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HIGHER OPERATING PROFIT OFFSET BY A DECLINE IN EARNINGS FROM ASSOCIATED COMPANIES AND ONE-OFF EXCEPTIONAL CHARGES

March 27, 2014 - **Jakarta** - PT Indika Energy Tbk. (IDX: INDY) reported its audited consolidated financial statements for the twelve-month period ended December 31, 2013 with **Loss Attributable to Owners of the Company of US$ 62.5 million on Total Revenues of US$ 863.4 million.**

Since the start of 2013, the coal industry has continued to experience a bear market. The challenges persisted throughout the year with lower coal prices due to a global supply demand imbalance, high fuel costs and uncertainty related to domestic and foreign export market rules and regulations. The management has taken several actions to steer the company through the downturn environment including reducing financing and operating costs, and preserving cash. While these measures will reduce running costs on an on-going basis, they have also resulted in **one-off exceptional charges of US$ 63.3 million (of which US$ 27.8 million are non-cash charges) recognized in 2013.** These contributed significantly to recording a Net Loss Attributable to Owners of the Company of US$ 62.5 million for the year.

Total Revenues grew by US$ 113.7 million (+15.2%) to US$ 863.4 million on the back of improvement in revenue contribution from Tripatra's EPC projects, partially offset by a decline in Petrosea's revenue.

Cost of Contracts and Goods Sold, however, rose at faster pace at US$ 113.8 million (+20.5%) to US$ 670.3 million. The majority of this is attributable to fixed costs at Petrosea's mining services business and higher labor and materials costs due to Tripatra's EPC projects expansion. As a result, Indika Energy recorded **Gross Profit of US$ 193.1 million,** a slight decline from US$ 193.2 million reported in 2012, despite a healthy 15.2% YoY growth in revenue.

General and Administration expenses down by US$ 6.1 million (-3.9%YoY) to US$ 152.5 million largely owing to lower professional fees and lower heavy equipment rentals related to the MTU project. This was partially offset by an increase in employee salaries and benefits due to Tripatra's headcount expansion and one-off employee severance payments related to on-going rationalization programs. **Consequently, Operating Profit rose by US$ 5.9 million (+17.2%) to US$ 40.6 million despite a flat gross profit.**

Indika Energy's coal assets, Kideco and Santan Batubara, were impacted by the declined of global coal prices, with the Newcastle 6,300 benchmark dropping from an average of US$ 98.2 per ton in 2012 to US$ 82.9 per ton in 2013. Even though coal production volume increased by 2.9 MT (+8.4%) to 37.1 MT, a reduction in average selling price per ton of US$ 11.7 (-17% YoY) to US$ 57.2 contributed to a **44.2% decline in Kideco's Net Profit to US$ 212.2 million.** High production cost, lower production volume and lower average selling prices also led to a **Net Loss of US$ 8.6 million at Santan Batubara** versus US$ 4.9 million Net Profit reported in 2012. The declining results in Kideco and Santan Batubara contributed to **Equity in net profit of associates and jointly controlled entities dropping by US$ 76.5 million (-42.7% YoY) to US$ 102.5 million in 2013.**

The management has undertaken a liability management exercise and business optimization measures aimed at reducing Indika Energy's financing and operating costs and optimizing resources.

Indika Energy issued US$ 500 million 6.375% Senior Notes due 2023 in January 2013. **Net proceeds** were used to repay a US$ 235 million short term loan as well as to prefund US$ 230 million of our 2016 Notes which were called in November 2013 at 104.875%. Consequently, the company incurred **one-off charges totalling to US$ 25.0 million,** including call premium and additional interest paid until the redemption date. However, this refinancing will **reduce future annual interest expense by approximately US$ 7.8 million.**

In 2013, Indika Energy also undertook a Human Capital rationalization program which is still on-going. As a result of measures taken by end of 2013, Indika Energy has incurred **US$ 3.0 million charges related to employee severance payments.** It is expected these measures will contribute **US$ 5.7 million of annual savings going forward.**

Further, the management has taken the following measures:

1. **Impairment of goodwill and intangible assets of the West Kalimantan Project amounting to US$ 14.6 million,**
2. **Full expensing of heavy equipment rentals due to the delayed start of the MTU project amounting to US$ 2.9 million,**
3. **Full recognition of exploration expenses of US$ 5.6 million related to the investment in the Southwest Bird's Head PSC,**
4. **Full expensing of finance charges related to early repayment of 2016 Bonds and ST Loan amounting to US$ 12.2 million.**

They engaged consultants to assist them in conducting a business process review. They are now in the process of implementing the recommendations arising from this review. In addition to salary increase freezes for senior management, capital expenditure on non-critical projects was deferred or cancelled. **Capex realization for the period ended 2013 was US$ 74.5 million.**

While costs will continue to be strictly controlled, efforts are underway to stimulate demand for idle capacity and continue to adapt to the changing market environment.

The combined effects of the fall in Equity in profit of associates and jointly controlled entities by US$ 76.5 million and one-off exceptional charges of US$ 63.3 million were the major contributor to the swing from Profit Attributable to Owners of the Company of US$ 68.7 million in 2012 to a Loss Attributable to Owners of the Company of US$ 62.5 million in 2013.

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Excluding one-off exceptional charges, **Indika Energy's Profit Attributable to Owners of the Company for 2013 is US$ 0.8 million.**

Consolidated Cash and other Financial assets US$ 405.7 million (-3.7% YoY).

Consolidated Indebtedness US$ 1,038.2 million (-3.3% YoY).

LTM Adjusted EBITDA US$ 260.6 million (vs. US$ 332.1 million in 2012).

Financial Review

PT Indika Energy Tbk.

Financial Highlights (in US$ mn)

	2012 Audited	2013 Audited	Changes (%)
Total revenues	749.7	863.4	15.2%
Petrosea	385.5	360.1	-6.6%
MBSS	141.4	151.1	6.8%
Tripatra	210.1	303.4	44.4%
Others	12.7	48.7	284.1%
Gross profit	193.2	193.1	-0.1%
General and administrative expenses	(158.6)	(152.5)	-3.9%
Operating profit	34.7	40.6	17.2%
Equity in net profit of associates & jointly-controlled entities	179.0	102.5	-42.7%
Investment income	9.4	8.9	-5.7%
Finance cost	(74.9)	(114.0)	52.1%
Gain recognized from acquisition of a subsidiary	2.7	-	-100.0%
Amortization and impairment of intangible assets	(34.1)	(54.5)	60.1%
Others- net	(11.4)	(26.1)	129.5%
(Loss) Income before tax	105.4	(42.5)	-140.4%
(Loss) Profit for the year :	87.2	(53.8)	-161.7%
(Loss) Profit attributable to owners of the company	68.7	(62.5)	-191.0%
(Loss) Profit attributable to non-controlling Interest	18.5	8.7	-53.1%
LTM - Adjusted EBITDA*	332.1	260.6	-21.5%
EPS (USD/share)	0.0132	(0.012)	
Gross margin	25.8%	22.4%	
Net margin	9.2%	-7.2%	
LTM - Adjusted EBITDA margin	44.3%	30.2%	
Current assets	698.9	759.3	8.6%
Total assets	2359.7	2316.3	-1.8%
Current liabilities	542.3	347.4	-35.9%
Total debt	1,073.3	1,038.2	-3.3%
Total equity	1,022.5	949.9	-7.1%
Cash balance**	421.1	405.7	-3.7%
Current ratio (X)	1.3	2.2	
Debt to equity (X)	1.0	1.1	
Net debt to equity (X)	0.6	0.6	

**Including dividends from associates. (Last twelve months period ended December 31, 2013 (FCCR))*

***Including restricted cash*

Total revenues increased 15.2% to US$ 863.4 million due mainly to higher revenues contribution from Tripatra (+44.6% YoY) and MBSS (+7.2% YoY) despite of the decline in Petrosea's revenues (-6.4% YoY) on the back of lower overburden volume in 2013.

a) **Tripatra's revenues up 44.4% YoY to US$ 303.4 million in 2013** primarily as a result of: **1)** EPC Project – Mobil, Cepu Ltd. of US$ 192.3 million in 2013 (+114.8 % YoY) vs. US$ 89.5 million in 2012, **2)** EPC Project – Pertamina-Medco E&P Tomori Sulawesi US$ 73.4 million in 2013 vs. US$ 1.0 million in 2012 (project started in September 2012). However, EPC Project – Perta-Samtan Gas contributed only US$ 3.0 million (-91.4% YoY from US$ 34.5 million in 2012) as the project was in the progress of completion during 2013.

   Tripatra's contracted backlog stood at US$ 364.1 million as of December 2013.

b) **MBSS revenues increased 6.8% YoY to US$ 151.1 million in 2013** on the back of higher contribution from both the barging business (+3.0% YoY from US$ 106.5 million in 2012 to US$ 109.7 million in 2013) and the transhipment business (+18.6% YoY from US$ 34.9 million in 2012 to US$ 41.4 million in 2013) with increases in coal volume transported in both barging (+31.1% YoY from 29.3 million tons to 38.4 million tons) and transhipment (+19.4% YoY from 17.5 million tons to 20.9 million tons).

   MBSS operated 75 barges and 7 floating cranes in 2013. MBSS' contracted backlog stood at US$ 281.6 million as of December 2013.

c) **Petrosea's revenues decreased 6.6% YoY to US$ 360.1 million in 2013** as a result of lower contribution from contract mining (-12.5% YoY from US$ 356.8 million in 2012 to US$ 312.2 million in 2013) with overburden removal volume down 10.0% YoY from 156.7 million BCM in 2012 to 141.1 million BCM in 2013. However, the E&C (+550.6% YoY from US$ 2.3 million in 2012 to US$ 14.7 million in 2013) and POSB (+25.1% YoY from US$ 26.5 million in 2012 to US$ 33.1 million in 2013) businesses reported total revenues of US$ 47.9 million (+66.5% YoY) vs. US$ 28.7 million in 2012.

Petrosea operated 38 fleets in 2013 with annual rated capacity of 169 million BCM. Petrosea's contracted backlog stood at US$ 1.5 billion as of December 2013.

Total cost of contracts and goods sold up 20.5% to US$ 670.3 million from US$ 556.5 million in 2012 largely due to increases in: **1)** Transportation cost of US$ 8.4 million (+361.9%), **2)** Professional fees of US$5.0 million (+325.6%), **3)** Materials cost of US$ 162.2 million (+153.0%), **4)** Rental, repairs and utilities of US$ 15.2 million (+56.9%), **5)** Salaries, wages & employee benefits of US$ 143.5 million (+16.7%). Tripatra's EPC Projects – Mobil Cepu Ltd. & Pertamina-Medco E&P Tomori Sulawesi accounted for the majority of the increase. However, Operational heavy equipment cost of US$ 119.1 million decreased 12.7% YoY from US$ 136.4 million in 2012 in line with lower overburden volume at Petrosea (-10.0% YoY) in 2013.

General and administrative expenses decreased 3.9% from US$ 158.6 million to US$ 152.5 million in 2013 as a result of: **1)** Losses attributable to temporary suspension of production at MTU of US$ 2.9 million (-77.4% YoY from US$12.9 million in 2012), **2)** Professional fees of US$ 7.6 million (-29.8%), **3)** Repair & maintenance of US$ 2.4 million (-17.4%), **4)** Travel and transportation of US$ 4.5 million (-9.3%). However, Salaries-wages and employee benefits increased by 6.4% YoY (US$ 80.1 million in 2012 to US$ 85.3 million in 2013) due to: **1)** Accrual for post-employee benefits (due to increase in number of employees to 1,798 in 2013 vs. 1,080 in 2012) of US$2.5 million at Tripatra, in line with the business expansion, **2)** Full 12-month inclusion of salaries, wages and employee benefits from the development of the acquired MTU coal assets, **3)** Human capital rationalization which resulted in US$3 million one-off charges due to workforce lay-offs in 2013.

Equity in profit of associates & jointly controlled entities down 42.7% from US$ 179.0 million in 2012 to US$ 102.5 million in 2013 mainly due to lower earnings derived from Kideco which accounts for approximately 95.2% of the total.

1) **Kideco** reported net profit of US$ 212.2 million on revenue of US$ 2,120.6 million in 2013. Reported net profit was down 44.2% YoY from US$ 380.0 million in 2012 due to lower realised ASP (US$ 57.2/ton in 2013 vs. US$ 68.9/ton in 2012). Kideco reported a production volume of 37.3 million tons in 2013 (+9.1% YoY from 34.2 million tons in 2012).

2) **Santan** reported net loss of US$ 8.6 million on revenue of US$ 139.7 million in 2013, a decline from US$ 4.9 million net profit reported in 2012.

   Santan operated at a loss because realised ASP of US$ 73.7/ton was lower than cash cost (including royalty) of US$ 77.4/ton and production volume also declined 32.1% YoY to 1.8 million tons in 2013.

3) **Sea Bridge Shipping** reported net profit of US$ 8.8 million (-31.1% YoY) on revenue of US$ 28.2 million. (coal handled dropped 15.0% YoY from 16.4 million tons in 2012 to 13.9 million tons in 2013).

4) **Cotrans** reported net profit of US$ 10.7 million (+124.8% YoY) on revenue of US$ 78.9 million. (coal handled up 7.0% YoY from 28.7 million tons in 2012 to 30.7 million tons in 2013).

Finance costs increased by US$ 39.1 million from US$ 74.9 million in 2012 to US$ 114.0 million (+52.1% YoY) due largely to the increase in the Company's average debt balance as a result of a liability management exercise where US$ 500.0 million 10-year 6.375% senior notes due 2023 were raised in January 2013 to prefund the redemption of a 2016 - US$ 230 million Bond. The company called the 2016 bond in November 2013 with a redemption price of 104.875% or US$ 241.2 million in total. The higher finance cost was the result of: **1)** Additional interest (one-off transaction), **2)** Premium charged on the early redemption of 2016 senior notes in November 2013 (one-off transaction) and **3)** One-off directly charged expenses on 2016 remaining bond issuance cost.

Amortization and impairment of Intangible Assets increased 60.1% to US$ 54.5 million from US$ 34.1 million in 2012 due to: **1)** Amortization of intangible asset of US$ 40.4 million (+18.7 % YoY from US$ 34.1 million in 2012) a full year amortization of intangible assets resulting from the acquisition of MTU (May 2012) and MEA (March 2012). Intangible assets are amortized on a straight-line basis, based on their estimated "useful lives" - 27 years for MTU and 7 years for MEA, and **2)** Impairment of goodwill and intangible assets stood at US$ 14.1 million.

Others-net increased 129.5% to US$ 26.1 million from US$ 11.4 million primarily due to: **1)** Exploration expenses of US$ 5.6 million (+294.5% YoY from US$ 1.4 million) related to our participation in the Southwest Bird's Head Production Sharing Contract (PSC). We expect minimal further exploration costs related to this project, **2)** Increase in Loss on sale of property and equipment of Petrosea of US$ 6.4 million (+32.4% YoY from US$ 4.8 million) and, **3)** Loss in derivative transaction at Tripatra of US$ 1.3 million.

The company registered loss attributable to the owners of the company in the amount of US$ 62.5 million for the period ended December 31, 2013.

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PT Kideco Jaya Agung

Financial Highlights (in US$ mn)

	2012 *audited*	2013 *audited*	Changes (%)
Sales	2,357.3	2,120.6	-10.0%
Gross profit	733.4	465.7	-36.5%
Operating profit	692.9	434.1	-37.4%
Net income	380.0	212.2	-44.2%
EBITDA	719.4	463.7	-35.5%
Current assets	523.7	457.6	-12.6%
Total assets	745.1	686.6	-7.8%
Current liabilities	312.1	272.0	-12.9%
Debt	-	-	
Total equity	386.0	363.3	-5.9%
Cash balance	172.0	142.2	-17.3%
Current ratio (X)	1.7	1.7	
Gross margin	31.1%	22.0%	
Operating margin	29.4%	20.5%	
Net margin	16.1%	10.0%	
EBITDA margin	30.5%	21.9%	

Kideco's revenues declined 10.0% from US$ 2,357.3 million in 2012 to US$ 2,120.6 million in 2013 as a result of a decline in ASP to US$ 57.2/ton in 2013 compared to US$ 68.9/ton reported in the corresponding period last year.

Coal production volume increased 9.1% YoY from 34.2 million tons to 37.3 million tons in 2013. With lower stripping ratio reported at 6.7x vs. 7.0x in 2012, the cash cost per ton including royalty decreased 6.7% from US$ 46.7/ton in 2012 to US$ 43.6/ton in 2013.

Operational Highlights (in US$ mn)

	2012	2013	Changes (%)
Production volume (in million tons)	34.2	37.3	9.1%
Sales volume (in million tons)	34.2	37.1	8.4%
Stripping ratio (X)	7.00	6.67	-4.8%
Average selling price (US$/ton)	68.89	57.18	-17.0%

As a result, net profit for Kideco declined 44.2% YoY from US$ 380.0 million reported in 2012 to US$ 212.2 million in 2013.

Latest Development in 2014

February 2014, PT Tripatra Engineers & Constructors and Consortium partners (PT Saipem Indonesia, PT Chiyoda International Indonesia and Hyundai Heavy Industries Co.Ltd) signed US$ 1.1 billion contract with ENI Muara Bakau BV., for the development of a new floating production unit (FPU) in the Jangkrik Complex, Muara Bakau Permit area, Makassar Strait, offshore of Kalimantan.

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