

## V. FINANCIAL HIGHLIGHTS

The financial highlights of the Company and Subsidiaries for the one month period ended 31st January 2008 and for the year ended 31st December 2007, originated from consolidated financial statements which has been audited by Public Accounting Firm Haryanto Sahari & Rekan (member of the PricewaterhouseCoopers) with Unqualified Opinion with Explanatory Paragraph the restructuring transactions of entities under common control and VAT in compensation against royalty payment. For the years ended 31st December 2006 and 2005, originated from consolidated financial statements which have been audited by Public Accounting Firm Kosasih and Nurdiyaman with Unqualified Opinion of which the introductory paragraph in the statement of opinion explains the reference to the statement of other auditor, unaudited subsidiaries, explanatory paragraph for the going concern of subsidiary and the re-issue of consolidated financial statements for the years ended 31st December 2006 and 2005. The Public Accounting Firm Haryanto Sahari & Rekan has audited the combined consolidated financial statements of the Company and its Subsidiaries as at 31st December 2006 and 2005 and for the years then ended, after the restatements for applying the pooling of interests method on the restructuring transactions of entity under common control with the opinion that the consolidated financial statements have been re-stated properly based on the accounting principles generally accepted in Indonesia. For the period from the date of establishment (28th July 2004) up to 31st December 2004 was originated from the consolidated financial statement audited by the Public Accounting Firm Kosasih and Nurdiyaman with Unqualified opinion.

The financial highlights of the Company and Subsidiaries are as follows:

### BALANCE SHEETS

Items	31st Jan 2008	31st December			
		2007	2006*	2005*	2004
(in IDR million)					
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	893,103	831,340	758,453	1,191,019	3,943
Restricted cash and cash equivalents	54,967	64,595	754,168	778,087	-
Available-for-sale investments	1,747,863	1,734,330	-	491,500	-
Trade receivable, net					
Third parties	1,391,059	1,153,572	1,120,959	848,510	-
Related parties	257,345	396,571	184,450	249,864	-
Other Receivables					
Third parties	63,445	60,727	57,580	82,492	-
Advances and prepayments	123,715	83,638	67,417	40,384	57,832
Inventories, net	276,550	238,148	204,353	144,537	-
Prepaid taxes	167,042	153,997	135,131	77,249	-
Recoverable tax	159,207	210,171	188,323	162,495	-
Prepayments to related party	-	-	115,506	316,569	-
Deferred financing cost, net	22,578	16,269	57,313	156,341	-
Deferred expenses, net	44,366	49,776	-	-	-
Other current assets	7,891	4,038	13,088	3,841	-
<b>Total current assets</b>	<b>5,209,131</b>	<b>4,997,672</b>	<b>3,656,741</b>	<b>4,542,888</b>	<b>61,775</b>
<b>Non Current Assets</b>					
Other Receivables					
Related parties	26,146	26,128	16,468	2,701	2,825
Fixed assets, net	3,518,727	3,558,698	2,327,320	1,856,686	64,824

Items	31 <sup>st</sup> Jan 2008	31 <sup>st</sup> December			
		2007	2006*	2005*	2004
Investments in associates	4,755	4,868	667,674	76,332	-
Mining properties, net	116,076	118,362	121,247	140,742	-
Goodwill, net	5,153,242	1,225,532	15,508	19,383	-
Deferred exploration and development expenditure, net	85,415	86,828	193,391	196,122	23,882
Prepayment to related party - non current portion	-	-	-	125,879	-
Loans to related parties	2,044,337	4,498,016	6,161,683	6,476,686	-
Deffered financing cost, net - non current portion	79,919	59,728	127,543	353,014	-
Deferred expense, net – non current portion	12,165	12,590	11,918	27,416	4,466
Deferred tax assets	31,988	36,823	33,699	30,285	827
Restricted cash and cash equivalents – non current portion	11,104	11,236	10,092	5,120	-
Other non current assets	5,105	52,202	109	-	-
<b>Total non current assets</b>	<b>11,088,979</b>	<b>9,691,011</b>	<b>9,686,652</b>	<b>9,310,356</b>	<b>96,824</b>
<b>TOTAL ASSETS</b>	<b>16,298,110</b>	<b>14,688,683</b>	<b>13,343,393</b>	<b>13,853,244</b>	<b>158,599</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Current Liabilities</b>					
<b>Short-term Borrowings</b>					
Bank loans	445,968	447,045	269,698	152,512	-
Other loans					
-Third parties	51,648	191,677	75,317	18,212	-
Trade payable					
Third parties	1,566,967	1,505,851	1,308,660	1,270,087	-
Related parties	198,346	182,322	80,929	3,881	-
Taxes payable	98,828	138,819	86,209	236,039	1,207
Accrued expenses	377,358	306,127	85,652	285,482	-
Convertible bonds	92,910	-	-	-	-
Promissory Notes	-	-	-	98,300	-
Current maturity of long-term borrowings					
Lease payables	121,361	125,728	87,743	54,277	8,782
Bank loans	863,349	747,892	589,259	677,332	3,808
Other loans – third parties	6,504	6,594	366,262	193,044	115,504
Other current liabilities	765	1,237	5,896	4,430	-
Royalties payable	424,332	583,452	614,554	550,720	-
<b>Total current liabilities</b>	<b>4,248,336</b>	<b>4,236,744</b>	<b>3,570,179</b>	<b>3,544,316</b>	<b>129,301</b>
<b>Non-Current Liabilities</b>					
Amounts due to related parties	9,503	8,765	17	544	-
Long-term borrowings, net of current maturities					
Lease payables	230,034	243,036	151,025	62,114	5,261
Bank loans	7,187,741	5,535,428	4,365,722	1,844,088	6,411
Notes	-	-	3,579,733	3,893,370	-
Other loans:					
-Third parties	23,423	23,753	26,998	274,141	-
-Related parties	12,602	10,945	28,675	2,969,878	26,480
Subordinated loans	92,910	94,190	90,200	-	-
Deferred tax liabilities	489,529	496,681	521,593	479,361	-
Provision for employee benefits	48,006	50,195	33,921	29,580	-

Items	31 <sup>st</sup> Jan 2008	31 <sup>st</sup> December			
		2007	2006*	2005*	2004
Accrued stripping costs	422,392	421,522	4,273	11,661	-
<b>Total non-current liabilities</b>	<b>8,516,140</b>	<b>6,884,515</b>	<b>8,802,157</b>	<b>9,564,737</b>	<b>38,152</b>
<b>Minority Interest</b>	<b>1,093,599</b>	<b>1,075,906</b>	<b>584,036</b>	<b>438,354</b>	<b>1,087</b>
<b>EQUITY</b>					
Share capital – issued and fully paid-up capital	2,084,663	2,062,478	143,628	143,628	1,250
Exchange difference due to financial statements translation	(22,365)	21,172	(22,596)	10,898	-
Difference in value from restructuring transactions of entities under common control	359,332	382,513	310,314	246,770	(9,085)
Difference in transactions of changes in equity of subsidiaries and associates	-	1,115	-	-	-
Retained earnings / (accumulated losses)	18,405	24,240	(44,325)	(95,459)	(2,106)
<b>Total equity</b>	<b>2,440,035</b>	<b>2,491,518</b>	<b>387,021</b>	<b>305,837</b>	<b>(9,941)</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>16,298,110</b>	<b>14,688,683</b>	<b>13,343,393</b>	<b>13,853,244</b>	<b>158,599</b>

\* As restated related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004). “Accounting for Restructuring of Entities Under Common Control”.

## STATEMENT OF INCOME

Items	31 <sup>st</sup> Jan 2008	31 <sup>st</sup> December			
		2007	2006*	2005*	2004
Revenue	1,115,080	11,592,640	9,748,068	7,174,651	-
Cost of revenue	(891,675)	(9,121,200)	(7,787,558)	(5,836,588)	-
<b>Gross profit</b>	<b>223,405</b>	<b>2,471,440</b>	<b>1,960,510</b>	<b>1,338,063</b>	<b>-</b>
Operating expenses					
Sales and marketing	(10,366)	(173,173)	(130,217)	(111,953)	-
General and administration	(8,468)	(77,775)	(89,079)	(51,969)	(1,641)
<b>Total operating expenses</b>	<b>(18,834)</b>	<b>(250,948)</b>	<b>(219,296)</b>	<b>(163,562)</b>	<b>(1,641)</b>
<b>Operating income / (loss)</b>	<b>204,571</b>	<b>2,220,492</b>	<b>1,741,214</b>	<b>1,174,501</b>	<b>(1,641)</b>
<b>Other income / expenses</b>					
Interest expense & finance charges	(57,718)	(1,725,928)	(1,620,887)	(703,287)	(1,791)
Interest income	17,938	610,722	512,282	150,935	8
Gain / (loss) on disposal of fixed assets	286	(1,489)	78,598	(9,280)	-
Foreign Exchange gain / (loss), net	69,876	(167,799)	181,090	(27,615)	153
Share in net loss of associates prior to dilution	-	-	-	26,527	-
Share in net income of associates	(49)	(20,541)	-	-	-
Loss on sale of available-for-sale investments	-	-	(47,599)	-	-
Other income / (expenses), net	1,830	31,568	6,581	(10,086)	-
<b>Total other income / (expenses)</b>	<b>32,163</b>	<b>(1,273,467)</b>	<b>(889,935)</b>	<b>(572,806)</b>	<b>(1,630)</b>
Profit before income tax provision	236,734	947,025	851,279	601,695	(3,271)
Income tax expense	(101,342)	(567,529)	(527,972)	(353,378)	827
Profit from ordinary activity	135,392	379,496	323,307	248,317	(2,444)
Extraordinary item	(35,618)	-	-	-	-
Profit before pre-acquisition (income)/loss	99,774	379,496	323,307	248,317	(2,444)

Pre-acquisition (income)/loss	-	(38,048)	(17)	3,546	-
Profit before minority interest	99,774	341,448	323,290	251,863	(2,444)
Minority interest to net income of subsidiaries	(41,665)	(208,595)	(182,157)	(185,971)	338
Net income / (loss)	58,109	132,853	141,133	65,892	(2,106)
Basic and diluted earnings per share	3	92	98	136	-
EBITDA	334,058	2,402,873	2,215,578	1,322,500	n.m
Capital expenditure	13,920	650,770	662,613	787,402	n.m

\* As restated related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004).  
 "Accounting for Restructuring of Entities Under Common Control".

## SIGNIFICANT RATIOS

RATIOS	31 <sup>st</sup> January		31 <sup>st</sup> December		
	2008	2007	2006	2005	2004
<b>GROWTH RATIO (%)</b>					
Revenue, net	n.a	18.9%	35.9%	n.m	-
Operating Income/(loss)	n.a	27.5%	48.3%	n.m	-
Net Income/(loss)	n.a	-5.9%	114.2%	n.m	-
Total Liabilities	n.a	-10.1%	-5.6%	n.m	-
Total Equity	n.a	543.8%	26.5%	n.m	-
Total Assets	n.a	10.1%	-3.7%	n.m	-
<b>OPERATING RATIO (%)</b>					
Operating Income/(Loss) to Net Revenue	18.3%	19.2%	17.9%	16.4%	n.a
Net Income/(Loss) to Net Revenue	5.2%	1.1%	1.4%	0.9%	n.a
Operating Income/(Loss) to Total Equity	8.4%	89.1%	449.9%	384.0%	n.m
Net Income/(Loss) to Total Equity	2.4%	5.3%	36.5%	21.5%	n.m
Operating Income/(Loss) to Total Assets	1.3%	15.1%	13.0%	8.5%	n.a
Net Income/(Loss) to Total Assets	0.4%	0.9%	1.1%	0.5%	n.m
<b>EFFECTIVITY RATIO (x)</b>					
Inventory Turnover	38.7x	38.3x	38.1x	40.4x	n.m
Operating Expense to Operating Income	0.1x	0.1x	0.1x	0.1x	(1.00)x
Net Working Capital to Revenue	0.1x	0.1x	0	0.1x	n.a
Increase of Revenue to Increase of Operating Cash Flows	n.a	0.7x	3.9x	n.m	n.a
Operating Cash Flows to Net Income	(1.1)x	22.5x	3.3x	(3.1)x	n.a
Net Cash Flows to Current Liabilities	0.02x	0.01x	(0.1)x	0.2x	n.a
<b>RATIO OF LIQUIDITY AND SOLVABILITY (x)</b>					
Acid Test Ratio	1.0x	1.0x	0.6x	0.8x	n.a
Conversion period (day)	n.m	57.5	57.7	64.0	n.a
Average day payables payment period (day)	n.m	66.6	64.2	78.6	n.a
Average day receivables collection period (day)	n.m	48.1	48.2	55.1	n.a
Current Assets to Current Liabilities	1.2x	1.2x	1.0x	1.3x	0.5x
Total Liabilities to Total Equity	5.2x	4.5x	32.0x	42.9x	n.m
Total Liabilities to Total Assets	0.8x	0.8x	0.9x	0.9x	1.1x
Dividen Payment Ratio	-	-	-	-	-
Price Book Value (Rp)	117.05	119.52	18.57	14.67	(0.48)
<b>RATIO REQUIRED IN THE AGREEMENT (x)</b>					
<b>Required ratio</b>					
Combined free cash flows** to installment payments of loan and interest (x)	>1.2x	>1.2x	>1.1x	>1.1x	n.a
Net liabilities to combined EBITDA* (x)	<3.5x	<3.5x	<2.5x	<2.5x	n.a
<b>Compliance of the required ratio</b>					
Combined free cash flow** to installment payments of loan and interest (x)	n.m	4.3x	2.3x	2.3x	n.a
Net liabilities to combined EBITDA* (x)	n.m	2.3x	2.4x	2.4x	n.a

\* Combined EBITDA represent total EBITDA of Adaro, IBT and Coaltrade

\*\* Combined free cash flow represents total free cash flows of Adaro, IBT and Coaltrade.

## VI. MANAGEMENT'S ANALYSIS AND DISCUSSION

*This analysis and discussion are formulated based on the consolidated financial statements of the Company and its subsidiaries for the period of 1 (one) month ended on 31<sup>st</sup> January 2008 and for the year ended on 31<sup>st</sup> December 2007, audited by Public Accounting Firm: Haryanto Sabari & Rekan (member of PricewaterhouseCoopers) with Unqualified Opinion with Explanatory Paragraph regarding restructuring transaction of entities under common control and VAT in compensation against royalty payment; and for the years ended on 31<sup>st</sup> December 2006 and 2005 originated from consolidated financial statements, which have been audited by Public Accounting Firm: Kosasih and Nurdijaman with Unqualified Opinion of which the introductory paragraph in the statement of opinion explains the reference to the statement of other auditor, unaudited subsidiaries and explanatory paragraph for the going concern of subsidiary and the re-issue of consolidated financial statements for the years ended 31<sup>st</sup> December 2006 and 2005. The Public Accounting Firm Haryanto Sabari & Rekan has audited the combined consolidated financial statements of the Company and its Subsidiaries as at 31<sup>st</sup> December 2006 and 2005 and for the years then ended, after restatements for applying by the pooling of interests method on restructuring transactions of the entities under common control with the opinion that the consolidated financial statements have been restated properly based on the accounting principles generally accepted in Indonesia.*

### 1. General

The Company was established by the name PT Padang Kurnia, a limited liability company established under and governed by the law of Republic of Indonesia, based on the Company's Deed of Establishment No.25 dated 28<sup>th</sup> July 2004, drawn up before Sukawaty Sumadi, SH., Notary in Jakarta. The Deed was announced in BNRI No.59 dated 25<sup>th</sup> July 2006, Supplement No.8036.

The Company's Articles of Association have been amended several times. The latest amendment is in the framework of Public Offering, of which based on Deed No.62 dated 18<sup>th</sup> April 2008 drawn up before Robert Purba, SH., Notary in Jakarta, the Company has altered the name to PT Adaro Energy Tbk., altered the Company's Articles of Association entirely and altered the Company's status from private to public company. The deed obtained the approval of the Minister of Law and Human Rights of the Republic of Indonesia based on Decrees No.AHU-20330.AH.01.02.Tahun 2008 dated 23<sup>rd</sup> April 2008 and No.AHU-21258 AH.01.02-Tahun 2008 dated 25<sup>th</sup> April 2008.

The Company's vision is to become a coal-based mining and energy company that is integrated, the biggest and most efficient in South East Asia. To accomplish such vision, the Company divides its business activities into three (3) strategic business units, comprising coal mining and trading, coal infrastructures and logistics, and mining contractor service.

Each strategic business unit is positioned as an independent and integrated profit centre that enables the Company and Subsidiaries to have a coal supply chain that is competitive and reliable and finally expected to be able to give an optimum added value for all stakeholders of the Company and the Subsidiaries.

The large portion of the incomes of the Company and Subsidiaries come from the coal sales to domestic and international customers and the services obtained from mining activities. In 2005, 2006 and 2007, the net revenue of the Company and Subsidiaries are respectively recorded of IDR 7,174,651 million, IDR 9,748,068 million and IDR 11,592,640 million. In the first month of 2008, the net revenue of the Company and Subsidiaries is recorded of IDR 1,115,080 million.

As generally for companies engaged in mining industry, the revenue of the Company and Subsidiaries are influenced by the fluctuation of the world coal price and demand. The Company and Subsidiaries produce and sell Sub-Bituminous Coal having very low contents of ash and sulfur and the calorific value ranging between  $\pm 4,850$  kcal/kg. to  $\pm 5,900$  kcal/kg. widely known by the registered trade mark Envirocoal. Based on its characteristics, Envirocoal is largely used as fuel for steam power plant in domestic and international markets.

The main cost component of the Company and Subsidiaries is production cost. To maintain the business profit level, the Company and Subsidiaries continuously evaluate various methods to reach the economic scale and achieve operational efficiency, among others by integrated logistics and marketing management.

### **Factors Which Affect The Businesses Of The Company And Its Subsidiaries**

Some major factors affecting the businesses of the Company and its Subsidiaries are among others:

- World coal demand
- Fluctuation of world coal prices
- Production and business expansion
- Contracts with customers; and
- The Inter-dependency among mining contractors

### **World Coal Demand**

Barlow Jonker, an independent consultant company engaged in the coal market research predicts that the demand for Sub-bituminous Coal will continue to grow in the future along with the increasing acceptance of coal of this type in the market. From 1995 to 2005, the demand for Sub-bituminous Coal has had the average growth of over 23% annually. This research is contained in Expert Market Report dated 12<sup>th</sup> October 2007.

### **Fluctuation of world coal prices**

The coal price has a quite great fluctuation. The factors influencing the coal price fluctuation are:

- The world coal production volume, affected by several factors such as the finding of new coal reserves, the expansion of the mines in operation, or the closing of coal mines;
- The limited coal supply caused by disturbance of transportation network; and
- The government's policy on coal export from its country.

The above factors influence the world coal price, including Envirocoal.

During the period from 2001 to 2007, the world coal price moved in a quite wide range as shown by the average Newcastle Index that moves between -19% to +105%. The high price fluctuation will affect the income of the Company and Subsidiaries, as most of the revenue of the Company and Subsidiaries are from coal sale.

## **Production and Business Expansion**

### **Coal Mining and Trade**

Sales revenues from the Company's coal mining strategic business unit relate to the combination of volume and prices of coal which are produced and sold. Coal production volume depends upon the mining plans and the management of logistics, in the production of coal and the haulage of coal from pits to Crushing and Hauling Facilities. In the area of production, the Company through its mining strategic business unit, Adaro has appointed four (4) major mining contractors (including strategic business unit of mining contractor service, SIS) to execute mining activities under the supervision of the Company and Subsidiaries. The coal production of mining strategic business unit, Adaro of 2005 was at 26.7 million tons, which then grew to 34.4 million tons in 2006 and to 36.0 million tons in 2007.

In line with the middle-term plan of the Company and Subsidiaries to increase its coal capacity and production up to the level of 80 million tons, the Company and Subsidiaries is currently in the phase to increase the infrastructures and logistics capacities to support the production increase, among others by increasing the capacities of Crushing and Hauling Facilities, of which the estimated capital expenditure required is approximately US\$ 30 million to be met from the internal cash of the Company and Subsidiaries, and the making of conveyor belt of 68 km long for transporting coal from the mine to the Crushing and Hauling Facilities.

### **Coal Mining Contractors Services**

Income from this strategic business unit of mining contractor service, SIS came from a number of mining contracts obtained from both mining strategic business unit, Adaro and other third parties. The strategic business unit of mining contractor service has been able to lift coal at 11.94 million tons of coal in 2007 compared to just 2.6 million tons back in 2003 and 60.73 million bcm for removal of overburden in 2007 from 5.30 million bcm in 2003. Good operational performance makes it to be relied on by some mine owners to conduct the jobs of overburden removal, coal mining and transportation, namely by the mining strategic business unit, Adaro, PT Berau Coal ("Berau"), PT Indomining ("Indomining"), PT Sumber Kurnia Buana ("SKB"), PT Borneo Indobara ("Borneo"), and PT Interex Sacra Raya ("Interex"). The mining contractor service strategic business unit, SIS, intends to increase its capacity in the coal mining up to 41 million tons in medium term.

According to the Company's strategic plan to increase the production of the mining strategic business unit, Adaro, at the same time to encourage the mining work volume of the mining contractor service strategic unit, the Company and Subsidiaries plan to allocate approximately 50% of the whole production of the mining strategic business unit, Adaro, to the mining contractor service strategic business unit. This policy enables the Company's mining contractor service strategic business unit to become one of the market leaders in its industry. By the quite considerable increase of work volume, the mining contractor service strategic business unit needs additional investment, among others in the form of heavy equipments.

### **Mining Infrastructures and Logistics**

The Company by its infrastructures and logistics strategic business unit, IBT, has a coal terminal facility with the loading capacity reaches 12 million tons coal per annum and the storing capacity up to 800,000 tons located in Laut Island, South Kalimantan. This terminal has 8 collecting locations with international standard certificate, namely International Code for The Security of Ships and Port Facilities (ISPS Code) in 2004.

The Company through the infrastructures and logistics strategic business unit, MSW, is also currently in the process of construction of pit mouth steam power plant (“Pit mouth PLTU”) with coal fuel of the capacity 2x30 MW for supplying electricity requirement for the conveyor belt facility, production facility, and other facilities in the mining area of the mining strategic business unit, Adaro. This pit mouth PLTU construction is one of the strategies of the Company and Subsidiaries to reduce the impact of fuel price, at the same time to increase the production cost efficiency by making conversion from solar to coal consumption.

### **Contracts with customers**

Today, nearly all coal sales of the mining strategic business unit, Adaro, are conducted based on long-term sale contracts that are binding from the point of volume, of which the price will be determined from time to time. Based on the policy and strategy of the Company and Subsidiaries to maintain the stability and certainty of income and cash flow of operational activities, at the same time to benefit the profit from the world high coal price today, the Company and Subsidiaries plan to conduct sales balance between long term contracts and sales in spot market.

The coal trade strategic business unit, namely Coaltrade, has been involved in coal trading and marketing business activities for the customers in Asia and Europe. A large portion of the coal sales of the coal trade strategic business unit, Coaltrade, is based on the sales contract of one (1) year term or over conducted in United States dollar currency. Today, the coal trade strategic business unit, Coaltrade, serves the coal sales either from the mining strategic business unit, Adaro, or other coal suppliers of third parties.

The mining contractor service strategic business unit, SIS, today has coal mining and transportation contracts with some customers based on volume and time. The contract volume is around 2.7 million tons to 46 million tons per customer. Besides the contracts with the mining strategic business unit, Adaro, the mining contractor service strategic business unit, SIS, also has several coal mining and transportation contracts with Berau, Indomining, SKB, Borneo and Interex.

### **Interdependence with Mining Contractors**

The mining strategic business unit, Adaro, works in cooperation with four (4) main mining service contractors (including the mining contractor service strategic business unit, SIS) in conducting all its mining activities, including for removal of overburden, coal mining, coal transportation to the Crushing and Loading Facilities, and other services provided by mining service contractors. The mining contractors appointed are required to provide all instruments, machines, equipments, and manpower required for conducting mining activities in the mining

area of the mining strategic business unit, Adaro. The failure of mining contractors in meeting their duties may have negative impacts on the production of the mining strategic business unit, Adaro.

On the other hand, the mining strategic business unit, Adaro, is one of the main customers for the mining service contractors and has had good cooperation so far. The high investment and working capital costs spent by the mining service contractors cause limitation to the mining service contractors to mobilize or move their heavy equipments.

The interdependence condition causes the parties to respectively continue having good and continuous cooperation, which will increase the performance of the Company and Subsidiaries.

## 2. Finance.

The following discussion and analysis concern with the financial condition and yields of the Company and Subsidiaries based on the consolidated financial statements of the Company and Subsidiaries for the period of 1 (one) month ended on 31st January 2008 and for the year ended on 31st December 2007, which have been audited by Public Accounting Firm Haryanto Sahari & Rekan (member of the PricewaterhouseCoopers) with Unqualified Opinion with Explanatory Paragraph regarding restructuring transactions of entities under common control and VAT in compensation against royalty payment. For the years ended on 31st December 2006 and 2005 originated from the consolidated financial statements, which have been audited by Public Accounting Firm Kosasih and Nurdiyaman with Unqualified Opinion; the introduction paragraph in the statement of opinion explains the reference to the statement of other auditor, unaudited subsidiaries, the explanatory paragraph for the going concern of subsidiary and the re-issue of consolidated financial statements for the years ended 31st December 2006 and 2005. The Public Accounting Firm Haryanto Sahari & Rekan has audited the combined consolidated financial statements of the Company and its Subsidiaries as at 31st December 2006 and 2005 and for the years then ended, after the restatements for applying the pooling of interests method on restructuring transactions of entities under common control with the opinion that the consolidated financial statements have been restated properly based on the accounting principles generally accepted in Indonesia. The financial highlights of the Company and Subsidiaries for 2006 and 2005 are originated from the consolidated financial statements of the Company and subsidiaries that has been restated.

Based on the audited consolidated financial statements, the Company's financial highlights are as follows:

Items	31 <sup>st</sup> January 2008	31 <sup>st</sup> December		
		2007	2006*	2005*
(in IDR million)				
<b>Balance Sheets</b>				
Total Current Assets	5,209,131	4,997,672	3,636,741	4,542,888
Total Non Current Assets	11,088,979	9,691,011	9,686,652	9,310,356
Total Assets	16,298,110	14,688,683	13,343,393	13,853,244
Total Current Liabilities	4,248,336	4,236,744	3,570,179	3,544,316
Total Non Current Liabilities	8,516,140	6,884,515	8,802,157	9,564,737
Minority Interest	1,093,599	1,075,906	584,036	438,354
Total Equity	2,440,035	2,491,518	387,021	305,837
Total Liabilities and Stockholders' Equity	16,298,110	14,688,683	13,343,393	13,853,244

Items	31 <sup>st</sup> January 2008	31 <sup>st</sup> December		
		2007	2006*	2005*
<b>Statements of Income</b>				
Revenue	1,115,080	11,592,640	9,748,068	7,174,651
Cost of Revenue	(891,675)	(9,121,200)	(7,787,558)	(5,836,588)
Gross Profit	223,405	2,471,440	1,960,510	1,338,063
Operating Expenses	(18,834)	(250,948)	(219,296)	(163,562)
Operating Income	204,571	2,220,492	1,741,214	1,174,501
Other Income / (Expenses)	32,163	(1,273,467)	(889,935)	(572,806)
<b>Net Income</b>	<b>58,109</b>	<b>132,853</b>	<b>141,133</b>	<b>65,892</b>

\*As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

## A. Trends in Revenue, Cost of Revenue and Income

### Revenue

The Company's revenue represents the total of revenue earned by the consolidated Subsidiaries of various strategic business units. Below table indicates revenue contributed by each of the strategic business units to the Company's revenue.

Items	31 <sup>st</sup> Jan 2008	31 <sup>st</sup> December		
		2007	2006*	2005*
Coal mining and trading	1,020,576	10,799,071	9,263,324	6,820,013
Mining Services	75,646	672,615	483,962	354,638
Others	18,858	120,954	782	-
<b>Total Revenue</b>	<b>1,115,080</b>	<b>11,592,640</b>	<b>9,748,068</b>	<b>7,174,651</b>

(in IDR million)  
\*As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

### *The period of 1 (one) month ended on 31<sup>st</sup> January 2008*

The Company's revenue for the period of 1 (one) month ended on 31<sup>st</sup> January 2008 amounting to IDR 1,115,080 million, to which the coal mining and trade strategic business unit contributed 91.5%; mining contractor services business unit contributed 6.8%; while infrastructures and logistics contributed 1.7%.

### *As of 31<sup>st</sup> December 2007 compared to 31<sup>st</sup> December 2006*

The Company's revenue grew 18.9% from previously IDR 9,748,068 million in 2006 to IDR 11,592,640 million in 2007. Of the total revenue, sales of coal contributed 93.2%; while Mining contractor services contributed 5.8% while the remaining 1.0% was from infrastructures and logistics strategic business unit.

The coal mining and trade strategic business unit's revenue grew by 16.6% from IDR 9,263,324 million in 2006 to IDR 10,799,071 million in 2007. This increase is mainly attributable to a considerably high increase of volume and prices of sale. In spite of the fact that world coal prices in international market have grown considerably high at the end of fourth quarter of 2007, sales contracts and the selling price commitment for a part of its production were made in 2006 and the closing part of 2005, during which

the prices of world coal were decreasing so as to cause the Company to be unable to gain maximum benefits from this global situation.

Revenue from strategic business unit of mining contractor service also grew significantly at 39.0% from IDR 483,962 million in 2006 to IDR 672,615 million in 2007. This increase is mainly attributable to the increasing volume of overburden removal, mining and coal hauling operations.

The infrastructures and logistics strategic business unit also saw its revenue growing significantly from IDR 782 million in 2006 to IDR 120,954 million in 2007, which is attributable to the consolidation of Revenue of the newly acquired Subsidiary, namely the infrastructures and logistics strategic business unit, IBT.

### ***31<sup>st</sup> December 2006 compared to 31<sup>st</sup> December 2005***

The Company's revenue grew by 35.9% from IDR 7,174,651 million in 2005 to IDR 9,748,068 million in 2006. Out of the total revenue, an amount of 95% revenue was contributed from coal sales and 5% was from mining contractor services.

Revenue from coal mining and trade strategic business unit during this period increased significantly by 35.8% from IDR 6,820,013 million in 2005 to IDR 9,263,324 million in 2006. This increase is mainly attributable to higher volume and higher prices, supported with improved infrastructures and the relatively low rain which lasted somewhat longer thus allowing the Company to execute the exploration activities to the maximum possible.

Revenue from mining contractor service business unit increased by 36.5% from IDR 354,638 million in 2005 to IDR 483,962 million in 2006. The increase is attributable to the increasing volume of the works of overburden removal, coal mining and transportation, supported by conducive operational condition due to the low rainfall and the existing new contracts.

### **Cost of Revenue**

Items	31 <sup>st</sup> January 2008	31 <sup>st</sup> December		
		2007	2006*	2005*
Coal mining and trading	808,044	8,532,903	7,386,963	5,547,340
Mining services	68,701	530,867	400,595	289,248
Others	14,930	57,430	-	-
<b>Total Cost of Revenue</b>	<b>891,675</b>	<b>9,121,200</b>	<b>7,787,558</b>	<b>5,836,588</b>

\* As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

Cost of revenue of coal mining and trading represents the largest cost component of total cost of revenue. This cost includes cost of mining and purchases of coal, crushing and hauling of coal, coal loading-unloading, including royalties (DHPB) paid to the Government.

***The period of 1 (one) month ended on 31<sup>st</sup> January 2008***

The Company's cost of revenue during the period of 1 (one) month ended on 31<sup>st</sup> January 2008 amounts to IDR 891,675 million, to which the mining and trading strategic business unit contributed 90.6%; strategic business unit of mining contractor service contributed 7.7%; while infrastructures and logistics strategic business unit contributed 1.7%.

***31<sup>st</sup> December 2007 compared to 31<sup>st</sup> December 2006***

The Company's cost of revenue for the year ended on 31<sup>st</sup> December 2007 grew at 17.1% from IDR 7,787,558 million in 2006 to IDR 9,121,200 million in 2007.

The coal mining and trading strategic business unit has an increase of the cost of revenue at 15.5% of IDR 7,386,963 million in 2006 to become IDR 8,532,903 million in 2007. The increase was particularly due to the increase of sales volume and production cost per unit. The increase of production cost per unit is due to the increase of the stripping ratio and fuel cost.

The mining contractor service strategic business unit has a quite significant increase of cost of revenue at 32.5%, i.e. from IDR 400,595 million in 2006 to IDR 530,867 million in 2007. The increase was particularly attributable to the increasing volume of the works of overburden removal, coal mining and transportation and the costs of fuel and tire. In practice, most of the increase of fuel cost spent by the mining contractor service strategic business unit is reimbursed by the mining company.

The infrastructures and logistics strategic business unit recorded the cost of revenue of IDR 57,430 million in 2007 with the biggest contribution from the rent of tugboat, repair and maintenance costs, depreciation expenses and fuel cost.

***31<sup>st</sup> December 2006 compared to 31<sup>st</sup> December 2005***

The Company's cost of revenue for the year ended on 31<sup>st</sup> December 2006 increased by 33.4% from IDR 5,836,588 million in 2005 to IDR 7,787,558 million in 2006.

The coal mining and trading strategic business unit had an increase of cost of revenue at 33.2% from IDR 5,547,340 million in 2005 to IDR 7,386,963 million in 2006. The increase was particularly due to the increase of sales volume and production cost per unit. This increase of production cost per unit is related to the increasing of stripping ratio and fuel cost.

The mining contractor service strategic business unit had an increase of cost of revenue at 38.5% from IDR 289,248 million in 2006 to IDR 400,595 million in 2007. The increase was particularly attributable to the increasing volume of the works of overburden removal, coal mining and transportation and the costs of fuel and tyre.

**Operating Expenses and Operating Income**

***The period of 1 (one) month ended on 31<sup>st</sup> January 2008***

The Company's operating expenses for the period of 1 (one) month ended on 31<sup>st</sup> January 2008 amounting to IDR 18,834 million which comprises of selling and marketing expenses and general and administration expenses, respectively in the amount of IDR 10,366 million and IDR 8,468 million.

The Company's operating income for the period of 1 (one) month ended on 31<sup>st</sup> January 2008 amounting to IDR 204,571 million of which 98.7% came from coal mining and trading strategic business unit; 0.6% came from strategic business unit of mining contractor service; as well as the remaining 0.7% came from infrastructures and logistics strategic business unit.

### ***31<sup>st</sup> December 2007 compared to 31<sup>st</sup> December 2006***

The Company's operating expenses increased by 14.4% from IDR 219,296 million in 2006 to IDR 250,948 million in 2007. This increase of operating expense is attributable to increase of selling and marketing expenses.

In terms of the Company's operating income, the figure increased by 27.5% from IDR 1,741,214 million in 2006 to IDR 2,220,492 million in 2007; of which 93.7% came from coal mining and trading strategic business unit; 3.9% from strategic business unit of mining contractor service and the remaining 2.4% came from infrastructures and logistics strategic business unit. This quite significant increase is mainly attributable to higher sales volume and the Company's success in implementing cost efficiency.

Operating income from coal mining and trading strategic business unit increased by 20.2% from IDR 1,730,457 million in 2006 to IDR 2,080,394 million in 2007, which is attributable to growth of sales coupled with success in achieving cost-efficient operation.

Operating income from strategic business unit of mining contractor service increased by 719.5% from IDR 10,481 million in 2006 to IDR 85,889 million in 2007, particularly due to the change of estimates for the useful life of the fixed assets of operational equipments which has been technically reviewed and compared to the practices in similar types of industry.

Operating income from infrastructures and logistics strategic business unit increased from IDR 276 million in 2006 to IDR 54,209 million in 2007, which is mainly attributable to operating income contribution from the newly acquired subsidiary infrastructures and logistics strategic business unit, IBT.

### ***31<sup>st</sup> December 2006 compared to 31<sup>st</sup> December 2005***

The Company's operating expenses increased by 34.1% from IDR 163,562 million in 2005 to IDR 219,296 million in 2006. This higher operating expense is mainly attributable to significant increase in general and administration expense which is at 71.4% in relation to the increasing number of employees.

The Company's operating income also grew significantly by 48.3% from IDR 1,174,501 million in 2005 to IDR 1,741,214 million in 2006; to which coal mining and trading strategic business unit contributed 99.4%; while mining contractor services contributed 0.6%. This significant increase is mainly attributable to higher revenue recorded by the Company.

Operating income from coal mining and trading strategic business unit increased by 51.4% from IDR 1,143,249 million in 2005 to IDR 1,730,457 million in 2006, which is mainly associated with strong growth of sales and higher average selling prices.

The operating income of the coal mining contractor service strategic business unit decreased at 66.5% from IDR 31,252 million in 2005 to IDR 10,481 million in 2006, particularly due to the increase of consultants fee and employees costs slightly balanced by the sales increase.

The infrastructures and logistics strategic business unit recorded the operating income of IDR 276 million in 2006.

### **Other Income / (Expenses)**

#### ***For the period of 1 (one) month ended on 31<sup>st</sup> January 2008***

The Company recorded other income in the amount of IDR 32,163 million for the period of 1 (one) month ended on 31<sup>st</sup> January 2008, of which the largest contribution came from gains from foreign exchange difference in the amount of IDR 69,876 million which is mainly attributable to the strengthening of the Indonesian Rupiah against the United States Dollar, and from interest expense and financial charges of IDR 57,718 million and interest income of IDR 17,938 million.

#### ***31<sup>st</sup> December 2007 compared to 31<sup>st</sup> December 2006***

The Company's other expenses increased quite significantly at 43.1% from IDR 889,935 million in 2006 to IDR 1,273,467 million in 2007 which is mainly attributable to the increase in interest expense and financial charges in relation to financial charges of IDR 548,211 million due to the early redemption of Notes acquired by the Company and increase of interest expense related to Mezzanine loan facility in December 2006 balanced by the decrease of interest expense on the loan from Arindo Global (Netherlands) B.V. which was settled in December 2006. In addition, the increasing other expense is also attributable to quite significant loss from foreign exchange difference due to the weakening of the Indonesian Rupiah against the United States Dollar. The increasing interest expense and financial charges and loss from foreign exchange translation difference were a bit counter balanced by the increasing interest income.

#### ***31<sup>st</sup> December 2006 compared to 31<sup>st</sup> December 2005***

The Company's other expenses increased by 55.4% from IDR 572,806 million in 2005 to IDR 889,935 million in 2006. This increasing expense is attributable to higher interest expense and financial charges which was caused by the increase of new debts obtained in mid 2005 such that interest expense in 2005 covered only a period of 6 months. In addition, the increase of interest expense and financial charges is also balanced by the increase of interest income and gain from foreign exchange difference.

### **Net Income**

#### **For the period of 1 (one) month ended on 31<sup>st</sup> January 2008**

The company recorded a net income of IDR 58,109 million for the period of one (1) month ended 31<sup>st</sup> January 2008.

### ***31<sup>st</sup> December 2007 compared to 31<sup>st</sup> December 2006***

The Company's net income slightly decreased by 5.9% from IDR 141,133 million in 2006 to IDR 132,853 million in 2007. This decrease is mainly attributable to loss from exchange difference due to the weakening of the Indonesian Rupiah against the United States Dollar and the financial charges from early redemption of Notes, which is balanced by the Company's operating income increase as the result of increase of selling price and volume.

### ***31<sup>st</sup> December 2006 compared to 31<sup>st</sup> December 2005***

The Company's net income increased significantly by 114.2% from IDR 65.892 million in 2005 to IDR 141,133 million in 2006. This significant increase in net income is mainly attributable to increase of operating income of the Company as the results of higher prices and volume of sales.

## **B. Debts and Interest Rate**

As of 31<sup>st</sup> January 2008, the Company's total liabilities amounting to IDR 12,764,476 million. Below table details the Company's consolidated borrowings which carry interest expense (interest bearing debt):

(in IDR million)

Items	31 <sup>st</sup> January 2008	31 <sup>st</sup> December		
		2007	2006*	2005*
Short term borrowings	1,581,740	1,518,936	1,388,279	1,095,377
Long term borrowings	7,546,710	5,907,352	8,233,333	9,043,591

\* As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

For the period of one (1) month ended 31<sup>st</sup> January 2008 and the years ended 31<sup>st</sup> December 2007, 2006 and 2005, the Company reported interest expense and financial charges respectively in the amount of IDR 57,718 million; IDR 1,725,928 million; IDR 1,620,887 million and IDR 703,287 million.

Currently, the Company's consolidated total debt amounting to IDR 9,128,450 million with interest rates within the range of 5.7% - 17.0% for loan (in US\$) currency and 5.0% - 19.0% for loan in Indonesian Rupiah currency.

## **C. Growths of Assets, Liabilities and Equity**

The following table indicates the Company's total Assets, Liabilities and Equity as at 31<sup>st</sup> January 2008, 31<sup>st</sup> December 2007, 2006 and 2005:

### **Assets**

The Company's assets comprise:

Items	31 <sup>st</sup> Jan 2008	(in IDR million)		
		31 <sup>st</sup> December		2005*
		2007	2006*	
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	893,103	831,840	758,453	1,191,019
Restricted cash and cash equivalents	54,967	64,595	754,168	778,087
Available-for-sale investments	1,747,863	1,734,330	-	491,500
Trade receivables, net				
Third parties	1,391,059	1,153,572	1,120,959	848,510
Related parties	257,345	396,571	184,450	249,864
Other Receivables				
Third parties	63,445	60,727	57,580	82,492
Advance and prepayments	123,715	83,638	67,417	40,384
Inventories, net	276,550	238,148	204,353	144,537
Prepaid Taxes	167,042	153,997	135,131	77,249
Recoverable tax	159,207	210,171	188,323	162,495
Prepayment to related party	-	-	115,506	316,569
Deferred financing costs, net	22,578	16,269	57,313	156,341
Deferred expenses, net	44,366	49,776	-	-
Other current assets	7,891	4,038	13,088	3,841
<b>Total current assets</b>	<b>5,209,131</b>	<b>4,997,672</b>	<b>3,656,741</b>	<b>4,542,888</b>
<b>Non Current Assets</b>				
Other Receivables				
Related parties	26,146	26,128	16,468	2,701
Fixed assets, net	3,518,727	3,558,698	2,327,320	1,856,686
Investments in associates	4,755	4,868	667,674	76,322
Mining properties, net	116,076	118,362	121,247	140,742
Goodwill, net	5,153,242	1,225,532	15,508	19,383
Deferred exploration and development expenditure, net	85,415	86,828	193,391	196,122
Prepayment to related party –non current portion	-	-	-	125,879
Loans to related parties – non current portion	2,044,337	4,498,016	6,161,683	6,476,686
Deferred financing costs, net	79,919	59,728	127,543	353,014
Deferred expenses, net – non current portion	12,165	12,590	11,918	27,416
Deferred tax assets	31,988	36,823	33,699	30,285
Restricted cash and cash equivalents– non current portion	11,104	11,236	10,092	5,120
Other non current assets	5,105	52,202	109	-
<b>Total non current assets</b>	<b>11,088,979</b>	<b>9,691,011</b>	<b>9,686,652</b>	<b>9,310,356</b>
<b>TOTAL ASSETS</b>	<b>16,298,110</b>	<b>14,688,683</b>	<b>13,343,393</b>	<b>13,853,244</b>

\* As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

As of 31<sup>st</sup> January 2008, the Company's total assets amount to IDR 16,298,110 million, which is 11.0% higher than the Company's total assets as of 31<sup>st</sup> December 2007 which stayed at IDR 14,688,683 million. These increasing assets are mainly attributable to the increase of goodwill which was offset by decreased loans to the related parties, both were attributable to the acquisition of Arindo since January 2008.

As of 31<sup>st</sup> December 2007, the Company's total assets amounting to IDR 14,688,683 million which means an increase of 10.1% compared to the Company's total assets as of 31<sup>st</sup> December 2006 which is at IDR 13,343,393 million mainly attributable to the increase of available-for-sale investments offset

by decrease of restricted cash and cash equivalents and the Revere and Decimar acquisition, causing consolidation of the financial statements of the infrastructures and logistics strategic business unit, IBT, to the Company. The consolidation of the infrastructures and logistics strategic business unit, IBT, causes an increase in the fixed assets and goodwill and the elimination of investment in associates and the loans to related parties.

As of 31st December 2006, the Company's total assets amounting to IDR 13,343,393 million, which means a bit decrease of 3.7% compared to the Company's total assets as of 31st December 2005 in the amount of IDR 13,853,244 million. This decrease in total assets is attributable to the decrease in advances and loans to related parties which were a bit coupled by the increase in fixed assets and trade receivables.

## Liabilities and Stockholders' Equity

### Composition of liabilities and Stockholders' equity of the Company:

(in IDR million)

Items	31st Jan 2008	31st December		
		2007	2006*	2005*
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Short term borrowings				
Bank loans	445,968	447,045	269,698	152,512
Other loans				
-Third parties	51,648	191,677	75,317	18,212
Trade payables				
-Third parties	1,566,967	1,505,851	1,308,660	1,270,087
-Related parties	198,346	182,322	80,929	3,881
Taxes payable	98,828	138,819	86,209	236,039
Accrued expenses	377,358	306,127	85,652	285,482
Convertible bonds	92,910	-	-	-
Promissory notes	-	-	-	98,300
Current maturity of long-term borrowings:				
Lease payables	121,361	125,728	87,743	54,277
Bank loans	863,349	747,892	589,259	677,332
Other loans – third parties	6,504	6,594	366,262	193,044
Other current payable	765	1,237	5,896	4,430
Royalty payable	424,332	583,452	614,554	550,720
<b>Total current liabilities</b>	<b>4,248,336</b>	<b>4,236,744</b>	<b>3,570,179</b>	<b>3,544,316</b>
<b>Non Current Liabilities</b>				
Amounts due to related parties	9,503	8,765	17	544
Long-term borrowings, net of current maturities:				
Lease payables	230,034	243,036	151,025	62,114
Bank loans	7,187,741	5,535,428	4,365,722	1,844,088
Notes	-	-	3,579,733	3,893,370
Other loans				
-Third parties	23,423	23,753	26,998	274,141
-Related parties	12,602	10,945	28,675	2,969,878
Subordinated loan	92,910	94,190	90,200	-
Deferred tax liabilities	489,529	496,681	521,593	479,361
Provision for employee benefits	48,006	50,195	33,921	29,580

Items	31 <sup>st</sup> Jan 2008	31 <sup>st</sup> December		
		2007	2006*	2005*
Accrued stripping costs	422,392	421,522	4,273	11,661
<b>Total non-current liabilities</b>	<b>8,516,140</b>	<b>6,884,515</b>	<b>8,802,157</b>	<b>9,564,737</b>
<b>Total Liabilities</b>	<b>12,764,476</b>	<b>11,121,259</b>	<b>12,372,336</b>	<b>13,109,053</b>
<b>Minority Interest</b>	<b>1,093,599</b>	<b>1,075,906</b>	<b>584,036</b>	<b>438,354</b>
<b>EQUITY</b>				
Share capital – issued and fully paid	2,084,663	2,062,478	143,628	143,628
Exchange difference due to financial statements translation	(22,365)	21,172	(22,596)	10,898
Difference in value from restructuring transactions of entities under common control	359,332	382,513	310,314	246,770
Difference in transactions of changes in equity of subsidiaries and associates	-	1,115	-	-
Retained earnings/(accumulated losses)	18,405	24,240	(44,325)	(95,459)
<b>Total Equity</b>	<b>2,440,035</b>	<b>2,491,518</b>	<b>387,021</b>	<b>305,837</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>16,298,110</b>	<b>14,688,683</b>	<b>13,343,393</b>	<b>13,853,244</b>

\* As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

## Liabilities

As of 31<sup>st</sup> January 2008, the Company's total liabilities amount to IDR 12,764,476 million, which means an increase of 14.8% compared to the Company's total liabilities as of 31<sup>st</sup> December 2007 in the amount of IDR 11,121,259 million. This increase in liabilities is mainly attributable to the in connection with the existing consolidated bank loan of the trading strategic business unit, Coaltrade, consolidated to the Company since January 2008, balanced by the decrease of liabilities denominated (in US\$) currency due to adjustment of exchange rate difference.

As of 31<sup>st</sup> December 2007, the Company's total liabilities amounting to IDR 11,121,259 million, which is 10.1% lower than the Company's total liabilities as of 31<sup>st</sup> December 2006 which was recorded at IDR 12,372,336 million. This decrease in liabilities is mainly attributable to early redemption of the Notes issued by the Company's subsidiary as of 8<sup>th</sup> December 2005 through refinancing from bank loans balanced by the increase of liabilities denominated (in US\$) currency due to adjustment of exchange rate difference.

As of 31<sup>st</sup> December 2006, the Company's total liabilities amounting to IDR 12,372,336 million, which means 5.6% lower than the Company's total liabilities as of 31<sup>st</sup> December 2005 in the amount of IDR 13,109,053 million. This decrease in liabilities is mainly attributable to the redemption of promissory notes and payment of tax payable and reduction in accrued expenses, balanced by the decrease of liabilities denominated (in US\$) currency due to adjustment of exchange rate difference.

## Equity

As of 31<sup>st</sup> January 2008, the Company's total equity amounting to IDR 2,440,035 million, which is 2.1% lower than the Company's total equity as of 31<sup>st</sup> December 2007, which was recorded at IDR

2,491,518 million. The decrease of equity is particularly attributable to the decrease of exchange difference due to financial statement translation, difference in value from restructuring transactions of entities under common control and retained earnings.

As of 31<sup>st</sup> December 2007, the Company's total equity amounts to IDR 2,491,518 million, which means a significant increase of 543.8% compared to the Company's total equity as of 31<sup>st</sup> December 2006 which was at IDR 387,021 million. This increase in equity is mainly attributable to the increase in paid-up capital by the shareholders.

As of 31<sup>st</sup> December 2006, the Company's total equity amounts to IDR 387,021 million, which means an increase of 26.5% compared to the Company's total equity as of 31<sup>st</sup> December 2005 which was at IDR 305,837 million. This increase in equity is mainly attributable to the increase in retained earnings of the Company and the difference in value from restructuring transactions of entities under common control due to the acquisition of the company's subsidiaries from entities under common control.

## Financial Ratios

### Current Ratios

Liquidity rate reflects the Company's ability to meet its current obligations by using the current assets it owns. Liquidity rate is measured with current ratio, which is current assets against current liabilities as at a given time, which is also an indicator of the Company's ability to meet all its current liabilities by using the current assets it owns. The Company's current ratio as of 31<sup>st</sup> January 2008, 31<sup>st</sup> December 2007, 2006 and 2005 respectively stayed at 1.2x; 1.2x; 1.0x; and 1.3x.

**Managements is of the opinion that the working capital of the company currently will meet the requirement for the next 12 months. In addition, currently the company still has the undrawn revolving facility.**

### Solvability

The Company's solvability pertains to the Company's ability to meet both its current and long term liabilities, and reflected in the ratio between the Company's total liabilities and equity and also the ratio between total liabilities and total assets.

(in IDR million)

Items	31 <sup>st</sup> Jan 2008	31 <sup>st</sup> December		
		2007	2006*	2005*
Total assets	16,298,110	14,688,683	13,343,393	13,853,244
Total liabilities	12,764,476	11,121,259	12,372,336	13,109,053
Minority interest	1,093,599	1,075,906	584,036	438,354
Total equity	2,440,035	2,491,518	387,021	305,837
<b>Solvability of assets (x)</b>	0.8	0.8	0.9	0.9
<b>Solvability of equity (x)</b>	5.2	4.5	32.0	42.9

\* As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

The Company's Total Liabilities to Total Assets as of 31<sup>st</sup> January 2008, as of 31<sup>st</sup> December 2007, 2006 and 2005 respectively stays at 0.8x; 0.8x; 0.9x and 0.9x. Meanwhile, the Company's Total Liabilities against Total Equity as of 31<sup>st</sup> January 2008, as of 31<sup>st</sup> December 2007, 2006 and 2005

respectively stays at 5.2x; 4.5x; 32.0x and 42.9x. The decreasing trend of the occurring equity solvability is particularly attributable to the increase of paid-up capital conducted by the shareholders.

### Return on Investment

Return on Assets reflects the Company's ability to produce net income from the assets it owns, in the comparison between its net income /(loss) and total assets. The Company's return on assets for the period of 1 (one) month ended on 31<sup>st</sup> January 2008 is 0.4% and for the years ended on 31<sup>st</sup> December 2007, 2006 and 2005 respectively stays at 0.9%; 1.1% and 0.5%. The decreasing trend in return on investment is mainly attributable to the increase in the Company's assets.

### Return on Equity

Return on Equity reflects the Company's ability to produce net income from the equity vested, obtained by comparing the Company's net income as compared to its equity. The Company's return on equity for the period of 1 (one) month ended on 31<sup>st</sup> January 2008 is 2.4% and for the years ended on 31<sup>st</sup> December 2007, 2006 and 2005 respectively stays at 5.3%; 36.5% and 21.5%. The decreasing trend in return on equity is mainly attributable to the increase made by shareholders in the Company's paid-up capital.

### Capital Expenditure

The Company made capital expenditures in connection with expansion and maintenance of infrastructures and facilities in mining areas held by the Company, as well as for the construction, expansion and maintenance of supporting facilities, as well as for land acquisitions. The Company's consolidated capital expenditure is described in below table:

Items	31 <sup>st</sup> Jan 2008	(in IDR million)		
		31 <sup>st</sup> December		
		2007	2006*	2005*
Lands and buildings	717	21,461	42,002	8,745
Infrastructures	-	37	-	-
Machinery, operational equipments and vehicles	2,120	445,793	476,777	498,357
Mining equipments	-	595	631	20
Project equipments	6	3,287	413	2,780
Office equipments and supplies	735	16,597	4,907	5,930
Crushing and handling facility	6,082	57,645	47,642	27,247
Roads and bridges	270	8,799	53,505	23,548
Stockpile facilities	-	-	-	93
Works in progress	3,990	96,556	36,736	220,682
<b>Total</b>	<b>13,920</b>	<b>650,770</b>	<b>662,613</b>	<b>787,402</b>

\* As restated, related to the restructuring transactions of entities under common control based on PSAK 38 (Revised 2004), "Accounting for Restructuring of Entities Under Common Control".

The Company's capital expenditure for the period of 1 (one) month ended on 31<sup>st</sup> January 2008 and for the years ended on 31<sup>st</sup> December 2007, 2006 and 2005 respectively amounting to IDR 13,920 million, IDR 650,770 million, IDR 662,613 million and IDR 787,402 million.

The Company's capital expenditure as of 31<sup>st</sup> January 2008 amounting to IDR 13,920 million which is mostly used for the procurement of coal Crushing and Loading Facility to be used by Subsidiaries, namely the coal mining and trade strategic business unit.

The Company's 2007 capital expenditure amounts to IDR 650,770 million which is mostly used in the procurement of heavy equipments by Subsidiaries, namely strategic business unit of mining contractor service.

The Company's 2006 capital expenditure amounts to IDR 662,613 million which is mostly used in the purchases of heavy equipments, building and lands by Subsidiaries.

The Company's 2005 capital expenditure amounts to IDR 787,402 million which is mostly used for the purchase of heavy equipments by Subsidiary, namely strategic business unit of mining contractor service, SIS, in the framework of the business expansion of the strategic business unit of mining contractor service.

### **3. Risks Management**

To minimize operating risks, the Company conducts Risks Management activities as described more detail in Chapter VII:

Risks related to Market and Sales Condition

- The application of policy for keeping the long-term contract portion at minimum 50% applied by the Company and Subsidiaries and the even customers distribution from geographical point are expected to be able to maintain the stability and certainty of the revenue of the Company and Subsidiaries in the future and to reduce the risk of fluctuation of sales volume and price.
- The Company and Subsidiaries are trying to build good relation with their customers and maintain the relation by keeping the commitment and operating expense efficiency, and to give added value to the service and products.
- By integrating its business units, the Company has a complete and reliable supply chain, at the same time keeps the operating expense efficiency in facing business competition.

Risks related to Production Activities:

- Adaro does not concentrate the implementation of mining activity in one mining service contractor, however, reducing the risk of dependency by cooperation with four contractors, of which the job distribution is specified according to the respective capacities. In its development, Adaro is also one of the main customers of the mining contractors. This condition reduces further the risk of Adaro's dependency on contractors, hence maintaining the cooperation well-established to become something prioritized in maintaining the harmony of operation activities of the Company and Subsidiaries.
- The Company and Subsidiaries always conduct periodical maintenance on all main installations, equipments, production facilities and other supporting facilities to undertake their mining activities so that the Company and Subsidiaries' operational activities can work well. This is reflected from the growth of revenue of the Company and Subsidiaries that is consistent year by year.

- The Company and Subsidiaries have covered the insurance on the assets they own, among others in the form of buildings, facilities and production equipments, inventory goods, and other supporting facilities, of which some insurance has covered the risk of natural disasters such as earthquake.
- The Company and Subsidiaries have applied the Safety Environment Management System (“SEMS”) comprising planning, training, operation procedure, and reporting system, designed to meet the safety standard of the Government of Republic of Indonesia and other organizations or agencies making/examining security standards.
- The Company and Subsidiaries actively involve experts of engineering consultants such as MineConsult and Terence Willsted & Associates, or other consulting experts to develop a sustainable long-term mine plan. Although the operation is currently only concentrated on Tutupan mine, the Company’s mining location is expanded in five (5) mine surfaces containing 2,803 million tons coal resources. The mining strategic business unit, Adaro, intends to start the mining operation in Wara area in early 2009.
- The Company and Subsidiaries make contract commitments with some service companies providing barges to ensure further the availability of transport means. Besides increasing the capacity of barges to reduce density in transportation line, today one of the service companies providing transportation is developing barges completed with propellers to speed up delivery time. The relation well-developed with the world biggest brokers of shipping service supply such as Clarkson Asia will also ensure further the availability of transport ships for coal delivery.
- One of the quite great risks in the business activities of the Company and Subsidiaries is the risk of scarcity of fuel supply with the largest consumption for heavy equipments, transport equipments, the storing, crushing and loading facilities as found in Kelanis and the storing and loading facilities in Laut Island and other small consumption is for electricity requirement of other facilities. The certainty of fuel supply will be able to meet by the construction of fuel distribution center in Laut Island Terminal for meeting the requirement of all mining industries in Kalimantan. In addition, with the Company’s plan by the infrastructures and logistics strategic business unit, MSW, to conduct the construction of pit mouth PLTU of the capacity 2x30MW planned to be completed in 2010, it is expected to reduce the Company’s dependency on fuel supply.

Risks related to the Provisions of the Laws and Social Environment:

- The Company by its Subsidiaries has conducted commercial mining activity since 1992. So far the Subsidiaries have regularly tried to meet all the conditions applied in PKP2B and other required operational licenses.
- The Company and Subsidiaries continuously attempt to find the solution of the overlapping issue between the mining areas of Subsidiaries and third parties. For the overlapping issue with the working area of PT Pertamina EP, Decree of the Minister of Energy and Mineral Resources No.1498 K/73/MEM/2008 dated 4<sup>th</sup> April 2008 on the Coordinating Team For Collective Land Utilization Between PT Pertamina EP and Adaro (“Decision on Collective Land Utilization”) was issued. As the follow up of this Decision on Collective Land Utilization, the team comprising PT Pertamina EP, Adaro and the representatives of DESDM will have coordination to achieve an understanding to be articulated in the form of agreement on collective land utilization.

Whereas for the overlapping issue with the plantation concession of PT Cakung Permata Nusa an understanding has been reached by the signing of the Conditional Settlement Agreement for Mining – Plantation Overlapping Areas on 29<sup>th</sup> February 2008.

For the problem of overlapping with PT Mantimin Coal Mining, Adaro have an opinion that Adaro already has a strong legal basis on the area acknowledged by Mantimin and Adaro. Meanwhile Adaro still open the opportunity to discuss with all of the related parties, especially DESDM to find a most proper solution and acceptable by all parties.

- The Company and Subsidiaries continuously attempt to work out close partnership and cooperation with the local people, regional government and other supporting organizations/Non-Government Organizations in developing and empowering the local people and preserving environment. Community development programs are undertaken by giving emphasize on the sectors of economy, human resources, social-culture-religious affairs based on local resource and health. Further description on this matter can be seen in Chapter IX point 10 on Social Responsibilities.
- The mining strategic business unit, Adaro, consistently markets some of its coal production for domestic consumption, even one power plant in Indonesia is its main customer. In 2007, Adaro marketed 26% of the coal it produced for domestic market. As one of the coal main suppliers for the requirement of steam power plants, it has placed Adaro as a project that is strategic by nature. By Presidential Decree Number 63/2004 on Security of National Vital Objects, in conjunction with Decree of Minister of Energy and Mineral Resources number 1610K/02/MEM/2004 on Security of National Vital Objects in the Sector of Energy and Mineral Resources dated 18<sup>th</sup> October 2004, Adaro is one of the companies in the National Vital Objects in the sector of Energy and Mineral Resources.
- The Company and Subsidiaries continuously conduct environment monitoring and management activities such as reclamation and re-vegetation of lands of former mine; control of erosion and sedimentation level; management and monitoring of air and water quality; control of noise and vibration and management of hydrocarbon and wastes periodically and continuously. The activities are expected to be able to minimize the risks related to environment pollution.

#### Risk related to Company Management:

- Besides applying the risk management as specified above, to minimize the risks related to company management, the Company and Subsidiaries also apply the policy in maintaining their key employees by giving incentives and employee's development programs, among others by trainings, providing facilities of health, insurance, pension program and additional bonus, and other programs expected to be able to motivate the key management members and employees of the Company and Subsidiaries.
- The Subsidiaries have conducted hedging by making interest rate swap transaction, by which the Subsidiaries will make payment at fixed interest rate and receive payment at floating interest rate.