

FITCH AFFIRMS INDIKA AT 'B+'; OUTLOOK STABLE

Fitch Ratings-Singapore/Seoul-11 April 2011: Fitch Ratings has affirmed Indonesia-based Indika Energy Tbk's (Indika) Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'B+' with a Stable Outlook. Indika's USD250m notes due 2012 and USD230m notes due 2016 have also been affirmed at senior unsecured 'B+' with Recovery Ratings of 'RR4'.

At the same time, Fitch has assigned Indo Energy Finance B.V.'s proposed 2018 USD notes - guaranteed by Indika and certain subsidiaries - an expected rating of 'B+(exp)' with a Recovery Rating of 'RR4'. The final rating is contingent upon the receipt of documents conforming to information already received.

The affirmation reflects strong dividend flows from Indika's 46%-held PT Kideco Jaya Agung (Kideco) - the third-largest coal producer in Indonesia - its modest financial leverage and strong liquidity profile.

The amount of dividends received by Indika from Kideco is likely to remain strong given increasing coal production by Kideco and expected robust coal prices. In the last three years, Kideco has distributed more than 90% of its net income, more than the minimum 80% set out in the shareholders' agreement. For FY10, it declared USD315m of dividends, which were nearly 100% of Kideco's net income. Kideco's ability to upstream dividends is supported by its moderate capex, its low production cash costs as well as its debt-free status.

As of 31 December 2010, Indika's leverage measured by adjusted debt net of cash to operating EBITDA (which includes dividends received from Kideco) was 0.6x and fund flows from operations to interest coverage was over 3.0x. Leverage is expected to increase with its debt-funded acquisition of a 51% stake in PT Mitrabahtera Segara Sejati (MBSS) - a logistics services supplier to Indonesia's coal sector - for USD168m in April 2011, and a proposed 2018 notes issue. Nevertheless, Fitch expects Indika to deleverage during 2011 and to maintain its leverage below 2.0x; this underpins the Stable Outlook.

Indika had IDR3.68trn of cash (excluding restricted cash balances of IDR590bn) as of 31 December 2010. The company expects to realise a sizable amount of cash from re-floating PT Petrosea Tbk, a mining contractor, during 2011. In addition, the company expects to raise up to USD135m from the proposed 2018 notes on top of its offer to exchange the proposed notes with the existing USD notes falling due in 2012. These sources of liquidity should comfortably cover Indika's capex and debt maturities over the next 12 to 18 months, including the short-term facilities of USD180m for the MBSS acquisition maturing in April 2012.

As part of the 2018 issue and exchange offer, Indika is also seeking the consent from 2012 and 2016 noteholders to align the terms of these notes with the new issue. The amendments proposed include allowing guarantors of the notes and the restricted subsidiaries to incur additional debt and create liens subject to certain restrictions and limits. Fitch currently does not expect these amendments to have any material adverse impact on the noteholders or Indika's ratings.

Fitch may consider a negative rating action if Indika's leverage is sustained above 2.0x due to lower dividends from Kideco, regulatory changes adversely affecting its coal-related operations, weak operating performance of its engineering and construction (E&C) and other businesses, and any large debt-funded investments.

Conversely, the ratings may benefit from Indika increasing its control of Kideco's cash flows while maintaining leverage (net of cash and adjusted for dividends from Kideco) below 1.5x. Any positive rating action is also contingent on Indika maintaining an appropriate business risk profile; for example, its growing E&C operations inherently have higher risks than coal production in terms

of project execution, fixed pricing and working capital requirements.

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Applicable criteria, 'Corporate Rating Methodology', dated 16 August 2010, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Corporate Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646

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