

For further information please contact:

Mr. Andre J. Mamuaya, Director and Corporate Secretary

Mr. Cameron Tough, Head of Investor Relations

Tel: (6221) 521 1265

Fax: (6221) 5794 4685

Email: [cameron.tough@ptadaro.com](mailto:cameron.tough@ptadaro.com)

[www.adaro.com](http://www.adaro.com)



## Quarterly Activities Report

For the Three Months Ending September 30<sup>th</sup>, 2008

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### **PT Adaro Energy Tbk (IDX: ADRO)**

#### **Brief Description**

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 40Mt per year, the company is executing plans to double production capacity to 80Mt per year. The company has approximately 2.8 billion tonnes of coal reserves and resources and is integrated from exploration through to marketing.

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

#### **Introduction**

Welcome to the inaugural Quarterly Report of PT Adaro Energy Tbk. With this report, which will be publicly distributed in the fourth week after the end of each quarter, we hope to provide you with the timely and balanced information you need to make an informed investment decision about Adaro Energy. The report will focus on the activities of the company and its subsidiaries, during the preceding quarter. The report will not address specific financial results, which will be released separately. However, it will cover important information such as production and sales volumes, marketing, project development, exploration results as well as safety and environment and other non-financial information.

We understand, given the global financial crisis we are in and its causes, that market participants now more than ever, require clear and balanced information to assess risk. While we feel we have put together an informative report, you may feel something is missing. Please email [cameron.tough@ptadaro.com](mailto:cameron.tough@ptadaro.com) and let us know what additional information you may require.

Having only recently become a public company, we recognize there may be difficulties and misunderstandings in the road ahead, but management remains dedicated to providing timely and balanced disclosure and to build good strong relationships with the domestic and international debt and equity capital markets.

### **Highlights**

- During the third quarter of 2008 Adaro Energy met or exceeded all provisional targets and remained on track to produce 38-39Mt of coal in 2008
- Due to continued strong demand, combined sales volumes, which include 860,790 tonnes of third party coal trading, increased by 9% to 30.9 million tonnes. Despite seasonally difficult weather conditions at the beginning of the year, production volumes increased 6% to 28.7 million tonnes.
- In 3Q08, 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 50% of pricing for 2009 has been completed.
- In terms of next year's planned production of 42-45M tonnes output, the company or its contractors had prepared over 90% of the necessary equipment (including equipment which has yet to be delivered) and associated funding.
- Adaro Energy made progress in terms of achieving financial closure on the debt financing for the 60 megawatt (MW) mine mouth coal-fired power plant.
- Adaro Energy successfully completed a trial-run on the new channel that was dredged at the mouth of the Barito river, near Banjarmasin, South Kalimantan.
- Due to the difficult credit conditions, the Board of Directors decided to temporarily suspend work on the financial aspects of Adaro Energy's expansion plans.
- Adaro Energy continued to work on resolving a disagreement with the government related to alleged unpaid royalties dating back to 2001. At the moment, the company remains optimistic for a favorable outcome.
- During 3Q08, Adaro Energy spent US\$1.6 million on drilling of the coal deposits, which continued to further delineate the coal resources and reserves. Management is confident of increasing reserve and resource numbers, once the additional estimations have been reviewed to meet JORC standards.

Jakarta  
November 10<sup>th</sup>, 2008

**Board of Commissioners:**

1. Edwin Soeryadjaya – President Commissioner
2. Theodore Permadi Rachmat – Vice President Commissioner
3. Ir. Subianto – Commissioner
4. Djoko Suyanto – Commissioner
5. Palgunadi Tatit Setyawan – Commissioner

**Board of Directors:**

1. Garibaldi Thohir – President Director
2. Christian Ariano Rachmat – Vice President Director
3. Sandiaga Salahuddin Uno – Director
4. Andre Johannes Mamuaya – Director of Corporate Affairs/Corporate Secretary
5. David Tendian – Finance Director
6. Ah Hoo Chia – Operations Director
7. Alastair Grant – Marketing Director

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

1. PT Adaro Indonesia (“AI”): coal mining
2. PT Saptaindra Sejati (“SIS”): mining contractor (85.92%)
3. Coaltrade Services International Pte Ltd (“Coaltrade” or “CTI”): coal trading and marketing agents
4. PT Indonesia Bulk Terminal (“IBT”): coal terminal operation, port facilities
5. PT Makmur Sejahtera Wisesa (“MSW”): mine mouth power plant (99.59%)

## **Shareholder Information**

**Market Capitalization** (as of September 30, 2008): Rp44,780 Billion

### **Share Price and Volume:**

- IPO Price IDR 1,100/share (listed July 16<sup>th</sup>, 2008)
- Share Price Range (3Q08): Rp1,100 – Rp1,730
- Average Daily Share Price (3Q08): Rp1,522
- Average Daily Volume (3Q08): 59.94 shares
- Relative Share Price Performance (3Q08):
  - vs the Jakarta Composite Index (JCI): +54%
  - vs the Mining Index of the JCI: +106%

### **Shareholders Holding More than 5%:**

<b>Name</b>	<b>Shares</b>	<b>Ownership (%)</b>
CITIBANK HONGKONG S/A CBHK-CPBSG-PT SARATOGA INVESTA S	4,775,524,806	14.93
Triputra Investindo Arya, PT	4,268,347,697	13.34
Persada Capital Investama, PT	3,520,995,975	11.01
GS NY SEG AC-LOCKUP ACCOUNT	3,180,703,000	9.94
Trinugraha Thohir, PT	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
<b>TOTAL</b>	<b>22,573,361,102</b>	<b>70.57</b>

### **Analysts Recommendations**

<b>Firm Name</b>	<b>Analyst</b>	<b>Recommendation</b>	<b>Target Px</b>	<b>Date</b>
Bahana Securities	Katherine Hermawan	Reduce	550	10/27/08
DBS Vickers	Yusuf Adiwino	Buy	1600	09/19/08
Merrill Lynch	Daisy Suryo	Buy	1400	09/17/08
Morgan Stanley	Wee Kiat Tan	Overweight/Attractive	2200	09/11/08

### **Analysts Monitoring Adaro Energy (aside from those above)**

1. Adam Worthington, Macquarie
2. David Chang, UOB Kay Hian Securities
3. Herman Tjahjadi, Schroders
4. Rania Rahmudita, CIMB
5. Erindra Krisnawan, Citigroup

6. Ahmad Solihin, CLSA
7. Rahmi Sari Marina, NISP
8. Ricardo Silaen, Kim Eng
9. Ari Pitoyo, Mandiri Sekuritas
10. Jordan Zulkarnaen, Kresna
11. Ami Tantri, Credit Suisse
12. Arief, Optima Securities
13. Adi Hartadi, Trimegah
14. Cherie Khoeng, Deutsche Bank
15. Ariyanto Kurniawan, AM Capital
16. Jemmy Paul, PT Waterfront Securities Indonesia
17. Sylvia Darmaji, Ciptadana

(Note: the analysts listed above agreed to have their name included in this report)

## **PT Adaro Energy – Quarterly Corporate Overview**

During the third quarter of 2008 Adaro Energy performed well in terms of meeting production and revenue targets, making progress on expansion plans and on resolving an issue related to royalty payments, despite deteriorating conditions in global financial markets.

President Director Garibaldi Thohir, said **“we met or exceeded all of our provisional targets and we are on track to produce 38-39Mt of coal this year.”**

Adaro Energy continued its expansion plans to boost production to 42-45M tonnes in 2009. In terms of next year’s output, the company or its contractors had prepared over 90% of the necessary equipment (including equipment which has yet to be delivered) and associated funding. As for the long term plans, Adaro Energy made progress in terms of achieving financial closure on the debt financing for the 60 megawatt (MW) mine mouth coal-fired power plant. Dredging of the new channel at the mouth of the Barito river by PT Sarana Daya Mandiri (PT SDM) was ahead of schedule.

Adaro Energy continued to work on resolving a disagreement with the government related to alleged unpaid royalties dating back to 2001. At the moment, the company remains optimistic for a favorable outcome.

Having conducted an Initial Public Offering on July 16<sup>th</sup>, 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.

Due to the difficult credit conditions, the Board of Directors decided to temporarily suspend work on the financial aspects of Adaro Energy’s expansion plans.

President Director Garibaldi Thohir, said **“until we can properly assess the full impact of the financial crisis, we are going back to basics, focusing on our core business, and preserving cash, with a view to keeping the operations running on target to meet our volume and revenue goals.”**

Adaro Energy is on target to have infrastructures in place for 2009 and 2010 growth plans. For 2011 and beyond the company is reviewing how to best achieve growth targets. Adaro Energy remains confident of the fundamentals of the expansion plans and the long term targets remain the same.

## **PT Adaro Energy – Unaudited Consolidated Volumes**

At the time of distributing this report, consolidated third quarter results were not ready for publication. These results may be disclosed upon release of Adaro Energy's 9M08 financial report, planned for release in the fourth week of November 2008, or in the 4Q08 quarterly report.

	<b>Units</b>	<b>9M07</b>	<b>9M08</b>	<b>% change</b>
<b>Production</b>	'000 MT	27,201.85	28,745.36	6%
<b>Sales *)</b>	'000 MT	28,393.03	30,942.13	9%

\*) Including coal sold by AE and AI for 9M07; and AE, AI and CTI for 9M08

	<b>Units</b>	<b>Actual 9M08</b>	<b>FY 2008 target*)</b>	<b>% to Full year 2008</b>
<b>Production</b>	'000 MT	28,745.36	38,124.73	75%
<b>Sales</b>	'000 MT	30,942.13	38,124.73	81%

\*) As submitted to Bapepam and IDX

Due to continued strong demand, combined sales volumes, which include 860,790 tonnes of third party coal trading, increased by 9% to 30.9 million tonnes. Despite seasonally difficult weather conditions at the beginning of the year, production volumes increased 6% to 28.7 million tonnes. Adaro Energy's mining activities were not seriously affected by the unseasonably wet weather in South and East Kalimantan, which resulted in higher than average rainfall at the mining area. High rain fall hampered the production of other coal mining operations during the quarter.

## Operations

### PT Adaro Indonesia – On Track to Achieve Targets

	Units	3Q07	3Q08	% change
<b>Overburden</b>	Mbcm	36.84	46.32	26%
<b>Coal Transported</b>	'000 MT	9,799.45	10,484.73	7%
<b>Coal Sold</b>	'000 MT	9,528.71	10,859.82	14%
<b>Coal Inventory</b>	'000 MT	722.04	322.12	(55)%
<b>Strip Ratio</b>	Bcm/t	3.80	4.25	
		<b>9M07</b>	<b>9M08</b>	<b>% change</b>
<b>Overburden</b>	Mbcm	89.14	119.77	34%
<b>Coal Transported</b>	'000 MT	27,201.89	28,745.36	6%
<b>Coal Sold</b>	'000 MT	27,793.25	29,742.11	7%
<b>Coal Inventory</b>	'000 MT	722.04	322.12	(55)%
<b>Strip Ratio</b>	Bcm/t	3.80	4.25	

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 84km 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.

During the third quarter of 2008 Adaro Indonesia increased overburden removal by 26% to 46.32 million bank (in situ) cubic meters (bcm), and increased coal production 7% to 10.5M tonnes, resulting in a 6% increase in 9M08 coal production to 28.7M tonnes. Adaro Indonesia's strip ratio, which is measured as bcm of overburden per tonne of coal in situ, increased in 3Q08 and 9M08 as planned, to excavate from deeper areas of the deposit. The strip ratio, budgeted at 4.25, remained well below the average for Indonesian coal mines.

Adaro Indonesia's performance in 3Q08 was the strongest so far for 2008, due to firm demand for Adaro Indonesia's coal worldwide.

The performance of Adaro Indonesia exceeded the plan for both 3Q08 and 9M08, and leaves the company well positioned and on track to achieve the full year 2008 production and sales target of 38M tonnes.

### **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 third quarter of 2008, overburden removal steadily increased with record levels in two of the three months. In July, August and September, overburden removal in terms of the average bcm per day, increased to 495,222 bcm, 495,310 bcm and 520,401 bcm respectively.

Although overburden removal set new records and increased by a considerable margin, it remained below target at 85% of the plan for 9M08 due to a decision to increase hauling distances and a lack of disposal areas. The search for short haul disposal opportunities continued throughout 3Q08.

During 3Q08 all contractors submitted their capacity estimates for 2009 based on the fleet sizes they are able to place at the mine site next year. While increasing hauling distances and the current difficulties in securing finance may be limiting factors for increased production, Adaro Indonesia remains confident of achieving its 2009 target of 42-45Mt of coal production.

#### *Coal Mining*

Throughout each month of 3Q08 coal mining progressed at well above plan levels for all contractors, except for one contractor in September. One of the contractors performed very well achieving 118%, 113% and 112% of their plan for July, August, and September. During the quarter, monthly production targets ranged from 110,000t – 115,000t per day.

Adaro Indonesia purchased much of the land surrounding the mining operations during the quarter so that future land for the planned growth in operations is now available.

#### **Logistics, Hauling, Barging and Ship Loading**

In 3Q08 initial deliveries of andesite road rock arrived to surface and improve traction on the major mine roads. The target is to complete surfacing for major pit ramps by the end of 2008.

In order to improve safety and efficiency along Adaro Indonesia’s 84km 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. In 3Q08, 16 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 quarter, Adaro Indonesia continued installation of a new crushing system to boost capacity at Kelanis.

In August, coal shipments were at a record high of over 3.7 Mt even though there was one public holiday and additional time was lost in barging due to short term groundings in the Barito River Channel. A new channel is currently being dredged which will eliminate this problem however until this project is completed by the end of 2008 (see the Project Development section below) the grounding of barges may continue to affect coal shipments.

Adaro had contracted 75 barges at the end of the quarter with average capacity of 9,900 tonnes.

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.

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

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

#### **Quality of Coal**

Adaro Indonesia's coal has been trademarked internationally under the brand name of Envirocoal. Envirocoal is a moderate energy sub-bituminous coal which has the lowest sulphur and ash content of any coal in the world. It also produces very low levels of nitrogen oxides during combustion.

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 the third quarter of 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 as the ramps became slippery in the rain and unsafe to use.

During the quarter, Adaro Indonesia started bringing in suitable crushed rock material from Java to pave the main pit ramps and reduce the impact of wet weather. This program will continue during the next quarter.

In August, water levels in the pit, decreased to 0.50 million cubic meters (Mm<sup>3</sup>) from 0.63Mm<sup>3</sup> in July, and then increased in September to 0.65Mm<sup>3</sup>.

<b>Month (3Q08)</b>	<b>Rain (millimeters)</b>	<b>Rain Days</b>
July	170	15
August	97	11
September	119	12
<b>TOTAL</b>	<b>386</b>	<b>38</b>
Five Year Average	248	23

## **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 40 customers, which are mostly high quality power utilities, located in 18 countries.

Adaro Indonesia is also the largest supplier of coal to the domestic market, providing about 9.5Mt, or 20% of total 2008 domestic demand. In 9M08 approximately 24% of Adaro Indonesia’s total sales were to domestic customers and 76% of sales were to international customers.

The demand for Envirocoal is strong and all of Adaro Indonesia’s planned production for the 4Q08 and 2009 is already contracted under term coal supply agreements. In 3Q08, 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 50% of pricing for 2009 has been completed.

The Department of Energy and Mineral Resource of the Republic of Indonesia has stated in writing that, based on their evaluation, the coal price in certain agreements is too low and that Adaro Indonesia is to renegotiate the price so it reflects current prices. So far the results are encouraging and price renegotiations are progressing satisfactorily.

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 strong. 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**

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.

The company 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.

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 6,170,000 tonnes of coal in 9M08, of which 860,790 tonnes was third party coal. In 2007, Coaltrade sold 7,405,350 tonnes of coal.

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

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

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, this tonnage as a percentage of the total is dropping 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 7,034,800 tonnes of coal on 109 vessels in 9M08, or 25% of the plan and a 24% decrease compared to the 9,196,380 tonnes loaded on 141 vessels over the same period in 2007. Of the total 9M08 amount, 1,532,160 tonnes were third party shipments, while for 9M07, 1,011,870 tonnes were third party shipments.

IBT expects to export 8Mt of coal through the Pulau Laut terminal this year, down from the 9.6Mt exported in 2007, and hopes to increase the export tonnage in 2009.

### **Mining Contracting – 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. Currently handling around 21% of Adaro Indonesia's production SIS plans to gradually increase output to 50% of future production.

Overburden removal of 64,260,000 bcm was 10% below the plan for 9M08 but a 50% increase compared to 9M07. Closer to planned levels, during 9M08, SIS transported 6,120,780 tonnes, mined 8,413,580 tonnes and barge loaded 1,123,050 tonnes. Both coal transported and coal mined decreased 7% compared to 9M07 due to a higher strip ratio of 5.5 compared to 3.1. Barge loading grew by 23% compared to 9M07.

During 3Q08, SIS borrowed US\$300 million at LIBOR + 265bps. US\$240 million was used for refinancing and US\$60 million, which has yet to be drawn down, will be used for capital expenditures, mostly on mining equipment.

## **Project Development**

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

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 be completed in 2010, with a total estimated project cost of US\$160 million, including interest during construction and land acquisition.

During 3Q08, Adaro Energy has made progress in terms of achieving financial closure for a US\$122 million, 12 year loan at LIBOR + 375bp from the International Financial Corporation (IFC) of the World Bank. The loan is secured by the assets and shares of MSW and has no recourse to Adaro Energy. No draw downs have been made on the facility as construction has yet to begin on the power plant.

As at the end of 9M08, MSW had selected PT. Punj Lloyd Indonesia and Punj Lloyd Pte Ltd Singapore as the Engineering, Procurement and Construction (EPC) contractor. Siemens Industrial Turbomachinery S.R.O, Czech Republic has been selected as the equipment supplier.

Given the difficulties created by the financial crisis, MSW and Adaro Energy continue to review the project to determine the most appropriate stages for construction and investment.

### **Kelanis – Tutupan Transportation System - Building Capacity Along the Haul Road**

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 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).

Adaro Energy's current road transport capacity to Kelanis is about 50-55 Mt per year. Upon completion of the conveyor, Adaro Energy will have 2 alternative modes of transportation with combined capacity of more than 80 Mt per year. Adaro Energy also has the option of boosting production by adding additional and more powerful trucks along the existing haul road. However, a key advantage of the new transportation system is that it could reduce operating costs by approximately US\$2 per tonne compared to trucking.

The project is 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 total project cost is currently estimated at US\$350 million.

Due to the difficulties created by the dramatic reduction in access to capital caused by the global financial crisis, aspects of the project have been postponed until January 2009 although the project is still targeted for completion in 2010. Meanwhile, work will continue on acquiring necessary land, on finalizing project design and selecting the EPC.

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

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

President Director of Adaro Energy, Garibaldi Thohir 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.”**

The existing channel is only traversable by loaded barges on the high tide once a day for 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 is being conducted and shall be maintained by Van Oord, an international dredging and marine contracting company from The Netherlands. The project is now over 90% completed and 1.5 months ahead of schedule.

The travel time of the trial run, conducted on Wednesday, October 15<sup>th</sup>, 2008, lasted 1.5 hours, or 50% of the normal time required to pass through the Barito channel [Note: see photo below]. As well as faster passage, the channel may now be used 24 hours 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 – 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.

The cost of the dredging will range between US\$40 – US\$50 million and will be financed by 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.

PT SDM is likely to be 51% held by Adaro Energy once certain conditions within a sale and purchase agreement are satisfied [Note: as at the date of publication – these conditions had been satisfied], and 49% by three smaller mining companies. 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 40 million tonnes per year will be the largest coal company to use the channel.

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.



Adaro Energy tugs pull barges of coal through the new channel at the mouth of the Barito river.

#### 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.

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 new jetty facility for fuel loading and unloading.

During 3Q08, work continued regarding the commercial aspects of operating the fuel terminal and tug assist activities.

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

## **Safety and Environment**

Adaro Indonesia is committed to achieving and maintaining the highest standards of occupational health and safety. This means continually minimizing the risk of work-related fatal accidents, injury and illness.

Adaro Indonesia measures the success of minimizing the risk of serious injury by Lost Time Injury (LTI) and Lost Time Injury Frequency Rate (LTIFR). This is the number of lost time injuries over total man hours multiplied by 1,000,000. In 3Q08, Adaro Indonesia had a LTIFR of 0.4, lower than the 0.67 in 3Q07.

	<b>3Q07</b>	<b>2007</b>	
	<b>Actual</b>	<b>Actual</b>	<b>Plan</b>
<b>LTI</b>			10
July	1	8	
August	2	10	
Sept	1	11	
<b>LTIFR</b>			0.42
July	0.51		
August	1.01		
Sept	0.5		
Avg	<b>0.67</b>		

	<b>3Q08</b>	<b>2008</b>	
	<b>Actual</b>	<b>Actual</b>	<b>Plan</b>
<b>LTI</b>			
July	1	9	
August	1	10	
Sept	1	11	
<b>LTIFR</b>			0.5
July	0.42		
August	0.4		
Sept	0.39		
Avg	<b>0.40</b>		

Adaro Indonesia is committed to achieving the highest standards of environmental management. This means minimizing the impact of mining on the surrounding environment and returning all land disturbed by mining to a productive and useful state.

	<b>3Q08</b>		<b>9M08</b>		<b>Project to Date</b>	
	<b>Tutupan</b>	<b>Paringin</b>	<b>Tutupan</b>	<b>Paringin</b>	<b>Tutupan</b>	<b>Paringin</b>
Rehabilitation (ha)	71.56	0	327.13	0	1519.52	199.25
Land Disturbed - Mine	58.04	0	201.85	0	1518.73	163.8
Land Disturbed - Other	69.6	0	154.77	0	2508.31	112.29
Net land disturbed (ha)	<b>-56.08</b>	<b>0</b>	<b>-29.49</b>	<b>0</b>	<b>-2507.52</b>	<b>-76.84</b>

	<b>3Q07</b>		<b>9M07</b>		<b>Project to Date</b>	
	<b>Tutupan</b>	<b>Paringin</b>	<b>Tutupan</b>	<b>Paringin</b>	<b>Tutupan</b>	<b>Paringin</b>
Rehabilitation (ha)	59.14	0	191.74	0	1078.66	199.25
Land Disturbed - Mine	60	0	224.56	0	1287.46	163.8
Land Disturbed - Other	25.2	0	143.07	0	2361.37	112.29
Net land disturbed (ha)	<b>-26.06</b>	<b>0</b>	<b>-175.89</b>	<b>0</b>	<b>-2570.17</b>	<b>-76.84</b>

Land Disturbed - Other : Disposal area

## **Exploration**

Adaro Energy's deposit contains reserves of approximately 928 MT and resources of 2,803 MT of sub-bituminous coal in seams of up to 50 meters in thickness. These estimates are made to international standards as determined by the JORC Code of the Australasian Institute of Mining and Metallurgy. Adaro Energy has more than enough reserves to continue excavating as per stated expansion plans at least until the CCA expires in 2022.

During 3Q08, Adaro Energy spent US\$1.6 million on drilling of the coal deposits, which continued to further delineate the coal resources and reserves. Management is confident of increasing reserve and resource numbers, once the additional estimations have been reviewed to meet JORC standards.

<b>Month (3Q08)</b>	<b>Location</b>	<b>Coring</b>		<b>Open Hole</b>	
		<b>TH</b>	<b>TD (meters)</b>	<b>TH</b>	<b>TD (meters)</b>
Jul	Tutupan	3	1078	17	5406
	Wara	2	72	6	400
Aug	Tutupan	2	803	22	2498
	Wara	2	157	11	841
Sep	Tutupan	2	675	5	1577
	Wara	7	601	12	1127
Total (9M08)	<b>Tutupan</b>	<b>18</b>	<b>4646</b>	<b>198</b>	<b>35440</b>
	<b>Wara</b>	<b>26</b>	<b>2587</b>	<b>55</b>	<b>4905</b>

TH = total holes

TD = total depth

Coring = bore holes from which a sample was taken

Open hole = general drilling