IPO-funded acquisitions, receipts of interest income decreased 93% to Rp 46 billion. One of the main reasons why cash flows from operating activities dropped was the Rp 1,076 billion used for royalty payments, a 90% increase. Payments of income tax rose 142% to Rp 1,626 billion due to adjustment to the corporate income tax expense for fiscal years 2004, 2005, 2006 and 2007 due to different interpretation of tax regulations on the leveraged buy-out transactions.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities surged 661% to Rp 10,990 billion due mostly to payments made for the acquisition of subsidiaries. Adaro Energy's made payments for fixed assets in 2008 amounting to Rp 1,464 billion, a 125% increase over 2007. 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 Rp 701.5 billion from the sale of an available-for-sale investment. In 2007, Adaro Energy made a payment of Rp 1,728 billion for the available for sale investment. Adaro Energy made partial redemptions of Rp 653 billion on an investment fund, which realized a gain of Rp 49 billion. Due to the consolidation of subsidiaries, receipts from loans to related parties dropped 99% to Rp 46 billion. Adaro Energy had net cash outflow of Rp 10,300 billion for the IPO-funded acquisition of subsidiaries.

Cash Flows from Financing Activities

In 2008, net cash flows from financing activities increased to Rp 11,692 billion from net cash used in financing activities of Rp 1,501 billion during 2007. The increase is attributed to the Rp 12,253 billion (US\$1.3 billion), net of share issuance cost, raised during the IPO. Receipts from third parties loans decreased 19% to Rp 245 billion. All of these third parties loans were repaid as reflected in repayments of third parties loans, which decreased 10% to Rp 448 billion. Receipts from bank loans decreased 45% to Rp 3,438 billion. In 2007 Adaro Energy's subsidiaries Adaro Indonesia and CTI refinanced existing debt worth US\$750 million. This cash flow was far higher than that of 2008 when Adaro Energy's mining contractor SIS drew US\$240 million in August 2008 from a US\$300 million SIS Senior Credit Facility, mostly to refinance existing debt. The Rp 3,438 billion of cash flows from financing activities also included the US\$80 million Syndicated Short Term Loan withdrawn by Adaro Energy for its working capital. Repayments of bank loans decreased 40.5% to Rp 3,007 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\$50 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 (in billion Rupiah)

	2007	2008	% Change
EBITDA	2,423	4,455	86%
Tax – current	722	1,636	126%
Changes in Working Capital (Uses)/Sources	207	(1,255)	(706%)
Capital Expenditures	651	1,464	125%
Free Cash Flow	1,257	100	(92%)

Exploration and Reserves

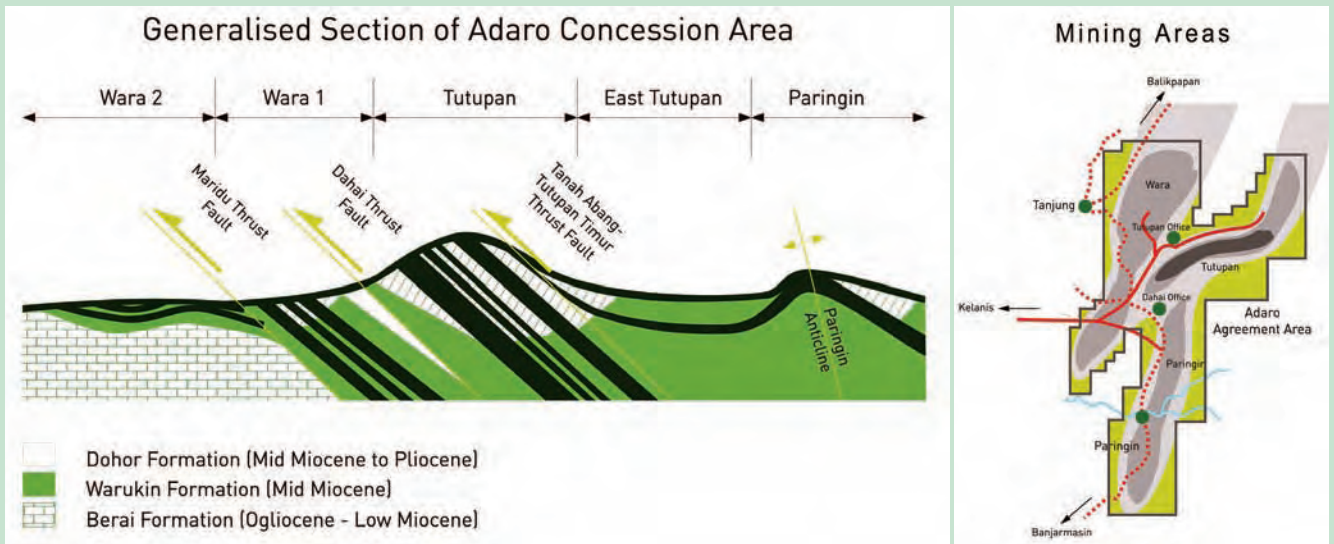


Estimates of Adaro Energy's coal reserves and resources are prepared independently by Terence Willsteed & Associates (TWA) and in accordance with the Code for Reporting Mineral Resources and Ore Reserves (JORC Code) (2004) of the Australasian Institute of Mining and Metallurgy (AusIMM). This Code sets out the principles and guidelines, which should be followed in the preparation of an expert report concerning mineral resources and reserves.

TWA is an Australian geological and mine engineering consultancy which has been requested by group coal mining subsidiary, PT Adaro Indonesia (Adaro) to provide an Independent Statement of Coal Reserves and Resource as at December 31, 2008, located at the Adaro Coal Operations in Kalimantan to be submitted to the Indonesian Stock Exchange (IDX). Adaro required TWA 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 conditions, which can be operated successfully.

TWA believes all material facts are presented and that our analysis is sufficient to meet the transparency requirements of the Code.

TWA have previously reported on the Adaro operations and coal assets in the Independent Technical Report on the Coal Assets of PT Adaro Indonesia as at the end of 2007 as reported on February 29, 2008 and in the Independent Technical Review of the Coal Assets of New Hope Corporation, July 31, 2003.



Regional Geology

The Adaro coal deposit is located on the northeastern margin of the Barito Basin, a broad cratonic depression up to 250 km wide, of Eocene to Pliocene age in the tertiary period. The basin occupies much of the province of Central Kalimantan and the western part of South Kalimantan. It is bounded to the west by the Sunda Shield and to the east by an upthrust belt of basement rocks which form the Meratus Range.

The Warukin Formation is the principal coal bearing sequence in the Adaro area. It is divided into three sub units with the principal coal horizons occurring in the uppermost sub-unit.

Local Geology - Stratigraphy and Modelling

Up to 13 seams may be recognised within a single deposit. The seams are lenticular in development but also vary greatly in thickness due to converging and splitting. Individual seams may be up to 60m thick. Although the coals are characteristically low in ash (generally <2%) 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 area 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 (+35% adb) and consequently lower calorific values.

The Tutupan coal deposit is developed over a strike length of 16km along a prominent topographic ridge in the north eastern part of the Adaro CCA area. No major faults are known to disrupt the coal. Thirteen individual seams are recognised with the bulk of the coal occurring in the T100, T200 and T300 seam groups. The thickest coal (60m) occurs in the T100 seam in the southern part of the deposit. The T220 seam is the principal seam in the north where it is up to 50m thick. The Wara 1 coal deposit is located 3km west of the Tutupan Central area. It is separated from the Tutupan deposit by the Dahai thrust. The strata strike in a north-easterly direction over a distance of 9km and dip to the south-east at 45°. The Wara 1 deposit is composed of three major seams. The three main seams are divided into 13 individual seams and 6 compound seams ranging in thickness from 3 to 35m. The Wara seams are characteristically low in ash (<3%) but with moisture contents of around 40%.



Dumping coal for crushing at the Kelanis River facility in the evening.

Our Coal Reserves and Quality

The table below shows the total resources and reserves owned by the Company through its mining strategic business unit until December 31, 2007, based on the JORC Code:

Borehole Spacing	Resources				Reserves			
	<250m	>250m <500	>500m <1000	TOTAL	IN-SITU			Recoverable
	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)	Proven (Mt)	Probable (Mt)	TOTAL (Mt)	TOTAL (Mt)
Location								
Tutupan	920	352	181	1,453	622	37	659	619
North Paringin	90	60	66	216	-	-	-	-
South Paringin	17	20	11	48	-	-	-	-
Wara 1	254	280	316	850	254	74	328	309
Wara 2	59	73	104	236	-	-	-	-
Total	1,340	785	678	2,803	876	111	987	928

The table below shows the total resources and reserves owned by the Company through its mining strategic business unit until December 31, 2008, based on the JORC Code:

Borehole Spacing	Resources				Reserves			
	<250m	>250m <500	>500m <1000	TOTAL	IN-SITU			Recoverable
	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	TOTAL (Mt)	Proven (Mt)	Probable (Mt)	TOTAL (Mt)	TOTAL (Mt)
Location								
Tutupan	695	705	825	2,225	459	167	626	588
Wara 1	292	268	337	897	212	92	304	282
Wara 2	118	134	110	362	-	-	-	-
Total	1,105	1,107	1,272	3,484	671	259	930	870

Explanation of Change in Estimates

The total reserves are reduced for 2008 because two coal resource areas in the north and south of the Tutupan pit have been excluded as their status for future mining is still not clear. When it is shown that the areas will be available for mining then the resources in these areas will be moved to reserve status again.

In addition, the difference in Proven and Probable Reserves are based on geological categorisation of the Measured and Indicated Resources. Some Proven Reserves have been recategorised as Probable Reserves because the previously accepted open holes, which were not cored, were accepted for all resource definition. It is now recommended under the JORC standard that only cored holes be used to define Measured and Indicated Resources and in doing so some of the Measured Resources defined previously by open holes have been recategorised as Indicated, which provides the basis for the 2008 Probable Reserves.

Coal Reserves Characteristics

Area	TM	ASH	TS
	%adb	%adb	%adb
South Tutupan	25.8	2.1	0.11
North Tutupan	27.9	1.9	0.09
Wara 1	39.7	3.4	0.27
Probable Subtotal	31.1	2.5	0.16
Area	TM	ASH	TS
	%adb	%adb	%adb
South Tutupan	25.8	1.7	0.1
North Tutupan	27.7	1.9	0.09
Wara 1	39.1	3.1	0.23
Proven Subtotal	30.2	2.1	0.14
Overall Total	30.4	2.2	0.15

Notes: TM = Total Moisture; ASH = Ash Contents ; TS = Total Sulfur



Further identifying the coal reserves at Tutupan.

The heat value of the Tutupan Coal mine averages from 4,800 to 5,156 kcal (gar) and the heat value of the Wara 1 coal averages between 3,947 to 4,027 kcal (gar).

Resources and Exploration Activities

Currently exploration activities are being conducted in the eastern part of North Tutupan, Wara 1 and Wara 2 with activity prioritized to areas that require detail/scout drilling to obtain updated reliable geological, hydrological, and geotechnical data.

Exploration activities are conducted by Group mining subsidiary Adaro Indonesia with drilling activities outsourced to PT Asia Drill Bara Utama in the Tutupan Area and the PT Trikarya Intidrill Persada in Wara 2 Area. Drilling activities are closely monitored by Adaro Indonesia's Pit Geology and Quality Control Section.

2008 Drilling Details

Location	Coring		Open Hole	
	Total Hole	Total Depth (m)	Total Hole	Total Depth (m)
Tutupan	22	5,368.85	234	50,288
Wara	34	2,669.60	123	9,744

Adaro is in the process of identifying further substantial resources in addition to those at Tutupan and Wara 1. These occur at North Tutupan, Wara 2 and Wara 3. The areas of North Paringin and South Paringin have yet to be fully evaluated but may also contain potentially economic coal.

Our Coal Resources

In the judgment of the TWA there are reasonable expectations that some of the resources will eventually become proven or probable reserves and subsequently be mined, there is no guarantee that this will occur as the result depends on further technical and economic studies and prevailing economic conditions in the future.

Exploring Initiatives for Future Growth



Following a review of how to best grow the company despite the drastic changes brought about by the 2008 economic crisis, Adaro Energy decided to continue with the plan to further integrate and improve its coal supply chain to create long term and sustainable value.

Adaro Energy is focused on its core business of coal mining and marketing and will continue on with the plan of further integration and efficiency and producing ever larger volumes; the 5 year target is to produce 80Mt of coal. To improve efficiency Adaro Energy plans to build a mine mouth power plant and an overland conveyor. After acquiring a mining contractor in 2002, sealing the 75km haul road in 2005, de-bottle necking the Barito River in 2008, Adaro Energy is ready to implement the next phase of further integration and efficiency improvements.

After assessing several options, the plan is to acquire an affiliated barging and ship loading company. The deal will be done openly and at a fair arm's length price. It is strategically important to have pit to port integration, which can lower barge and crane rates, reduce demurrage, and create other efficiencies and synergies.

Due to the infrastructure improvements, Adaro Energy's growth is not expected to be limited by infrastructure for 2009 and 2010. The Company can ramp up by acquiring additional mining and hauling equipment.

Director of Operations, Chia Ah Hoo said:

“It is absolutely essential that we completely integrate from pit to port. Without controlling a portion of our coal mining and land transportation we could not have achieved the volume of production we achieved last year. With asset prices falling, now is the time to invest and achieve greater control of our coal supply chain.”



Strategic Development Projects

PT Makmur Sejahtera Wisesa (MSW) Power Plant – Powering the Conveyor

During 2008, MSW made progress in terms of achieving financial closure in September for a US\$122 million syndicated 12 year loan from the International Financial Corporation (IFC) of the World Bank. No draw downs were made on the facility in 2008.

To be funded by way of project finance, the total estimated project costs are estimated at up to US\$162.5 million, including interest during construction, EPC, switchyard, insurance, contingency, water supply and other associated costs. MSW is exploring ways in which to lower the project costs given the current economic conditions.

In 2008, MSW selected PT Punj Lloyd Indonesia and Punj Lloyd Pte Ltd Singapore as the Engineering, Procurement and Construction (EPC) contractors. Siemens Industrial Turbomachinery S.R.O, Czech Republic has been selected to provide the steam turbine generators.

Given the difficulties created by the financial crisis, in the fourth quarter of 2008 MSW and Adaro Energy began to review the viability of the project. In March 2009, MSW and Adaro Energy decided to proceed with the project.

The power plant has other sources of income and uses, such as providing power to the local surrounding communities and providing power to other potential improvements at Adaro's mining site.

In 2008, MSW spent US\$10 million on the mine mouth power plant project, funded by the equity injection provided by Adaro Energy's cash flows. In 2009, the plan is to spend up to US\$52.5 million, substantially all funded by the IFC loan.

Kelanis – Tutupan Transportation System - Building Capacity Along the Haul Road to Improve Efficiency

A key part of the plan to double production by 2013 is to increase the transportation capacity from the mine site to the Kelanis River terminal. Currently Adaro Energy, via its wholly-owned mining company Adaro Indonesia, has plans to build a 68 km transport system, most likely a multi-stage conveyor, with adjacent crushing plant, stacking system and barge loaders with total capacity of 6,000t per hour (40Mt per year).

At the end of 2008, Adaro Energy's current road capacity to Kelanis was about 60 million tonnes per year, with 45 million tonnes of road transportation capacity. Upon completion of the conveyor, Adaro Energy will have 2 alternative modes of transportation with combined capacity of more than 80 million tonnes per year. Adaro Energy has the option of boosting production by adding additional and more powerful trucks along the existing haul road. However, the main goal of the overland conveyor is not about production growth, but about cost reduction. A key advantage of the new transportation system is that it could reduce operating costs by approximately US\$2 per tonne compared to trucking.

In 2008, the project was at the design phase with different alternatives being considered. It is possible the project will be executed in two phases, with construction of a conveyor half way along the distance of the haul road to Kelanis, followed by the second stage, which would be either to build an additional conveyor for the remainder of the distance, build a channel or use the existing haul road. The company has been conducting negotiations with different EPC contractors and equipment suppliers.



The Kelanis River Facility recently added an additional crusher to expand capacity to around 55Mt.

Due to the difficulties created by the dramatic reduction in access to capital caused by the global financial crisis, aspects of the project were postponed until January 2009, so an overall review could be conducted on the cost structures and benefits of the overland conveyor. The project is targeted for completion in 2011. During the review, work continued on acquiring necessary land, on finalizing project design and selecting the EPC.

Before the crisis, the total project cost was estimated at US\$350 million. However, due to the economic crisis and lower prices, and due to possible revisions to the project, the total project cost will be lowered significantly.

Adaro Energy requires an overland conveyor to improve efficiency and different alternative scenarios were studied. Once the plans have been finalized, Adaro Energy will inform the market accordingly.

In 2008, Adaro Energy spent around US\$500,000 on the overland conveyor project, funded by internal cash flows.

Barito Channel – Dredging a New Channel to Get Rid of a Bottleneck

On October 23, 2008, Adaro Energy announced it had successfully completed a trial-run on a 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 commenced full operations, on time and on budget, on January 1, 2009. The most important aspect of opening the new channel is that annual capacity will increase to over 200 million tonnes from 60 million tonnes. This additional capacity will help Adaro Energy realize its plans to increase annual production to 80 million tonnes. The dredging of the new channel and the ongoing maintenance and water toll operation, will be carried out by Adaro Energy's new subsidiary, PT Sarana Daya Mandiri ("SDM").

Director of Corporate Affairs and Corporate Secretary of Adaro Energy, Andre J. Mamuaya said:

"The most important aspect of opening the new channel is that annual capacity will increase to over 200 million tonnes from 60 million tonnes. This additional capacity will help us realize our expansion plans of doubling annual production in the next five years from 40 million tonnes to 80 million tonnes."

This dredging project undertaken by PT SDM is a unique alliance of a privately funded joint venture of privately held mining companies and different sections of central and provincial governments. The new channel will be available for public use and would not have been possible without the contributions and support of the local and central government.

Prior to dredging, the existing channel was only traversable by loaded barges on the high tide once a day during a tide window of about eight hours. High siltation rates and an under-funded maintenance dredging program resulted in difficult navigation conditions in the channel. In order to increase barging efficiency and capability, at the beginning of 2008, PT Sarana Daya Mandiri (PT SDM) began a project to dredge a deeper and straighter channel. The actual dredging was conducted by Van Oord, an international dredging and marine contracting company from The Netherlands. The channel shall be maintained by a reputable dredging company.

The travel time required to pass through the Barito channel has been reduced to 3 hours from around 6.5 hours. The channel may now be used 24 hours a day, 365 days a year. Dredging a straight passage through the channel will increase safety as barges will no longer be required to navigate through two dangerous turns.

By using the new channel, Adaro Energy and other users will no longer have to use two tugs (or "tug assist"), to pull barges, which range in size from 8,000 – 14,000 tonnes, through the shallow waters at the mouth of the Barito River. By only using one tug, as travel time is greatly reduced, and due to shorter barging cycle time Adaro Energy expects to incur fuel and tug cost savings.



Dredging the mouth of the Barito River.



The US\$42 million cost of the dredging was financed by a loan provided to PT SDM by Adaro Energy. This loan will be repaid by revenues generated by users of the new channel, including Adaro Indonesia, who must pay a toll of US\$0.30/ton.

In a related party transaction, Adaro Energy acquired 51% in PT SDM from PT Rahman Abdijaya. Three non-related smaller mining companies own the remaining 49%. The acquisition, which was disclosed in Adaro Energy's IPO Prospectus, was completed for the nominal price of Rp 128 million (around \$US12,000). A good example of the controlling shareholders support for Adaro Energy, the SDM stake was acquired in third quarter of 2009 as part of implementing Adaro Energy's integrated business model.

In 2008, Adaro Energy spent US\$42 million on the Barito River dredging project, funded by internal cash flows. Adaro Energy may seek immediate repayment of some of the \$42 million it loaned to SDM by having SDM refinance the loan with a lending institution.

IBT Fuel Terminal – Guaranteeing Supplies of Lower Cost Fuel

The IBT Fuel Terminal project's main objective is to provide a guaranteed fuel supply as well as lower fuel costs for Adaro Indonesia's operations by increasing shipment size. During 2008, work continued regarding the commercial aspects of operating the fuel terminal and tug assist activities. The purpose of the project is also to develop liquid bulk based traffic at Mekar Putih Port at Pulau Laut and thus will increase the income stream and activity growth of IBT. The total project cost is expected to be around US\$40 million.

The project consists of two major components, a BOOT (Build-Own-Operate-Transfer) agreement between IBT and PT Shell Indonesia on a fuel storage facility with a capacity of sixty thousand tonnes and a modification to the existing jetty facility and piping for fuel loading and unloading, to allow the capacity to berth tankers with capacities ranging from 2,000 dwt up to 48,000 dwt. The IBT Fuel Terminal is designed and capable for the receipt, storage, and bunkering of fuel with an estimated throughput of 720,000 kilolitres per year.

Shell selected Punj Lloyd Pte Ltd Singapore as its EPC contractor to construct the fuel tanks, and the EPC contractor surveyed the site at IBT. IBT selected the Inti-Duta Consortium to construct the new jetty at IBT, and certain items were tendered.

In the fourth quarter, it was determined that all investment costs for jetty modification will be self-financed and the fuel jetty construction contract was awarded. Completion is expected in August 2009. Shell reported preparation of the fuel storage tank construction was on target.

In 2008, Adaro Energy spent US\$1.2 million on the IBT Fuel Terminal, to modify the existing jetty facility and piping, funded by internal cash flows. Adaro Energy plans to spend US\$12 million in 2009 also from internal cash flows.

Kelanis River Terminal – Boosting Capacity of the Final Processing Facility

During 2008, Adaro Indonesia began the installation of a new crushing system to boost capacity at Kelanis. In March 2009, with the installation complete the annual capacity had increased from 45 million tonnes to 55 million tonnes, at a cost of US\$10 million.

There are no further capital expenditures planned for 2009 at Kelanis.

Acquisition of an Affiliated Bargaining and Ship Loading Company - To Strengthen the Coal Supply Chain

After studying several options, in 2009 Adaro Energy intends to acquire an affiliated coal bargaining and transshipment company. Negotiations began at the beginning of 2009, and a deal was expected before then end of the first half of the year.



The Project Development team meet to debate strategy.



Barging down the Barito River must be conducted skillfully to avoid disruption the local communities and environment.

General Director Sandiaga S. Uno said:

“With this potential acquisition, we can deliver on our stated strategy to create value and to improve our business by further integration and to strengthen our coal supply chain. With this acquisition Adaro will have better control of the supply chain and less counter party risk.”



The move is part of Adaro Energy's ongoing efforts to implement its long stated business plan of further integration, the next phase of which is improving barging and ship loading, the two areas of the coal supply chain that Adaro does not currently control. The intention to acquire an affiliated barging and shiploading company was previously disclosed in Adaro Energy's IPO Prospectus.

The benefits of acquiring control of a well run barging and ship loading contractor include cost savings in the form of reduced demurrage and other efficiencies. This is especially true when future barging volumes come up for tender in the future. Better control allows Adaro Energy to improve reliability and on time delivery. Upon analysis of comparable deals and current market conditions it is better to acquire an existing and operating company, rather than start a new barging and ship loading company.

As well as creating value from further integration and better efficiency, in making a decision to invest, management considers various factors including cash flows, and expected return on investment.

With regards to this acquisition plan Adaro Energy appointed independent parties to assist in providing third party reports and opinions on the acquisition as required by the capital market and stock exchange authorities.

Capital Expenditures

In 2008, Adaro Energy spent US\$255 million on capital expenditures, an increase of 155% (in US\$) over the amount spent in 2007.

The breakdown of 2008 capital expenditures is as follows: US\$115 million (equipment purchases by Adaro Energy's mining contractor, SIS), US\$60 million (Cakung land acquisition), US\$42 million (dredging Barito Channel), US\$10 million (MSW mine mouth power plant), US\$15 million (road maintenance and others), US\$13 million (Kelanis river port).

Adaro Energy has planned capital expenditures in 2009 of US\$251 million down slightly from the US\$255 million spent in 2008. All of the capital expenditures are expected to be funded out of existing cash holdings, operating cash and existing debt facilities.

The breakdown of 2009 capital expenditures is as follows: US\$60 million (equipment purchases by Adaro Energy's mining contractor, SIS), US\$52.5 million (MSW mine mouth power plant), US\$20 million (land acquisition), US\$20 million (road maintenance), US\$10 million (Kelanis river port), US\$10 million (Barito Channel maintenance), and US\$78 million (acquisition of barging company).

SIS will normally target around US\$50-60 million on equipment purchases. Adaro Energy's other three mining contractors have their own capital expenditure plans.

As well, Adaro Energy may begin to make capital expenditures in 2009 on the overland conveyor.



Barge loading the Kelanis River Facility, with a capacity of 55Mt, one of the largest river terminals in the world.

Adrian Lembong, General Manager - Business Development

- Prior to joining Adaro he was employed with Sudchemie AG, a German based manufacturer of specialty minerals.
- He started as a process engineer in 1998 handling projects in Germany, Indonesia and Mexico before assuming the position of site manager of the production site in Indonesia.
- Ultimately he was responsible for the Marketing and Technical Application in the Asia Pacific Region for Sudchemie AG.





Owning Adaro

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Shareholders Information

Shareholders

According to the shareholders list as of December 30, 2008, as prepared by the Share Registrar PT Ficomindo Buana Registrar, the shareholders structure and shareholders holding more than 5% ownership were as follows:

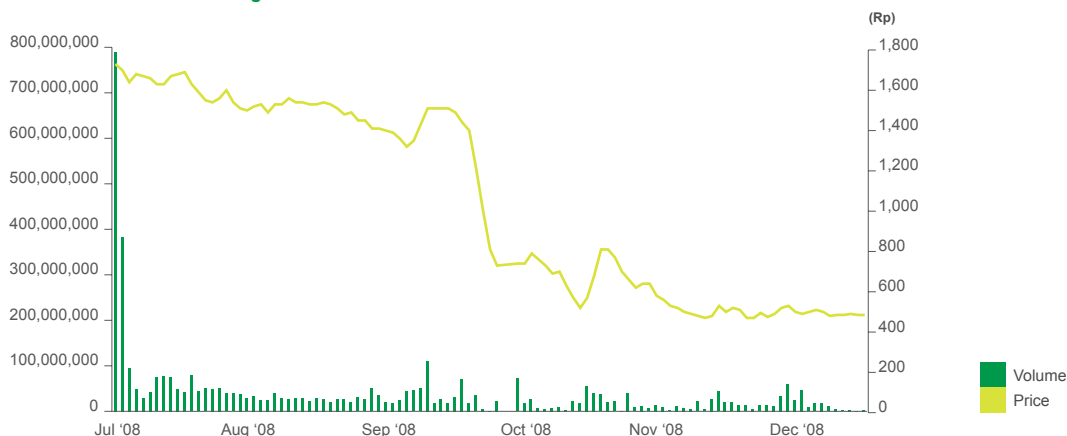
Shareholders Structure as of December 30, 2008

Shareholder	# of Shares	Ownership
Domestic		
- Limited Liability Company	15,536,655,691	48.57%
- Individual	5,448,687,536	17.03%
- Pension Fund	38,834,500	0.12%
- Foundation	2,163,000	0.01%
SUB-TOTAL	21,026,340,727	65.74%
International		
- Limited Liability Company	10,915,574,773	34.13%
- Individual	44,046,500	0.14%
SUB-TOTAL	10,959,621,273	34.26%
TOTAL	31,985,962,000	100.00%

Shareholders Holding > 5% as of December 30, 2008

Shareholder	# of Shares	Ownership
Citibank Hongkong S/A CBHK-CPBSG-PT Saratoga Investama Sedaya	4,775,524,806	14.93%
PT Triputra Investindo Arya	4,268,347,697	13.34%
PT Persada Capital Investama	3,520,995,975	11.01%
GS NY SEG AC-Lockup Account	3,180,703,000	9.94%
PT Trinugraha Thohir	2,496,384,062	7.80%
Garibaldi Thohir	2,496,384,062	7.80%
UBS AG Singapore S/A Atticus Investments Pte Ltd	1,835,021,500	5.74%
SUB-TOTAL	22,573,361,102	70.57%
Public	9,412,600,898	29.43%
TOTAL	31,985,962,000	100.00%

Stock Price Movement During 2008



Note: The shares were suspended temporarily on 14 and 15 October 2009 due to potential significant private trade share buyback

Quarterly Stock Price and Volume

	2008	
	3rd Quarter	4th Quarter
Daily Volume (in thousand)		
Highest	789,786,000	71,792,000
Lowest	17,619,500	443,000
End of Period	17,789,500	2,691,000
Daily Price (Rupiah)		
Highest	1,730	1,210
Lowest	1,320	470
End of Period	1,400	485

IPO Highlights

Effective Date	July 4, 2008
IPO Date	July 16, 2008
IPO Price	Rp 1,100
End of First Day Price	Rp 1,730
% 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%

Initial Public Offering

Adaro Energy listed 32 billion of its shares publicly on the Indonesian Stock Exchange in an Initial Public Offering on July 16, 2008 of 35% or 11 billion shares of the company, raising Rp 12.2 trillion, or around US\$1.3 billion.

The IPO was conducted in order to make acquisitions so as to simplify the corporate structure into a single holding company with independent yet integrated operating subsidiaries acting as profit centres. The increase of control of the subsidiaries will enable Adaro Energy to better control and strengthen its coal supply chain, create synergies amongst the different business units and create a more efficient, profitable, and bigger Adaro Energy.

On October 31, 2008, Adaro Energy held an Extraordinary General Meeting of Shareholders (EGMS). The first agenda approved the Board of Directors' Annual Report and the Financial Statements and Notes for the financial year ended December 31, 2007. As well, the EGMS granted a full release and discharge to the members of both of Adaro Energy's Boards for their 2007 management and monitoring activities.

The EGMS also gave approval for Adaro Energy to act as the guarantor for the borrowings of its subsidiaries.



President Director Garibaldi Thohir gives a thumbs up during a Public Expose prior to the IPO.

Proceeds from IPO (after deducting total IPO cost) of Rp 11,846,595,741,289 were used as follows:

1. A sum of 91.61% or Rp 10,852,298,400,000 was used to increase the Company's shareholding on PT Alam Tri Abadi (ATA).
2. A sum of 3.01% or Rp 356,000,124,700 was used to acquire 47,477 shares of ATA from PT Persada Capital Investama (PCI) for the amount of Rp 118,669,207,743 and to acquire 94,951 shares of PT Saratoga Investama Sedaya (SRIS) for the amount of Rp 237,330,916,957.
3. A sum of 1.34% or Rp 158,775,676,000 was used to settle the acquisition of 39,036 shares of PT Saptaindra Sejati (SIS) from PCI for the amount of Rp 63,511,572,000; 39,035 shares from SRIS for the amount of Rp 63,509,945,000; and 19,517 shares from PT Cipta Sejahtera Persada (CSP) for the amount of Rp 31,754,159,000.
4. A sum of 3.09% or Rp 365,940,000,000 was used to increase the ownership of SIS, which were used for capital expenditures and working capital.
5. A sum of 0.96% or Rp 113,581,540,589 was used for the working capital of the Company and its subsidiaries.

IPO Proceeds

Proceeds from Public Offering	Public Offering Fees	Net Proceeds
12,253,264,100,000	406,668,358,711	11,846,595,741,289

Projected Use of IPO Proceeds

Additional Investments in ATA	Share Purchase of ATA	Share Purchase of SIS	Additional Investments in SIS	Working Capital	Total
10,852,298,400,000	356,000,124,700	158,775,676,000	365,940,000,000	113,581,540,589	11,846,595,741,289
91.61%	3.01%	1.34%	3.09%	0.96%	100.00%

IPO Proceeds Realization

Additional Investments in ATA	Share Purchase of ATA	Share Purchase of SIS	Additional Investments in SIS	Working Capital	Total	Remaining Proceeds from Public Offering
10,852,298,400,000	356,000,124,700	158,775,676,000	365,940,000,000	75,916,447,548	11,808,930,648,248	37,665,093,041
91.61%	3.01%	1.34%	3.09%	0.64%	99.68%	0.32%

Market Overview

International Indices

In 2008, major stock exchanges around the world, like the Dow Jones (DJIA) and the NIKKEI 225 decreased 57% and 62% respectively.

Indonesian Stock Exchange (IDX)

The Jakarta Composite Index (JCI) increased in the first semester in 2008. As the oil price increased and then peaked at US\$140 per barrel on June 2008, the JCI and the JCI Mining Sector increased to 2,349 and 3,415 respectively.

Due to the onset of the crisis the JCI decreased over 70% by the end of 2008.

Adaro Energy Shares

Adaro Energy (IDX: ADRO) listed on the Indonesian Stock Exchange on July 16, 2008 at a price of Rp 1,100 per share. Due to the crisis, Adaro Energy's shares decreased 58% to a low of Rp 460 per share on November 20, 2008, closing 56% down at Rp 485 per share.

ADRO Relative Performance to Mining Indices

	Adaro Energy	IDX Mining Composite	Bloomberg Mining	Bloomberg Coal	HSBC Mining	HSBC Coal
Adaro Energy	-	49.39%	7.87%	39.86%	10.31%	46.96%
Open - July 15, 2008	1,100	2,974	415	725	1,524	2,120
Close - Dec 31, 2008	485	878	173	234	618	651
% Change	-56%	-70%	-58%	-68%	-59%	-69%

ADRO Relative Performance to Composite Indices

	Adaro Energy	IDX Composite	DJIA	S&P 500	FTSE 100	NIKKEI
Adaro Energy	-	-27.95	-44.24%	39.86%	-48.09%	-36.53%
Open - July 15, 2008	1,100	2,215	10,963	903	5,172	12,755
Close - Dec 31, 2008	485	1,355	8,668	125	4,434	8,860
% Change	-56%	-39%	-21%	-86%	-14%	-31%

Dividend Policy

Based on the provisions of Adaro Energy's Articles of Association, if the company books a net profit, than 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 fulfilment 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.

Adaro Energy will target an annual dividend payout ratio of up to 45% of consolidated net profit. Adaro Energy may also pay interim dividends. Due to the terms of the lending agreements, Adaro Energy's operating companies can only distribute dividends of up to 50% of net profit.



Once of Adaro's four mining contractors, Buma sprays an input haul road to keep dust down.

Share Buyback

On October 13, 2008, in the midst of the onset of the economic crisis in Asia, Adaro Energy announced it was in negotiations with a group of international institutional investors to conduct a potential share buyback of shares of stock of Adaro Energy. As a result, Adaro Energy's shares were suspended temporarily from trading. At the time, management wished to signal the stock was undervalued, due to the crisis, which management believed had caused the price of Adaro Energy's stock to drop well below the estimated fair value. After Adaro Energy was approached by a few international financial institutions who held a significant block of the company's shares and who made it clear they wished to sell, management decided to review the opportunity seriously. Due to never having reached an agreement on the terms of the deal, the share buyback plan was cancelled.

Employee Stock Allocation (ESA) Program

In conjunction with the IPO, in order to foster a sense of belonging, responsibility and shared vision, Adaro Energy conducted an ESA program for the management and employees. The program contained a maximum allotment of 0.87% of the number of shares offered to the Public or 96,586,000 shares. Those employees and management participating in the program paid the same price as the IPO price, and paid during the offering period.

The shares bought through the ESA program were not saleable prior to eight months after the IPO.

Investor Relations

The Investor Relations team is coordinated by Cameron Tough, who brought ten years of experience working in Investor Relations and the capital market within the Indonesian mining sector. The three person team is expanding and at the end of 2008 included an IR Associate and a Corporate Finance Associate. IR has active support from many different information sources and leaders within the group, including the Corporate Secretary, Finance, Legal, Marketing, Operations, and Project Development. Reporting to the CFO, Investor Relations is part of the Finance Department but as the main liaison between the company and the capital market, IR makes contact with all the members of the BoD, and many different parts of the company.

Having conducted an Initial Public Offering on July 16, 2008, in the third quarter of 2008, Adaro Energy embarked upon an aggressive domestic and international IR campaign to increase equity market recognition and understanding of the company.

Adaro Energy participated in several international and domestic conferences and meetings and conducted a number of international roadshows. As well as the inaugural annual analyst meeting in August 2008, Adaro Energy, together with a broker conducted a minesite visit to Tutupan in September. Part of the regular calendar was the quarterly results conference call, which shall continue. Adaro Energy also began to issue a detailed Quarterly Activities Report, which is 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.

Other progress included drafting and presenting a Disclosure Policy, an IR Code of Ethics and other policies, IR goals and procedures were developed as Adaro Energy begins to institutionalize the task of keeping the market informed in a timely and balanced manner.



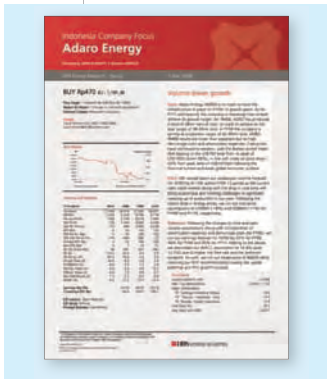
Analysts Monitoring Adaro

- | | |
|--|--|
| 1. Andreas Bokkenheuser, UBS | 12. Rahmi Sari Marina, NISP |
| 2. Wee Kiat Tan, Morgan Stanley | 13. Ricardo Silaen, Kim Eng |
| 3. Katherine Hermawan, Bahana Securities | 14. Surabhi Chopra, Mandiri Sekuritas |
| 4. Yusuf Adiwidjanto, DBS Vickers | 15. Jordan Zulkarnaen, Kresna |
| 5. Daisy Suryo, Merrill Lynch | 16. Haider Ali, Credit Suisse |
| 6. Adam Worthington, Albert Saputro, Macquarie | 17. Arief, Optima Securities |
| 7. David Chang, UOB Kay Hian Securities | 18. Adi Hartadi, Trimegah |
| 8. Herman Tjahjadi, Schroders | 19. Cherie Khoeng, Deutsche Bank |
| 9. Rania Rahmudita, CIMB | 20. Ariyanto Kurniawan, AM Capital |
| 10. Erindra Krisnawan, Citigroup | 21. Jemmy Paul, PT Waterfront Securities Indonesia |
| 11. Ahmad Solihin, CLSA | 22. Sylvia Darmaji, Ciptadana |

A) Merrill Lynch



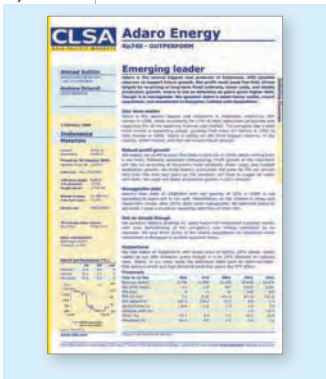
B) DBS



C) BNP PARIBAS



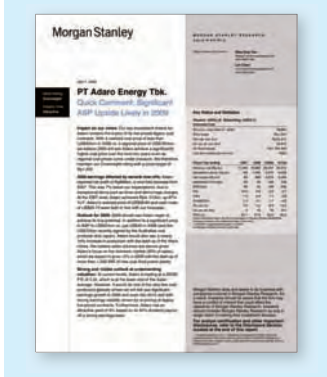
D) CLSA



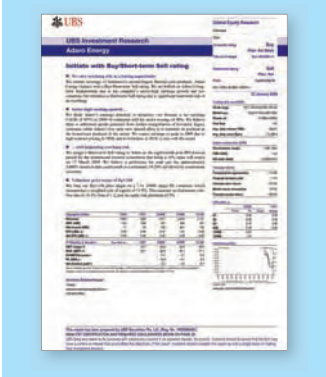
E) Macquarie



F) Morgan Stanley



G) UBS



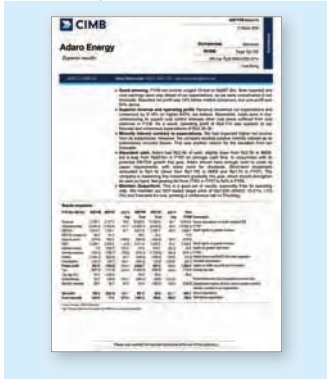
H) Mandiri Sekuritas



I) NISP Sekuritas



J) CIMB



K) Bahana Securities



Excerpts from Equity Analysts Reports

A) Merrill Lynch

The Compliment

"It has a solid business strategy reinforced by prominent shareholders, spare capacity that underscores future robust growth, and improving trading liquidity by March 17, 2009."

The Concern

"Risks to our PO (Price Objective) are the dispute with government over taxation (VAT up to US\$174.8mn/corporate tax), and Beckett unhappiness with shareholders over 40% ownership in Adaro and IBT."

B) DBS

The Compliment

"Adaro Energy is on track to have the infrastructure in place for FY09-10 growth plans. As for FY11 and beyond, the company is reviewing how to best achieve its growth target."

The Concern

"We revised down our production volume forecast for ADRO by 8%-14% (down to 42Mt – 73Mt) within FY09-13 period as the current tight credit market along with the drop in coal price will bring economical and funding challenges to significant ramping up of production in our view."

C) BNP Paribas

The Compliment

"Over the longer term, Adaro's doubling of production to 80m tonnes in 2015 (Adaro's estimate: 2013) would underpin strong earnings growth, even assuming flat coal prices and few efficiency gains from its expansion plans."

The Concern

"Amid increased attention on corporate governance post recent events (at a rival coal miner), one of the catalysts for Adaro's re-rating would be the satisfactory settlement on its short-term investment."

D) CLSA

The Compliment

"Adaro remains an intriguing prospect given its size and long-term growth potential."

The Concern

"(However) the recent plan to acquire related-party companies raised corporate governance issues, particularly as questions on an investment in a related-party asset management firm lingers. Adaro also does not look cheap relative to its peers."

E) Macquarie

The Compliment

"Adaro is a low-cost operator (due to its low strip ratio of 4–5x vs the Indonesian average of 8–9x) with production cash cost per tonne of roughly US\$26 and US\$29/t (2008–09E) vs the Indonesian industry average of US\$33–US\$35/t. This helps defend the company against falling prices and its lower quality coal product."

The Concern

"We downgrade Adaro from Outperform to Neutral and cut our price target from Rp 940 to Rp 890. This is to reflect the recent 30% share price rally, oversupplied coal outlook, increased pricing risk, stretched 2010 valuation, poor 2008 FCFE generation, and unproven governance."

F) Morgan Stanley

The Compliment

"...However, it would be ONE of the very few coal producers globally where we will still see significant earnings growth in 2009 and even into 2010 and with strong earnings visibility driven by re-pricing of legacy low-priced contracts...."

The Concern

"2008 earnings affected by several one-offs (due to exceptional items such as forex and demurrage charges)"

G) UBS

The Compliment

"We expect Adaro to continue to grow earnings, partly because of continuous production growth. Given the company's high-quality infrastructure and well-integrated distribution network, management is guiding for a 17% production CAGR in 2008-12, which is significantly above our estimates for the company and sector of 11% and 9%, respectively...."

The Concern

"Short-term negative drivers include overhang risk, demand weakness and regulatory uncertainty."

Adaro Energy IR Code of Ethics

As a member of Adaro Energy's Investor Relations department, either directly or in a supporting role, I will:

1. Honor my obligation to serve the interest of shareholders and other stakeholders.
2. Maintain my integrity and credibility by practicing investor relations in accordance with the highest legal and ethical standards.
3. Avoid even the appearance of professional impropriety in the conduct of my investor relations responsibilities.
4. Recognize that the integrity of the capital markets is based on transparency of credible financial and non-financial corporate information, and that being and appearing transparent, by disseminating timely and balanced material information in such a way as to avoid asymmetry, will lower the cost of capital, improve the company's credibility and reputation and so improve corporate performance and the chances of achieving Adaro Energy's goals.
5. In light of point three (3) above, I will to the best of my ability and knowledge work to ensure that Adaro Energy fully and fairly discloses this important information.
6. Provide analysts, institutional and individual investors and the media fair access to corporate information.
7. Discharge my responsibilities completely and competently by keeping myself abreast of the affairs of Adaro Energy as well as the laws and regulations affecting the practice of investor relations.
8. Maintain the confidentiality of information acquired in the course of my work for Adaro Energy.
9. Not use confidential information acquired in the course of my work for my personal advantage nor for the advantage of related parties.
10. Exercise independent professional judgment in the conduct of my duties and responsibilities on behalf of Adaro Energy.
11. Avoid any professional/business relationships that might affect, or be perceived to potentially affect, my ethical practice of investor relations.
12. Report to appropriate company authorities if I suspect or recognize fraudulent or illegal acts within the company.
13. Represent myself in a reputable and dignified manner that reflects the professional stature of investor relations.

Analyst Feedback

"Adaro is already on the right path to further unlock values to shareholders with its vertical integration and solid management team. Given time to housekeep and prove its corporate governance via transparent disclosures of coming important events (potential changes in shareholding spreads after end of lock-up period and possible interrelated party transactions), Adaro should be a good investment for long-term investors. Earnings resilience would be a testimony that should enhance confidence level of investors in the future."

Rania Rahmundita

Equity Research
CIMB-GK Securities Indonesia



Governing Adaro

Status of Corporate Governance Practices

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Status of Corporate Governance Practices

Our approach to corporate governance is premised on the understanding that mining is a highly regulated industry. Therefore, it requires checks and balances to ensure the company conducts itself in a fair, accountable, responsible, and transparent manner.

We view corporate governance not as an academic exercise or something superfluous to just look good. We view it as a dynamic exercise that will never really stop; an exercise of continually improving and adapting. We believe there is no “one size fits all” solution when it comes to corporate governance. For our part we believe our corporate governance standards are good. We spent three years operating the group of Adaro companies under the supervision of the “governing council”, which was made up of members from the controlling shareholders and the international consortium, who together took over what today is Adaro Energy by way of a leveraged buyout in 2005. This council, in addition to the requirement of the LBO banks, required a high level of corporate governance.

One of the unique characteristics of Adaro Energy, when it comes to the ownership of most Indonesian listed companies, is that we are not owned and controlled by a single family, nor the government. We are controlled by a group of five families and individuals who do not have outright control. Given each party is operating individually there is a natural system of checks and balances in place, and decisions are made with great consideration and after much debate. Additionally, this group of controlling shareholders is made up of the founders and past executives of PT Astra International Tbk, one of Indonesia’s most respected and well governed corporations.

During 2008 we became a publicly listed company, which has forced us to raise our level of corporate governance, especially in terms of disclosure and accountability. We are going to continually improve our corporate governance in the future, so as to not only do the right thing by our stakeholders, but also to ensure long term and successful operations.

BOD Training Programs to Enhance Competency

Adaro Energy did not conduct training for the BoD in 2008. The plan for 2009 is to hire a reputable international consultant to advise Adaro Energy’s Boards on ways to improve corporate governance, to conduct training seminars. Part of the future plans include a clearly laid out corporate governance strategy, a corporate policy manual and a code of conduct. The consultant will also be asked to write a detailed assessment on Adaro Energy’s corporate governance and a summary, which will be included in the 2009 Adaro Energy annual report.



Surveying at the Tutupan mine site.

Comparison between the Indonesian Principles of Good Corporate Governance with Adaro’s Good Corporate Governance Practices

No	Principles and Recommendations	Adaro’s Response
1	<p>Good Corporate Governance Principles</p> <p>GCG principles need to be implemented at each business facet and within the entire company, and includes transparency, accountability, responsibility, independency, and fairness.</p>	<p>Although the essence of corporate governance is applied by the management, the formal system to support continuous and consistent implementation of these principles has not yet been established.</p>
2	<p>Business Ethics and Code of Conduct</p> <p>To attain long-term success, GCG implementation needs to be based on high levels of integrity. Sets of values need to be developed that describe the morals of the company in conducting its business, which are then further elaborated into a code of conduct.</p>	<p>Adaro Indonesia, the mining subsidiary of Adaro Energy, has formulated their core values and code of conducts for their employees. These values and code of conduct influence those of the other subsidiaries.</p>

No	Principles and Recommendations	Adaro's Response
3	<p>Organs of the Organization</p> <p>The GMS, the BOD, and the BOC have an important role in implementing GCG effectively. By carrying out their respective functions based on the principle that each organ is independent in carrying out its duty, they function in the sole interest of the company.</p>	<p>The BOD currently consists of 7 Directors who are in charge of managing Adaro and its subsidiaries. All of the Directors have been assigned according to their competency and experience (for details see Directors' profile). A board manual that assigns the rules and responsibilities of each Director shall be prepared, to ensure the accountability of all directors actions.</p> <p>The BOC currently consists of 6 Commissioners who are mostly representatives of the ultimate shareholders. Currently the company has two Independent Commissioners, one of whom is the Head of the Audit Committee. The roles and responsibilities of the Independent Commissioners shall be formally established.</p> <p>The diverse background of the members of the BOC and the BOD provides the necessary expertise and qualifications. It is Adaro's objective to formally distinguish roles and responsibilities for the BOD and the BOC members in the near future.</p> <p>Risk management is currently executed in a semi-formal approach. A risk policy regarding controls in operational safety is in place. The overall risk management policy has not yet been formulated. However, during regular meetings, management discuss key issues pertaining to the Adaro operation and this is documented properly.</p> <p>Management has set out a clear vision and mission and these statements have been socialized to all.</p> <p>Adaro will set the criteria of independency for Independent Commissioners.</p>
4	<p>The Rights and Role of Shareholders</p> <p>Shareholders as owners of share capital have certain rights and responsibilities within the company in accordance with the laws and regulations and the Articles of Association of the company.</p>	<p>Adaro's Articles of Association (AoA) comply with both Indonesian Company Law No. 40 of the year 2007 and with Bapepam regulations.</p> <p>While conducted in the spirit of achieving mutual consensus, GMS decisions are made by voting. Voting is only valid if cast by more than half of the attendees, following the stated quorum.</p> <p>Management will ensure that invitations to attend the GMS are distributed evenly to assist all shareholders in attending the GMS. Management will provide reports not only on financial matters, but also on management activities on a quarterly basis.</p> <p>All decision required during GMS and EGMS are only valid after meeting the stated quorum. Decisions made without the appropriate quorum are considered unlawful.</p> <p>Adaro disclosed the identities of the ultimate shareholders during the Initial Public Offering and will disclose any significant changes.</p> <p>Adaro's AOA stipulates that all material transactions where there may be a conflict of interest must have GMS approval whereas ultimate shareholders with conflict of interests must cast their votes in agreement with independent shareholders. The quorum required for this exercise is at least half of total independent shareholders and the vote is valid only if approved by more than half of the attending independent shareholders.</p> <p>Adaro will continue to improve the controls on the proper implementation of the Articles of Association.</p>
5	<p>Rights and Role of Stakeholders</p> <p>Stakeholders including employees, resource providers, and communities, particularly in which the company operates, have an interest in the company and are directly affected by the strategic and operational decision of the company. Therefore, the relationship between the company and its stakeholders needs to be fair and equal, in accordance with the prevailing laws and regulations, and should be based on mutual arrangements applicable to each respective party.</p>	<p>Adaro's human resources management practices including remuneration and career path, as well as employees rights and obligations, are currently structured to mirror Adaro Indonesia's strategy and policies. Adaro intends to re-structure human resources not only for Adaro Indonesia but for the subsidiaries.</p> <p>Adaro will continually improve its human resources practices, as well as develop and implement a code of conduct, improve labour agreements, and systems to detect breaches of the code of conduct.</p> <p>Control over suppliers is managed through Quality-Cost-Delivery criteria where only companies that meet this criteria will become suppliers. Evaluation of the effectiveness of this policy is on-going.</p> <p>To address community issues, Adaro has an integrated Corporate Social Responsibility program that is aimed to increase the economic independency of the local communities neighboring the mining operation. Certain criteria and specific targets have been set to address community relations, and currently Adaro has a good reputation in this area</p>
6	<p>Statement of GCG Implementation</p> <p>A statement regarding the implementation of GCG shall be made a part of the company's annual report. In the event that GCG has not been fully implemented, a company shall disclose the non-conformance aspects and the reasons for such. The statement shall comprise the structure and working mechanism of the BOC and the BOD, and other pertinent information regarding the implementation of GCG</p>	<p>As a newly listed company, Adaro's self assessment exercise has revealed that some areas of corporate governance including a Code of Conduct, organization structure, establishment of a risk committee and internal control systems require improvement.</p> <p>Management will seek to employ independent third parties, to audit and provide attestations on the corporate governance statements.</p>
7	<p>Internalization of GCG Practices</p> <p>GCG shall be implemented in a systematic and continuous manner. Accordingly, it is necessary to have practical guidelines to be used as a reference in implementing GCG.</p>	<p>Currently, the Company's GCG practices have not been implemented in compliance with this principal. Adaro believes in a practical approach.</p> <p>A more systematic approach to address GCG internalization will be a focus of 2009.</p>

General Meetings of Shareholders (GMS)

Adaro Energy's governance structure shows the GMS is authorized to give approvals on the following matters:

1. Accept management reports prepared by the BOD and reviewed by the BOC;
2. Give Acquit et de Charge to the BOD and the BOC;
3. Usage of company's profit for retained earnings, assignment of general reserves, and/or dividend distribution;
4. Appointment of the BOD members and the BOC members;
5. Appointment of public accountant to audit Adaro's books and records;
6. Strategic issues such as acquisitions, assets disposal, and granting company guarantees;
7. Transfer, relinquish, or collateralize company assets exceeding 50% of total company assets;
8. Approval of management decisions to issue new shares, issue shares without rights, or other securities that would result in dilution of current shareholders ownership;
9. Approve changes in the Articles of Association;

Adaro only acknowledges one person or legal entity as a shareholder. Jointly owned shares must be registered and must appoint a representative.

GMS Proceedings and Approval Process

The BOD must ensure that shareholders are informed about the GMS and must facilitate their attendance to the GMS. The BOD will notify shareholders of an impending GMS through advertisements.

Following these announcements, invitations to attend the GMS will be advertised by the BOD at least 14 days prior to GMS in two nationally circulated Indonesian language newspapers.

The GMS will only proceed if more than half of the valid voting shares from total issued shares are in attendance (quorum). When this quorum is not achieved then the BOD is required to make a second invitation to shareholders.

Board of Commissioners (BOC) and Board of Directors (BOD)

Members of the BOC and the BOD are appointed during the GMS. The BOC and the BOD each have clear authority and responsibilities based on their respective functions, as mandated by the Articles of Association and laws and regulations, and further elaborated into charters for each respective board. Both have the responsibility to operate the company sustainably for the long term. Accordingly, the BOC and the BOD must have the same perception regarding the company's vision, mission and values.

The Board of Commissioners

The BOC is responsible for overseeing and providing advice to the BOD. BOC members are authorized to gain access to the company's premises, books and records, to review company financials, and information on the company's operations.

Throughout 2008, the BOC of Adaro held a total of three formal meetings, to review quarterly company performance as presented by the BOD.



Hery Mustafa talks with Salim W. Halim regarding the agenda of an upcoming Board meeting.

Name	Attendance (Out of 3 Meetings)
Edwin Soeryadjaya	2
Theodore Permadi Rachmat	3
Ir. Subianto	1
Lim Soon Huat**	1
Djoko Suyanto*	2
Ir. Palgunadi Tatit Setyawan*	1

(*) Independent Commissioner
 (**) Newly appointed as of October 2008

The roles and responsibilities of the BOC are aligned with those stated in the company's Articles of Association, and include:

- Oversight of the management of the company by the BOD;
- Review of the company's financial statements and annual report;
- Review of the annual planning and budget;
- Preparation of the oversight report on the company operation for GMS;
- Approve distribution of any interim dividend;
- Approve the use of excess in company's general reserves;
- Perform directors duties when BOD members are relinquished from their posts.



Audit Committee

From left to Right

Ir. Palgunadi Tatit Setyawan
 Chairman

Mamat Ma'mun, SE
 Member

Dr. Ir. Irwandy Arif, MSc
 Member

Audit Committee

The Audit Committee is appointed by and is responsible to the Board of Commissioners. The main duty of the Audit Committee is to assist the Board of Commissioners in fulfilling their responsibility to monitor and evaluate financial reporting, the implementation of risk management and internal controls auditing as well as the implementation of good corporate governance. The Audit Committee was established in January 2009. The members of the Audit Committee are:

Chairman	Ir. Palgunadi Tatit Setyawan*
Members	<ul style="list-style-type: none"> • Dr. Ir. Irwandy Arif, MSc • Mamat Ma'mun, SE

(*) Independent Commissioner

The Audit Committee is supported by the Internal Audit Unit in identifying key risk areas and effectiveness of controls within these areas. Reports will focus on process and controls improvement, safeguarding assets, and quality financial information.

The membership of the Audit Committee represents diverse skills and knowledge of management, finance and reporting, and of the mining industry. Adaro's Audit Committee members are individuals whose track records includes experience with respectable organizations. In 2009 the Audit Committee completed the Audit Committee charter.

Audit Committee Biographies – Not Including Members of the BOC



Dr. Ir. Irwandy Arif, MSc – Member

Graduated from Ecole des Mines de Nancy, France with his doctoral decree and from the Institut Teknologi Bandung with his mining and industrial degree. He is a well-known expert in the Indonesian mining industry. Working experience includes providing advisory services to highly regarded Indonesian coal companies like PT Berau Coal, PT Freeport Indonesia, PT Tambang Batubara Bukit Asam. He is currently an Independent Commissioner and Head of the 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 an Economics degree. His has over thirty years working experience in the Astra group, the respectable Indonesian conglomerate known for its proven management systems. His was also 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. He is currently a trustee to the Triputra Group Pension Fund.

The Board of Directors

The BOD functions and is responsible collectively for the management of the company. However, each member of the BOD carries out his duties in accordance with his respective assignments and authorities.

Currently Adaro's BOD consists of seven Directors in charge of managing Adaro Energy and its subsidiaries. All members have been assigned duties in accordance with their competency and experience (for details see each Directors' profile).

Board of Directors Meetings

BOD meetings are conducted on a monthly basis, as well as when required. Based on the Articles of Association, one director can request a meeting to discuss specific issues. Issues related to operational and financial performance, project progress and other issues that require board attention and decisions are addressed.

The following table indicates attendance of BOD in both regular meetings and non-scheduled meetings. The total number of BOD meetings in 2008 was 13.

Name	Attendance (Out of 13 Meetings)
Garibaldi Thohir	12
Christian Ariano Rachmat	13
Sandiaga S. Uno	12
Andre J. Mamuaya	11
David Tendian *	12
Chia Ah Hoo *	11
Alastair Grant *	11

(*) Indicate Non-Affiliated Director



Adaro Energy managers meet to discuss SDM and other matters with the Audit Committee.

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. The term is limited to five years.

Members of the Boards may be terminated for the following reasons:

1. Resignation;
2. Non-compliance with regulatory requirements;
3. Deceased;
4. Termination based on GMS decision.

Internal Audit

The role and responsibility of Adaro's Internal Audit Unit is to carry out internal audits based on an annual audit plan that has been approved by the President Director and the Audit Committee.

The Internal Audit Unit is responsible directly to the President Director but also reports its audit findings to the Audit Committee, which then passes on the information to the BOC. The BOD is responsible for remedial work on any aspects that need correction.

External Auditor

Adaro Energy has appointed the Certified Public Accounting firm of Haryanto Sahari & Rekan (a member firm of PricewaterhouseCoopers) to audit Adaro Energy's consolidated financial statements for fiscal year 2008. The external auditor performs its duties in accordance with professional standards and ethics.

Corporate Secretary

As a public listed entity, Adaro Energy has appointed a Corporate Secretary whose responsible directly to the company's Board of Directors. The duties and responsibilities of the Corporate Secretary are to ensure smooth communications between the company and the Capital Market Authority, Bourse Authority and public.

In addition, the Corporate Secretary is also responsible for ensuring the company complies with prevailing rules and regulations, conducting General Meetings of Shareholders (GMS) and Public Expose.



Director of Operations, Chia Ah Hoo, discusses the day's schedule with Esther Soeharto.

Remuneration of the Boards

Adaro's policy is that remuneration should be merit based. Therefore, the Company's bonus system is directly linked to performance. This system ensures that performance is assessed objectively and prevents moral hazard issues caused by subjective assessments. The remuneration for BOD and BOC must be approved by the GMS.

The Board of Directors and Board of Commissioners are remunerated in Indonesian Rupiah.

The Boards of Commissioners and Directors of Adaro Energy and its subsidiaries, which include members from Adaro Energy's Boards, received remuneration amounting to Rp 28,041 million for the year ended December 31, 2008.

Remuneration of the Boards 2008 (in millions of Rupiah)

	2008
Board of Directors	22,788
Board of Commissioners	5,253
Total Remuneration	28,041

Note: No data available for 2007 as Adaro Energy in its current form did not exist in 2007.

Share Ownership of the Boards 2008

BOC	Number of Shares	Percentage of Ownership
Edwin Soeryadjaya	1,375,877,646	4.30%
Theodore Permadi Rachmat	724,420,430	2.26%
Ir. Subianto	416,932,620	1.30%
Sub-Total	2,517,230,696	7.86%
BOD	Number of Shares	Percentage of Ownership
Garibaldi Thohir	2,496,384,062	7.80%
Sandiaga S. Uno	660,838,202	2.07%
Chia Ah Hoo	16,584,000	0.05%
David Tendian	11,150,000	0.03%
Andre J. Mamuaya	10,363,000	0.03%
Alastair Grant	8,454,500	0.03%
Sub-Total	3,203,773,764	10.01%
Total	5,721,004,460	17.87%

Disclosure Policy

The disclosure policy is under review by the BOD and legal counsel. However, while only a draft, the policy has been put to use by Adaro since listing in mid 2008. Upon approval, the policy will provide clear guidelines on the disclosure of material information, regular disclosure activities, etc.

Adaro believes its disclosure activities in support of corporate governance went beyond what is required by the market regulations in 2008. Examples of progress made include a regular Adaro Energy Quarterly Activities Report, presentations and meetings during non-deal road shows and investor forums, and the disclosure of fair and balanced information in a symmetrical way to the capital market.

A Disclosure Team was formed in 2008, made up of senior level managers from Investor Relations, the Corporate Secretary, Legal, Operations and Marketing. The team is tasked with the responsibility of helping Adaro Energy maintain high levels of transparency without jeopardizing the commercial or legal interests of the firm.



Corporate Social Responsibility

Corporate Social Responsibility

When mining operations commenced in South Kalimantan in 1992, Adaro made the commitment to integrate with the community and create a sustainable community program. This would become the template for all of Adaro Energy’s operating subsidiaries.

The primary aim of the program is to manage the social, economic and environmental impact of the operations such that they provide positive benefits to the surrounding communities both during and after operations end.

A key component of the program is good communication, by informing all levels of the community of all ongoing planning relating to the operations, and then listening to what the community requires. A support structure has been established to ensure continual two-way communications.

An essential element of the program is the development of the local people by recruiting from the community to the maximum extent possible. The provision of training and education helps to create an efficient workforce from a largely unskilled base.

Adaro’s community service program is reviewed annually. Business development, education, religious and social welfare programs are all reviewed with the goal of becoming self-sustaining.

Adaro adheres to high level environmental standards. Land affected by mining is reclaimed as soon as possible and made available to the local community. The reclamation includes planting of commercial crops, creating fish farms and developing recreational areas. Reclamation is also used as an opportunity for agricultural training.

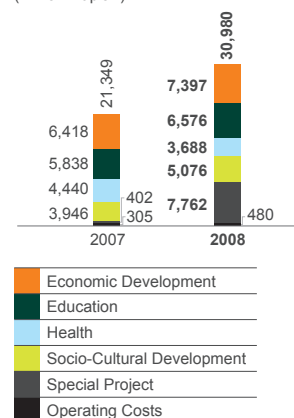
Sustainable Community Development Programs

A Community Development Management System has been put in place that provides clear guidelines on how programs should be carried out and what performance indicators should be used in determining success.

In 2008, Adaro and its mining contractor had a CSR program budget of Rp 30.98 billion. This was a 45% increase when compared to the 2007 allocation of Rp 21.35 billion. From this amount around 24% was allocated to economic development, 21% to education and 25% to special projects, while the remaining was allocated to the health sector, socio-cultural and operational costs. This special project allocation increased significantly when compared to 2007 as Adaro prepared the cattle breeding program, poultry breeding program, and a special tutorial program to prepare local students for the National Examinations.

Adaro and Mining Contractors’ CSR Program Allocation for 2008

(Million Rupiah)



Economic

Economic projects include assistance in financing and guaranteed offtake of production, with the focus on competitiveness to ensure continuity.

- The development of rubber plantations has been a key focus of agricultural projects by increasing areas under cultivation and improving the quality and product diversification in order to increase added value. In 2008, the program for cultivating rubber trees expanded to include an additional 615 households in 20 villages, with a plantation area of 500ha.
- The development of Small-Medium Enterprises via entrepreneurship training is directed at reinforcing the business development and productivity of local people. The program provides technology, financing and marketing. In 2008, Adaro provided training to support 743 small and medium business entrepreneurs.
- The development of Micro Financing is directed at making small business loans to local businesses and entrepreneurs. From its beginning in 2005 until the end of 2008, total funds channelled through micro-financing reached Rp 8.5 billion. In 2008, total lending amounted to Rp 1.7 billion and generated a net income of Rp 327 million.
- Other economic programs include other agribusinesses such as palm oil, vegetable and fruit cultivation, fish farming, rattan woodworking and processing, brown sugar manufacturing, small scale auto, electrical and light industrial workshops

Education

Education programs are directed at improving human resources quality through the improvement of education and moral and religious values.

- Teacher quality and school management improvement is focussed on improving the quality of education. Together with local government and third parties since 2006 Adaro has developed 31 certified tutors and trainers.
- Adaro has assisted over 1,800 students in preparing for National Examinations.
- A series of mobile libraries has been developed in order to fulfill an increased interest in reading. Currently, there are 15,000 books available to children through these libraries.
- A scholarship program has been developed for needy students together with achievement scholarships to stimulate excellence.
- Construction and renovations to schools and other educational facilities is undertaken on a continuous basis.

To measure the achievement of the program, in 2008, Adaro together with its mining contractors, conducted speed reading tests for local students. The tests showed a significant improvement in reading capability from 162 words to 661 words per minute. Reading comprehension increased 66% from 44%. In 2008, a total of 1,834 scholarships were given to students in Tabalong, Balangan, Barito Selatan Barito Timur and Batola regencies.



Clean employee housing at the Kelanis River Facility.

Health

The health programs are focussed on increasing the availability and quality of medical care to local communities.

- The free cataract program is designed to cure cataract blindness, which is endemic in the area. A total of 3,462 operations have been performed since the project began.
- In order to overcome the high rate of maternal and infant mortality, Adaro developed a pre and post natal medical support program in cooperation with White Ribbon Alliance of Indonesia.
- Adaro Indonesia provides facilities to the surrounding Community Health Centers. Free health services are made available to the community.

Socio-Cultural

Social programs support local communities by creating the opportunity for people to express themselves in the fields of religion, sport, art and culture.

- Support of religious affairs is carried out through the renovation and construction of praying houses, special events are held for festive and religious days.
- Sporting activities are supported by constructing and upgrading sport facilities and organizing and sponsoring sport events.
- Art and cultural affairs focus on bringing local arts and culture to Regency, Provincial, National and International levels.

Adaro Water Treatment Project

It all started with a basic principle of environmental management: Reduce, Reuse, and Recycle. Adaro has developed a water treatment system that recycles waste water and increases water quality to a drinkable level. The project is located adjacent to the previously mined Tutupan T300 pit which has a rainwater catchment area of 454 hectares. The pit receives high pressure water of about 750 liter per second pumped from the existing mine operations.

From this location, the quality of raw water for processing is relative stable, with a low value of total suspended solids and a relatively neutral ph value.

The water treatment plant processes the raw water in two stages at a rate of 20 liters per second. The first stage neutralizes the acidity, coagulation and flocculation while the second stage disinfects the water to neutralize bacteria. This process meets criteria set by the Ministry of Health for drinking water standards.

The treated drinking water is then stored in tanks with a total capacity of approximately 525 cubic meters. This water is used in Adaro's operations as potable and drinking water.

Abdurrahman, PT Adaro Indonesia, Community Development Section Head, said "In the near future, we are going to distribute the water to the neighboring community. We are currently seeking a local partner to construct a piping system".



There are at least three diverse ethnic groups in the area making up this population.



Mobile cataract project which commenced in 2003 is operated in conjunction with the Government's rural health services and to date has undertaken more than 3,000 operations.



A key public health program has been the post natal program and the development of a clean water distribution system.

Environment

Environmental management and rehabilitation is a prime focus in the mining and terminal operations of Adaro's operating units. Strict environmental standards, policies and plans are applied at all phases of the operations to ensure the impact is minimized.

Land affected by Adaro's operations is reclaimed as soon as possible and made available to the local communities. Reclaimed land is used for planting of commercial and plantation crops, livestock and poultry breeding projects and the development of recreational areas. Reclamation is also used as an opportunity for agricultural training.

Strict programs for air, water and waste handling and control are an integral part of Adaro's stewardship of the environment. Field personnel and Adaro's on-site laboratory are equipped with an extensive range of equipment to handle all aspects of monitoring and analysis.

Adaro Energy's commitment to this policy will ensure the company continues to meet the highest national and international standards for environmental rehabilitation while meeting the needs of local communities through integration of environmental projects with community development programs.

As a testament to that commitment, in September 2008 Adaro Energy was honoured to receive the prestigious green level PROPER award from the Ministry of the Environment for environmental rehabilitation excellence, the highest level ever attained by an Indonesian coal mining company. PROPER is an environmental evaluation program designed to compliment environmental Law, so that environmental quality improvements can be implemented more efficiently and effectively.

	2007	2008	Project to Date
Rehabilitation (ha)	292.52	402.67	1,595.06
Land Disturbed – Mine (ha)	254.08	223.52	1,540.40
Land Disturbed – Other (ha)	171.82	203.08	2,556.59
Net Land Disturbed (ha)	-133.38	23.9	2,501.93
Trees Planted	126,848	85,556	1,097,958

Financial Report

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adaro

**DIRECTORS' STATEMENT REGARDING
THE RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

PT ADARO ENERGY Tbk (FORMERLY PT PADANG KARUNIA) 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 (formerly PT Padang Karunia) and its subsidiaries (the "Group");
2. The Group's consolidated financial statements have been prepared and presented in accordance with accounting principles generally accepted in Indonesia;
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

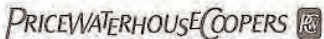
Garibaldi Thohir
President Director

David Tendian
Director

JAKARTA
16 March 2009

Kantor Akuntan Publik Haryanto Sahari & Rekan

A member firm of



A01051/DC2/DWD/II/2009.A

Kantor Akuntan Publik
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

PT ADARO ENERGY Tbk (FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of PT Adaro Energy Tbk (the "Company") and subsidiaries (collectively referred to as the "Group") as at 31 December 2008 and 2007 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. 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 2008 and 2007, and the results of their operations, and their cash flows for the years then ended in conformity with accounting principles generally accepted in Indonesia.

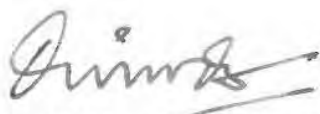
As disclosed in Notes 3 and 4 to the consolidated financial statements, in 2008, the Company acquired additional interest in PT Alam Tri Abadi, PT Saptaindra Sejati and PT Makmur Sejahtera Wisesa from entities under common control. The acquisitions have been accounted for using the pooling-of-interests method as required under the Statement of Financial Accounting Standards No. 38 (Revised 2004), "Accounting for Restructuring of Entities under Common Control". As such, the 31 December 2007 consolidated financial statements have been restated as if the acquisitions had already occurred as at 1 January 2007.

Kantor Akuntan Publik Haryanto Sahari & Rekan

As disclosed in Note 4 to the consolidated financial statements, the management of PT Adaro Indonesia ("Adaro") had also restated the 31 December 2007 consolidated financial statements with respect to the adjustments to the corporate income tax expense for fiscal years 2004, 2005, 2006 and 2007 due to different interpretation of tax regulations on the leveraged buy-out transactions executed by the Group.

As disclosed in Note 37b to the consolidated financial statements, as at 31 December 2008, Adaro, a 100% indirectly owned subsidiary, has a receivable balance relating to Value Added Tax (VAT) input and vehicle fuel tax (PBBKB) amounting to Rp 429,690 million (US\$39.2 million) and Rp 130,032 million (US\$12 million), respectively. Further, Adaro has offset VAT input totalling Rp 1,990,069 million (US\$215.3 million) against royalty payments to the Government. This treatment has not yet been approved by the Government. The consolidated financial statements do not include any other adjustments that might ultimately result from the decision made by the Government regarding this matter.

JAKARTA
16 March 2009



Dwi Wahyu Daryoto, Ak, CPA
License of Public Accountant No. 04.1.0940

The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. Accordingly the accompanying consolidated balance sheets and the related consolidated statements of income, changes in equity and cash flows and their utilisation are not designed for those who are not informed about Indonesian accounting principles, procedures and practices.

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.

A01051/DC2/DWD/II/2009.A

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 1/1

**CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, except for par value and share data)

	<u>Notes</u>	<u>2008</u>	<u>2007*</u>
CURRENT ASSETS			
Cash and cash equivalents	2a, 5	2,415,853	831,840
Restricted cash and cash equivalents - current portion	2a, 6	-	64,595
Available-for-sale investments	2f, 7	1,096,081	1,734,330
Trade receivables, net of allowance for doubtful accounts of Rp nil (2007: Rp nil)			
- Third parties	2d, 8	2,116,295	1,153,572
- Related parties	2d, 8, 38a	215,591	396,571
Other third party receivables		18,043	60,727
Advances and prepayments	9	567,508	83,638
Inventories, net of provision for obsolete stock of Rp nil (2007: Rp nil)	2e, 10	304,670	238,148
Prepaid taxes	2q, 37a	286,826	153,997
Recoverable taxes	2q, 37b	709,722	210,171
Deferred financing costs, net - current portion	2n, 12	36,243	16,269
Deferred expenses, net - current portion	2o	-	49,776
Other current assets		<u>89,967</u>	<u>4,038</u>
Total current assets		<u>7,856,799</u>	<u>4,997,672</u>
NON-CURRENT ASSETS			
Other related party receivables	2d, 38b	2,243	26,128
Fixed assets, net of accumulated depreciation of Rp 1,964,951 (2007: Rp 1,364,994)	2h, 2i, 13	5,924,184	3,558,698
Investments in associates	2f, 14	5,594	4,868
Mining properties, net of accumulated amortisation of Rp 255,349 (2007: Rp 46,593)	2b, 15	10,470,181	118,362
Goodwill, net of accumulated amortisation of Rp 425,632 (2007: Rp 36,684)	2b, 16	9,128,419	1,225,532
Deferred exploration and development expenditure, net of accumulated amortisation of Rp 304,223 (2007: Rp 258,857)	2j, 11	97,651	86,828
Loans to related parties	38c	-	4,498,016
Deferred financing costs, net - non-current portion	2n, 12	144,292	59,728
Deferred expenses, net - non-current portion	2o	5,370	12,590
Deferred tax assets	2q, 37e	43,824	36,823
Restricted cash and cash equivalents - non-current portion	2a, 6	11,036	11,236
Other non-current assets		<u>30,577</u>	<u>52,202</u>
Total non-current assets		<u>25,863,371</u>	<u>9,691,011</u>
TOTAL ASSETS		<u><u>33,720,170</u></u>	<u><u>14,688,683</u></u>

* As restated (refer to Note 4)

The accompanying notes form an integral part of these consolidated financial statements

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 1/2

**CONSOLIDATED BALANCE SHEETS
AS AT 31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, except for par value and share data)

	<u>Notes</u>	<u>2008</u>	<u>2007*</u>
CURRENT LIABILITIES			
Short-term borrowings:			
- Bank loans	19	876,000	447,045
- Other third party loans	20	-	191,677
Trade payables			
- Third parties	17	2,391,923	1,505,851
- Related parties	17, 38d	249,386	182,322
Taxes payable	2q, 37c	1,151,214	1,020,045
Accrued expenses	18	265,093	306,127
Current maturity of long-term borrowings:			
- Finance lease payables	2k, 22	334,810	125,728
- Bank loans	23	818,538	747,892
- Other third party loans	24	-	6,594
- Derivative liabilities	2s, 25	51,112	-
Other current liabilities		7,051	1,237
Royalties payable	21	<u>576,500</u>	<u>583,452</u>
Total current liabilities		<u>6,721,627</u>	<u>5,117,970</u>
NON-CURRENT LIABILITIES			
Amounts due to related parties	38e	6,339	8,765
Long-term borrowings, net of current maturities:			
- Finance lease payables	2k, 22	683,651	243,036
- Bank loans	23	8,325,942	5,535,428
- Other loans:			
- Third parties	24	-	23,753
- Related parties	38f	-	10,945
- Subordinated loan	26	-	94,190
- Derivative liabilities	2s, 25	157,633	-
Deferred tax liabilities	2q, 37f	3,144,306	473,922
Provision for employee benefits	2p	56,657	50,195
Accrued stripping costs	2m, 27	<u>596,391</u>	<u>421,522</u>
Total non-current liabilities		<u>12,970,919</u>	<u>6,861,756</u>
MINORITY INTEREST	2b, 28a	<u>18,379</u>	<u>558,403</u>
EQUITY			
Share capital - authorised 80,000,000,000 shares (2007: 80,000,000,000 shares) issued and fully paid 31,985,962,000 shares (2007: 20,624,780,000 shares) with par value of Rp 100 (2007: Rp 100) per share	29	3,198,596	2,062,478
Additional paid-in-capital	2v, 30	10,732,663	-
Exchange difference due to financial statement translation	2c	39,926	18,696
Difference in value from restructuring transactions of entities under common control	2w, 31	(191,843)	325,119
Difference from equity changes in subsidiaries and associates	32	4,188	-
Fair value reserve		(196,426)	2,946
Retained earnings/(accumulated losses)		<u>422,141</u>	<u>(258,685)</u>
Total equity		<u>14,009,245</u>	<u>2,150,554</u>
TOTAL LIABILITIES AND EQUITY		<u>33,720,170</u>	<u>14,688,683</u>

* As restated (refer to Note 4)

The accompanying notes form an integral part of these consolidated financial statements

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 2

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**
(Expressed in million Rupiah, except for basic earnings per share)

	<u>Notes</u>	<u>2008</u>	<u>2007*</u>
Revenue	2r, 34	18,092,502	11,592,640
Cost of revenue	2r, 35	<u>(13,149,270)</u>	<u>(9,089,223)</u>
Gross profit		4,943,232	2,503,417
Operating expenses			
Selling and marketing	2r, 36a	(528,316)	(173,173)
General and administration	2r, 36b	<u>(203,058)</u>	<u>(77,725)</u>
Total operating expenses		<u>(731,374)</u>	<u>(250,898)</u>
Operating income		<u>4,211,858</u>	<u>2,252,519</u>
Other income/(expenses)			
Interest expenses and finance charges		(616,310)	(1,725,928)
Interest income		47,933	610,722
Loss on disposal of fixed assets	2h, 13	(3,059)	(1,489)
Foreign exchange loss, net	2c	(455,357)	(167,799)
Share in net loss of associates	2f, 14	-	(20,541)
Gain from sales of subsidiaries		95,203	-
Gain on sale of available-for-sale investments	2f, 7	48,798	-
Amortisation of goodwill	2b, 16	(360,233)	(32,027)
Other (expenses)/income, net		<u>(44,129)</u>	<u>31,568</u>
		<u>(1,287,154)</u>	<u>(1,305,494)</u>
Profit before income tax		2,924,704	947,025
Income tax expense	2q, 37d	<u>(1,601,976)</u>	<u>(656,927)</u>
Profit from ordinary activity		1,322,728	290,098
Extraordinary item, net of tax	44	<u>(372,741)</u>	<u>-</u>
Profit before pre-acquisition income		949,987	290,098
Pre-acquisition income		<u>(126,390)</u>	<u>(38,048)</u>
Profit before minority interest		823,597	252,050
Minority interest in net loss/(income) of subsidiaries	2b, 28b	<u>63,601</u>	<u>(163,516)</u>
Net income		<u>887,198</u>	<u>88,534</u>
Basic earnings per share	2t, 39	<u>35</u>	<u>62</u>

* As restated (refer to Note 4)

The accompanying notes form an integral part of these consolidated financial statements

Schedule 3/1

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

	Share capital	Additional paid-in-capital	Exchange difference due to financial statement translation	Difference in value from restructuring transactions of entities under common control	Difference from equity changes in subsidiaries and associates	Fair value reserve	Retained earnings/ (accumulated losses)	Total
Balance at 1 January 2007	143,628	-	(22,596)	113,970	-	-	(38,448)	196,554
Adjustments related to the implementation of Statement of Financial Accounting Standards No. 38 (Revised 2004) in 2007 due to acquisition of PT Saptaindra Sejati ("SIS"), PT Alam Tri Abadi ("ATA") and PT Makmur Sejahtera Wisesa ("MSW")	-	-	-	259,833	-	-	(5,877)	253,956
Adjustment to retained earnings related to amendments of the Annual Tax Return for Corporate Income Tax for 2004, 2005 and 2006 of PT Adaro Indonesia ("Adaro")	-	-	9,161	(242,404)	-	-	(251,564)	(484,807)
Balance at 1 January 2007 - restated*	143,628	-	(13,435)	131,399	-	-	(295,889)	(34,297)
Net income for the year*	-	-	-	-	-	-	88,534	88,534
The Company's share of net income of entities under common control acquired prior to restructuring transactions (MSW, SIS and ATA)	-	-	-	61,541	-	-	(61,541)	-
Changes in equity of subsidiaries related to exchange difference due to financial statement translation	-	-	32,131	32,131	-	-	-	64,262
Changes in equity of subsidiaries related to difference in value from restructuring transactions of entities under common control due to disposal of PT Anugerah Bumiusantara Abadi ("ABA")	-	-	-	(3,365)	(1,831)	-	-	(5,196)
Changes in equity of subsidiaries related to unrealised gain from available-for-sale investments	-	-	-	3,131	-	2,946	-	6,077

As restated (refer to Note 4) *

The accompanying notes form an integral part of these consolidated financial statements

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

Schedule 3/2

	Share capital	Additional paid-in-capital	Exchange difference due to financial statement translation	Difference in value from restructuring transactions of entities under common control	Difference from equity changes in subsidiaries and associates	Fair value reserve	Retained earnings/ (accumulated losses)	Total
Deficit in changes in equity of subsidiaries and associates charged to retained earnings	-	-	-	-	1,831	-	(1,831)	-
Issuance of share capital	1,918,850	-	-	-	-	-	-	1,918,850
Adjustment to retained earnings related to recognition of income from investment in PT Indonesia Bulk Terminal which was not recognised previously using the cost method	-	-	-	12,042	-	-	12,042	24,084
Disposal of subsidiaries to entities under common control	-	-	-	107,467	-	-	-	107,467
Difference from equity changes in subsidiaries and associates	-	-	-	190,023	-	-	-	190,023
Payments to acquire entities under common control	-	-	-	(209,250)	-	-	-	(209,250)
Balance at 31 December 2007 - restated*	<u>2,062,478</u>	<u>-</u>	<u>18,696</u>	<u>325,119</u>	<u>-</u>	<u>2,946</u>	<u>(258,685)</u>	<u>2,150,554</u>
Net income for the year	-	-	-	-	-	-	887,198	887,198
The Company's share of net income of entities under common control acquired prior to restructuring transactions (MSW, SIS and ATA)	-	-	-	24,049	-	-	(24,049)	-
Adjustment to retained earnings related to recognition of income from investment in Adaro by MEC Indo Coal B.V. and net loss from additional interests in Arindo Holdings (Mauritius) Ltd and Rachmatla Investment Ltd	-	-	-	(6,702)	-	-	(184,154)	(190,856)
Issuance of share capital	1,136,118	10,732,663	-	-	-	-	-	11,868,781

As restated (refer to Note 4) *

The accompanying notes form an integral part of these consolidated financial statements

Schedule 3/3

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

	Share capital	Additional paid-in-capital	Exchange difference due to financial statement translation	Difference in value from restructuring transactions of entities under common control	Difference from equity changes in subsidiaries and associates	Fair value reserve	Retained earnings/ (accumulated losses)	Total
Reversal of difference in value from restructuring transactions of entities under common control due to loss of under common control status between transacting entities	-	-	-	(98,003)	-	-	-	(98,003)
Changes in equity of subsidiaries related to exchange difference due to financial statement translation	-	-	21,230	(4,747)	-	-	-	16,483
Changes in equity of subsidiaries related to unrealised gain from available-for-sale investments and unrealised loss from cash flow hedges	-	-	-	5,809	-	(199,372)	-	(193,563)
Difference from equity changes in subsidiaries and associates	-	-	-	12,454,326	6,019	-	-	12,460,345
Reversal of difference from equity changes in subsidiaries and associates which was previously charged to retained earnings	-	-	-	-	(1,831)	-	1,831	-
Payments to acquire entities under common control	-	-	-	(12,891,694)	-	-	-	(12,891,694)
Balance at 31 December 2008	3,198,596	10,732,663	39,926	(191,843)	4,188	(196,426)	422,141	14,009,245

The accompanying notes form an integral part of these consolidated financial statements

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 4

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

	<u>2008</u>	<u>2007*</u>
Cash flows from operating activities		
Receipts from customers	17,468,809	11,523,125
Payments to suppliers	(12,462,109)	(6,766,613)
Payments to employees	(458,178)	(305,958)
Receipts of interest income	46,309	684,316
Payments of royalties	(1,075,532)	(564,864)
Payments of income taxes	(1,625,751)	(671,208)
Payments of interest and finance charges	(606,757)	(908,094)
Other receipts	38,917	-
Net cash flows provided from operating activities before extraordinary item	1,325,708	2,990,704
Payments for demurrage	(647,326)	-
Net cash flows provided from operating activities	<u>678,382</u>	<u>2,990,704</u>
Cash flows from investing activities		
Purchase of fixed assets	(1,463,972)	(650,770)
Proceeds from disposal of fixed assets	6,250	12,743
Payments for addition of available-for-sale investments	-	(1,728,106)
Proceeds from redemption of available-for-sale investments	701,492	-
Payments of deferred expenses	-	(68,345)
Payments for addition of investments in associates	-	(82)
Loans to related parties	-	(3,187,880)
Receipts from repayment of loans to related parties	46,061	4,762,757
Net cash outflow from acquisition of subsidiaries	(10,299,789)	(749,005)
Net cash inflow from disposal of subsidiaries	20,000	163,769
Net cash flows used in investing activities	<u>(10,989,958)</u>	<u>(1,444,919)</u>
Cash flows from financing activities		
Receipts from related party loans	-	27,000
Repayments of related party loans	(473,412)	(60,219)
Receipts from third party loans	245,350	301,068
Repayments of third party loans	(447,564)	(499,182)
Receipts from bank loans	3,438,993	6,299,800
Repayments of bank loans	(3,007,249)	(5,056,064)
Payments of finance charges	(116,752)	(108,304)
Repayments of Notes	-	(3,654,400)
Payments of obligations under finance leases	(200,763)	(122,365)
Receipts from issuance of new shares, net of share issuance cost	12,253,265	1,920,050
Payments of finance charges on early settlement of Notes	-	(548,211)
Payments for security deposits	-	(174)
Net cash flows provided from/(used in) financing activities	<u>11,691,868</u>	<u>(1,501,001)</u>
Net increase in cash and cash equivalents	<u>1,380,292</u>	<u>44,784</u>
Cash and cash equivalents at the beginning of the year	831,840	758,453
Effect of exchange rate changes on cash and cash equivalents	<u>203,721</u>	<u>28,603</u>
Cash and cash equivalents at the end of the year (refer to Note 5)	<u><u>2,415,853</u></u>	<u><u>831,840</u></u>
Non-cash activities:		
Acquisition of assets under finance leases	722,255	263,542
Acquisition of subsidiary through issuance of new shares	22,185	-

* As restated (refer to Note 4)

The accompanying notes form an integral part of these consolidated financial statements

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 5/1

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

1. GENERAL

a. Establishment of the Company and other information

PT Padang Karunia (the "Company") was established by Notarial Deed of Sukawaty Sumadi, S.H., Notary in Jakarta, No. 25, dated 28 July 2004. The Deed was published in the 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 amendment was made to the Articles of Association of the Company based on Notarial Deed of Robert Purba, S.H., Notary in Jakarta, No. 62, dated 18 April 2008, in relation to approval to change the Company's name from PT Padang Karunia to PT Adaro Energy, to change the Company's status from private to public company, to issue 11,726,230,000 shares, at a maximum, to be offered to the public through an Initial Public Offering ("IPO"), to change the composition of the Company's Boards of Commissioners and Directors, and to amend the Company's Articles of Association to conform with the requirements of Indonesian Limited Company Law No.40/2007. The amendment of the Articles of Association was approved by the Minister of Law and Human Rights of the Republic of Indonesia in Decree No. AHU-20330.AH.01.02.Tahun 2008 dated 23 April 2008 and No. AHU-21258.AH.01.02.Tahun 2008 dated 25 April 2008.

The latest amendment was made to the Articles of Association of the Company based on Notarial No. 65 dated 31 October 2008 of Humbert Lie, S.H., S.E., M.Kn., to conform with the requirements of the Regulations of the Capital Market and Financial Institution Supervisory Board 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 Company.

In July 2008, the Company conducted an IPO of 11,139,331,000 shares or 34.8% of 31,985,962,000 shares issued and fully paid. The shares offered to the public in the IPO were listed on the Indonesia Stock Exchange on 16 July 2008. The Company used the proceeds from the IPO to (1) increase the Company's investment in ATA, whereby ATA would use the fund to buy 100% of shares, directly or indirectly, in Ariane Investments Mezzanine Pte Ltd ("AIM"), Agalia Energy Investments Pte Ltd ("Agalia") and Ariane Capital Singapore Pte Ltd ("Ariane Capital") and to pay off a portion of the syndicated loan of Adaro and Coaltrade Services International Pte Ltd ("Coaltrade"); (2) purchase shares in ATA owned by PT Persada Capital Investama ("PCI") and PT Saratoga Investama Sedaya ("SRIS"); (3) purchase shares in SIS owned by PCI, SRIS and PT Cipta Sejahtera Persada ("CSP"); and (4) increase the investment in SIS, whereby the fund would be used to fund capital expenditure and working capital of SIS.

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 service.

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 Blok X-5, Kav. 1-2, South Jakarta.

The Company's Boards of Commissioners and Directors were as follows:

2008

President Commissioner	:	Edwin Soeryadjaya
Vice President Commissioner	:	Theodore Permadi Rachmat
Commissioners	:	Ir. Subianto
		Lim Soon Huat
Independent Commissioners	:	Djoko Suyanto
		Ir. Palgunadi Tatit Setyawan
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

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 5/2

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

1. GENERAL (continued)

a. Establishment of the Company and other information (continued)

2007

President Commissioner	:	Edwin Soeryadjaya
Commissioners	:	Theodore Permadi Rachmat Ir. Subianto
President Director	:	Garibaldi Thohir
Directors	:	Christian Ariano Rachmat Sandiaga Salahuddin Uno Andre Johannes Mamuaya

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.

The Boards of Commissioners and Directors of the Company and its subsidiaries (collectively hereinafter referred to as the "Group") received remuneration amounting to Rp 28,041 for the year ended 31 December 2008 (2007: Rp 14,500).

As at 31 December 2008, the Group had 4,229 employees (2007: 3,269 employees) (unaudited).

b. Subsidiaries

The Company has direct and indirect ownerships in the following subsidiaries:

Subsidiaries	Business activity	Domicile	Commencement of commercial operations	Year of acquisition	Percentage of ownership (%)		Total assets (in million Rupiah, before elimination)	
					2008	2007	2008	2007
Direct								
PT Alam Tri Abadi ("ATA") ^{a)}	Trading and service	Indonesia	2007	2005	100%	50%	29,043,949	11,767,296
PT Saptaindra Sejati ("SIS") ^{a)}	Mining services	Indonesia	2002	2005	86%	72%	4,390,190	2,964,865
PT Makmur Sejahtera Wisesa ("MSW")	Trading and power plant service	Indonesia	-	2005	100%	45%	371,268	43,501
Indirect								
PT Satya Mandiri Persada ("SMP")	Service	Indonesia	2006	2006	86%	72%	52,660	52,794
PT Adaro Indonesia ("Adaro") ^{a)}	Mining	Indonesia	1992	2005	100%	33%	14,072,445	10,487,595
PT Dianlia Setyamukti ("Dianlia")	Mining services	Indonesia	1995	2005	100%	50%	126,741	131,238
Revere Group Ltd ("Revere") ^{b)}	Investment	British Virgin Islands	-	2006	-	50%	-	108,591
Decimal Investments Ltd ("Decimal") ^{b)}	Investment	British Virgin Islands	-	2006	-	50%	-	113,533
PT Jasapower Indonesia ("JPI")	Trading	Indonesia	-	2007	100%	50%	1,096,884	1,510,735
Adaro Finance B.V. ("Adaro Finance")	Service	Netherlands	2005	2005	100%	33%	12,914	13,437
Saluno Investments Pte Ltd ("SI") ^{b)}	Investment	Singapore	-	2006	-	50%	-	108,591
Rachsing Holdings Pte Ltd ("RH") ^{b)}	Investment	Singapore	-	2006	-	50%	-	108,591

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, 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 million Rupiah, before elimination)	
					2008	2007	2008	2007
PT Biscayne Investments ("Biscayne") ^{a)}	Investment	Indonesia	-	2006	100%	32%	940,681	814,832
PT Indonesia Bulk Terminal ("IBT")	Coal handling	Indonesia	1997	2006	100%	34%	1,934,580	1,658,782
Rach (Mauritius) Ltd ("Rach (M)")	Investment	Mauritius	-	2006	100%	50%	170	-
Rachpore Investments Pte Ltd ("Rachpore") ^{a)}	Investment	Singapore	-	2006	100%	50%	244,821	4,942
Arindo Holdings (Mauritius) Ltd ("Arindo Holdings") ^{a)}	Investment	Mauritius	-	2006	100%	16%	4,942,990	4,397,386
Vindoor Investments (Mauritius) Ltd ("Vindoor") ^{a)}	Investment	Mauritius	-	2006	100%	16%	2,557,009	2,302,441
Coaltrade Services International Pte Ltd ("Coaltrade")	Coal trading	Singapore	2001	2006	100%	16%	2,556,820	2,302,264
Arindo Global (Netherlands) B.V. ("Arindo Global")	Service	Netherlands	-	2006	67%	17%	14,488	10,177
PT Viscaya Investments ("Viscaya") ^{a)}	Investment	Indonesia	-	2008	100%	-	2,070,832	-
Ariane Investments Pty Ltd ^{a)}	Investment	Australia	-	2008	100%	-	45,865	-
Indonesia Coal Pty Ltd	Investment	Australia	-	2008	100%	-	45,865	-
Rachmalta Investment Ltd ("Rachmalta")	Investment	Malta	-	2006	100%	25%	74,014	109,547
MEC Indo Coal B.V. ("MEC")	Investment	Netherlands	-	2006	100%	25%	73,766	109,547
PT Sarana Daya Mandiri ("SDM")	Service	Indonesia	2009	2008	51%	-	460,225	-
Ariane Investments Mezzanine Pte Ltd ("AIM") ^{b)}	Investment	Singapore	-	2008	-	-	-	-
Ariane Capital Singapore Pte Ltd (dahulu/ formerly Kerry Coal (Singapore) Pte Ltd) ("Ariane Capital") ^{b)}	Investment	Singapore	-	2008	-	-	-	-
Agalia Energy Investment Pte Ltd ("Agalia") ^{b)}	Investment	Singapore	-	2008	-	-	-	-

^{a)} and subsidiaries

^{b)} liquidated and investments in Biscayne, Viscaya, Rach (M), Rachpore, Arindo Holdings and Arindo Global of 100%, 100%, 100%, 100%, 0.3% and 67%, respectively, were transferred to ATA. Hence, there were no changes in the Group's ownership in Adaro, IBT and Coaltrade.

Revere, Decimal, SI, RH, AIM, Ariane Capital and Agalia were liquidated in October 2008.

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 5/4

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

1. GENERAL (continued)

c. Coal Cooperation Agreement

Adaro's activities are governed by the Coal Cooperation Agreement ("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 of 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 represented by the Minister of Mines and Energy, effective from 1 July 1997.

Under the terms of the CCA, Adaro acts as a contractor for the Government which is responsible for coal mining operations in an area located in South Kalimantan. Commencing on 1 July 1999, Adaro adopted the sales-based cash royalty method in accordance with government regulations to satisfy the Government's production entitlement.

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. Adaro's sales reflect 100% of the revenue generated from coal production and the government royalty expense is recorded as a 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) for the construction, development and operation of a Public Coal Port in Pulau Laut, South Kalimantan. On 10 November 1994, IBT and PT (Persero) Pelabuhan Indonesia III amended the Basic Agreement to become a Cooperation Agreement. Under the terms of the Cooperation Agreement, IBT commenced its 30-year operating period on 21 August 1997.

Pursuant to the Cooperation Agreement, IBT has an obligation to pay royalties to PT (Persero) Pelabuhan Indonesia III based on a certain percentage of revenue from coal bulk terminal management services. As at 31 December 2008, the rate charged to IBT was 4% (2007: 4%).

e. Coal reserves

Based on the report from Terence Willstead & Associates dated 13 March 2009, the coal reserves of Adaro as at 31 December 2008, were as follows (in million tonnes - unaudited):

<u>Coal reserves</u>	<u>Proven reserves</u>	<u>Probable reserves</u>	<u>Total</u>
Tutupan	432	156	588
Wara 1	198	84	282
	<u>630</u>	<u>240</u>	<u>870</u>

f. Exploitation/development area

Name of Location	Exploration Licence Acquisition Date	Due Date	Total Exploration Expenditure (US\$)	Total Proven Reserves (Tonnes)	Total Production (Tonnes)	
					Current Year	Accumulated Total Production*
Paringin	PKP2B - 16 November 1982	1 October 2022	24,202,386	-	38,482,461	289,528,834
Wara			4,795,349	198,000,000		
Tutupan			7,703,097	432,000,000		
Total			36,700,832	630,000,000		

* 1991 - 2008

Adaro does not have any new exploration areas.

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 5/5

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Group's consolidated financial statements were prepared and finalised by the Board of Directors on 16 March 2009.

Presented below are the significant accounting policies adopted in preparing the consolidated financial statements of the Group, which are in conformity with accounting principles generally accepted in Indonesia. The consolidated financial statements are also prepared in conformity with the Regulations of the Capital Market and Financial Institution Supervisory Board (Bapepam & LK) No. VIII.G.7 for Guidance on Financial Statement 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 financial instruments, which are carried at fair value.

The consolidated statement of cash flows have been prepared based on the direct method by classifying the cash flows on the basis of operating, investing and financing activities. For the purpose of the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, cash in banks and short-term investments with a maturity of three months or less, net of overdrafts.

Figures in the consolidated financial statements are expressed in million Rupiah, unless otherwise stated.

b. Principles of consolidation

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company directly or indirectly has ownership of more than 50% of voting rights, or if equal to or less than 50%, the Company has the ability to control the subsidiaries. The subsidiaries are consolidated from the date on which effective control is transferred to the Company and are no longer consolidated from the date of disposal.

The effect of all transactions and balances between companies in the Group has been eliminated in preparing the consolidated financial statements.

The accounting policies adopted in preparing the consolidated financial statements have been consistently applied by the subsidiaries unless otherwise stated.

The accounts of the foreign operations that are integral to the Company are translated as if the foreign operations' transactions were the Company's own transactions.

Exchange differences arising from a monetary item that, in substance, forms part of the Group's net investment in a foreign entity is classified as equity in the Group's consolidated financial statements until the disposal of the net investment, at which time an exchange difference is recognised as income or expense.

The exchange rates of United States Dollars ("US Dollars") to Rupiah (Rupiah full amount) used in respect of the consolidation process of domestic and foreign subsidiaries which are not integral to the Company's operations for 31 December 2008 and 2007 were as follows:

	Exchange rates at the balance sheet date		Average exchange rates	
	2008	2007	2008	2007
US Dollars 1/Rupiah	10,950	9,419	9,680	9,136

The proportionate share of minority shareholders in the net assets of subsidiaries is presented as "minority interest" in the consolidated balance sheet.

Minority interest is not recognised in respect of subsidiaries with a deficit in equity, unless the minority shareholders have a contractual obligation to fund the deficit.

The proportionate share of minority shareholders in net income/(loss) prior to acquisition is recorded as pre-acquisition (income)/loss in the consolidated statement of income.

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. Goodwill is 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 inherent factors to acquired companies.

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 5/6

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of consolidation (continued)

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 reserves. Changes in estimated reserves are accounted for on a prospective basis, from the beginning of the period in which the change occurs.

c. Foreign currency translation

Transactions denominated in currencies other than Rupiah are converted into Rupiah at the exchange rate prevailing at the date of the transaction. At the balance sheet date, monetary assets and liabilities in currencies other than Rupiah are translated at the exchange rate prevailing at the balance sheet date. Exchange gains and losses arising from the translation of monetary assets and liabilities in currencies other than Rupiah are recognised in the consolidated statement of income. As at the balance sheet date, the exchange rates used, based on middle rates published by Bank Indonesia, were as follows (Rupiah full amount):

	<u>2008</u>	<u>2007</u>
US Dollars ("US\$")	10,950	9,419
Great Britain Pound Sterling ("£")	15,803	18,804
Hong Kong Dollars ("HK\$")	1,413	1,208
Malaysian Ringgit ("RM")	3,153	2,828
Singapore Dollars ("S\$")	7,607	6,502
Australian Dollars ("A\$")	7,556	8,229
Euro ("€")	15,432	13,760
Japanese Yen ("¥")	121	83

d. Receivables

Receivables are presented at their estimated recoverable value, based on management's review of the status of each receivable account at the balance sheet date. Receivables are written-off during the period in which they are determined to be not collectible.

e. Inventories

Coal inventory is valued at the lower of cost or net realisable value. Cost is determined based on the weighted average cost incurred during the period 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 a first-in, first-out basis, less provision for obsolete items. 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.

f. Investments in debt and equity securities

Investments in equity securities that do not have readily determinable fair values are recorded using either the equity method or the cost method.

Investments in equity securities in which the Group has between 20% and 50% of the voting rights and over which the Group exercises significant influence, but which it does not control, are accounted for by the equity method. Investments in equity securities in which the Group has less than 20% of the voting rights and over which the Group exercises no significant influence, are accounted for by the cost method.

Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the Group's share of the profits or losses of the investee after the date of acquisition. Profit distributions (except stock dividends) received from the investee reduce the carrying amount of the investment. Under the cost method, the Group records its investments in investees at cost. The Group recognises income only to the extent that it receives profit distributions (except stock dividends) from the accumulated net profits of the investee.

For investments in debt and equity securities that have readily determinable fair values, the Group classifies its investments in securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments are acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates the designation on a regular basis. Investments that are acquired principally for the purpose of generating a gain from short-term (maximum of three months) fluctuations in price are classified as trading investments and included in current assets.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Investments in debt and equity securities (continued)

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets. Held-to-maturity investments are carried at amortised cost using the effective yield method. Investments not classified as either held-to-maturity or trading securities are classified as available-for-sale, and are included in non-current assets unless management has expressed an intention to hold the investment for less than 12 months from the balance sheet date or unless they need to be sold to raise operating capital, in which case they are included in current assets.

Realised and unrealised gains and losses arising from changes in the fair value of trading investments are recognised in the consolidated statement of income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated statement of income as gains and losses from investment securities.

The costs of securities sold are determined on the basis of the weighted average method.

g. Impairment of investment in equity and debt securities

At the balance sheet date, the Group undertakes a review to determine whether there is any indication of impairment of investments in equity and debt securities. Provision is only made when there has been a significant reduction or a permanent decline in the value of the investment.

h. Fixed assets and depreciation

Fixed assets, except land, are stated at cost of acquisition less accumulated depreciation.

Fixed assets, except the land and fixed assets of Adaro, are depreciated to their estimated residual value using the straight-line method over their expected useful lives as follows:

	<u>Years</u>
Buildings	20
Infrastructure	20 - 30
Operational equipment	8 - 10
Project equipment	4
Mining equipment	4
Vehicles	4
Office equipment	4 - 5

The fixed assets of Adaro are depreciated using the straight-line method to their estimated residual value, 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:

	<u>Years</u>
Buildings	10 - 21
Machinery, operational equipment and vehicles	3 - 20
Office equipment	10
Crushing and handling facilities	10 - 30
Roads and bridges	17 - 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 statement of income during the financial period in which they are incurred.

For assets which are no longer utilised or sold or surrendered to the Government, the carrying amount and its accumulated depreciation are eliminated from the consolidated financial statements, and the resulting gains and losses on the disposal of fixed assets are recognised in the consolidated statement of income.

The accumulated costs of the construction of buildings and plant and the installation of machinery are capitalised as construction in progress. These costs are reclassified to fixed asset accounts when the construction or installation is completed. Depreciation is charged from that date.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Fixed assets and depreciation (continued)

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.

i. Impairment of long-lived assets

At the balance sheet date, the Group undertakes a review to determine whether there is any indication of asset impairment.

Fixed assets and other non-current assets are reviewed for impairment losses 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 carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price or value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Reversal of impairment is recorded as income in the period when the reversal occurs.

j. Deferred exploration and development expenditure

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.

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.

Mine development expenditure and incorporated costs in developing an area of interest prior to commencement of operations in the respective area, as long as they meet the criteria for deferral, are capitalised.

Deferred exploration and development expenditure represents the accumulated costs relating to general investigation, administration and licences, geology and geophysics expenditure and costs incurred to develop a mine before the commencement of commercial productions.

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.

k. Finance lease

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 are charged to the consolidated income statement 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 and 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 finance balance outstanding. The interest element of the finance cost is charged to the consolidated statement 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 asset. 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Environmental obligations

Restoration, rehabilitation and environmental expenditures incurred during the production phase are charged to cost of revenue as incurred.

Provision for decommissioning, demobilisation and restoration provides for the legal obligations associated with the retirement of a tangible long-lived asset that results from the acquisition, construction or development and/or the normal operation of a long-lived asset. The retirement of a long-lived asset 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 measurement of the obligation at fair value. These obligations are accreted to full value over time through charges to the consolidated statement of income. In addition, 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. A liability for asset retirement obligation is incurred over more than one reporting period when the events that create the obligation occur over more than one reporting period. For example, if a facility is permanently closed but the closure plan is developed over more than one reporting period, the cost of the closure of the facility is incurred over those reporting periods when the closure plan is finalised. Any incremental liability incurred in a subsequent reporting period is considered to be an additional layer of the original liability. Each layer is initially measured at fair value. A separate layer shall be measured, recognised and accounted for prospectively. The obligations consist primarily of costs associated with mine reclamation, decommissioning and demobilisation of facilities and other closure activities.

For environmental issues that may not involve the retirement of an asset, where the Group is a responsible party and it is determined that a liability exists, and amounts can be quantified, the Group accrues for the estimated liability. In determining whether a liability exists in respect of such environmental issues, the Group applies the criteria for liability recognition under the applicable accounting standards.

m. 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 of the Group. If the actual stripping ratio exceeds the planned ratio, the excess stripping costs are recorded in the consolidated balance sheet 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 balance sheets as accrued stripping costs. Changes in the planned stripping ratio are considered as changes in estimates and are accounted for on a prospective basis.

n. Deferred financing costs

Costs incurred to obtain financing are deferred and are amortised as an adjustment to finance charges on a straight-line basis over the terms of the related financing agreements. Commitment fees incurred subsequent to obtain the financing are recorded as finance charges.

o. Deferred expenses

Expenditures which are considered as providing benefits in future periods are recorded as deferred expenses and recognised as expenses during the periods in which the benefit is realised.

p. Provision for employee benefits

(i) Post-retirement benefit obligations

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or 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 set the formula for determining the minimum amount of benefits, in substance pension plans under the Labour Law or the CLA represent defined benefit plans.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Provision for employee benefits (continued)

(i) Post-retirement benefit obligations (continued)

The liabilities recognised in the consolidated balance sheets in respect of the defined benefit pension plan are the present value of the defined benefit obligation at the balance sheet 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 determined based on the periodic calculation of 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 benefit will be paid, and that have terms of maturity approximating the terms of the related pension liabilities.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to the pension plan, when exceeding 10% of the defined benefit or 10% of the fair value of the programme's assets, are charged or credited to the consolidated statement of income over the average remaining service lives of the related employees.

(ii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date. The Group recognises the termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan with a low possibility of withdrawal.

q. Taxation

Deferred income tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The tax rate used to calculate the deferred income tax by the Company and its subsidiaries, except for Adaro, is the current or substantially enacted tax rate. The tax rate used by Adaro is, according to CCA, 35% for the first 10 years from the date of the agreement and 45% for the subsequent years.

Deferred tax assets relating to future tax benefits and the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the future tax benefits and unused tax losses can be utilised.

Amendments to taxation obligations are recorded when an assessment is received or, if appealed against, when the results of the appeal are determined.

r. Revenue and expense recognition

Revenue represents revenue earned from the sale of the Group's products and services, net of returns, trade allowances, duties and Value Added Tax ("VAT").

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 should be recognised by reference to the stage of completion of the transaction at the balance sheet 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 balance sheet date can be measured reliably; and
- the costs incurred for the transaction, and the costs to complete the transaction, can be measured reliably.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. The Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability or of an unrecognised firm commitment (fair value hedge); or (2) a hedge of a forecasted transaction (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective are recorded in the consolidated statement of income, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

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 committed or forecasted transaction is ultimately recognised in the consolidated statement of income. When a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective, are recognised in equity, in the fair value reserve account. Amounts deferred in equity are subsequently released to the consolidated statement of income and classified as revenue or expense in the periods during which the hedged forecasted transaction affects the consolidated statement of income.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated statement of income.

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast 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.

t. Earnings per share

Basic earnings per share is computed by dividing net income by the weighted-average number of ordinary shares outstanding during the period or the year.

Diluted earnings per share is computed by dividing net income adjusted for the interest expense and the foreign exchange gains or losses on convertible bonds, and its related tax effects, by the weighted-average number of issued and fully paid shares during the period, assuming that all options have been exercised and all the convertible bonds have been converted.

u. Segment reporting

A business segment is a distinguishable component in providing a product or service which is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group segments its financial reporting as follows:

- (i) business segments (primary), where the Group's business activities are classified into coal mining and trading, mining services and others (power plant services and building management); and
- (ii) geographical segments (secondary) in which sales are classified based on target market areas.

v. Share issuance costs

Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

w. 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-interests 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 financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Difference in value from restructuring transactions of entities under common control (continued)

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, equity or other ownership instruments that caused the difference from restructuring transactions of entities under common 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), then 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), then the balance is recognised as realised gain or loss.

x. 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.

y. Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted 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. Although these estimates are based on management's best knowledge of current events and activities, actual results could differ from those estimates.

3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

a. Acquisition of PT Saptaindra Sejati

On 17 December 2007, SIS increased its issued and paid in capital through the issuance of new shares. The Company acquired all 209,250 shares issued at par value of Rp 1,000,000 (full amount) per share, and the Company's interest in SIS increased from 28.57% to 71.78%.

The restructuring transaction of 17 December 2007 was accounted for using the pooling-of-interests method as required under the Statement of Financial Accounting Standards No. 38 (Revised 2004), "Accounting for Restructuring of Entities under Common Control" ("SFAS No. 38 (Revised 2004)"), since the Company and SIS are entities under common control. Details of the book value of net assets acquired and the difference arising from this restructuring transaction of entities under common control are as follows:

	<u>2007</u>
Purchase consideration through cash payment	209,250
Book value of net assets acquired	<u>(272,235)</u>
Difference in value from restructuring transactions of entities under common control	<u>(62,985)</u>

On 31 March 2008, SIS increased its issued and paid in capital through the issuance of 56,679 new shares for the conversion of all convertible bonds issued to Joyce Corner International Ltd ("Joyce"), and the difference between the converted bonds and par value was recorded as additional paid-in capital. As a result of this new share issue, the Company's interest in SIS decreased from 71.78% to 61.68%.

On 3 April 2008, the Company increased its ownership in SIS through the acquisition of the shares of PCI, SRIS and CSP, amounting to 39,036 shares, 39,035 shares and 19,517 shares, respectively, with the total acquisition amount of Rp 158,776. From these transactions, the Company's interest in SIS increased from 61.68% to 85.92%.

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

a. Acquisition of PT Saptaindra Sejati (continued)

The restructuring transactions on 3 April 2008 between the Company, PCI and SRIS, were accounted for using the pooling-of-interests method as required under SFAS No. 38 (Revised 2004), since the Company, PCI and SRIS are entities under common control. The details of the book value of the net assets acquired and the difference arising from the restructuring transaction of entities under common control are as follows:

	<u>2008</u>
Purchase consideration through cash payment	127,022
Book value of net assets acquired	<u>(115,407)</u>
Difference in value from restructuring transactions of entities under common control	<u>11,615</u>

The details of net assets acquired from the transaction with CSP and the adjustment to fixed assets acquired are as follows:

	<u>2008</u>
Purchase consideration through cash payment	31,754
Book value of net assets acquired	(28,850)
Adjustment to fixed assets	<u>(2,904)</u>
Goodwill	<u>=</u>

b. Acquisition of PT Alam Tri Abadi

On 3 January 2008, ATA increased its issued and paid in capital through the issuance of 1,500,000 new shares with a par value of Rp 1,000,000 (full amount) per share. The Company acquired all the new shares issued, and the Company's interest in ATA increased from 49.99% to 92.02%.

The restructuring transaction of 3 January 2008 was accounted for using the pooling-of-interests method as required under SFAS No. 38 (Revised 2004), since the Company and ATA are entities under common control. Details of the book value of net assets acquired and the difference arising from this restructuring transaction of entities under common control are as follows:

	<u>2008</u>
Purchase consideration through cash payment	1,500,000
Book value of net assets acquired	<u>(1,462,282)</u>
Difference in value from restructuring transactions of entities under common control	<u>37,718</u>

On 15 July 2008, ATA increased its issued and paid in capital through the issuance of 10,863,438 new shares with a par value of Rp 1,000,000 (full amount) per share. The Company acquired all the new shares issued for Rp 10,863,438, and the Company's interest in ATA increased from 92.02% to 98.87%.

The restructuring transaction of 15 July 2008 was accounted for using the pooling-of-interests method as required under SFAS No. 38 (Revised 2004), since the Company and ATA are entities under common control. The details of the book value of net assets acquired and the difference arising from this restructuring transaction of entities under common control are as follows:

	<u>2008</u>
Purchase consideration through cash payment	10,863,438
Book value of net assets acquired	<u>(10,872,310)</u>
Difference in value from restructuring transactions of entities under common control	<u>(8,872)</u>

On 15 July 2008, the Company increased its ownership in ATA through the acquisition of the shares of SRIS and PCI in ATA, amounting to 94,951 shares and 47,477 shares, respectively, with a total acquisition amount of Rp 356,000. Through these transactions, the Company's interest in ATA increased from 98.87% to 100.00%.

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

b. Acquisition of PT Alam Tri Abadi (continued)

The restructuring transaction of 15 July 2008 was accounted for using the pooling-of-interests method as required under SFAS No. 38 (Revised 2004), since the Company and ATA are entities under common control. The details of the book value of net assets acquired and the difference arising from this restructuring transaction of entities under common control are as follows:

	<u>2008</u>
Purchase consideration through cash payment	356,000
Book value of net assets acquired	<u>(143,886)</u>
Difference in value from restructuring transactions of entities under common control	<u>212,114</u>

c. Acquisition of PT Makmur Sejahtera Wisesa

On 15 January 2008, MSW increased its issued and paid in capital through the issuance of 887,405 new shares with a par value of Rp 50,000 (full amount) per share. The Company acquired 443,703 of the new shares issued amounting to Rp 22,185, and the Company's interest in MSW increased from 45.00% to 49.80%.

On 24 January 2008, the Company acquired an additional 49.80% interest in MSW through purchases from PT Saratoga Sentra Business ("SSB") and PCI, each of 24.90% for Rp 11,524.50, and the Company's interest in MSW increased from 49.80% to 99.60%. For this acquisition, the Company paid Rp 864 in cash and issued new shares in the Company amounting to Rp 22,185.

The restructuring transactions of January 2008 were accounted for using the pooling-of-interests method as required under SFAS No. 38 (Revised 2004), since the Company, SSB and PCI are entities under common control. The details of the book value of the net assets acquired and the difference arising from restructuring transaction of entities under common control are as follows:

	<u>2008</u>
Purchase consideration through cash payment	23,049
Purchase consideration through exchange of the Company's new shares	<u>22,185</u>
	45,234
Book value of net assets acquired	<u>(43,193)</u>
Difference in value from restructuring transactions of entities under common control	<u>2,041</u>
Difference in value from restructuring transactions of entities under common control - 2005	212
Difference in value from restructuring transactions of entities under common control - 2008	<u>2,041</u>
Difference in value from restructuring transactions of entities under common control	<u>2,253</u>

On 26 September 2008, MSW increased its issued and paid in capital through the issuance of 3,496,000 new shares with a par value of Rp 50,000 (full amount) per share. The Company acquired all the new shares issued, and the Company's interest in MSW increased from 99.60% to 99.91%. The details of the net assets acquired and goodwill are as follows:

	<u>2008</u>
Purchase consideration through cash payment	174,800
Net assets acquired	<u>(174,782)</u>
Goodwill	<u>18</u>

On 23 December 2008, MSW increased its issued and paid in capital through the issuance of 437,535 new shares with a par value of Rp 50,000 (full amount) per share. The Company acquired 437,535 of the new shares issued amounting to Rp 21,877, and the Company's interest in MSW increased from 99.91% to 99.92%.

	<u>2008</u>
Purchase consideration through cash payment	21,877
Net assets acquired	<u>(21,877)</u>
Goodwill	<u>-</u>

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

d. Disposal of PT Padang Anugerah

On 28 February 2007, the Company disposed of all of its 90% interest in PT Padang Anugerah ("PA") for Rp 1,125 to PT Bumi Alam Sejahtera ("BAS") and PT Anugerah Kasih ("AK"). This disposal was accounted for as required under SFAS No. 38 (Revised 2004), since the Company, BAS and AK are entities under common control.

	<u>2007</u>
Cash and cash equivalents	1
Amounts due from related parties	<u>1,231</u>
Net assets	1,232
Interest disposed of	<u>90%</u>
Net assets disposed of	1,109
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control	<u>16</u>
Cash received from disposal of subsidiary	1,125
Cash and cash equivalents in PA	<u>(1)</u>
Net cash inflow from disposal of subsidiary	<u><u>1,124</u></u>

e. Disposal of PT Padang Sejahtera

On 28 February 2007, the Company disposed of all of its interest in PT Padang Sejahtera ("PS") of 67% to BAS for Rp 838. This disposal was accounted for as required under SFAS No. 38 (Revised 2004), since the Company and BAS are entities under common control.

	<u>2007</u>
Cash and cash equivalents	2
Amounts due from related parties	<u>1,203</u>
Net assets	1,205
Interest disposed of	<u>67%</u>
Net assets disposed of	807
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control	<u>31</u>
Cash received from disposal of subsidiary	838
Cash and cash equivalents in PS	<u>(2)</u>
Net cash inflow from disposal of subsidiary	<u><u>836</u></u>

f. Disposal of PT Padang Berkat

On 28 February 2007, the Company disposed of all of its 90% interest in PT Padang Berkat ("PB") to BAS and AK for Rp 1,125. This disposal was accounted for as required under SFAS No. 38 (Revised 2004), since the Company, BAS and AK are entities under common control.

	<u>2007</u>
Cash and cash equivalents	2
Amounts due from related parties	<u>1,230</u>
Net assets	1,232
Interest disposed of	<u>90%</u>
Net assets disposed of	1,109
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control	<u>16</u>
Cash received from disposal of subsidiary	1,125
Cash and cash equivalents in PB	<u>(2)</u>
Net cash inflow from disposal of subsidiary	<u><u>1,123</u></u>

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

g. Disposal of PT Padang Mulia

On 28 February 2007, the Company disposed of all of its 90% interest in PT Padang Mulia ("PM") to BAS and AK for Rp 1,125. This disposal was accounted for as required under PSAK No. 38 (Revised 2004), since the Company, BAS and AK are entities under common control.

	<u>2007</u>
Cash and cash equivalents	11
Prepayments	46
Amounts due from related parties	625
Fixed assets, net	69
Deferred expenses, net	8,525
Trade payables	(1,515)
Taxes payable	(254)
Amounts due to related parties	<u>(6,736)</u>
Net assets	771
Interest disposed of	<u>90%</u>
Net assets disposed of	694
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control	1,272
- Adjustment to the net assets of the subsidiary eliminated previously in the consolidation process	<u>(841)</u>
Cash received from disposal of subsidiary	1,125
Cash and cash equivalents in PM	<u>(11)</u>
Net cash inflow from disposal of subsidiary	<u><u>1,114</u></u>

h. Disposal of PT Talenta Bumi

On 23 February 2007, the Company disposed of all of its 70% interest in PT Talenta Bumi ("TB") to BAS and AK for Rp 175. This disposal was accounted for as required under SFAS No. 38 (Revised 2004), since the Company, BAS and AK are entities under common control.

	<u>2007</u>
Net liabilities disposed of	(49,189)
Adjustment to net liabilities disposed of:	
- Difference in value from restructuring transactions of entities under common control	56,367
- Adjustment to the net assets of the subsidiary eliminated previously in the consolidation process	<u>(7,003)</u>
Cash received from disposal of subsidiary	175
Cash and cash equivalents in TB	<u>(92)</u>
Net cash inflow from disposal of subsidiary	<u><u>83</u></u>

i. Disposal of PT Anugerah Kasih

On 23 February 2007, the Company disposed of all of its interest in AK to Theodore Permadi Rachmat and Garibaldi Thohir (the "Buyers") for Rp 990. The disposal was accounted for as required under SFAS No. 38 (Revised 2004), since the Buyers are controlling parties of the Company.

	<u>2007</u>
Cash and cash equivalents	-
Amounts due from related parties	<u>1,000</u>
Net assets	1,000
Interest disposed of	<u>99%</u>
Net assets disposed of	990

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

i. Disposal of PT Anugerah Kasih (continued)

	<u>2007</u>
Net assets disposed of	990
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control - at acquisition	4,038
- Difference in value from restructuring transactions of entities under common control - at disposal	<u>(4,038)</u>
Cash received from disposal of subsidiary	990
Cash and cash equivalents in AK	<u>-</u>
Net cash inflow from disposal of subsidiary	<u><u>990</u></u>

j. Disposal and acquisition of PT Karunia Barito Sejahtera

On 28 February 2007, the Company disposed of all of its interest in PT Karunia Barito Sejahtera ("KBS") to BAS and AK for Rp 248. This disposal was accounted for as required under SFAS No. 38 (Revised 2004), since the Company, BAS and AK are entities under common control.

	<u>2007</u>
Cash and cash equivalents	-
Amounts due from related parties	<u>250</u>
Net assets	250
Interest disposed of	<u>99%</u>
Net assets disposed of	248
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control - at acquisition	1,009
- Difference in value from restructuring transactions of entities under common control - at disposal	<u>(1,009)</u>
Cash received from disposal of subsidiary	248
Cash and cash equivalents in KBS	<u>-</u>
Net cash inflow from disposal of subsidiary	<u><u>248</u></u>

On 30 April 2007, the Company reacquired its 33% interest in KBS for Rp 82. There was no difference between acquisition cost and net assets acquired.

k. Acquisition and disposal of PT Bahtera Alam Tamiang

On 23 February 2007, the Company acquired an additional 0.90% interest in PT Bahtera Alam Tamiang ("BAT") for Rp 9 from BAS. The difference between the acquisition cost and net assets acquired was accounted for as a difference in value from restructuring transaction of entities under common control, as required under SFAS No. 38 (Revised 2004), since the Company and BAS are entities under common control.

	<u>2007</u>
Purchase consideration through cash payment	9
Net liabilities acquired	<u>75</u>
Difference in value from restructuring transactions of entities under common control	<u><u>84</u></u>

On 26 February 2007, BAT increased its issued and paid in capital through the issuance of 170,067 new shares with a par value of Rp 1,000,000 (full amount) per share. The Company acquired 100% of the shares issued, and the Company's interest in BAT increased from 99.90% to 99.99%. Details of the net assets acquired and goodwill are as follows:

	<u>2007</u>
Purchase consideration through cash payment	170,067
Net assets acquired	<u>(170,058)</u>
Goodwill	<u><u>9</u></u>

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

k. Acquisition and disposal of PT Bahtera Alam Tamiang (continued)

On 15 November 2007, the Company disposed of all of its interest in BAT to BAS for Rp 160,000. This disposal was accounted for as required under SFAS No. 38 (Revised 2004), since the Company and BAS are entities under common control.

	<u>2007</u>
Carrying amounts of the investment at disposal	166,335
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control	(5,437)
- Adjustment to the net assets of the subsidiary eliminated previously in the consolidation process	(898)
	<u>160,000</u>
Cash received from disposal of subsidiary	160,000
Cash and cash equivalents in BAT	(330)
	<u>159,670</u>

l. Disposal of PT Anugerah Buminusantara Abadi

On 30 April 2007, the Company disposed of 0.78% interest in ABA to KBS for Rp 157. This disposal was accounted for as required under SFAS No. 38 (Revised 2004), since both the Company and KBS are entities under common control.

	<u>2007</u>
Carrying amounts of the investments at disposal	353
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control	(196)
	<u>157</u>
Consideration received from disposal of investments	157
Receivables from disposal of investments	(157)
	<u>-</u>
Net cash inflow from disposal of investments	-
Difference in value from restructuring transactions of entities under common control - 2005	50,981
Difference in value from restructuring transactions of entities under common control - 2007	(196)
	<u>50,785</u>

m. Acquisition of Revere Group Ltd and Decimal Investments Ltd

i. Acquisition of Revere Group Ltd

On 17 December 2007, ATA increased its interest in Revere by 53.57%, resulting in it owning 100% of Revere for an amount of US\$37,500,000 (Rp 347,835). As such, Revere has been consolidated to ATA's and the Group's consolidated financial statements since December 2007.

	<u>2007</u>
Purchase consideration through cash payment	347,835
Fair value of net assets acquired	(58,163)
	<u>289,672</u>

Details of the assets and liabilities arising from the acquisition are as follows:

	<u>2007</u>
Investment in equity securities	108,591
Accrued expenses	(20)
	<u>108,571</u>
Net assets	108,571
Interest acquired	53.57%
	<u>58,163</u>
Net assets acquired	58,163
Goodwill	289,672
Cash and cash equivalents in Revere	-
	<u>347,835</u>
Net cash outflow from acquisition of subsidiary	<u>347,835</u>

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

m. Acquisition of Revere Group Ltd and Decimal Investments Ltd (continued)

ii. Acquisition of Decimal Investments Ltd

On 17 December 2007, ATA increased its interest in Decimal by 53.57%, resulting in it owning 100% of Decimal for an amount of US\$44,931,344 (Rp 416,765). As such, Decimal has been consolidated to ATA and the Group's consolidated financial statements since December 2007.

	<u>2007</u>
Purchase consideration through cash payment	416,765
Fair value of net assets acquired	<u>(53,067)</u>
Goodwill	<u>363,698</u>

Details of the assets and liabilities arising from the acquisition are as follows:

	<u>2007</u>
Amounts due from related parties	114
Investments in equity securities	113,419
Accrued expenses	(41)
Amounts due to related parties	(8,571)
Loans from shareholders	<u>(5,861)</u>
Net assets	99,060
Interest acquired	<u>53.57%</u>
Net assets acquired	53,067
Goodwill	363,698
Cash and cash equivalents in Decimal	<u>-</u>
Net cash outflow from acquisition of subsidiary	<u>416,765</u>

Since December 2007, by holding the 100% interest in Revere and Decimal, ATA has acquired indirect ownership of 63.94% in Biscayne. Therefore, ATA consolidates the financial statements of Biscayne and its subsidiary. The ownership in Revere and Decimal also resulted in a 50% indirect ownership in PT Rachindo Investments ("Rachindo") amounting to Rp 4,778 and a 33% indirect ownership in Arindo Global amounting to Rp 50.

From its ownership in Biscayne and Dianlia, which own 58.23% and 8.93% interest in IBT, respectively, ATA has indirect ownership in IBT of 67.16%. Dianlia's portion of the net income of IBT has been recorded in the consolidated statement of income of ATA and the Group.

n. Acquisition of Arindo Holdings (Mauritius) Ltd by Rach (Mauritius) Ltd

On 24 January 2008, Rach (M), a subsidiary of Decimal, increased its interest in Arindo Holdings, which through Vindoor, owns 100% interest in Coaltrade, from 32% to 64%, for US\$1 or equivalent to Rp 9,419 (full amount). From this increase, the financial statements of Arindo Holdings and its subsidiaries were consolidated to the consolidated financial statements of Rach (M), ATA and the Group.

	<u>2008</u>
Purchase consideration through cash payment	-
Fair value of net liabilities acquired	<u>40,749</u>
Goodwill	<u>40,749</u>

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

n. Acquisition of Arindo Holdings (Mauritius) Ltd by Rach (Mauritius) Ltd (continued)

Details of the assets and liabilities arising from this acquisition are as follows:

	<u>2008</u>
Cash and cash equivalents	169,571
Receivables	210,902
Inventories	30,665
Fixed assets, net	423
Goodwill	3,985,825
Payables	(351,599)
Taxes payable	(34,078)
Borrowings	<u>(4,139,048)</u>
Net liabilities	(127,339)
Interest acquired	<u>32%</u>
Net liabilities acquired	(40,749)
Goodwill	<u>40,749</u>
Purchase consideration through cash payment	-
Cash and cash equivalents in Arindo Holdings	<u>169,571</u>
Net cash inflow from acquisition of subsidiary	<u><u>169,571</u></u>

In 2007, Arindo Holdings was in a net liability position. As a result, no loss was recognised by Rach (M) with respect to its 32% interest amounting to Rp 83,989. The unrecognised share of the net loss in Arindo Holdings and the minority interest's portion of net liabilities in Arindo Holdings was recognised by Rach (M) in 2008, dating from the increase of Rach (M)'s interest in Arindo Holdings to 64%. At Group's consolidation level, the previous unrecognised net loss and minority interest's portions of the net liabilities were recorded as a reduction in retained earnings amounting to Rp 83,989.

o. Acquisition of Ariane Investments Mezzanine Pte Ltd, Ariane Capital Singapore Pte Ltd (formerly Kerry Coal (Singapore) Pte Ltd) and Agalia Energy Investments Pte Ltd

i. Acquisition of Ariane Investments Mezzanine Pte Ltd

On 15 July 2008, ATA acquired a 71.15% interest in AIM for Rp 6,096,115.

	<u>2008</u>
Purchase consideration through cash payment	6,096,115
Fair value of net liabilities acquired	<u>162,995</u>
Mining properties and goodwill	<u><u>6,259,110</u></u>

Details of the assets and liabilities arising from the acquisition are as follows:

	<u>2008</u>
Cash and cash equivalents	760
Prepaid tax	682
Investments in equity securities	1,553,790
Other assets	2
Amounts due to related parties	(3,461)
Accrued expenses	(1,584)
Tax payable	(3)
Loans from related parties	<u>(1,713,181)</u>
Net liabilities	(162,995)
Interest acquired	71.15%
Minority interest	<u>28.85%</u>
Net liabilities acquired	(162,995)

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

o. Acquisition of Ariane Investments Mezzanine Pte Ltd, Ariane Capital Singapore Pte Ltd (formerly Kerry Coal (Singapore) Pte Ltd) and Agalia Energy Investments Pte Ltd (continued)

i. Acquisition of Ariane Investments Mezzanine Pte Ltd (continued)

	<u>2008</u>
Net liabilities acquired	(162,995)
Mining properties	5,657,657
Goodwill	2,026,300
Deferred tax liabilities	<u>(1,424,847)</u>
Purchase consideration through cash payment	6,096,115
Cash and cash equivalents in AIM	<u>(760)</u>
Net cash outflow from acquisition of subsidiary	<u><u>6,095,355</u></u>

ii. Acquisition of Ariane Capital Singapore Pte Ltd (formerly Kerry Coal (Singapore) Pte Ltd)

On 15 July 2008, ATA acquired 100% interest in Ariane Capital and a previous shareholder receivable amounting to Rp 32,288 for Rp 2,230,287.

	<u>2008</u>
Purchase consideration through cash Payment	2,230,287
Assignment of receivables from previous shareholder	<u>(32,288)</u>
Acquisition cost	2,197,999
Fair value of net liabilities acquired	<u>32,526</u>
Mining properties and goodwill	<u><u>2,230,525</u></u>

Details of the assets and liabilities arising from the acquisition are as follows:

	<u>2008</u>
Cash and cash equivalents	2
Accrued expenses	(240)
Loans from shareholders	<u>(32,288)</u>
Net liabilities	(32,526)
Interest acquired	<u>100%</u>
Net liabilities acquired	(32,526)
Mining properties	2,016,188
Goodwill	722,102
Deferred tax liabilities	<u>(507,765)</u>
Acquisition cost	2,197,999
Assignment of receivables from previous shareholder	32,288
Cash and cash equivalents in Ariane Capital	<u>(2)</u>
Net cash outflow from acquisition of subsidiary	<u><u>2,230,285</u></u>

By holding a 100% interest in Ariane Capital, ATA has 100% direct and indirect ownership in AIM.

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

o. Acquisition of Ariane Investments Mezzanine Pte Ltd, Ariane Capital Singapore Pte Ltd (formerly Kerry Coal (Singapore) Pte Ltd) and Agalia Energy Investments Pte Ltd (continued)

iii. Acquisition of Agalia Energy Investments Pte Ltd

On 15 July 2008, ATA acquired 100% interest in Agalia amounting to Rp 1,632,635.

	<u>2008</u>
Purchase consideration through cash payment	1,632,635
Fair value of net assets acquired	<u>(35,146)</u>
	<u>1,597,489</u>

Details of the assets and liabilities arising from the acquisition are as follows:

	<u>2008</u>
Investments in equity securities	35,955
Accrued expenses	<u>(240)</u>
Net assets	35,715
Interest acquired	<u>100%</u>
Net assets acquired	35,715
Mining properties	1,443,467
Goodwill	516,981
Deferred tax liabilities	<u>(363,528)</u>
Purchase consideration through cash payment	1,632,635
Cash and cash equivalents in Agalia	<u>-</u>
Net cash outflow from acquisition of subsidiary	<u>1,632,635</u>

By holding 100% interest in AIM, Ariane Capital and Agalia, ATA has consolidated the financial statements of AIM, Ariane Capital and Agalia, and recognised pre-acquisition income amounting to Rp 165,575.

Through its ownership in AIM and Agalia, ATA has indirect ownership of 100% in Viscaya, Biscayne and Arindo Holdings, and has increased its ownership in Arindo Global from 33.00% to 67.00%. Ownership in Viscaya has resulted in an increase in ATA's direct and indirect ownership in Adaro from 66.07% to 99.54%. Ownership in Biscayne has resulted in an increase in ATA's indirect ownership in IBT from 67.16% to 100.00%. Ownership in Arindo Holdings has resulted in an increase in ATA's indirect ownership in Coaltrade from 64.00% to 100.00%.

By consolidating the financial statements of AIM and Agalia (which has total ownership in Viscaya of 100%), mining properties amounting to Rp 1,017,069 are recorded at the Group level.

In September 2008, Arindo Holdings increased its issued and paid-up capital through a new shares issuance. ATA acquired 25,000,000 new shares at a par value of US\$1 per share or equivalent to Rp 227,783. Rach (M), AIM and Agalia did not subscribe any of issued shares, as a result, their ownership decreased from 100% to 0.03%. There were no changes to the ownership of the Group.

Net cash outflow from the acquisitions of AIM, Ariane Capital, Agalia, Arindo Holdings and the consolidation of Arindo Global are as follows:

	<u>2008</u>
Net cash outflow from acquisition of AIM	6,095,355
Net cash outflow from acquisition of Ariane Capital	2,230,285
Net cash outflow from acquisition of Agalia	1,632,635
Net cash inflow from acquisition of Arindo Holdings	(169,571)
Net cash inflow from consolidation of Arindo Global	<u>(2,454)</u>
Net cash outflow from acquisition of AIM, Ariane Capital, Agalia, Arindo Holdings and consolidation of Arindo Global	<u>9,786,250</u>

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

p. Disposal of PT Anugerah Buminusantara Abadi by PT Saptaindra Sejati

On 30 April 2007, SIS disposed of 99.22% interest in ABA to KBS for Rp 20,000.

The assets and liabilities of ABA disposed of on 30 April 2007 are as follows:

	<u>2007</u>
Total assets	67,840
Total liabilities	<u>(52,598)</u>
Net assets	15,242
Interest disposed of	<u>99.22%</u>
Net assets disposed of	15,123
Adjustment to net assets disposed of:	
- Difference in value from restructuring transactions of entities under common control	(6,409)
- Deferred tax asset on loss from investment in ABA	<u>11,286</u>
Cash received from disposal of subsidiary	20,000
Receivables from disposal of subsidiary	(20,000)
Cash and cash equivalents in ABA	<u>(1,192)</u>
Net cash outflow from disposal of subsidiary	<u>(1,192)</u>

q. Acquisition of PT Sarana Daya Mandiri by PT Alam Tri Abadi

On 29 October 2008, ATA acquired 51.20% interest in SDM for Rp 128.

	<u>2008</u>
Purchase consideration through cash payment	128
Net liabilities acquired	<u>17,772</u>
Goodwill	<u>17,900</u>

Details of the assets and liabilities arising from the acquisition are as follows:

	<u>2008</u>
Cash and cash equivalents	1,450
Other receivables	887
Advances and prepayments	17
Prepaid taxes	29,107
Fixed assets, net	299,230
Other payables	(108,373)
Accrued expenses	(4)
Taxes payable	(1,343)
Other short-term loan	(143)
Loans from related parties	<u>(238,600)</u>
Net liabilities	(17,772)
Interest acquired	51.20%
Minority interest	<u>48.80%</u>
Net liabilities acquired	(17,772)
Goodwill	<u>17,900</u>
Purchase consideration through cash payment	128
Cash and cash equivalents in SDM	<u>(1,450)</u>
Net cash inflow from acquisition of subsidiary	<u>(1,322)</u>

By holding 51.20% in SDM, ATA has consolidated the financial statements of SDM and recognised pre-acquisition loss amounting to Rp 17,772.

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

r. Acquisition of Rachmalta Investments Ltd by Rachpore Investments Pte Ltd

On 24 December 2008, Rachpore increased its interest in Rachmalta, from 50% to 100%, for US\$1 or equivalent to Rp 10,950 (full amount). Through this increase, the financial statements of Rachmalta and its subsidiaries, MEC, were consolidated to the consolidated financial statements of Rachpore, ATA and Group and pre-acquisition loss amounting to Rp 21,413 was also recognised in those consolidated financial statements.

	<u>2008</u>
Purchase consideration through cash payment	-
Net liabilities acquired	<u>163,859</u>
Mining properties	<u>163,859</u>

Details of the assets and liabilities arising from the acquisition are as follows:

	<u>2008</u>
Cash and cash equivalents	779
Loans to related parties	73,694
Accrued expenses	(80)
Amounts due to related parties	(105)
Loans from related party	<u>(402,006)</u>
Net liabilities	(327,718)
Interest acquired	<u>50%</u>
Net liabilities acquired	(163,859)
Mining properties	163,859
Goodwill	40,965
Deferred tax liabilities	<u>(40,965)</u>
Purchase consideration through cash payment	-
Cash and cash equivalents in Rachmalta	<u>(779)</u>
Net cash inflow from acquisition of subsidiary	<u>(779)</u>

In 2008, Rachmalta was in a net liability position. The loss amounting to Rp 109,502 has not been recognised by Rachpore with respect to its 50% interest. The unrecognised share of net loss in Rachmalta was recognised by Rachpore in 2008 since the increase of Rachpore's interest in Rachmalta to 100% on 24 December 2008. At ATA's consolidation level, the amount was recorded as a reduction retained earnings .

On 23 December 2008, ATA and Coaltrade acquired ownership in Adaro from MEC for US\$6,713,783 and US\$16,217, respectively. Through this transaction, ATA increased its ownership in Adaro to 100%.

At the Group's and ATA's consolidation level, MEC's share of Adaro's net income that has not been previously recognised, was recorded as an increase to the retained earnings amounting to Rp 2,646. In addition, the Group and ATA also recognised mining property, goodwill and deferred tax liabilities for MEC's ownership in Adaro amounting to Rp 89,816, Rp 22,454 and Rp 22,454, respectively.

s. Liquidation of Revere Group Ltd, Decimal Investments Pte Ltd, Saluno Investments Pte Ltd, Rachsing Holdings Pte Ltd, Ariane Investments Mezzanine Pte Ltd, Ariane Capital Singapore Pte Ltd and Agalia Energy Investments Pte Ltd

On 28 October 2008, Revere, Decimal, SI, RH, AIM, Ariane Capital and Agalia were liquidated. As a result of the liquidation, ATA directly owns additional shares in Biscayne, Rach (M), Rachpore, Viscaya, Arindo Holdings and Arindo Global of 100%, 100%, 100%, 100%, 0.30% and 67%, respectively.

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3. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES (continued)

t. Acquisition and disposal of PT Nusantara Power Energy by PT Jasapower Indonesia

On 3 December 2007, JPI acquired 70% interest in PT Nusantara Power Energy ("NPE") for Rp 700,000.

The details of the net assets acquired are as follows:

	<u>2007</u>
Purchase consideration through cash payment	700
Net assets acquired	<u>(700)</u>
Goodwill	<u>=</u>
Other assets	<u>1,000</u>
Net assets	1,000
Interest acquired	<u>70%</u>
Net assets acquired	700
Goodwill	-
Cash and cash equivalents in NPE	<u>-</u>
Net cash outflow from acquisition of subsidiary	<u>700</u>

On 30 April 2008, JPI disposed of all of its interest in NPE for Rp 700,000.

The details of the net assets disposed of are as follows:

	<u>2008</u>
Other assets	<u>5,000</u>
Net assets	5,000
Interest disposed	<u>70%</u>
Net assets disposed	3,500
Adjustment to net assets disposed of:	
- Loss on disposal of subsidiary	(2,800)
- Other receivable from disposal of subsidiary	<u>(700)</u>
Cash received from disposal of investments	-
Cash and cash equivalents in NPE	<u>-</u>
Net cash outflow from disposal of subsidiary	<u>=</u>

4. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

As disclosed in Note 3, acquisitions of additional interest in SIS, ATA and MSW were accounted for using the pooling-of-interests method as required under SFAS No. 38 (Revised 2004). Therefore, the 31 December 2007 consolidated financial statements were restated as if the restructuring transactions had already occurred as at 1 January 2007.

In addition, the Board of Directors of Adaro is of the opinion that a restatement of the 31 December 2007 consolidated financial statements is required resulting from adjustments to the Corporate Income Tax expense for fiscal years 2004, 2005, 2006 and 2007, amounting to US\$11,304,782, US\$33,233,919, US\$36,818,114 and US\$9,785,299, respectively, due to the different interpretations of taxation regulations relating to Leveraged Buy-Out ("LBO") transactions executed by the Group.

The adjustments were related to taxes payable, accrued expenses and retained earnings. The restatement of Adaro's financial statements resulted in the restatement of these consolidated financial statements.

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4. RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS (continued)

The comparative consolidated financial statements as at 31 December 2007 that have been restated, are as follows:

	<u>Before restatement</u>	<u>After restatement</u>
Consolidated balance sheet		
Total assets	4,961,581	14,688,683
Total liabilities	2,547,203	11,979,726
Minority interest	138,714	558,403
Equity	2,275,664	2,150,554
Consolidated statement of income		
Operating income	243,596	2,252,519
Other expenses	(199,172)	(1,305,494)
Income tax benefit/(expense)	13,580	(656,927)
Pre-acquisition income	-	(38,048)
Minority interest in net income of subsidiaries	(659)	(163,516)
Net income	57,345	88,534

5. CASH AND CASH EQUIVALENTS

	<u>2008</u>	<u>2007</u>
Cash on hand:		
Rupiah	619	425
US Dollars	49	32
Singapore Dollars	15	-
Hong Kong Dollars	4	-
Total cash on hand	<u>687</u>	<u>457</u>
Cash in banks:		
Rupiah		
PT Bank DBS Indonesia	147,764	5,520
PT Bank Sumitomo Mitsui Indonesia	103,478	108,508
PT Bank Mandiri (Persero) Tbk	20,703	9,146
The Hongkong and Shanghai Banking Corporation Ltd	249	38,618
PT Bank OCBC NISP Tbk	4	3,408
Others (each below Rp 3,000)	<u>6,151</u>	<u>3,259</u>
Total Rupiah accounts	<u>278,349</u>	<u>168,459</u>
US Dollars		
Sumitomo Mitsui Banking Corporation	1,005,431	531,905
PT Bank DBS Indonesia	572,426	5,952
PT Bank Mega Tbk	17,183	6,897
The Hongkong and Shanghai Banking Corporation Ltd	5,716	24,096
Standard Chartered Bank	5,434	-
PT Bank CIMB Niaga Tbk	1,983	6,085
PT Bank Mandiri (Persero) Tbk	1,581	6,006
PT Bank OCBC NISP Tbk	-	6,076
Others (each below Rp 3,000)	<u>1,151</u>	<u>2,708</u>
Total US Dollars accounts	<u>1,610,905</u>	<u>589,725</u>
Singapore Dollars		
The Hongkong and Shanghai Banking Corporation Ltd	<u>1,218</u>	<u>-</u>
Total Singapore Dollars accounts	<u>1,218</u>	<u>-</u>
Euro		
ING Bank	2,521	-
MeesPierson Bank	<u>2,059</u>	<u>5,071</u>
Total Euro accounts	<u>4,580</u>	<u>5,071</u>
Total cash in banks	<u>1,895,052</u>	<u>763,255</u>

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5. CASH AND CASH EQUIVALENTS (continued)

	<u>2008</u>	<u>2007</u>
On call deposits:		
Rupiah		
PT Bank CIMB Niaga Tbk	46,000	-
PT Bank DBS Indonesia	22,031	-
PT Bank OCBC Indonesia	8,140	-
PT Bank Mandiri (Persero) Tbk	664	-
Total Rupiah on call deposits	<u>76,835</u>	<u>-</u>
US Dollars		
PT Bank UOB Indonesia	168,723	-
PT ANZ Panin Bank	151,222	-
PT Bank OCBC Indonesia	98,582	-
Sumitomo Mitsui Banking Corporation	24,638	-
Total US Dollars on call deposits	<u>443,165</u>	<u>-</u>
Total on call deposits	<u>520,000</u>	<u>-</u>
Time deposits:		
Rupiah		
PT Bank DBS Indonesia	-	7,000
PT Bank Mega Tbk	-	3,502
Others (each below Rp 3,000)	-	1,002
Total Rupiah time deposits	<u>-</u>	<u>11,504</u>
US Dollars		
PT Bank Mega Tbk	114	286
PT Bank DBS Indonesia	-	36,716
PT Bank OCBC NISP Tbk	-	14,128
PT Bank CIMB Niaga Tbk	-	5,494
Total US Dollars time deposits	<u>114</u>	<u>56,624</u>
Total time deposits	<u>114</u>	<u>68,128</u>
Total cash and cash equivalents	<u>2,415,853</u>	<u>831,840</u>

The interest rates of the above on call and time deposits were as follows:

	<u>2008</u>	<u>2007</u>
Rupiah	6% - 10.8%	4.3% - 6%
US Dollars	0.3% - 4.3%	3% - 4.5%

6. RESTRICTED CASH AND CASH EQUIVALENTS

	<u>2008</u>	<u>2007</u>
Time deposits:		
Rupiah		
PT Bank DBS Indonesia	-	18,350
The Hongkong and Shanghai Banking Corporation Ltd	-	4,355
Total Rupiah time deposits	<u>-</u>	<u>22,705</u>
US Dollars		
The Hongkong and Shanghai Banking Corporation Ltd	6,594	7,445
PT Bank DBS Indonesia	4,442	42,658
Citibank, N.A.	-	3,023
Total US Dollars time deposits	<u>11,036</u>	<u>53,126</u>
Total restricted cash and cash equivalents	<u>11,036</u>	<u>75,831</u>

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6. RESTRICTED CASH AND CASH EQUIVALENTS (continued)

	<u>2008</u>	<u>2007</u>
Total restricted cash and cash equivalents	11,036	75,831
Less:		
Current portion	-	(64,595)
Non-current portion	11,036	11,236

The interest rates of the above time deposits were as follows:

	<u>2008</u>	<u>2007</u>
Rupiah	-	7.8%
US Dollars	1.3% - 3.3%	4.3%

The time deposits in PT Bank DBS Indonesia ("DBS"), The Hongkong and Shanghai Bank Corporation Ltd ("HSBC") and Citibank, N.A. are restricted for bank guarantees issued by these banks as described in Note 42h.

7. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2008</u>	<u>2007</u>
Third party:		
Cost	1,075,412	1,728,106
Add:		
Unrealised gain from increase in investment value	20,669	6,224
Total	<u>1,096,081</u>	<u>1,734,330</u>

On 17 December 2007, the Company, JPI, SIS and PT Recapital Asset Management ("Recapital") entered into a fund management agreement with a term of one year, whereby the Group appointed Recapital as investment manager to manage a fund of Rp 1,728,106. Part or all of the funds were to be invested in mutual funds, bonds, marketable securities, shares, convertible bonds and warrants. During 2008, the Company and SIS made full redemptions amounting to Rp 227,850, while JPI made partial redemptions amounting to Rp 424,844. The realised gain on investment for the year ended 31 December 2008 amounting to Rp 48,798 (2007: Rp nil).

JPI and Recapital entered an agreement on 17 December 2008 to extend the management of funds for another six months. As at 31 December 2008, the fair value of the available-for-sale investment was Rp 1,096,081 (2007: Rp 1,734,330).

In February 2009, JPI made an additional partial redemption amounting to Rp 256,390 and the realised gain was Rp 7,887.

8. TRADE RECEIVABLES

	<u>2008</u>	<u>2007</u>
Third parties:		
PT Paiton Energy	244,757	222,332
Taiwan Power Company	225,282	53,469
EON Kraftwerke	164,935	-
Mitsubishi Material Corporation	155,234	-
PT Pembangunan Jawa Bali	131,403	56,493
Carboex S.A.	117,565	68,818
Castle Peak Power Co Ltd	81,137	-
Quezon Power (Phils.) Ltd	75,313	70,579
PT Indomining	69,211	36,267
The Tata Power Co Ltd	61,428	39,699
PT Sumber Segara Primadaya	61,421	157,845
PT Sumber Kurnia Buana	59,964	77,838
Glencore International	58,117	-
International Energy Group Ltd	55,492	82,922
Others (each below Rp 50,000)	555,036	287,310
	<u>2,116,295</u>	<u>1,153,572</u>

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8. TRADE RECEIVABLES (continued)

	<u>2008</u>	<u>2007</u>
Related parties:		
PT Berau Coal	215,591	172,758
Coaltrade Services International Pte Ltd	-	148,306
PT Interex Sacra Raya ^{a)}	-	75,507
	<u>215,591</u>	<u>396,571</u>
Total trade receivables	<u><u>2,331,886</u></u>	<u><u>1,550,143</u></u>

^{a)} Not a related party since August 2008.

Since 2008, Coaltrade has been consolidated into the Group's consolidated financial statements, and therefore balances and transactions between Coaltrade and Adaro have been eliminated.

The aging analysis of trade receivables is as follows:

	<u>2008</u>	<u>2007</u>
Current and overdue by 1 - 30 days	2,283,369	1,470,773
Overdue by 31 - 60 days	9,010	21,951
Overdue by 61 - 90 days	2,096	9,244
Overdue by more than 90 days	37,411	48,175
Total trade receivables	<u><u>2,331,886</u></u>	<u><u>1,550,143</u></u>

Details of trade receivables based on currencies are as follows:

	<u>2008</u>	<u>2007</u>
Rupiah	629,361	553,730
US Dollars	<u>1,702,525</u>	<u>996,413</u>
Total trade receivables	<u><u>2,331,886</u></u>	<u><u>1,550,143</u></u>

As at 31 December 2008, the trade receivables of SIS amounting to Rp 585,819 (including receivables from Adaro amounting to Rp 186,194 that had been eliminated) were pledged as collateral for a Senior Credit Facility (refer to Note 23b).

Based on a review of the status of the individual 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 an allowance for doubtful accounts is not considered necessary.

Refer to Note 38 for details of related party transactions and balances.

9. ADVANCES AND PREPAYMENTS

	<u>2008</u>	<u>2007</u>
Advances to suppliers	277,477	5,886
Advances for purchase of fuel	253,379	42,143
Prepaid rent and insurance	19,629	13,102
Others	<u>17,023</u>	<u>22,507</u>
Total advances and prepayments	<u><u>567,508</u></u>	<u><u>83,638</u></u>

Advances to suppliers mostly represent advance payments for construction of the coal fire power plant and steam turbine generators.

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10. INVENTORIES

	<u>2008</u>	<u>2007</u>
Coal inventory	54,979	129,532
Spare parts	53,578	26,395
Tools and supplies	168,520	49,873
Fuel and lubricants	<u>27,593</u>	<u>32,348</u>
Total inventories	<u>304,670</u>	<u>238,148</u>

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 2008, Adaro's coal inventories were covered by insurance against the risk of material damage with total coverage of Rp 87,600. Inventories of the spare parts owned by IBT amounting to Rp 23,391 were covered by insurance against risk of loss and damage, which was included in the insurance for IBT's fixed assets. Inventories other than those of Adaro's coal and IBT's spare parts were not insured. The Group's management is of the opinion that Adaro's coal inventories and IBT's spare parts inventories as at 31 December 2008 are adequately insured.

11. DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURE

	<u>2008</u>	<u>2007</u>
Acquisition costs		
Deferred exploration and development expenditure related to the commercial producing areas		
South Paringin, North Paringin and Tutupan		
Carrying amount - beginning balance	300,518	287,787
Exchange difference due to financial statement translation	<u>48,847</u>	<u>12,731</u>
	<u>349,365</u>	<u>300,518</u>
Sanga-sanga		
Carrying amount - beginning balance	-	41,407
Reversal due to disposal of subsidiaries	<u>-</u>	<u>(41,407)</u>
	<u>-</u>	<u>-</u>
Deferred exploration and evaluation expenditure incurred for an area of interest which as at balance sheet date has not reached the commercial production stage		
Wara		
Carrying amount - beginning balance	45,167	43,254
Exchange difference due to financial statement translation	<u>7,342</u>	<u>1,913</u>
	<u>52,509</u>	<u>45,167</u>
East Barito, South Barito and North Barito		
Carrying amount - beginning balance	-	72,012
Reversal due to disposal of subsidiaries	<u>-</u>	<u>(72,012)</u>
	<u>-</u>	<u>-</u>
Total acquisition costs	<u>401,874</u>	<u>345,685</u>
Accumulated amortisation		
Deferred exploration and development expenditure relating to commercially producing areas		
South Paringin, North Paringin and Tutupan		
Carrying amount - beginning balance	(258,857)	(245,187)
Amortisation	(2,908)	(2,739)
Exchange difference due to financial statement translation	<u>(42,458)</u>	<u>(10,931)</u>
	<u>(304,223)</u>	<u>(258,857)</u>
Sanga-sanga		
Carrying amount - beginning balance	-	(5,882)
Reversal due to disposal of subsidiaries	<u>-</u>	<u>5,882</u>
	<u>-</u>	<u>-</u>
Total accumulated amortisation	<u>(304,223)</u>	<u>(258,857)</u>
Total	<u>97,651</u>	<u>86,828</u>

The ultimate recoupment of exploration expenditure carried forward is dependent upon the successful development and commercial exploitation, or alternatively, sale of the respective area of interest.

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12. DEFERRED FINANCING COSTS

	<u>2008</u>	<u>2007</u>
Acquisition costs		
Carrying amount - beginning balance	79,645	880,153
Addition	105,408	108,882
Acquisition	23,155	-
Exchange difference due to financial statement translation	15,661	41,117
Reversal of fully amortised balance	<u>(11,907)</u>	<u>(950,507)</u>
Total acquisition costs	<u>211,962</u>	<u>79,645</u>
Accumulated amortisation		
Carrying amount - beginning balance	(3,648)	(695,297)
Amortisation	(36,863)	(221,791)
Exchange difference due to financial statement translation	(2,823)	(37,067)
Reversal of fully amortised balance	<u>11,907</u>	<u>950,507</u>
Total accumulated amortisation	<u>(31,427)</u>	<u>(3,648)</u>
Total	<u>180,535</u>	<u>75,997</u>
Less:		
Current portion	<u>(36,243)</u>	<u>(16,269)</u>
Non-current portion	<u>144,292</u>	<u>59,728</u>

Deferred financing costs represent consultancy costs, bank charges, finance charges, professional fees and other costs that were incurred to obtain long-term borrowing.

13. FIXED ASSETS

	<u>2008</u>					<u>Ending balance</u>
	<u>Beginning balance</u>	<u>Additions</u>	<u>Acquisition</u>	<u>Disposals/ reclassification</u>	<u>Exchange difference due to financial statement translation</u>	
Acquisition costs						
<i>Direct ownership</i>						
Land	26,365	578,944	-	(26)	-	605,283
Buildings	82,289	7,909	-	49,985	7,167	147,350
Infrastructure	207,275	-	-	-	33,692	240,967
Machinery, operational equipment and vehicles	2,302,174	373,279	-	80,703	157,436	2,913,592
Mining equipment	3,908	327	-	-	-	4,235
Project equipment	7,218	5,178	-	-	-	12,396
Office equipment	44,185	7,939	1,765	2,897	3,225	60,011
Crushing and handling facilities	664,321	72,674	-	5,368	118,221	860,584
Roads and bridges	830,444	1,103	-	94,087	147,472	1,073,106
Stockpile facilities	57,462	-	-	-	9,340	66,802
Dock facilities	20,477	-	-	-	3,328	23,805
	<u>4,246,118</u>	<u>1,047,353</u>	<u>1,765</u>	<u>233,014</u>	<u>479,881</u>	<u>6,008,131</u>
Construction in progress	<u>73,589</u>	<u>423,013</u>	<u>298,960</u>	<u>(154,865)</u>	<u>11,583</u>	<u>652,280</u>
<i>Leased assets</i>						
Operational equipment	603,794	722,255	-	(97,601)	-	1,228,448
Vehicles	191	-	234	(149)	-	276
	<u>603,985</u>	<u>722,255</u>	<u>234</u>	<u>(97,750)</u>	<u>-</u>	<u>1,228,724</u>
	<u>4,923,692</u>	<u>2,192,621</u>	<u>300,959</u>	<u>(19,601)</u>	<u>491,464</u>	<u>7,889,135</u>

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13. FIXED ASSETS (continued)

2008						
Beginning balance	Additions	Acquisition	Disposals/ reclassification	Exchange difference due to financial statement translation	Ending balance	
Accumulated depreciation						
Direct ownership						
Buildings	(21,074)	(6,517)	-	115	(3,247)	(30,723)
Infrastructure	(66,253)	(6,606)	-	-	(11,633)	(84,492)
Machinery, operational equipment and vehicles	(640,759)	(213,624)	-	(29,162)	(70,655)	(954,200)
Mining equipment	(2,543)	(789)	-	-	-	(3,332)
Project equipment	(2,969)	(2,063)	-	-	-	(5,032)
Office equipment	(21,811)	(9,238)	(1,287)	1,756	(2,915)	(33,495)
Crushing and handling facilities	(208,939)	(41,912)	-	-	(39,460)	(290,311)
Roads and bridges	(271,420)	(40,007)	-	-	(49,366)	(360,793)
Stockpile facilities	(31,377)	(2,959)	-	-	(5,488)	(39,824)
Dock facilities	(14,920)	(1,052)	-	-	(2,563)	(18,535)
	<u>(1,282,065)</u>	<u>(324,767)</u>	<u>(1,287)</u>	<u>(27,291)</u>	<u>(185,327)</u>	<u>(1,820,737)</u>
Leased assets						
Operational equipment	(82,816)	(98,807)	-	37,453	-	(144,170)
Vehicles	(113)	(42)	(19)	130	-	(44)
	<u>(82,929)</u>	<u>(98,849)</u>	<u>(19)</u>	<u>37,583</u>	<u>-</u>	<u>(144,214)</u>
	<u>(1,364,994)</u>	<u>(423,616)</u>	<u>(1,306)</u>	<u>10,292</u>	<u>(185,327)</u>	<u>(1,964,951)</u>
Net book value	<u>3,558,698</u>					<u>5,924,184</u>
2007						
Beginning balance	Additions	Acquisition	Disposals/ reclassification	Reversal due to disposals of subsidiaries	Exchange difference due to financial statement translation	Ending balance
Acquisition costs						
Direct ownership						
Land	22,308	8,002	-	1,584	(5,529)	26,365
Buildings	68,137	13,459	-	312	(1,335)	82,289
Infrastructure	-	37	198,458	-	-	207,275
Machinery, operational, equipment and vehicles	1,025,750	445,793	840,673	(3,935)	(44,936)	2,302,174
Mining equipment	3,313	595	-	-	-	3,908
Project equipment	3,931	3,287	-	-	-	7,218
Office equipment	28,384	16,597	4,573	(4,561)	(1,711)	44,185
Crushing and handling facilities	575,849	57,645	-	3,461	-	664,321
Roads and bridges	749,921	8,799	-	54,889	(17,535)	830,444
Stockpile facilities	55,028	-	-	-	-	57,462
Dock facilities	19,610	-	-	-	-	20,477
	<u>2,552,231</u>	<u>554,214</u>	<u>1,043,704</u>	<u>51,750</u>	<u>(71,046)</u>	<u>4,246,118</u>
Construction in progress	<u>122,396</u>	<u>96,556</u>	<u>-</u>	<u>(69,079)</u>	<u>(77,682)</u>	<u>73,589</u>
Leased assets						
Operational equipment	363,826	263,542	-	(7,560)	(16,014)	603,794
Vehicles	2,482	-	-	(66)	(2,225)	191
	<u>366,308</u>	<u>263,542</u>	<u>-</u>	<u>(7,626)</u>	<u>(18,239)</u>	<u>603,985</u>
	<u>3,040,935</u>	<u>914,312</u>	<u>1,043,704</u>	<u>(24,955)</u>	<u>(166,967)</u>	<u>4,923,692</u>

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13. FIXED ASSETS (continued)

	2007						
	Beginning balance	Additions	Acquisition	Disposals/ reclassification	Reversal due to disposals of subsidiaries	Exchange difference due to financial statement translation	Ending balance
Accumulated depreciation							
<u>Direct ownership</u>							
Buildings	(16,071)	(4,555)	-	78	213	(739)	(21,074)
Infrastructure	-	(6,231)	(57,286)	-	-	(2,736)	(66,253)
Machinery, operational equipment and vehicles	(195,533)	(161,842)	(301,133)	5,603	27,138	(14,992)	(640,759)
Mining equipment	(1,643)	(900)	-	-	-	-	(2,543)
Project equipment	(1,603)	(1,366)	-	-	-	-	(2,969)
Office equipment	(15,605)	(4,778)	(3,915)	2,487	695	(695)	(21,811)
Crushing and handling facilities	(165,957)	(34,570)	-	-	-	(8,412)	(208,939)
Roads and bridges	(227,651)	(34,819)	-	-	2,106	(11,056)	(271,420)
Stockpile facilities	(27,291)	(2,792)	-	-	-	(1,294)	(31,377)
Dock facilities	(13,308)	(993)	-	-	-	(619)	(14,920)
	<u>(664,662)</u>	<u>(252,846)</u>	<u>(362,334)</u>	<u>8,168</u>	<u>30,152</u>	<u>(40,543)</u>	<u>(1,282,065)</u>
<u>Leased assets</u>							
Operational equipment	(47,956)	(47,715)	-	2,491	10,364	-	(82,816)
Vehicles	(997)	(54)	-	64	874	-	(113)
	<u>(48,953)</u>	<u>(47,769)</u>	<u>-</u>	<u>2,555</u>	<u>11,238</u>	<u>-</u>	<u>(82,929)</u>
	<u>(713,615)</u>	<u>(300,615)</u>	<u>(362,334)</u>	<u>10,723</u>	<u>41,390</u>	<u>(40,543)</u>	<u>(1,364,994)</u>
Net book value	<u>2,327,320</u>						<u>3,558,698</u>

Depreciation expense was allocated as follows:

	2008	2007
Cost of revenue	417,563	289,001
General and administration expenses	6,053	11,614
	<u>423,616</u>	<u>300,615</u>

The calculation of loss on disposals of fixed assets was as follows:

	2008	2007
Acquisition costs	19,601	24,955
Accumulated depreciation	(10,292)	(10,723)
Carrying value of fixed assets	9,309	14,232
Proceeds from disposals of fixed assets	6,250	12,743
Loss on disposals of fixed assets	<u>(3,059)</u>	<u>(1,489)</u>

In accordance with the CCA, the net book value of fixed assets of Adaro as at 31 December 2008 amounting to Rp 1,445,829 (2007: Rp 1,122,089) remain the property of the Government of the Republic of Indonesia. 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 net book value of fixed assets of IBT as at 31 December 2008 amounting to Rp 763,557 (2007: Rp 677,725), in the area of the coal bulk terminal become the property of PT (Persero) Pelabuhan Indonesia III at the end of the 30-year operation period.

The Group owns 36 plots of land with "Hak Guna Bangunan" titles ("Building-Use Titles" or "HGB") with remaining useful lives of between 13 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\$60,000,000 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 in the process of being transferred to ATA.

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13. FIXED ASSETS (continued)

As at 31 December 2008, the Group's fixed assets were covered by insurance against the risk of loss and damage due to fire and all other risks with total coverage of approximately Rp 5,948,172. Management believes that the fixed assets as at 31 December 2008 are adequately insured.

The fixed assets of SIS amounting to US\$150 million and the building owned by SMP were pledged as collateral for the Senior Credit Facility (refer to Note 23b).

Construction in progress

Construction in progress represents projects that have not been completed at the balance sheet date as follows:

2008			
Construction in progress	Percentage of completion	Accumulated costs	Estimated completion
River channel dredging	95%	402,417	January 2009*)
Power plant	5%	100,034	January 2011
Coal crushing and handling facilities	30% - 70%	48,956	March - September 2009
Roads and bridges	10% - 80%	32,736	February - December 2009
Others (each below Rp 20,000)	10% - 95%	<u>68,137</u>	2009 - 2010
		<u><u>652,280</u></u>	

*) As the date of this report, this project has been completed.

2007			
Construction in progress	Percentage of completion	Accumulated costs	Estimated completion
Coal hauling road	33%	23,047	December 2008
Buildings	96%	30,426	March 2008
Others (each below Rp 20,000)	50% - 85%	<u>20,116</u>	February - December 2008
		<u><u>73,589</u></u>	

Borrowing costs capitalised by MSW for the year ended 31 December 2008 amounted to Rp 1,640. The average capitalisation rates for the year ended 31 December 2008 for MSW was 4.32%.

14. INVESTMENTS IN ASSOCIATES

	2008	2007
PT Rachindo Investments		
Percentage of interest	50.00%	50.00%
Carrying amount - beginning balance	4,778	-
Carrying amount prior to consolidation of Decimal	-	4,597
Share in net loss of associates	-	(22)
Exchange difference due to financial statement translation	<u>776</u>	<u>203</u>
	<u>5,554</u>	<u>4,778</u>
PT Karunia Barito Sejahtera		
Percentage of interest	32.80%	32.80%
Carrying amount - beginning balance	39	-
Addition of investment	-	82
Share in net loss of associates	-	(43)
	<u>39</u>	<u>39</u>

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14. INVESTMENTS IN ASSOCIATES (continued)

	<u>2008</u>	<u>2007</u>
<u>Arindo Global (Netherlands) B.V.</u>		
Percentage of interest	-	33.00%
Carrying amount - beginning balance	50	-
Carrying amount prior to consolidation of Decimal	-	20,264
Share in net loss of associates	-	(20,476)
Reversal due to consolidation to the Group	(50)	-
Exchange difference due to financial statement translation	-	262
	<u>-</u>	<u>50</u>
<u>PT Anugerah Buminusantara Abadi</u>		
Percentage of interest	0.01%	0.01%
Carrying amount - beginning balance	1	1
Share in net income of associate	-	-
	<u>1</u>	<u>1</u>
<u>Decimal Investments Ltd</u>		
Percentage of interest	-	-
Carrying amount - beginning balance	-	295,676
Reversal due to consolidation to the Group	-	(295,676)
	<u>-</u>	<u>-</u>
<u>Revere Group Ltd</u>		
Percentage of interest	-	-
Carrying amount - beginning balance	-	295,676
Reversal due to consolidation to the Group	-	(295,676)
	<u>-</u>	<u>-</u>
<u>PT Indonesia Bulk Terminal</u>		
Percentage of interest	-	-
Carrying amount - beginning balance	-	76,322
Reversal due to consolidation to the Group	-	(76,322)
	<u>-</u>	<u>-</u>
	<u>5,594</u>	<u>4,868</u>

Details of the share in the net loss of associates for the years ended 31 December 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
PT Rachindo Investments	-	(22)
PT Karunia Barito Sejahtera	-	(43)
Arindo Global (Netherlands) B.V.	-	(20,476)
	<u>-</u>	<u>(20,541)</u>

As at 31 December 2007, Revere, Decimal and IBT were consolidated to the Group's consolidated financial statements as the result of the increase of ownership in Revere and Decimal (refer to Note 3m).

As at 31 December 2008, Arindo Global was consolidated to the Group's consolidated financial statements as a result of the acquisition of AIM, Ariane Capital and Agalia (refer to Note 3o).

Investment in Rachindo were in the form of the assets acquired through the acquisition of Decimal which were transferred to Rachpore (refer to Note 3m).

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15. MINING PROPERTIES

	<u>2008</u>	<u>2007</u>
Acquisition cost		
Carrying amount - beginning balance	164,955	157,968
Addition	10,404,267	-
New tax rate adjustment	(35,580)	-
Exchange difference due to financial statement translation	<u>191,888</u>	<u>6,987</u>
	<u>10,725,530</u>	<u>164,955</u>
Accumulated amortisation		
Carrying amount - beginning balance	(46,593)	(36,721)
Amortisation	(196,602)	(8,000)
Exchange difference due to financial statement translation	<u>(12,154)</u>	<u>(1,872)</u>
	<u>(255,349)</u>	<u>(46,593)</u>
	<u>10,470,181</u>	<u>118,362</u>

Mining properties represent the balance arising from the acquisition of ownership in Adaro, as a result of the fair valuation of the assets acquired at the date of acquisition.

During 2008, the Group changed its amortisation method for mining properties. Prior to 1 January 2008, mining properties were amortised using the straight line method over the shorter of the remaining life of the mine and the operating period based on the CCA. Since 1 January 2008, mining properties have been amortised based on the unit of production method to reflect the more appropriate pattern of future economic benefit consumed. The change in amortisation method was accounted for as a change in accounting estimates since it reflects the more appropriate pattern of future economic benefit consumed, and as such is accounted for prospectively and resulted in a decrease in amortisation expense of Rp 218,846 for the year ended 31 December 2008.

16. GOODWILL

	<u>2008</u>	<u>2007</u>
Acquisition cost		
Carrying amount - beginning balance	1,262,216	20,296
Addition	7,620,573	1,206,775
Exchange difference due to financial statement translation	<u>671,262</u>	<u>35,145</u>
	<u>9,554,051</u>	<u>1,262,216</u>
Accumulated amortisation		
Carrying amount - beginning balance	(36,684)	(4,788)
Amortisation	(360,233)	(32,027)
Exchange difference due to financial statement translation	<u>(28,715)</u>	<u>131</u>
	<u>(425,632)</u>	<u>(36,684)</u>
	<u>9,128,419</u>	<u>1,225,532</u>

The balance of goodwill arises from the acquisition of ownership in SIS, IBT, Arindo Holdings, Biscayne, AIM, Ariane Capital, Agalia, SDM, Viscaya, MSW and goodwill recorded by Arindo Holdings from the acquisition of Vindoor (refer to Note 3).

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17. TRADE PAYABLES

	<u>2008</u>	<u>2007</u>
Third parties:		
PT Pamapersada Nusantara	736,511	586,280
PT Bukit Makmur Mandiri Utama	300,185	150,366
PT Petronas Niaga Indonesia	260,778	-
PT Batuah Abadi Lines	192,365	224,748
PT United Tractors Tbk	99,771	70,733
PT Toyota Tsusho Indonesia	92,211	-
Siemens Industrial Turbomachinery	78,483	-
Kingland Trading Ltd	58,046	-
Others (each below Rp 50,000)	<u>573,573</u>	<u>473,724</u>
	<u>2,391,923</u>	<u>1,505,851</u>
Related parties:		
Orchard Maritime Logistics Pte Ltd	147,739	108,023
PT Rahman Abdijaya	61,581	58,720
PT Pulau Seroja Jaya	21,882	-
PT Pulau Seroja Jaya Pratama	16,428	-
PT Anugerah Buminusantara Abadi	1,756	6,290
PT Padangbara Sukses Makmur	-	6,749
PT Padang Sejahtera	-	<u>2,540</u>
	<u>249,386</u>	<u>182,322</u>
	<u>2,641,309</u>	<u>1,688,173</u>

Details of trade payables based on currencies are as follows:

	<u>2008</u>	<u>2007</u>
US Dollars	2,240,997	1,356,629
Rupiah	275,766	322,077
Euro	121,965	5,438
Singapore Dollars	1,383	862
Japanese Yen	824	1,691
Australian Dollars	314	1,476
Great Britain Pound Sterling	<u>60</u>	<u>-</u>
	<u>2,641,309</u>	<u>1,688,173</u>

The aging analysis of trade payables is as follows:

	<u>2008</u>	<u>2007</u>
Current and overdue by 1 - 30 days	2,515,484	1,599,051
Overdue by 31 - 60 days	84,333	82,958
Overdue by 61 - 90 days	28,787	432
Overdue by more than 90 days	<u>12,705</u>	<u>5,732</u>
	<u>2,641,309</u>	<u>1,688,173</u>

Trade payables balances mainly arose from the purchase of spare parts, repair and maintenance services, coal and mining services.

Refer to Note 38 for details of related party transactions and balances.

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18. ACCRUED EXPENSES

	<u>2008</u>	<u>2007</u>
Freight cost	191,387	208,035
Accrued interest	44,812	61,523
Others	<u>28,894</u>	<u>36,569</u>
	<u>265,093</u>	<u>306,127</u>

19. SHORT-TERM BANK LOANS

	<u>2008</u>	<u>2007</u>
US Dollars		
DBS Bank Ltd (syndicated loan)	876,000	-
PT Bank Ekspor Indonesia (Persero)	-	329,665
PT Bank CIMB Niaga Tbk	-	94,190
PT Bank DBS Indonesia	-	13,771
PT Bank Mandiri (Persero) Tbk	<u>-</u>	<u>9,419</u>
	<u>876,000</u>	<u>447,045</u>

The interest rates on the short-term bank loans were as follows:

	<u>2008</u>	<u>2007</u>
US Dollars	2.3% - 5%	7.4% - 8.7%

a. DBS Bank Ltd (syndicated loan)

On 29 February 2008, Adaro entered into a syndicated loan facility with several banks (the "Lenders"), DBS Bank Ltd and United Overseas Bank Ltd (the "WHT Lenders"), and PT ANZ Panin Bank and Standard Chartered Bank (Jakarta branch) (the "WHT Neutral Lenders") whereby DBS Bank Ltd acts as the facility agent. Under this agreement, the Lenders agreed to provide a revolving loan facility amounting to US\$80 million which will expire on 28 February 2009. This facility will be charged with interest rates at the London Interbank Offered Rate ("LIBOR") plus a certain percentage. In 2008, Adaro made a full drawdown from this facility. Coaltrade, IBT, ATA, Arindo Holdings, Viscaya and Biscayne (the "Guarantors"), act as guarantors of this syndicated loan facility. In accordance with the terms of the agreement, Adaro is required to maintain certain financial ratios.

This loan has the same significant terms and conditions as the long-term syndicated bank loan from DBS Bank Ltd (refer to Note 23a).

On 24 February 2009, this loan was extended until 25 February 2010. The extended facility shall be repaid as follows:

<u>Repayment date</u>	<u>Repayment installment</u>
	US\$
29 May 2009	20,000,000
31 August 2009	20,000,000
30 November 2009	20,000,000
Final maturity date	20,000,000

IBT and Coaltrade continue to act as Guarantors under the facility, while, ATA, Arindo Holdings, Viscaya and Biscayne have been unconditionally and irrevocably released from all its present and future obligations and liabilities. The Company is to become a new guarantor on this facility.

b. PT Bank Ekspor Indonesia (Persero)

As at 31 December 2007, the outstanding balance was US\$35,000,000. This loan bears interest at the Singapore Interbank Offered Rate ("SIBOR") plus a certain percentage. In August 2008, this loan was fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

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19. SHORT-TERM BANK LOANS (continued)

c. PT Bank CIMB Niaga Tbk

As at 31 December 2007, the outstanding balance was US\$10,000,000. In August 2008, the outstanding loan was fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

d. PT Bank DBS Indonesia

As at 31 December 2007, the outstanding balance was US\$1,462,000. This loan bears interest at SIBOR divided by 0.87 plus a certain percentage for the facility in US Dollars and Certificate of Bank Indonesia ("SBI") rates divided by 0.9 plus a certain percentage for the facility in Rupiah. On 7 April 2008, the outstanding loan was fully paid by the Company.

e. PT Bank Mandiri (Persero) Tbk

As at 31 December 2007, the outstanding balance was US\$1,000,000. This loan bears interest at 8.25%. In August 2008, the outstanding loan was fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

20. OTHER SHORT-TERM LOANS

	<u>2008</u>	<u>2007</u>
US Dollars		
Hurtado Investments Ltd	-	144,582
Lawnfield Pacific Ltd	-	47,095
Total other short-term loans	<u> -</u>	<u>191,677</u>

The interest rates on the other short-term loans are as follows:

	<u>2008</u>	<u>2007</u>
US Dollars	-	8%-17%

a. Hurtado Investments Ltd

As at 31 December 2007, the outstanding loan from Hurtado Investments Ltd ("Hurtado") was US\$15,350,000. This loan bears fixed interest between 8% - 15%.

On 14 January 2008, Hurtado and Joyce Corner International Ltd ("Joyce") entered into a novation agreement, whereby Hurtado assigned the rights and obligations on its loan to SIS amounting to US\$5,000,000 to Joyce as convertible bonds. The convertible bonds were converted into share capital of SIS on 31 March 2008. The remaining outstanding loan from Hurtado was fully paid from refinancing using the Senior Credit Facility in August 2008 (refer to Note 23b).

b. Lawnfield Pacific Ltd

On 31 December 2007, the outstanding loan from Lawnfield Pacific Ltd ("Lawnfield") was US\$5,000,000. This loan bears fixed interest at 17%.

On 14 January 2008, Lawnfield and Joyce entered into a novation agreement, whereby Lawnfield assigned the rights and obligations on its loan to SIS amounting to US\$5,000,000 to Joyce as convertible bonds. The convertible bonds were converted into share capital of SIS on 31 March 2008.

21. ROYALTIES PAYABLE

	<u>2008</u>	<u>2007</u>
Government royalties payable, net	<u>576,500</u>	<u>583,452</u>

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 net sales price which is subject to audit by the Directorate of Mineral and Coal Business Supervision, Department of Energy and Mineral Resources. A part of the settlement of the royalty is offset by Adaro with the VAT input (refer to Note 37b).

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22. FINANCE LEASE PAYABLES

	<u>2008</u>	<u>2007</u>
PT Komatsu Astra Finance	899,235	301,726
VFS International AB	62,445	50,903
PT Caterpillar Finance Indonesia	52,531	-
Others (each below Rp 30,000)	<u>4,250</u>	<u>16,135</u>
Total finance lease payables	<u>1,018,461</u>	<u>368,764</u>
Less:		
Portion due within one year	<u>(334,810)</u>	<u>(125,728)</u>
Non-current portion	<u>683,651</u>	<u>243,036</u>

The future minimum lease payments under the finance lease agreements are as follows:

	<u>2008</u>	<u>2007</u>
Payable not later than 1 year	383,386	152,664
Payable later than 1 year and not later than 2 years	342,763	128,040
Payable later than 2 years	<u>391,567</u>	<u>140,156</u>
	<u>1,117,716</u>	<u>420,860</u>
Less:		
Future financing charges	<u>(99,255)</u>	<u>(52,096)</u>
Present value of minimum finance lease payments	<u>1,018,461</u>	<u>368,764</u>

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 leases.

23. LONG-TERM BANK LOANS

	<u>2008</u>	<u>2007</u>
Rupiah		
PT Bank CIMB Niaga Tbk	<u>25</u>	<u>167</u>
US Dollars		
DBS Bank Ltd (syndicated loan)	6,570,000	5,180,450
Senior Credit Facility (syndicated loan)	2,574,455	-
PT Bank Mandiri (Persero) Tbk	-	423,855
PT Bank NISP Tbk - OCBC Ltd (syndicated loan)	-	357,889
PT Bank CIMB Niaga Tbk	-	164,254
PT Bank Permata Tbk	-	71,726
PT Bank Bukopin Tbk	-	57,507
PT Bank Ekspor Indonesia (Persero)	<u>-</u>	<u>27,472</u>
	<u>9,144,455</u>	<u>6,283,153</u>
Total long-term bank loans	<u>9,144,480</u>	<u>6,283,320</u>
Less:		
Portion due within one year	<u>(818,538)</u>	<u>(747,892)</u>
Non-current portion	<u>8,325,942</u>	<u>5,535,428</u>

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23. LONG-TERM BANK LOANS (continued)

The interest rates on the long-term bank loans are as follows:

	<u>2008</u>	<u>2007</u>
Rupiah	6.9%	15.5% - 19%
US Dollars	3.3% - 6.5%	7.5% - 16.9%

a. DBS Bank Ltd (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"), 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 acts as the facility agent. Based on the agreement, the Lenders agreed to grant bank loan facilities of US\$750 million with a maturity date of December 2012 of which Adaro and Coaltrade obtained facilities of US\$550 million and US\$200 million, respectively. These facilities consist of a term loan facility of US\$650 million and a revolving loan facility of US\$100 million with interest rates at LIBOR plus a certain percentage. These facilities were used to refinance the New Mezzanine Facility, the New Senior Facility and Notes.

The term loan facility is payable quarterly with the first installment on 7 March 2008. The remaining payment schedule for the outstanding term loan is as follows:

<u>Year</u>	<u>Adaro US\$</u>	<u>Coaltrade US\$</u>	<u>Total US\$</u>
2009	36,536,000	13,464,000	50,000,000
2010	36,536,000	13,464,000	50,000,000
2011	116,925,391	43,074,609	160,000,000
2012	<u>175,389,686</u>	<u>64,610,314</u>	<u>240,000,000</u>
	<u>365,387,077</u>	<u>134,612,923</u>	<u>500,000,000</u>

The revolving loan facility shall be paid in full on 7 December 2010, at which point Adaro and Coaltrade will have an option to extend the facility up to 7 December 2012.

In September 2008, the Borrowers made partially repayment amounting to US\$100,000,000 for the term loan facility from the funds earned from the IPO. As at 31 December 2008, the outstanding balances of this loan facility for Adaro and Coaltrade were US\$440,387,077 and US\$159,612,923, respectively (2007: US\$550,000,000 and US\$ nil).

The Company, ATA, IBT, Biscayne, Arindo Holdings, Viscaya and the Borrowers (collectively hereinafter referred to as the "Guarantors"), act as the guarantors of the syndicated loan.

In accordance with the loan agreement, the Borrowers are required to maintain certain financial ratios.

The significant terms and conditions of the syndicated loan are as follows:

- IBT, Adaro and Coaltrade (the "Primary Operating Companies") are not allowed to assign any or part of their assets, dispose of any of their receivables on recourse terms and enter into any arrangement under which money or the benefit of a bank or other account may be applied, set off or made subject to a combination of accounts;
- The Borrowers must ensure that no substantial change is made to the general nature of the business of the Primary Operating Companies;
- No Borrower or Guarantor may enter into any merger, consolidation, amalgamation or reconstruction other than a Permitted Reorganisation, Permitted IPO or any merger, consolidation and amalgamation where the resulting entity becomes a Borrower or a Guarantor. A Permitted IPO is defined as an initial public offering on the Indonesian Stock Exchange or in any internationally reputable stock exchange which results in a certain amount of net proceeds at minimum. Permitted Reorganisation is defined as any reorganisation that does not result into any change of control;
- The Primary Operating Companies may not acquire or subscribe for shares or other ownership interests or securities of any company; acquire any business; or incorporate any company, unless this is done pursuant to the a Permitted Reorganisation or a Permitted IPO or the acquisition is on a basis of non-recourse to Primary Operating Companies or the acquired entity becomes one of the Primary Operating Companies (bound by the restrictions as applicable to the Primary Operating Companies);
- The Primary Operating Companies may not act as creditors for their customers except for the trade credit extended on normal commercial terms and in the ordinary course of the business;
- The Primary Operating Companies may not redeem, purchase, retire or repay any of its shares or share capital; issue any shares or instrument convertible into shares which by their terms are redeemable or carry any right to a return; or issue any shares or share capital to any person other than a Guarantor or a wholly-owned subsidiary of a Guarantor, unless certain conditions are satisfied;

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23. LONG-TERM BANK LOANS (continued)

a. DBS Bank Ltd (syndicated loan) (continued)

- The Primary Operating Companies may distribute any dividends in connection with a Permitted Reorganisation or a Dedicated Dividend (where the dividend received is used to repay the intercompany loans), where the dividends are distributed from their net profit plus any retained earnings that should not exceed 50% of those companies' net profit. Furthermore, any dividend from IBT needs to be first utilised towards repayment of the intercompany loans; and
- The Primary Operating Companies cannot make amendments to their Articles of Association that result in changes of control or limit their authority to obtain the loan.

b. Senior Credit Facility (syndicated loan)

On 13 August 2008, SIS, as a Borrower, and the Company, as Guarantor, entered into a Senior Credit Facility agreement of US\$300,000,000 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), Overseas-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 DBS as account banks.

This facility has a final maturity date of 30 June 2013 and is payable on a quarterly basis. This facility bears interest at LIBOR plus a certain percentage. In 2008, SIS made a drawdown amounting to US\$240,000,000 and repayment amounting to US\$4,890,000.

This credit facility was used for the purpose of refinancing all the amounts due to PT Bank Bukopin Tbk ("Bukopin"), BEI, PT Bank CIMB Niaga Tbk ("Niaga"), PT Bank Permata Tbk ("Permata"), Hurtado, Mandiri, Eastshine Global Ltd and Great Oasis Equities Ltd ("GOE"), and to finance the capital expenditures, working capital and acquisition of shares in SMP.

Under this senior credit facility agreement, SIS is required to maintain certain financial ratios and comply with the following significant covenants:

- SIS is not allowed to create any security interest in any of SIS' assets (finance leases and trade facilities are exempted) and disposing of all or any part of its assets;
- SIS is not allowed to incur any financial indebtedness or entering into any off-balance sheet arrangement (finance leases and trade facilities are exempted);
- SIS, without prior written consent of the lenders, cannot make any substantial change to its Articles of Association that may materially and adversely affect the lenders or any substantial change to the nature of the business of SIS and its subsidiary; and enter into any amalgamation, demerger, merger, consolidation or reconstruction;
- SIS cannot act as a creditor in respect of any financial indebtedness or any trade credit extended to any of its customers, except for any trade credit extended on normal commercial terms and in the ordinary course of the business;
- SIS may not redeem, purchase, defease, retire, or repay any of its shares or share capital or resolve to do so;
- SIS cannot issue any shares which by terms are redeemable or carrying any right to a return prior to the discharge date or any share or share capital to any person other than to SIS' parent company;
- SIS, without consent of the facility agent, is not allowed to terminate, suspend or abandon, assign or transfer all or any part of an existing services contract, the new services contract and any other arrangement designated as such by the Borrower and the Facility Agent (collectively referred to as "Principal Agreements"), except in accordance with the express terms of the Finance Documents or Principal Agreement; and
- SIS is not allowed to acquire any business, or subscribe for shares or other ownership interest in or securities of any company (except for share subscription at the maximum of US\$1,500,000 in the equity of SMP) or other persons and incorporate any company or other persons.

As at 31 December 2008, the outstanding balance of this facility was US\$235,110,000 (2007: US\$ nil), which is repayable according to the following schedule:

Year	Payment schedule (US\$)
2009	24,750,000
2010	46,200,000
2011	50,850,000
2012	53,250,000
2013	<u>60,060,000</u>
	<u>235,110,000</u>

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23. LONG-TERM BANK LOANS (continued)

b. Senior Credit Facility (syndicated loan) (continued)

This loan is collateralised by:

- all trade receivables owned by SIS;
- all equipments, machinery, vehicles, and other moveable goods owned by SIS amounting to US\$150 million;
- insurance claim on all equipments, machinery, vehicle and other moveable goods owned by SIS;
- all Principal Agreements owned by SIS;
- land and buildings owned by SMP; and
- corporate guarantee from the Company.

c. PT Bank Mandiri (Persero) Tbk

As at 31 December 2007, the outstanding balance was US\$45,000,000. This loan bears interest at 7.85%. In August 2008, the outstanding loan was fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

d. PT Bank NISP Tbk and Overseas-Chinese Banking Corporation Ltd (syndicated loan)

As at 31 December 2007, the outstanding balances of Facility A and Facility B were US\$27,996,500 and US\$10,000,000, respectively. These loans bear interest at SIBOR plus a certain percentage. In August 2008, these outstanding loans were fully paid through refinancing from Mandiri, which subsequently was fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

e. PT Bank CIMB Niaga Tbk

PT Saptaindra Sejati

As at 31 December 2007, the outstanding balance of all credit facilities from Niaga was US\$16,373,480. These credit facilities bear fixed interest at a rate of 7.25%. In August 2008, all outstanding loan facilities from Niaga were fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

PT Satya Mandiri Persada

As at 31 December 2007, the outstanding balance of this credit facility was US\$1,065,012. This loan bears fixed interest at 7.75% which was revised on 15 May 2008 to 7.25%. In August 2008, the outstanding facility was fully paid by SMP.

Car Loan Facility

This loan is collateralised by the vehicles purchased using the loan. As at 31 December 2008, the outstanding balance of the car loan facility was Rp 25 (2007: Rp 167).

f. PT Bank Permata Tbk

As at 31 December 2007, the outstanding balance of all credit facilities from Permata was US\$7,615,020. These credit facilities bear fixed interest at 7.25% which was revised in July 2008 to 7.8%. In August 2008, all outstanding loan facilities from Permata were fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

g. PT Bank Bukopin Tbk

As at 31 December 2007, the outstanding balance of all credit facilities from Bukopin was US\$6,105,399. These credit facilities bear fixed interest at 8.25% which was revised in February 2008 to 7.25%. In August 2008, all outstanding facilities from Bukopin were fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

h. PT Bank Ekspor Indonesia (Persero)

As at 31 December 2007, the outstanding balance was US\$2,916,667. This credit facility bears fixed interest at 8.1%. In August 2008, the outstanding facility was fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

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24. OTHER LONG-TERM LOANS - THIRD PARTIES

	<u>2008</u>	<u>2007</u>
Rupiah		
Star Invest Corp	-	12,000
US Dollars		
Star Invest Corp	-	11,753
PT Paiton Energy	-	6,594
	-	18,347
Total other long-term loans	-	30,347
Less:		
Portion due within one year	-	(6,594)
Non-current portion	-	23,753

The interest rates on other long-term loans are as follows:

	<u>2008</u>	<u>2007</u>
US Dollars	-	6.4%-13.5%
Rupiah	-	15%

a. Star Invest Corp

As at 31 December 2007, the outstanding balance of the loans were Rp 12,000 and US\$1,247,823. The loan facilities bear annual fixed interest rate and three-month SIBOR plus a certain percentage, respectively. In December 2008, all loan facilities were fully repaid by the Company.

b. PT Paiton Energy

A US\$7,000,000 non-interest bearing loan was granted by PT Paiton Energy ("PE") to Adaro, to defray the construction costs associated with the Kelanis facility. The loan was repayable by Adaro in ten equal annual instalments commencing on 30 September 1999 which were to offset against service fees payable by PE to Adaro for exclusive use of the Kelanis facility under the Use of Kelanis Facility Agreement. As at 31 December 2007, the outstanding balance under this facility was US\$700,000. In December 2008, the loan facility from PE was fully repaid by Adaro.

25. DERIVATIVE INSTRUMENT

On 19 March 2008, Adaro entered into an interest rate swap contract with DBS Bank Ltd, with notional amounts of US\$600,000,000. The transaction underlying this contract is the syndicated credit facility agreement amounting to US\$750,000,000 (refer to Note 23a). Based on this transaction, DBS Bank Ltd receives payments of quarterly fixed interest at a rate of 2.945% per annum and pays to Adaro a floating interest rate of US\$-LIBOR. This contract will be due on 7 December 2012. The notional amount of US\$600,000,000 will be reduced gradually to US\$70,588,235 on 7 December 2012. This transaction is an effective cashflow hedge for purposes of the accounting standards. As at 31 December 2008, this contract had a negative fair value of US\$19,063,426, net of current portion of US\$4,667,796.

26. SUBORDINATED LOAN

	<u>2008</u>	<u>2007</u>
US Dollars		
Third party:		
Great Oasis Equities Ltd	-	94,190

On 20 November 2006, SIS and GOE entered into subordinated loan agreements, whereby GOE agreed to subordinate its loan amounting to US\$8,000,000 and US\$2,000,000 to any of SIS' debt to any other party. The loan bears interest at rate of 12% per annum. In August 2008, this subordinated loan was fully paid through refinancing using the Senior Credit Facility (refer to Note 23b).

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27. ACCRUED STRIPPING COSTS

	<u>2008</u>	<u>2007</u>
Carrying amount - beginning balance	(421,522)	(4,273)
Amortisation	29,370	275
Exchange difference due to financial statement translation	<u>(64,662)</u>	<u>(181)</u>
	<u>(456,814)</u>	<u>(4,179)</u>
Movement of accrued stripping costs:		
Movement	(123,388)	(404,803)
Exchange difference due to financial statement translation	<u>(16,189)</u>	<u>(12,540)</u>
	<u>(139,577)</u>	<u>(417,343)</u>
	<u>(596,391)</u>	<u>(421,522)</u>

The actual average stripping ratio for the Tutupan area for the year ended 31 December 2008 was 4.14:1 (2007: 3.3:1), and for the South Paringin area it was nil (2007: nil). The planned stripping ratio as at 31 December 2008 was 4.25:1 (2007: 4.25:1).

28. MINORITY INTEREST

a. Minority interest in equity of subsidiaries

	<u>2008</u>	<u>2007</u>
Adaro		
Percentage of minority interest	-	33.93%
Carrying amount - beginning balance	341,211	465,720
Share in net income of subsidiaries	-	111,482
Share in net income of subsidiary before the additional acquisition by the Company	154,019	-
Decrease due to fair value loss from cashflow hedges	(716)	-
Decrease due to restatement in retained earnings of subsidiaries	-	(258,442)
Exchange difference due to financial statement translation	(5,688)	22,451
Decrease due to acquisition of minority interest by the Group	<u>(488,826)</u>	<u>-</u>
	<u>-</u>	<u>341,211</u>
SIS		
Percentage of minority interest	14.08%	18.93%
Carrying amount - beginning balance	93,056	54,066
Share in net (loss)/income of subsidiaries	(64,369)	450
Increase due to issuance of new shares	12,978	39,607
Decrease due to acquisition of minority interest by the Group	(24,382)	-
(Decrease)/increase due to unrealised (loss)/gain from available-for-sale investments	(29)	146
Decrease due to change in equity of subsidiaries	<u>-</u>	<u>(1,213)</u>
	<u>17,254</u>	<u>93,056</u>
Biscayne		
Percentage of minority interest	-	36.06%
Carrying amount - beginning balance	122,457	-
Minority interest at acquisition	-	66,640
Share in net income of subsidiaries	-	51,604
Share in net income of subsidiary before additional acquisition by the Group	23,731	-
Exchange difference due to financial statement translation	(9,073)	4,213
Decrease due to acquisition of minority interest by the Group	<u>(137,115)</u>	<u>-</u>
	<u>-</u>	<u>122,457</u>

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28. MINORITY INTEREST (continued)

a. Minority interest in equity of subsidiaries (continued)

	<u>2008</u>	<u>2007</u>
Arindo Holdings		
Percentage of minority interest	-	-
Minority interest at acquisition	(45,842)	-
Share in net loss of subsidiaries	(32,777)	-
Exchange difference due to financial statement translation	1,075	-
Decrease due to acquisition of minority interest by the Group	<u>77,544</u>	<u>-</u>
	<u>-</u>	<u>-</u>
NPE		
Percentage of minority interest	-	30.00%
Carrying amount - beginning balance	1,500	-
Reversal due to disposal of subsidiary	(1,500)	-
Minority interest at acquisition	<u>-</u>	<u>1,500</u>
	<u>-</u>	<u>1,500</u>
MSW		
Percentage of minority interest	0.08%	0.41%
Carrying amount - beginning balance	177	16
Share in net income of subsidiaries	(7)	(9)
Increase due to change in equity of subsidiary	<u>18</u>	<u>170</u>
	<u>188</u>	<u>177</u>
SMP		
Percentage of minority interest	0.01%	0.01%
Carrying amount - beginning balance	<u>2</u>	<u>2</u>
	<u>2</u>	<u>2</u>
TB		
Percentage of minority interest	-	-
Carrying amount - beginning balance	-	-
Share in net loss of subsidiary	-	(637)
Share in net loss of subsidiary recognised by the Group	<u>-</u>	<u>637</u>
	<u>-</u>	<u>-</u>
Arindo Global		
Percentage of minority interest	33.00%	-
Carrying amount - beginning balance	-	-
Minority interest at acquisition	50	-
Share in net income of subsidiaries	775	-
Exchange difference due to financial statement translation	<u>110</u>	<u>-</u>
	<u>935</u>	<u>-</u>
PA		
Percentage of minority interest	-	-
Carrying amount - beginning balance	-	123
Reversal due to disposal of subsidiary	<u>-</u>	<u>(123)</u>
	<u>-</u>	<u>-</u>

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28. MINORITY INTEREST (continued)

a. Minority interest in equity of subsidiaries (continued)

	<u>2008</u>	<u>2007</u>
PS		
Percentage of minority interest	-	-
Carrying amount - beginning balance	-	407
Share in net loss of subsidiary	-	(9)
Reversal due to disposal of subsidiary	-	(398)
	-	-
PB		
Percentage of minority interest	-	-
Carrying amount - beginning balance	-	123
Reversal due to disposal of subsidiary	-	(123)
	-	-
PM		
Percentage of minority interest	-	-
Carrying amount - beginning balance	-	79
Share in net loss of subsidiary	-	(2)
Reversal due to disposal of subsidiary	-	(77)
	-	-
AK		
Percentage of minority interest	-	-
Carrying amount - beginning balance	-	10
Reversal due to disposal of subsidiary	-	(10)
	-	-
KBS		
Percentage of minority interest	-	-
Carrying amount - beginning balance	-	2
Reversal due to disposal of subsidiary	-	(2)
	-	-
Total	<u>18,379</u>	<u>558,403</u>

b. Minority interest in net (loss)/income of subsidiaries

	<u>2008</u>	<u>2007</u>
Adaro	-	111,482
SIS	(64,369)	450
Biscayne	-	51,604
Arindo Global	775	-
MSW	(7)	(9)
PS	-	(9)
PM	-	(2)
	<u>(63,601)</u>	<u>163,516</u>

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29. SHARE CAPITAL

Based on the Notarial Deed of Humberg Lie, S.H., S.E., MKn., No. 68 dated 31 January 2008, all shareholders in the Extraordinary General Meeting of Shareholders on 24 January 2008 agreed to issue 221,851 new shares with a par value of Rp 100 (full amount) per share, or a total nominal value amounting to Rp 22,185 registered on behalf of SSB and PCI with a total nominal value amounting to Rp 11,092.55 each. This deed was approved by the Minister of Law and Human Rights of the Republic of Indonesia in Decree No. AHU-AH.01.10-2652 dated 31 January 2008. The new share issuance was to increase the Company's ownership in MSW in January 2008 (refer to Note 3c).

Based on the Notarial Deed of Robert Purba, S.H. No. 110, dated 15 July 2008, the shareholders in the circular shareholders resolution agreed to increase issued and fully paid shares of 11,139,331,000 shares after the IPO. As such, the total of issued and fully paid shares increased to 31,985,962,000.

Shareholders	2008		
	Number of shares	Percentage of ownership (%)	Amount (Rp)
PT Saratoga Investama Sedaya	4,775,524,806	14.93	477,552
PT Triputra Investindo Arya	4,268,347,697	13.34	426,834
PT Persada Capital Investama	3,520,995,975	11.01	352,100
GS NY SEG AC	3,180,703,000	9.94	318,070
Garibaldi Thohir (President Director)	2,496,384,062	7.80	249,639
PT Trinugraha Thohir	2,496,384,062	7.80	249,639
UBS AG Singapore S/A Atticus Investments Pte Ltd	1,835,021,500	5.74	183,502
Edwin Soeryadjaya (President Commissioner)	1,375,877,646	4.30	137,588
Theodore Permadi Rachmat (Vice President Commissioner)	724,420,430	2.27	72,442
Sandiaga Salahuddin Uno (Director)	660,838,202	2.07	66,084
Ir. Subianto (Commissioner)	416,932,620	1.30	41,693
PT Saratoga Sentra Business	110,925,500	0.35	11,093
Chia Ah Hoo (Director)	16,584,000	0.05	1,658
David Tendian (Director)	11,150,000	0.03	1,115
Andre J. Mamuaya (Director)	10,363,000	0.03	1,036
Alastair Bruce Grant (Director)	8,454,500	0.03	845
Ir. Palgunadi T. Setiawan (Independent Commissioner)	909,000	0.00	91
Public	6,076,146,000	19.01	607,615
	<u>31,985,962,000</u>	<u>100.00</u>	<u>3,198,596</u>
Shareholders	2007		
	Number of shares	Percentage of ownership (%)	Amount (Rp)
PT Saratoga Investama Sedaya	4,775,524,806	23.15	477,552
PT Triputra Investindo Arya	4,268,347,697	20.70	426,834
PT Persada Capital Investama	3,410,070,475	16.53	341,007
Garibaldi Thohir	2,496,384,062	12.11	249,639
PT Trinugraha Thohir	2,496,384,062	12.11	249,639
Edwin Soeryadjaya (President Commissioner)	1,375,877,646	6.67	137,588
Theodore Permadi Rachmat (Commissioner)	724,420,430	3.51	72,442
Sandiaga Salahuddin Uno (Director)	660,838,202	3.20	66,084
Ir. Subianto (Commissioner)	416,932,620	2.02	41,693
	<u>20,624,780,000</u>	<u>100.00</u>	<u>2,062,478</u>

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30. ADDITIONAL PAID-IN CAPITAL

	<u>2008</u>	<u>2007</u>
Additional paid-in capital from IPO	11,139,331	-
Share issuance costs	<u>(406,668)</u>	<u>-</u>
Additional paid-in-capital	<u>10,732,663</u>	<u>-</u>

31. DIFFERENCE IN VALUE FROM RESTRUCTURING TRANSACTIONS OF ENTITIES UNDER COMMON CONTROL

	<u>2008</u>	<u>2007</u>
Acquisition of SIS	51,370	108,640
Acquisition of ATA	(240,960)	97,569
Acquisition of MSW	(2,253)	20,907
Disposal of PA	-	16
Disposal of PS	-	31
Disposal of PB	-	16
Disposal of PM	-	1,272
Disposal of TB	-	56,367
Disposal of AK	-	(4,038)
Disposal of KBS	-	(1,009)
Disposal of BAT	-	(5,437)
Disposal of ABA	<u>-</u>	<u>50,785</u>
	<u>(191,843)</u>	<u>325,119</u>

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 and the difference between sales price and book value of net assets disposed of, incurred through restructuring transactions among entities under common control (refer to Note 3).

The balance of difference in value from restructuring transactions of entities under common control from the disposal of PA, PS, PB, PM, TB, AK, KBS, BAT and ABA was recognised as realised gains or losses in 2008, in relation to the loss of under common control status between the transacting entities.

32. DIFFERENCE FROM EQUITY CHANGES IN SUBSIDIARIES AND ASSOCIATES

	<u>2008</u>	<u>2007</u>
ATA		
Carrying amount - beginning balance	<u>(59,831)</u>	<u>(59,831)</u>
	<u>(59,831)</u>	<u>(59,831)</u>
SIS		
Carrying amount - beginning balance	(1,831)	-
Changes in equity related to the new shares issuance for minority shareholders	6,019	-
Changes in equity related to difference in value from restructuring transactions of entities under common control	<u>-</u>	<u>(1,831)</u>
	<u>4,188</u>	<u>(1,831)</u>
	<u>(55,643)</u>	<u>(61,662)</u>
Deficit in difference from equity changes in subsidiaries and associates charged to retained earnings	61,662	61,662
Reversal of difference from equity changes in subsidiaries and associates which was previously charged to retained earnings	<u>(1,831)</u>	<u>-</u>
	<u>4,188</u>	<u>-</u>

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33. GENERAL RESERVE

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. As at 31 December 2008, the Company had not yet established its general reserve in accordance to the law.

34. REVENUE

	<u>2008</u>	<u>2007</u>
Coal mining and trading		
Export		
- Third parties	12,918,550	5,553,050
- Related parties	-	1,938,119
	<u>12,918,550</u>	<u>7,491,169</u>
Domestic		
- Third parties	3,878,546	3,307,902
- Related parties	260	-
	<u>3,878,806</u>	<u>3,307,902</u>
	<u>16,797,356</u>	<u>10,799,071</u>
Mining services		
Domestic		
- Third parties	471,834	206,121
- Related parties	597,416	466,494
	<u>1,069,250</u>	<u>672,615</u>
Others		
Export		
- Third parties	35,132	-
- Related parties	2,135	-
	<u>37,267</u>	<u>-</u>
Domestic		
- Third parties	188,629	113,241
- Related parties	-	7,713
	<u>188,629</u>	<u>120,954</u>
	<u>225,896</u>	<u>120,954</u>
Total revenue	<u>18,092,502</u>	<u>11,592,640</u>

Details of the customers having transactions of more than 10% of total consolidated net revenue:

	<u>2008</u>	<u>2007</u>
Coaltrade Services International Pte Ltd	-	1,945,832

Since 2008, Coaltrade has been consolidated into the Group's consolidated financial statements, therefore balances and transactions between Coaltrade and Adaro have been eliminated.

Refer to Note 38 for details of related party transactions and balances.

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35. COST OF REVENUE

	<u>2008</u>	<u>2007</u>
Coal mining and trading		
Mining	5,803,384	4,074,075
Coal processing	<u>773,559</u>	<u>621,122</u>
Total production costs	<u>6,576,943</u>	<u>4,695,197</u>
Freight and handling costs	2,924,154	2,392,865
Royalties to Government	1,458,307	871,287
Purchase of coal	647,635	312,650
Depreciation and other amortisation	210,309	202,788
Amortisation of mining properties	196,602	8,000
Coal inventory:		
Beginning balance	129,532	140,561
Acquisition of subsidiary	30,665	-
Ending balance	(54,979)	(129,532)
Exchange difference due to financial statements translation	<u>10,945</u>	<u>7,110</u>
Decrease in coal inventory	<u>116,163</u>	<u>18,139</u>
Total cost of revenue - coal mining and trading	<u>12,130,113</u>	<u>8,500,926</u>
Mining services		
Consumables	368,331	228,170
Depreciation and amortisation	165,899	90,442
Employee costs	126,473	72,728
Repair and maintenance	111,675	63,165
Subcontractors	57,956	37,379
Other costs (each below Rp 30,000)	<u>67,501</u>	<u>38,983</u>
Total cost of revenue - mining services	<u>897,835</u>	<u>530,867</u>
Others		
Consumables	72,192	6,226
Depreciation and amortisation	20,280	11,695
Other costs (each below Rp 30,000)	<u>28,850</u>	<u>39,509</u>
Total cost of revenue - others	<u>121,322</u>	<u>57,430</u>
Total cost of revenue	<u>13,149,270</u>	<u>9,089,223</u>

Details of the suppliers having transactions of more than 10% of total consolidated cost of revenue:

	<u>2008</u>	<u>2007</u>
Third party:		
PT Pamapersada Nusantara	<u>1,757,246</u>	<u>1,826,237</u>

Refer to Note 38 for details of related party transactions and balances.

36. OPERATING EXPENSES

a. Selling and marketing

	<u>2008</u>	<u>2007</u>
Sales commission	503,614	159,808
Others (each below Rp 20,000)	<u>24,702</u>	<u>13,365</u>
	<u>528,316</u>	<u>173,173</u>

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36. OPERATING EXPENSES (continued)

b. General and administration

	<u>2008</u>	<u>2007</u>
Employee costs	105,668	43,996
Others (each below Rp 30,000)	<u>97,390</u>	<u>33,729</u>
	<u>203,058</u>	<u>77,725</u>

37. TAXATION

a. Prepaid taxes

	<u>2008</u>	<u>2007</u>
Company		
Corporate income tax	<u>1,878</u>	-
Subsidiaries		
Corporate income tax	192,795	82,126
VAT	<u>92,153</u>	<u>71,871</u>
	<u>284,948</u>	<u>153,997</u>
	<u>286,826</u>	<u>153,997</u>

b. Recoverable taxes

	<u>2008</u>	<u>2007</u>
VAT input	429,690	210,171
Vehicle fuel tax receivable	130,032	-
Deposit to Government	<u>150,000</u>	-
	<u>709,722</u>	<u>210,171</u>

VAT input receivable represents the balance of VAT input not yet offset against the production sharing payment (government royalty) due to the Government of Indonesia.

Pursuant 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 since 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 2008, Adaro has offset the claim for recoverable VAT input amounting to US\$50.9 million (31 December 2007: US\$39.7 million, 2006: US\$36.4 million, 2005: US\$20.6 million, 2004: US\$22.4 million, 2003: US\$18.9 million, 2002: US\$25.5 million and 2001: US\$0.9 million) against royalty payments due to the Government of Indonesia. Until 31 December 2008, Adaro has been offsetting the claim for recoverable VAT input against royalty payments totalling US\$215.3 million or equivalent to Rp 1,990,069.

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 shall pay and assume and hold Adaro harmless from this new tax.

In accordance with the CCA, 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 result from an adverse decision from the Government regarding this matter.

In 2008, the Government of Indonesia through the Financial and Development Supervisory Board ("BPKP") commenced an audit to resolve this dispute on VAT paid offsetting against royalties payable for the period from 2001 to 2007. However, as at the date of this report, the formal result of this audit has not been issued by the Government of Indonesia. In September 2008, Adaro has placed a fund amounting to Rp 150,000 as a deposit in relation to the settlement of this dispute. Refer to Note 42f for further details.

Vehicle fuel tax (Pajak Bahan Bakar Kendaraan Bermotor/"PBBKB") receivable represents the balance of PBBKB that may be compensated by the Government of Indonesia, since PBBKB is a new tax according to the provisions of the CCA.

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37. TAXATION (continued)

c. Taxes payable

	<u>2008</u>	<u>2007</u>
The Company		
Income tax articles 23 and 26	37	7,438
Income tax article 21	876	387
Income tax article 15	-	17
VAT output	<u>365</u>	<u>-</u>
	<u>1,278</u>	<u>7,842</u>
Subsidiaries		
Income tax articles 23 and 26	28,946	98,246
Income tax article 21	5,214	4,569
Final tax article 4(2)	124	13
Income tax article 15	17	26
VAT	156	3,003
Corporate income tax	<u>1,115,479</u>	<u>906,346</u>
	<u>1,149,936</u>	<u>1,012,203</u>
	<u>1,151,214</u>	<u>1,020,045</u>

d. Income tax expense

	<u>2008</u>	<u>2007</u>
The Company		
Current	-	-
Deferred	<u>9,268</u>	<u>(7,729)</u>
	<u>9,268</u>	<u>(7,729)</u>
Subsidiaries		
Current	1,635,581	722,215
Deferred	<u>(42,873)</u>	<u>(57,559)</u>
	<u>1,592,708</u>	<u>664,656</u>
Consolidated		
Current	1,635,581	722,215
Deferred	<u>(33,605)</u>	<u>(65,288)</u>
	<u>1,601,976</u>	<u>656,927</u>

The reconciliation between profit before income tax and estimated taxable income is as follows:

	<u>2008</u>	<u>2007</u>
Consolidated profit before income tax	2,924,704	947,025
Profit before income tax - subsidiaries	(2,811,424)	(986,690)
Adjusted for consolidation elimination	<u>694,235</u>	<u>87,740</u>
Profit before income tax - the Company	<u>807,515</u>	<u>48,075</u>
Temporary difference:		
Provision for employee benefits	<u>-</u>	<u>672</u>

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37. TAXATION (continued)

d. Income tax expense (continued)

	<u>2008</u>	<u>2007</u>
Permanent difference:		
Income subject to final tax	(6,397)	(221)
Income from investments in subsidiaries and associates	(754,755)	(84,666)
Gain from sale of investments in subsidiaries	(38,279)	-
Non-deductible expenses	<u>8,124</u>	<u>9,607</u>
	<u>(791,307)</u>	<u>(75,280)</u>
Tax loss used	16,208	(26,533)
	<u>(16,208)</u>	<u>-</u>
Tax loss - the Company	<u>-</u>	<u>(26,533)</u>
Current income tax - the Company	-	-
Current income tax - subsidiaries	<u>1,635,581</u>	<u>722,215</u>
Consolidated current income tax	<u>1,635,581</u>	<u>722,215</u>

Current income tax of subsidiaries as at 31 December 2008, after accounting for extraordinary item (refer to Note 44), was as follows:

	<u>2008</u>
Current income tax from ordinary activity	1,635,581
Current income tax - extraordinary item	<u>(304,970)</u>
Total current income tax	<u>1,330,611</u>

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 Company's tax losses carried forward, which can be offset against future taxable income for periods of five years, were incurred in the following fiscal periods:

<u>Year</u>	<u>Total</u>
2005	43,708
2006	7,427
2007	<u>26,533</u>
	<u>77,668</u>

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:

	<u>2008</u>	<u>2007</u>
Consolidated profit before income tax	2,924,704	947,025
Profit before income tax - subsidiaries	(2,811,424)	(986,690)
Adjusted for consolidation elimination	<u>694,235</u>	<u>87,740</u>
Profit before income tax - the Company	<u>807,515</u>	<u>48,075</u>
Income tax calculated at 30%	242,255	14,422
Income subject to final tax	(1,919)	(66)
Non-deductible expenses	2,437	2,882
Income from investments in subsidiaries and associates	(226,427)	(25,400)
Gain from sales of investments in subsidiaries	(11,484)	-
Adjustment related to the changes of income tax rate	3,884	-
Unrecognised deferred tax assets	<u>522</u>	<u>433</u>
Income tax expense - the Company	9,268	(7,729)
Income tax expense - subsidiaries	<u>1,592,708</u>	<u>664,656</u>
Consolidated income tax expense	<u>1,601,976</u>	<u>656,927</u>

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37. TAXATION (continued)

e. Deferred tax assets

	<u>2008</u>	<u>2007</u>
The Company		
Tax loss carried forward	19,417	28,163
Provision for employee benefits	-	522
Deferred tax assets at the end of the year	<u>19,417</u>	<u>28,685</u>
Deferred tax assets at the beginning of the year	28,685	20,956
Charged to consolidated statement of income	<u>(9,268)</u>	<u>7,729</u>
Deferred tax assets at the end of the year	<u>19,417</u>	<u>28,685</u>
Subsidiaries		
Tax loss carried forward	496,885	148,850
Provision for employee benefits	4,572	4,636
Difference between commercial and tax net book value of fixed assets	(8,048)	2,887
Difference in fixed assets under finance lease and lease instalments	<u>(16,471)</u>	<u>(23,520)</u>
	476,938	132,853
Unrecognised deferred tax assets	<u>(452,531)</u>	<u>(124,715)</u>
Deferred tax assets at the end of the year	<u>24,407</u>	<u>8,138</u>
Deferred tax assets at the beginning of the year	8,138	12,743
Charged to consolidated statement of income	16,269	6,970
Reversal of deferred tax assets due to disposal of subsidiary	-	(288)
Loss on investments in subsidiary which is charged to equity	<u>-</u>	<u>(11,287)</u>
Deferred tax assets at the end of the year	<u>24,407</u>	<u>8,138</u>
Consolidated		
Tax loss carried forward	516,302	177,013
Provision for employee benefits	4,572	5,158
Difference between commercial and tax net book value of fixed assets	(8,048)	2,887
Difference in fixed assets under finance lease and lease instalments	<u>(16,471)</u>	<u>(23,520)</u>
	496,355	161,538
Unrecognised deferred tax assets	<u>(452,531)</u>	<u>(124,715)</u>
Deferred tax assets at the end of the year	<u>43,824</u>	<u>36,823</u>
Deferred tax assets at the beginning of the year	36,823	33,699
Charged to consolidated statement of income	7,001	14,699
Reversal of deferred tax assets due to disposal of subsidiary	-	(288)
Loss on investments in subsidiaries which is charged to equity	<u>-</u>	<u>(11,287)</u>
Deferred tax assets at the end of the year	<u>43,824</u>	<u>36,823</u>

Although a portion of deferred tax assets are not recognised, management believes that it is more likely than not that the result of future operations will generate sufficient taxable income to realise the deferred tax assets. The realisation of deferred tax assets is dependent to the ability of the Company to generate sufficient taxable income in the future.

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37. TAXATION (continued)

f. Deferred tax liabilities

	<u>2008</u>	<u>2007</u>
Subsidiaries		
Provision for employee benefits	2,212	2,283
Mining properties	(2,628,436)	(53,263)
Difference between commercial and tax net book value of fixed assets	(474,139)	(383,675)
Deferred exploration and development expenditure	<u>(43,943)</u>	<u>(39,267)</u>
Deferred tax liabilities at the end of the year	<u>(3,144,306)</u>	<u>(473,922)</u>
Deferred tax liabilities at the beginning of the year	(473,922)	(499,799)
Charged to consolidated statement of income	26,604	50,589
Acquisition of subsidiaries	(2,606,840)	(4,788)
Reversal related to the changes of income tax rate in mining properties	35,580	-
Exchange difference due to financial statements translation	<u>(125,728)</u>	<u>(19,924)</u>
Deferred tax liabilities at the end of the year	<u>(3,144,306)</u>	<u>(473,922)</u>

g. Administration

Under the taxation laws of Indonesia, the companies within the Group calculate, submit, and pay tax returns 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

On 13 August 2008 and 12 September 2008, SIS received tax assessment letters for various taxes for the fiscal year 2006, which showed SIS as having overpaid corporate income tax and VAT amounting to Rp 15,486 and Rp 46,471, respectively, and underpaid income tax articles 21 and 23 amounting to Rp 5 and Rp 142, respectively. Management of SIS disagreed with the tax assessment of corporate income tax and income tax article 23 and therefore filed objection letters to the DGT against the tax assessment amounting Rp 3,421.

As at the date this report is issued, SIS is being audited for all taxes for the fiscal year 2007 and has not yet received the audit result. Management is of the opinion that the audit result will not have a material impact on SIS' financial position and cash flows.

i. Changes to taxation law

In September 2008, the House of Representatives approved amendments to the income tax law. These were signed into law by the President on 23 September 2008 and hence are considered enacted. One of these amendments stipulates that the income tax for corporations will be set at a flat rate of 28% commencing 1 January 2009 and further reduced to 25% from 1 January 2010.

The reduction in tax rates does not impact on deferred tax balances that are expected to be reversed prior to 1 January 2009. However, it will impact on subsequent reversals.

The Group has performed an analysis of the periods in which its deferred tax assets and liabilities will be reversed and has revalued its deferred tax assets and liabilities accordingly. The net impact is a reduction in the balance of net deferred tax asset as at 31 December 2008 of Rp 6,862. This amount has been reflected in these consolidated financial statements.

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38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The transactions with related parties are conducted on an arm's length basis.

Details of the balances and transactions with related parties are as follows:

a. Trade receivables from related parties

	<u>2008</u>	<u>2007</u>
PT Berau Coal	215,591	172,758
Coaltrade Services International Pte Ltd	-	148,306
PT Interex Sacra Raya	-	75,507
	<u>215,591</u>	<u>396,571</u>
Total	<u>215,591</u>	<u>396,571</u>
As a percentage of total assets	<u>0.64%</u>	<u>2.70%</u>

b. Other receivables from related parties

	<u>2008</u>	<u>2007</u>
Rupiah		
PT Karunia Barito Sejahtera	-	20,159
PT Anugerah Buminusantara Abadi	2,243	-
PT Interex Sacra Raya	-	1,500
	<u>2,243</u>	<u>21,659</u>
US Dollars		
PT Persada Capital Investama	-	2,430
PT Viscaya Investments	-	984
PT Bahtera Alam Tamiang	-	942
Rachmalta Investments Ltd	-	113
	<u>-</u>	<u>4,469</u>
Total	<u>2,243</u>	<u>26,128</u>
As a percentage of total assets	<u>0.01%</u>	<u>0.18%</u>

Receivable from KBS represent receivables from the disposal of ABA, which was paid in 2008.

Other receivables from related parties represents reimbursement of expenses incurred on behalf of related parties.

c. Loans to related parties

	<u>2008</u>	<u>2007</u>
Rupiah		
PT Alhasanie	-	4,033
US Dollars		
PT Viscaya Investments	-	1,723,125
Rachmalta Investments Ltd	-	335,531
Arindo Holdings (Mauritius) Ltd	-	2,394,241
PT Alhasanie	-	41,086
	<u>-</u>	<u>4,498,016</u>
Total	<u>-</u>	<u>4,498,016</u>
As a percentage of total assets	<u>-</u>	<u>30.62%</u>

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38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

c. Loans to related parties (continued)

The interest rates on loans to related parties are as follows:

	<u>2008</u>	<u>2007</u>
Rupiah	-	12%
US Dollars	-	4.0%-11.6%

PT Viscaya Investments

On 2 November 2007, Adaro provided an unsecured loan facility of US\$182,181,957 to Viscaya as amended on 8 December 2007. The loan bears an interest rate at LIBOR plus a certain percentage per annum or other interest rate agreed by both parties. If there is no repayment during the loan period, the accrued interest is capitalised and added to the loan principal. Viscaya will repay all the loan principal and accrued interest on Adaro's request or in the fifteenth year from the first time the facility was used. As at 31 December 2007, the outstanding loan was US\$182,941,428. On 22 September 2008, Viscaya and Adaro entered into an amendment agreement to the effect that since 1 April 2008 there is no interest charged for this loan.

As at 31 December 2008, Viscaya has been consolidated into the Group, and therefore balances and transactions between Viscaya and Adaro have been eliminated.

Rachmalta Investments Ltd

An unsecured loan of US\$26,552,500 was granted by Adaro to Rachmalta on 22 June 2005 as amended on 30 September 2005. This loan was related to the LBO transactions. The loan will be repaid by Rachmalta on 21 June 2020. The loan bears a fixed interest rate per annum and is payable quarterly commencing on 22 September 2005. As at 31 December 2007, the outstanding loan was US\$35,622,742. On 22 September 2008, Rachmalta and Adaro entered into an amendment agreement to the effect that since 1 April 2008 there is no interest charged for this loan.

As at 31 December 2008, Rachmalta has been consolidated into the Group, and therefore balances and transactions between Rachmalta and Adaro have been eliminated.

Arindo Holdings (Mauritius) Ltd

An unsecured loan of US\$456,800,000 was granted by Adaro to Arindo Holdings on 8 December 2005 as amended on 25 July 2006. This loan was related to the LBO transactions. The loan is repayable by Arindo Holdings on 8 December 2010. The loan bears a fixed interest rate per annum and is payable semi-annually commencing on 8 June 2006. Based on the amendment of the agreement, the interest rate changed commencing 25 July 2006. As at 31 December 2007, the outstanding loan was US\$254,192,655. On 22 September 2008, Arindo Holdings and Adaro entered into an amendment agreement to the effect that since 1 November 2008 there is no interest charged for this loan.

Since 31 December 2008, Arindo Holdings has been consolidated into the Group, and therefore balances and transactions between Arindo Holdings and Adaro have been eliminated.

PT Alhasanie ("ALH")

Based on a loan agreement on 1 March 2005, the Company agreed to provide a loan facility to ALH amounting to Rp 25,000 which is used for working capital purposes.

As at 31 December 2007, the outstanding loan was Rp 4,033 and US\$4,362,092. On 30 January 2008, this loan was fully repaid.

d. Trade payables to related parties

	<u>2008</u>	<u>2007</u>
Orchard Maritime Logistics Pte Ltd	147,739	108,023
PT Rahman Abdijaya	61,581	58,720
PT Pulau Seroja Jaya	21,882	-
PT Pulau Seroja Jaya Pratama	16,428	-
PT Anugerah Buminusantara Abadi	1,756	6,290
PT Padangbara Sukses Makmur	-	6,749
PT Padang Sejahtera	-	2,540
Total	<u>249,386</u>	<u>182,322</u>
As a percentage of total liabilities	<u>1.27%</u>	<u>1.52%</u>

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38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

e. Amounts due to related parties

	<u>2008</u>	<u>2007</u>
Rupiah		
PT Persada Capital Investama	432	-
PT Saratoga Sentra Business	432	-
Others	-	194
	<u>864</u>	<u>194</u>
US Dollars		
PT Rachindo Investments	5,475	4,710
Arindo Global (Netherlands) B.V.	-	3,861
	<u>5,475</u>	<u>8,571</u>
Total	<u>6,339</u>	<u>8,765</u>
As a percentage of total liabilities	<u>0.03%</u>	<u>0.07%</u>

The amounts due to related parties represent the reimbursement of expenses incurred that were paid by Arindo Global and Rachindo on behalf of the Group and the cost of acquisition of MSW that has not been paid to SSB and PCI.

f. Loans from related parties

	<u>2008</u>	<u>2007</u>
Rupiah		
PT Padangbara Sukses Makmur	-	10,003
US Dollars		
PT Interex Sacra Raya	-	942
Total	<u>-</u>	<u>10,945</u>
As a percentage of total liabilities	<u>-</u>	<u>0.09%</u>

The interest rates on loans from related parties are as follow:

	<u>2008</u>	<u>2007</u>
Rupiah	-	5.0%
PT Padangbara Sukses Makmur		

On 29 October 2004, the Company entered into a loan agreement with PT Padangbara Sukses Makmur ("PSM"), for a loan facility amounting to Rp 50,000 and US\$5,000,000 which will be used for the Company's operations. The loan term is two years commencing on the date of the agreement. The total loan outstanding as at 31 December 2007 was Rp 10,003.

In December 2008, the outstanding loan was fully paid by the Company.

PT Interex Sacra Raya

On 20 March 2006 and 12 May 2006, SIS received loans from PT Interex Sacra Raya ("Interex") amounting to US\$5,000,000 and US\$2,000,000, respectively. During 2006 and 2007, SIS gradually repaid the loans in the amount of US\$6,500,000 and US\$400,000, respectively. As at 31 December 2007, the outstanding balance of these loans was US\$100,000. In 2008, this loan was fully paid.

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38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

g. Revenue

	<u>2008</u>	<u>2007</u>
PT Berau Coal	597,416	411,337
Orchard Maritime Logistics Pte Ltd	2,135	-
PT Padangbara Sukses Makmur	260	-
Coaltrade Services International Pte Ltd	-	1,945,832
PT Interex Sacra Raya	-	55,157
	<u>599,811</u>	<u>2,412,326</u>
Total	<u>599,811</u>	<u>2,412,326</u>
As a percentage of total revenue	<u>3.31%</u>	<u>20.81%</u>

Refer to Note 42 for further description of the transaction.

h. Cost of revenue

	<u>2008</u>	<u>2007</u>
Cost of coal mining and trading:		
Orchard Maritime Logistics Pte Ltd	483,083	371,999
PT Rahman Abdijaya	413,569	80,684
PT Pulau Seroja Jaya	131,894	-
PT Pulau Seroja Jaya Pratama	83,353	-
PT Padangbara Sukses Makmur	16,693	133,212
PT Anugerah Buminusantara Abadi	20,281	19,162
PT Padang Sejahtera	8,070	9,498
Coaltrade Services International Pte Ltd	-	58,903
	<u>1,156,943</u>	<u>673,458</u>
Total	<u>1,156,943</u>	<u>673,458</u>
As a percentage of total cost of revenue	<u>8.80%</u>	<u>7.40%</u>

Refer to Note 42 for further description of the transaction.

i. Interest income and expenses

The interest income and expenses recognised by the Group for the loans received from related parties or the loans granted to related parties for the years ended 31 December 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Interest income:		
PT Viscaya Investments	-	171,518
Rachmalta Investments Ltd	-	35,737
Arindo Holdings (Mauritius) Ltd	-	312,655
PT Bahtera Alam Tamiang	-	1,521
	<u>-</u>	<u>521,431</u>
Total	<u>-</u>	<u>521,431</u>
As a percentage of total interest income	<u>-</u>	<u>85.38%</u>
Interest expenses:		
PT Padangbara Sukses Makmur	159	310
	<u>159</u>	<u>310</u>
As a percentage of total interest expense and finance charges	<u>0.02%</u>	<u>0.02%</u>

Since 2008, Viscaya, Rachmalta and Arindo Holdings have been consolidated to the Group's consolidated financial statements, therefore balances and transactions between Viscaya, Rachmalta, Arindo Holdings and Adaro were eliminated.

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38. TRANSACTIONS AND BALANCES WITH RELATED PARTIES (continued)

j. The nature of relationships with related parties

<u>Related parties</u>	<u>Relationship with related parties</u>	<u>Transactions</u>
Orchard Maritime Logistics Pte Ltd	Affiliate	Coal hauling service
PT Pulau Seroja Jaya	Affiliate	Coal barging service
PT Pulau Seroja Jaya Pratama	Affiliate	Coal barging service
PT Rahman Abdijaya	Affiliate	Mining services
PT Berau Coal	Affiliate	Mining services
PT Alhasanie	Affiliate	Loan, interest income
Rachmalta Investments Ltd ^{b)}	Indirect subsidiary	Loan, interest income
PT Viscaya Investments ^{a)}	Indirect subsidiary	Loan, interest income
Coaltrade Services International Pte Ltd	Indirect subsidiary	Coal trading
PT Anugerah Buminusantara Abadi	Associates	mining services
PT Interex Sacra Raya ^{d)}	Same shareholder	Mining services, loan, interest expense
PT Padangbara Sukses Makmur	Same shareholder	Loan, coal purchase, interest expense
Arindo Global (Netherlands) B.V. ^{a)}	Indirect subsidiary	Expense reimbursement
PT Persada Capital Investama	Shareholder	Expense reimbursement
PT Saratoga Sentra Business	Shareholder	Expense reimbursement
PT Bahtera Alam Tamiang	Same shareholder	Expense reimbursement
PT Karunia Barito Sejahtera	Associates	Expense reimbursement
PT Rachindo Investments	Associates	Expense reimbursement

^{a)} Consolidated since July 2008

^{b)} Consolidated since December 2008

^{c)} Consolidated since January 2008

^{d)} Not a related party since August 2008

39. BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income attributable to shareholders by the weighted average number of ordinary shares outstanding during the year.

	<u>2008</u>	<u>2007</u>
Net income attributable to shareholders	887,198	88,534
Weighted average number of ordinary shares outstanding (in thousands of shares)	<u>25,469,531</u>	<u>1,436,280</u>
Basic earnings per share (full amount)	<u>35</u>	<u>62^{a)}</u>

^{a)} Reflects the split in the Company's shares on a 10,000 to 1 basis, effective 17 December 2007.

The Group does not have any dilutive ordinary shares at 31 December 2008 and 2007.

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40. MONETARY ASSETS AND LIABILITIES

As at 31 December 2008, the Group had monetary assets and liabilities denominated in foreign currencies as follows:

		<u>Foreign currency</u>	<u>Equivalent Rupiah</u>
Monetary assets			
Cash on hand	US\$	4,475	49
	S\$	1,972	15
	HK\$	2,831	4
Cash in banks	US\$	147,114,612	1,610,905
	S\$	160,108	1,218
	€	296,778	4,580
On call deposits	US\$	40,471,689	443,165
Time deposits	US\$	10,411	114
Restricted cash and cash equivalents	US\$	1,007,854	11,036
Trade receivables	US\$	155,481,735	1,702,525
Advances	US\$	30,117,443	329,786
	S\$	97,406	741
	€	12,363,210	190,794
Other current assets	A\$	1,110	8
	US\$	<u>8,000,000</u>	<u>87,600</u>
Total monetary assets			<u>4,382,540</u>
Monetary liabilities			
Trade payables	US\$	204,657,260	2,240,997
	S\$	181,798	1,383
	€	7,903,178	121,965
	¥	6,797,054	824
	A\$	41,559	314
	£	3,797	60
Accrued expenses	US\$	23,543,562	257,802
	S\$	7,756	59
	€	49,247	760
Short-term bank loans	US\$	80,000,000	876,000
Long-term loans:			
Lease payables	US\$	93,010,177	1,018,461
Bank loans	US\$	835,110,000	<u>9,144,455</u>
Total monetary liabilities			<u>13,663,080</u>
Net monetary liabilities			<u>9,280,540</u>

If assets and liabilities in foreign currencies as at 31 December 2008 are translated using the exchange rate as at 13 March 2009, the total net foreign currency liabilities will increase by approximately Rp 1,167,695.

41. SEGMENT REPORTING

Based on the financial information used by management in evaluating the performance of segments and in the allocation of resources, management considers their primary segments to be three major business operations consisting of coal mining and trading, mining services and others. All transactions between segments have been eliminated.

Information concerning the business segments which are considered the primary segments are as follows:

	2008				
	<u>Coal mining and trading</u>	<u>Mining service</u>	<u>Others</u>	<u>Elimination</u>	<u>Consolidated</u>
Revenue:					
External revenue	16,797,356	1,069,250	225,896	-	18,092,502
Inter-segment revenue	<u>2,592,330</u>	<u>786,511</u>	<u>919,788</u>	<u>(4,298,629)</u>	-
Net revenue	19,389,686	1,855,761	1,145,684	(4,298,629)	18,092,502
Gross profit	4,624,193	298,052	221,200	(200,213)	4,943,232

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41. SEGMENT REPORTING (continued)

	2008				
	Coal mining and trading	Mining service	Others	Elimination	Consolidated
Selling and marketing expense	(528,316)	-	-	-	(528,316)
General and administration expense	<u>(47,432)</u>	<u>(124,253)</u>	<u>(39,745)</u>	<u>8,372</u>	<u>(203,058)</u>
Operating income	4,048,445	173,799	181,455	(191,841)	4,211,858
Interest expenses and finance charges	(375,397)	(242,055)	(235,340)	236,482	(616,310)
Interest income	272,656	6,512	10,959	(242,194)	47,933
Other (expenses)/income, net	<u>(296,894)</u>	<u>(409,855)</u>	<u>47,435</u>	<u>(59,463)</u>	<u>(718,777)</u>
Profit/(loss) before income tax	3,648,810	(471,599)	4,509	(257,016)	2,924,704
Income tax (expense)/benefit	(1,624,907)	11,075	(38,694)	50,550	(1,601,976)
Extraordinary item	(372,741)	-	-	-	(372,741)
Pre-acquisition income	-	-	-	(126,390)	(126,390)
Minority interest in net loss of subsidiaries	-	-	-	<u>63,601</u>	<u>63,601</u>
Net income/(loss)	<u>1,651,162</u>	<u>(460,524)</u>	<u>(34,185)</u>	<u>(269,255)</u>	<u>887,198</u>
Segment assets	28,945,190	4,389,872	4,498,062	(4,112,954)	33,720,170
Segment liabilities	13,333,697	3,902,683	9,059,740	(6,603,574)	19,692,546
Capital expenditure	217,513	1,117,176	855,029	2,903	2,192,621
Depreciation and amortisation	92,465	286,929	43,678	544	423,616
	2007				
	Coal mining and trading	Mining service	Others	Elimination	Consolidated
Revenue:					
External revenue	10,799,071	672,615	120,954	-	11,592,640
Inter-segment revenue	-	<u>726,836</u>	<u>811,938</u>	<u>(1,538,774)</u>	-
Net revenue	10,799,071	1,399,451	932,892	(1,538,774)	11,592,640
Gross profit	1,873,674	302,425	330,141	(2,823)	2,503,417
Selling and marketing expense	(173,173)	-	-	-	(173,173)
General and administration expense	<u>(12,556)</u>	<u>(55,854)</u>	<u>(9,315)</u>	-	<u>(77,725)</u>
Operating income	1,687,945	246,571	320,826	(2,823)	2,252,519
Interest expenses and finance charges	(1,543,674)	(183,251)	(239,685)	240,682	(1,725,928)
Interest income	803,460	10,801	37,143	(240,682)	610,722
Other (expenses)/ income, net	<u>(5,406)</u>	<u>(77,627)</u>	<u>235,610</u>	<u>(342,865)</u>	<u>(190,288)</u>
Profit/(loss) before income tax	942,325	(3,506)	353,894	(345,688)	947,025
Income tax (expense)/benefit	(644,944)	5,851	(21,434)	3,600	(656,927)
Pre-acquisition income	-	-	-	(38,048)	(38,048)
Minority interest in net income of subsidiaries	-	-	-	<u>(163,516)</u>	<u>(163,516)</u>
Net income	<u>297,381</u>	<u>2,345</u>	<u>332,460</u>	<u>(543,652)</u>	<u>88,534</u>

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41. SEGMENT REPORTING (continued)

	2007				Consolidated
	Coal mining and trading	Mining service	Others	Elimination	
Segment assets	16,073,838	2,964,865	7,173,498	(11,523,518)	14,688,683
Segment liabilities	9,629,252	2,473,239	2,641,416	(2,764,181)	11,979,726
Capital expenditure	166,702	742,269	5,341	-	914,312
Depreciation and amortisation	243,190	93,521	11,872	-	348,583

Information concerning the Group's geographical segment for the years ended 31 December 2008 and 2007 is as follows:

	2008				Total
	Indonesia	Asia	Europe	America	
Revenue:					
Coal mining and trading	3,878,805	9,034,706	2,754,709	1,129,136	16,797,356
Mining services	1,069,250	-	-	-	1,069,250
Others	188,628	37,268	-	-	225,896
Revenue	<u>5,136,683</u>	<u>9,071,974</u>	<u>2,754,709</u>	<u>1,129,136</u>	<u>18,092,502</u>
Segment assets	28,010,589	5,696,667	12,914	-	33,720,170
Capital expenditure	2,192,437	184	-	-	2,192,621
	2007				Total
	Indonesia	Asia	Europe	America	
Revenue:					
Coal mining and trading	3,307,904	5,548,777	1,216,082	726,308	10,799,071
Mining services	672,615	-	-	-	672,615
Others	120,954	-	-	-	120,954
Revenue	<u>4,101,473</u>	<u>5,548,777</u>	<u>1,216,082</u>	<u>726,308</u>	<u>11,592,640</u>
Segment assets	14,683,855	-	-	4,828	14,688,683
Capital expenditure	914,312	-	-	-	914,312

42. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

a. Coal mining, hauling and transshipment agreements

Adaro, as a coal producer, has entered into a number of coal mining agreements. Based on the agreements, Adaro as coal producer, 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.

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42. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

a. Coal mining, hauling and transshipment agreements (continued)

In addition, Adaro has also entered coal barging, transport and transshipment agreement with contractors to provide coal transportation services from Adaro's main area to certain port destinations and to provide floating crane services from Adaro's barge to customer vessels. 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.

Contractor	Agreement type	Agreement date	Contract period end
PT Pamapersada Nusantara	Coal mining and transportation	13 May 2002	Certain accumulated production level
PT Bukit Makmur Mandiri Utama	Coal mining and transportation	21 January 2002	Certain accumulated production level
PT Pulau Seroja Jaya	Coal transport	17 November 2005	December 2010
PT Pulau Seroja Jaya Pratama	Coal transport	30 November 2007	31 December 2010
Orchard Maritime Logistics Pte Ltd	Coal handling and barging Coal mining and transportation	1 May and 17 August 2000	23 May 2017 Certain accumulated production level
PT Rahman Abdijaya	services in mine area	27 March 2002	production level
PT Batuah Abadi Lines	Coal barging	18 February 2000	30 June 2012

SIS provides mining contractor services to coal producers. Under the agreements, SIS provides labour, equipment and material for overburden removal, coal mining and coal 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 H3N)	22 November 2004	31 December 2008
PT Berau Coal (Binungan H4)	27 December 2004	31 December 2009
PT Berau Coal (Binungan Blok 1-4)	1 March 2007	31 December 2010
PT Berau Coal (Sambarata)	25 February 2004	25 February 2009 or certain production level
PT Berau Coal (Sambarata Blok B-1)	21 January 2008	14 July 2012
PT Sumber Kurnia Buana	10 May 2005	9 May 2010 or certain production level
PT Borneo Indobara	17 October 2006	16 October 2011 or certain production level
PT Indominig	14 August 2007	13 August 2012 or certain production level
PT Interex Sacra Raya	26 April 2004	25 April 2009

The receivables arising from coal mining contract between SIS and the coal producers were pledged under the Senior Credit Facility (refer to Note 23b).

b. Memorandum of Understanding on land compensation

MSW entered into a memorandum of understanding with the Local Government of Tabalong Regency on 10 December 2007 in relation to land compensation for "Pembangkit Listrik Tenaga Uap" ("Steam Power Electric Station" or "PLTU") titles of 100 hectares located in Mabu'un village, Murung Pundak Sub-District, Tabalong Regency. The Local Government of Tabalong Regency will give land rights for 30 years and this could be extended according to the prevailing law.

As compensation for land rights, MSW will supply electricity of 717,000 Watts for regency street lighting.

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42. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

c. Credit Facility Agreement

On 11 July 2008, MSW and International Finance Corporation (“IFC”) entered into a loan agreement. Based on the agreement, IFC agreed to grant loan facilities to MSW amounting to US\$25,000,000 and US\$96,784,250, in the form of the A loan and the B loan, respectively, with interest rate at LIBOR plus a certain percentage.

The Company and PT Akraya International (collectively hereinafter referred to as the “Sponsors”), act as sponsors of the loans. The sponsors have the obligation to:

- Provide equity amounting to US\$5,000,000 and Mezzanine equity amounting to US\$35,595,000; and
- Complete the project within the time schedule and to pay for any cost overrun or provide for inability of MSW to pay its loan. The obligation to cover the deficiency shall not exceed a maximum amount of US\$15,000,000.

As at 31 December 2008, MSW had not made any withdrawal of the loans.

d. Management services

On 14 February 2007, MSW entered into an agreement for management services with PT Akraya International. MSW shall pay a management fee and project manager fee of US\$168,000 and US\$84,000 per annum (excluding VAT), respectively, on a quarterly basis. The effective date of this agreement is from the time the agreement is signed until the expiration of the electricity supply agreement between MSW and Adaro on 1 October 2022. The agreement was amended on 15 July 2008 with effect from 1 July 2008 whereby the management fee was amended to US\$350,000 annually (excluding VAT) and the project management fee was amended to nil.

e. Litigation

Dianlia is currently involved in a litigation with Beckett Pte Ltd (“Beckett”) relating to a foreclosure sale of 40% of the shares in Adaro and IBT (the “Pledged Shares”) by Deutsche Bank AG, Singapore branch (“Deutsche Bank”) to Dianlia in 2002 following a default on a loan to a subsidiary of Beckett in 1998.

In 2001, Deutsche Bank obtained rulings from the South Jakarta District Court affirming the validity of its enforcing of the security over the Pledged Shares by selling the Pledged Shares to Dianlia. In 2005, Beckett obtained rulings from the Jakarta High Court to annul, on procedural grounds, the rulings obtained by Deutsche Bank from the South Jakarta District Court in 2001. The rulings from the Jakarta High Court did not contain any judgement on the validity of the enforced sale of the Pledged Shares. On 3 March 2006, the Indonesian Supreme Court issued a letter (the “Supreme Court Letter”) addressed to, among others, legal counsel(s) for the respective parties stipulating, among other things, that the Jakarta High Court rulings given in 2005 to annul the rulings of the South Jakarta District Court given in 2001 be upheld. However, the same Supreme Court Letter also expressly stipulates that this does not have any legal consequence with respect to the legal deeds, facts or actions arising from the South Jakarta District Court rulings given in 2001 that occurred prior to such annulment by the Jakarta High Court in 2005, because the Jakarta High Court did not (and is not authorised to) determine such legal consequences.

Indonesian counsel to Adaro and IBT has confirmed that, until a final and binding Indonesian court decision is obtained on any and all legal actions or consequences relating to or arising from the South Jakarta District Court rulings given in 2001 (including among others the foreclosure sale mentioned above), those legal actions or consequences will continue to be legal, valid and effective.

In 2004, Beckett sued Deutsche Bank in Singapore for damages alleging, among other things, that Deutsche Bank failed to obtain the best price for the Pledged Shares pursuant to the foreclosure sale (the “Suit”). In early 2005, Beckett applied to the Singapore High Court to add Dianlia as an additional defendant to the Suit and sought restoration of the Pledged Shares or damages if the foreclosure sale was validated.

On 21 September 2007, the Singapore High Court rejected all Beckett’s claims on Dianlia. Beckett submitted an appeal against the Singapore High Court and the case is still under examination by the Singapore Supreme Court.

Dianlia has been advised by its Singaporean counsel and its Indonesian counsel that the litigation discussed above should not materially and adversely affect the present security arrangements of their existing financiers nor prevent any dealings connected to its pledged shares. However, there is no assurance that existing claims by Beckett, or other claims of a similar or different nature, will not continue to be pursued, or new claims commenced at any time, against any party, which could, where a court was to find in favour of Beckett result in a change of control of Adaro and/or IBT.

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42. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

f. Royalty Claim

In May 2006, the Department of Energy and Mineral Resources ("DEMR") 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 an offset 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 DEMR. Upon Adaro's application, in May 2006, the Jakarta Administrative Court granted an order restricting DEMR in taking any further administrative steps on the issue until a final and binding judgment 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 has 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, DEMR granted authority to the Committee for State Claim Affairs (the "Committee") to pursue 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 judgment was 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 Administrative Court on 1 July 2008. Proceedings are currently pending in the Indonesian Supreme Court.

As management believes that Adaro has strong grounds supporting the case and there is the fact that the recent court decision is in favour of Adaro, no provision has been booked to the consolidated financial statements.

- g.** No significant commitments for capital expenditures exist that are not reflected in the consolidated financial statements for the year ended 31 December 2008.
- h.** On 5 September 2007, Adaro entered a bank facility agreement with HSBC to issue a bank guarantee with a total limit of US\$15,000,000 which includes standby documentary credit amounting to US\$15,000,000, a performance bond amounting to US\$5,000,000 and a tender bond amounting to US\$5,000,000. This agreement will expire on 31 July 2009. This facility is not bound by any collateral.

On 20 August 2008, Adaro entered into a banking facility amendment agreement with DBS for a banking facility in the form of a bank guarantee, bid bond, performance bond and stand-by letter of credit, with total limit of US\$15,000,000. This agreement will expire on 11 July 2009. This facility is not bound by any collateral.

For banking facilities obtained from HSBC and DBS, Adaro is required to maintain time deposits (refer to Note 6).

As at 31 December 2008, the total bank facilities used by Adaro which were obtained from HSBC and DBS and from other financial institutions (obtained without any facility) in various currencies were equal to US\$18,929,538 (2007: US\$16,211,716). Those facilities had been issued in relation to sales contracts and reclamation guarantees.

	<u>2008</u>	<u>2007</u>
Malaysian Ringgit	RM 22,587,497	RM 9,857,687
US Dollars	US\$ 1,560,000	US\$ 6,671,750
Indonesian Rupiah	Rp 49,524	Rp 61,975
Euro	EUR 4,500,000	EUR -

- i.** 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 results of operations.
- j.** As at 31 December 2008, Adaro has commitments to deliver coal at fixed prices to certain customers. The total quantity to be delivered up to 2012 is 45,460,000 tonnes (2007: 70,834,000 tonnes).
- k. Forestry expenses**

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.

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42. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

I. 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 Tabalang 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 Tabalang 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 the milestones.

m. Agency fees

Adaro have various agency agreements with third party agents to market their coal for certain customers. The agents will receive commissions based on a percentage of sales to those customers.

n. New mining law

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 several of the Group's subsidiaries operate will no longer be available to investors. While the Law indicates that existing CCAs, such as those held by the Group, will be honoured, the transition provisions are unclear, and will require clarification in yet to be issued government regulations. There are a number of issues which existing CCA holders, including the Group, 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 licences under the Law.

Group is analysing the impact of the situation on its operations and will continuously involve in the discussions with the Government related to the implementing regulation of the Law.

43. RECLAMATION GUARANTEE

A financial surety or reclamation guarantee is required under the regulations issued by the Directorate General of Mineral, Coal and Geothermal. The regulations require an annual study to be undertaken by a mining company operating in Indonesia to estimate its reclamation costs and a plan to be submitted to the Government. The plan includes an estimate of the cost of performing restoration work by a third party contractor. For any work Adaro does not carry out in the period pursuant to the plan, the Government can require payment of outstanding work to be carried out by the third party contractor. The surety can be in the form of cash, a letter of credit or a accounting reserve recorded in the financial statements of companies. In accordance with Decree of the Director General of Mineral, Coal and Geothermal No. 1920/37.06/DJB/2008 dated 26 August 2008, Adaro is required to provide a Reclamation Guarantee in the form of performance bonds. The balance of the reclamation guarantee provided by Adaro for the period ended 31 December 2008 was Rp 26,449 (2007: Rp 4,339).

On May 29, 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 according to the reclamation schedule. The mine reclamation guarantee may also be in the form of an accounting reserve, if the company is either a publicly listed company or the company has paid up capital of at least US\$25,000,000 as stated in the audited financial statements. If 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 of the relevant company with a duration according to the mine closure schedule.

As at the date of these financial statements, the Group has placed reclamation guarantees in the form of bank guarantees (performance bonds) and is determining whether it is required to establish a time deposit for its mine closure provision.

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 5/69

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

44. EXTRAORDINARY ITEM

	<u>2008</u>	<u>2007</u>
Demurrage	677,711	-
Income tax expense	<u>(304,970)</u>	<u>-</u>
Net loss after tax	<u>372,741</u>	<u>-</u>

The amounts represent the demurrage which was incurred beyond normal activity of Adaro due to the bad weather in January to April 2008, which delayed coal loading and shipment.

45. RISK MANAGEMENT

The Group has conducted risk management procedures to identify, measure, monitor and manage its basic risks. In order to overcome the risk of operational revenue continuity into the Group in the future, the Group has long-term sales contracts with its customers. In addition, the Group also has long-term contracts with its mining contractors to ensure that the Group is able to meet the commitment of its long-term sales contracts.

The Group has carried out most of its sales contracts in US Dollars, which indirectly represents a natural hedge on the risk of fluctuation in the exchange rate of Rupiah to US Dollars and on the Group's loan in US Dollars.

In order to reduce the risks caused by fluctuation in the interest rate 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.

46. SUBSEQUENT EVENTS

a. New loan agreement from DBS Bank Ltd

On 24 February 2009, Adaro entered into a Multicurrency Revolving Credit Facility agreement with DBS Bank Ltd which acts 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 million for the 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 and IBT act as guarantors of this loan facility.

In accordance with the terms of the agreement, Adaro is required to maintain certain financial ratios.

This loan has the same significant terms and conditions as those of the long-term syndicated bank loan from DBS Bank Ltd (refer to Note 23a).

b. SIS interest rate swap contract

Subsequent to the balance sheet date, SIS entered several interest rate swap contract arrangement in US Dollars as follow:

<u>Counter parties</u>	<u>Paid fixed interest rate</u>	<u>Received floating interest rate</u>	<u>Total notional amounts</u>	<u>Effective date</u>	<u>Termination date</u>
United Overseas Bank	1.8500% p.a.	3-month US\$ LIBOR	US\$43,396,875	2 February 2009	28 June 2013
United Overseas Bank	1.8650% p.a.	3-month US\$ LIBOR	US\$121,511,250	2 February 2009	28 June 2013
OCBC Bank	1.8500% p.a.	3-month US\$ LIBOR	US\$43,396,875	2 February 2009	28 June 2013

47. PROSPECTIVE ACCOUNTING PRONOUNCEMENTS

The Indonesian Institute of Accountants has issued revisions of the following accounting standards:

- SFAS 50 (Revised 2006) - Financial Instruments: Presentation and Disclosures (applicable for the financial statements covering periods beginning on or after 1 January 2010);
- SFAS 55 (Revised 2006) - Financial Instruments: Recognition and Measurement (applicable for the financial statements covering periods beginning on or after as at 1 January 2010); and
- SFAS 14 (Revised 2008) - Inventories (applicable for the financial statements covering periods beginning on or after 1 January 2009).

The Group has not been able to determine the impact of these revised standards on the consolidated financial statements.

**PT ADARO ENERGY Tbk
(FORMERLY PT PADANG KARUNIA) AND SUBSIDIARIES**

Schedule 5/70

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2008 AND 2007**

(Expressed in million Rupiah, unless otherwise stated)

48. RECLASSIFICATION OF ACCOUNTS

Comparative figures in the consolidated financial statements for the year ended 31 December 2007 have been amended to conform to the basis on which the consolidated financial statements for the year ended 31 December 2008 have been presented.

Contact Us

Key Personnel & Business Units

PT Adaro Energy Tbk

Board of Commissioners

Edwin Soeryadjaya	- President Commissioner
Theodore Permadi Rachmat	- Vice President Commissioner
Ir. Subianto	- Commissioner
Lim Soon Huat	- Commissioner
Djoko Suyanto	- Independent Commissioner
Ir. Palgunadi Tatit Setyawan	- Independent Commissioner

Board of Directors

Garibaldi Thohir	- President Director
Christian Ariano Rachmat	- Vice President Director
Alastair B. Grant	- Director of Marketing
Chia Ah Hoo	- Director of Operations
Sandiaga S. Uno	- General Director
David Tendian	- Director of Finance
Andre J. Mamuya	- Director of General Affairs and Corporate Secretary

Legal

Indra Aman	- Chief Legal Officer
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Contact Address

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Fax: +6221-5794-4687
cameron.tough@ptadaro.com
devindra.ratzarwin@ptadaro.com

SUBSIDIARIES

Only those Board Members other than PT Adaro Energy Tbk Board Members are listed below to avoid repetition.

PT Adaro Indonesia, PT Alam Tri Abadi, PT International Bulk Terminal, and PT Jasa Power Indonesia all have Boards with members from the Boards of PT Adaro Energy Tbk, and share the same contact address as PT Adaro Energy Tbk (except for the operational offices).

PT Makmur Sejahtera Wisesa

Board of Commissioners (other than members from PT Adaro Energy Tbk)

Tjahyono Imawan	- Commissioner
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Board of Directors (other than members from PT Adaro Energy Tbk)

Vinod Laroya	- President Director
Rahul Puri	- Director of Finance
Joseph Francis Chong	- Project Director

PT Sarana Daya Mandiri

Board of Commissioners (Does not include members from PT Adaro Energy Tbk)

Max Tamaela	- President Commissioner
Wiranata Halim	- Commissioner

Board of Directors (Does not include members from PT Adaro Energy Tbk)

Fakhrol Azmi	- President Director
Ceri Wibisono	- Director of General Affairs
Sonny Sidjaja	- Director of Operations
Ade M. Yusuf	- Business Development Director

PT Saptaindra Sejati

Board of Commissioners (other than members of PT Adaro Energy Tbk)

Tjahyono Imawan	- Vice President Commissioner
Kardinal A. Karim	- Commissioner
Lukman Tirtaguna	- Commissioner

Board of Directors (Does not include members from PT Adaro Energy Tbk)

Anis Sulistiadi	- President Director
Budi Rachman	- Vice President Director and Director of Operations
Ateng Kurnia	- Plant Director
Christina Hiu	- Director of Finance
Bimantoro Adisanyoto	- HRGA Director

Contact Address

Graha Saptaindra Sejati
Jalan T.B. Simatupang Kav. 18
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Phone: +6221-769-3378
Fax: +6221-769-3379

Coaltrade International Pte. Ltd.

Board of Directors

Tsang Edwin Kin-Wah	- Director
Peter Chong Siong Siang	- Director

Contact Address

No. 1 Finlayson Green #16-01
Singapore 049246
Phone: (+65) 6336-8989
Fax: (+65) 6226-7082

SENIOR MANAGERS OF THE ADARO GROUP

Adrian Lembong	- Business Development
Cameron Tough	- Investor Relations
Devindra Ratzarwin	- Deputy Corporate Secretary
Djohan Nurjadi	- Human Resources
Heri Gunawan	- Corporate Finance
Salim Wibowo Halim	- Corporate Planning
Susanti	- Finance & Accounting
Hendry Chandra	- Internal Audit
Richard Tampi	- External Relations
Sonny Sidjaja	- Marketing and Operations (IBT)
Barry Jones	- Terminal Service
Geoffrey John Palmer	- Marketing
Priyadi	- Operations
Terry Ng	- Supply Chain & IT

Institutions and Supporting Professionals

Public Accountant

KAP Haryanto Sahari & Rekan (member of PricewaterhouseCoopers)
Jl. H.R. Rasuna Said Kav. X-7 No. 6
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Fax. : (021) 529 05555

Law Consultant

Hadiputranto, Hadinoto & Partners
Indonesia Stock Exchange Building Tower II, 21st Floor
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Jakarta
Tel. : (021) 515 5090
Fax. : (021) 515 4840

Notary

Robert Purba S.H.
Panin Life Center 2nd Fl., Room 201
Jl. Letjend. S. Parman Kav. 91, Slipi
Jakarta 11420
Tel. : (021) 569 56005
Fax. : (021) 569 56007

Shares Appraiser

Truscel Capital
Patal Senayan Kav. 3
South Jakarta 12210
Tel. : (021) 572 2586
Fax. : (021) 572 2585

Securities Administration Bureau

PT Ficomindo Buana Registrar
Mayapada Tower 10th Fl., Suite 2b
Jl. Jenderal Sudirman Kav. 28
Jakarta 12920
Indonesia
Tel. : (021) 521 2316/17
Fax. : (021) 521 2320

Management's Responsibility for Annual Report

Annual Report 2008

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 2008 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



Djoko Suyanto
Independent Commissioner



Ir. Palgunadi Tatit Setyawan
Independent Commissioner

Board of Directors



Garibaldi Thohir
President Director



Christian Ariano Rachmat
Vice President Director



Sandiaga Salahuddin Uno
Director



Andre Johannes Mamuaya
Director & Corporate Secretary



David Tendian
Director



Chia Ah Hoo
Director



Alastair Bruce Grant
Director

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

- Citibank Hongkong S/A CBHK-CPBSG - PT Saratoga Investama Sedaya 14.93%
- PT Triputra Investindo Arya 13.34%
- PT Persada Capital Investama 11.01%
- GS NY SEG AC-LOCKUP ACCOUNT 9.94%
- PT Trinugraha Thohir 7.80%
- Garibaldi Thohir 7.80%
- UBS AG Singapore S/A Atticus Investments Pte Ltd – 2091144083 5.74%
- Public 29.43%

Line of Business

Integrated Coal Mining through Subsidiaries

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Fax. : 6221 – 57944687
Email: investor_relations@ptadaro.com

For more information please visit our website www.adaro.com

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 result, 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.



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www.adaro.com
IDX : ADRO



Investor Relations

From left to right

Wen Hu Sit
Investor Relations

Cameron Tough
Head of Investor Relations

Heri Gunawan
Corporate Finance

For further information please contact:

Andre J. Mamuaya, Director and Corporate Secretary

Cameron Tough, Head of Investor Relations

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Fax. : (6221) 5794 4685

Email : cameron.tough@ptadaro.com

www.adaro.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

IR Calendar 2009:

- April 30 – Annual Report 2008 distributed.
- April 30 – 1Q09 Quarterly Activities Report
- April 30 – 1Q09 Unaudited Financial Statements and Notes
- July 31 – 2Q09 Quarterly Activities Report
- August 31 – Reviewed 1H09 Financial Statements and Notes
- October 30 – 9M09 Unaudited Financial Statements and Notes
- October 30 – 3Q09 Quarterly Activities Report

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 investment conferences and conducts two international roadshows per year to the major global financial centers.

A full revision of the IR section of our website, www.adaro.com will be completed by the end of first half 2009.