MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Indika to B1, outlook positive

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Singapore, April 11, 2011 -- Moody's Investors Service has today upgraded the corporate family and senior secured ratings on PT Indika Energy Tbk to B1 from B2.

The outlook for the rating remains positive.

Moody's has also assigned a provisional (P)B1 rating with a positive outlook to the proposed seven-year senior notes, to be issued by Indo Energy Finance B.V. and unconditionally guaranteed by Indika, PT Indika Inti Corpindo, the Tripatra Entities and Indo Energy Capital B.V. The provisional status of the notes will be removed upon completion of the issuance.

RATINGS RATIONALE

"The upgrade reflects Indika's strong operating performance and improved financial metrics, driven primarily by dividends from Kideco, which have allowed the company to lower its leverage, as measured by adjusted debt/EBITDA, to 2.5x for 2010," says Simon Wong, a Moody's Vice President and Senior Analyst.

"Furthermore, the acquisition of MBSS -- PT Mitrabahtera Segara Sejati -- has broadened Indika's coal value chain," says Wong, also lead analyst for Indika.

While Indika's adjusted debt/EBITDA will rise to approximately 3.6x for 2011 as a result of its debt-funded acquisition of MBSS as well as the group's debt-funded capital expenditure programs, Moody's expects Indika to resume its de-leveraging in 2012 due to the full-year contribution from MBSS and the ongoing business expansion of Petrosea.

MBSS, a coal transport & logistics services company, has short- to medium-term contracts covering approximately 95% of its fleet of tug boats, barges, and floating cranes. Furthermore, the contract terms include minimum tonnage and fuel-cost pass-through provisions, which adds to the certainty of revenue and cash flow from operations.

However, Moody's is concerned about MBSS's high revenue concentration to its top three customers, which, although declining, still accounted for 75.7% of MBSS's 2010 revenue, as well as the large amount of upfront capex needed to meet the growth in both domestic coal production and demand for logistic support vessels. Furthermore, weather conditions could delay its loading and unloading operations and the amount of tonnage it transports.

Indika's proposed exchange of the USD250 million notes due 2012 with the new seven-year senior notes should space out its debt maturity profile and further strengthen its liquidity profile.

The acquisition loans (totalling USD 180 million) will fall due in April 2012, and the company has planned to pay them down with internal cash flow as well as the proceeds of the planned re-listing of Petrosea in the second of 2011.

"Moody's recognizes that the company plans to further expand its existing businesses and at the same time seek acquisition opportunities to expand its coal value chain," adds Wong.

"Although this may present a high degree of event risk, Moody's takes comfort from management's conservative track record and reasoned acquisition strategy."

Indika's ratings are underpinned by the recurring cash dividend stream from its 46% stake in Kideco. Kideco is the third-largest coal producer in Indonesia and has maintained a very strong financial profile. Indika's acquisition of Petrosea, a mining services company, has reduced its exposure to commodity cycles, given that most of its revenues are contractual and are premised on expectations of continued growth in Indonesian coal output.

However, the ratings also reflect Indika's high reliance on the dividend income from Kideco to service its debt, as well as the inherent volatility in that dividend flow due to coal price movements. Other concerns include the volatility of cash flow of Indika's EPC tender business, the execution risk of Indika's expansion plans, and the uncertainty in the regulatory environment for the coal mining industry in Indonesia.

The positive outlook reflects the expectation that Indika will resume its de-leveraging in 2012. It also reflects the broadened operating profile following the acquisition of Petrosea and MBSS, as well as the expectation that Indika will maintain its prudent and conservative approach to future acquisitions.

The rating could experience upward rating pressure if Indika can 1) increase its stake in Kideco to above 50% or 2) maintain its conservative financial strategy, particularly with regard to its acquisition plan, even as it integrates MBSS into the wider energy business. Overall integration is likely to result in an improvement to financial leverage, as measured by total debt/EBITDA (including dividends from associates) falling below 2.5x and EBIT/interest increasing above 4.0x.

Downward pressure on the rating could emerge in the event of 1) a reduced dividend flow from Kideco; 2) an inability by Tripatra (a 100% owned subsidiary), Petrosea, or MBSS to win tenders and contracts as forecast; 3) any deterioration in the relationship between Samtan (49% shareholder in Kideco) and Indika; 4) any evidence of cash leakage; and 5) political and economic instability re-emerging in Indonesia, resulting in a loss of orders for Indika's key businesses. Specific indicators Moody's would look for include total debt/EBITDA (including dividends from associates) rising above 4.0x and EBIT/interest falling below 2.75x.

Indika's ratings were assigned by evaluating factors we believe are relevant to the credit profile of the issuer, such as 1) the business risk and competitive position of the company versus others in its industry; 2) its capital structure and financial risk; 3) the projected performance over the near to medium term; and 4) management's track record and tolerance for risk. These attributes were compared against other issuers both in and outside Indika's core industry, and Indika's ratings are considered comparable to those of other issuers of similar credit risk.

The last rating action was taken on 6th November 2009 when the provisional status was removed from Indika's US$230 million B2 rated bond.

Indika is a listed integrated energy group based in Indonesia. Its principal investment is its 46% stake in Kideco, Indonesia's third-largest domestic coal producer by tonnage. In addition, Indika is involved in the EPC and O&M businesses through its wholly owned subsidiary, Tripatra. In July 2009, Indika also completed its acquisition of a 98.6% stake in Petrosea, one of Indonesia's sixth-largest mining services contractor.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of maintaining a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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