



# Adaro Energy Quarterly Activities Report Third Quarter of 2014

*For the Three Months Ending September 30, 2014*

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Despite the challenging coal market condition, Adaro delivers another solid quarterly operations result with coal production of 14.03Mt. Coal production for the nine-month of 2014 reached 41.90Mt, on track to achieve our annual guidance of 54Mt to 56Mt

**Picture above:**

Coal from Adaro Indonesia and Balangan are crushed and loaded to barges at Kelanis Dedicated Coal Terminal

Jakarta, October 30, 2014

Dear Capital Market Participants,

Welcome to Adaro Energy's (Adaro) Quarterly Activities Report for the third quarter of 2014 (3Q14). We regularly issue the quarterly activities report one month after the end of each quarter. The report focuses on our operations, business development, exploration and other activities.

### Highlights of the quarter:

- We produced 14.03 million tonnes (Mt) during the quarter. We are on track to achieve our production guidance of 54Mt to 56Mt for 2014. **(page 3)**
- We continued to see solid demand for our coal with 14.13Mt of coal sold during the quarter. **(3)**
- Balangan Coal continued to receive solid interest from a range of customers. We produced 0.47Mt of Balangan Coal and sold 0.33Mt to customers in India and Thailand during the quarter. **(5)**
- Adaro Indonesia (AI)'s actual strip ratio during the quarter was 6.67x, resulting in actual strip ratio of 5.79x for 9M14, which is in line with the target of 5.78x for the year. **(3,4)**
- Adaro becomes a constituent of one of the Morgan Stanley Capital International (MSCI) Global Sustainability Indexes. **(7)**

Please do not hesitate to contact us should you have questions or require additional information.

Yours faithfully,



Cameron Tough  
Head of Investor Relations & Corporate Secretary  
PT Adaro Energy, Tbk.

## ADARO DELIVERS ANOTHER SOLID QUARTERLY OPERATIONS RESULT

The resiliency of our business model and good safety performance continued in 3Q14. Adaro's coal production in the third quarter reached 14.03 Mt, a 2% increase compared to the same period of last year. This increase was mainly due to a combination of sound contractors' performance and good weather conditions. We sold 14.13Mt of coal during the quarter as we continued to see solid demand for our coal. At the end of 9M14, coal production reached 41.90Mt, on track to achieve our production guidance of 54Mt to 56Mt for the year, and coal sold reached 42.37Mt. We are also pleased with the progress of Balangan's operations. We produced 0.47Mt of Balangan Coal, and sold 0.33Mt to customers in India and Thailand during the quarter. This coal has similar low pollutant characteristics as our Envirocoal. As this coal continued to receive interest from a range of customers, we plan to produce up to 1Mt of Balangan Coal for this year.

We increased overburden removal 13% to 92.15 million bank cubic meter (Mbcm). AI's actual strip ratio during 3Q14 was 6.67x, resulting in actual strip ratio of 5.79x for 9M14, which is in line with the target of 5.78x for the year. We are able to maintain our strip ratio at a relatively flat level for two years in a row without harming our long-term mine plan due to the investment we made to increase overburden removal during higher coal price environment. Furthermore, the lower average planned strip ratio remained higher than the life of mine strip ratio.

Despite the continued weakness in coal price, Adaro is doing relatively well and remains on track to achieve this year's guidance and long-term objectives of creating maximum sustainability value from Indonesian coal. We put greater focus on cost reduction, improving efficiency and productivity on each part of our coal supply chain. We are working hard to strengthen our core competencies for business sustainability.

	Units	3Q14	2Q14	3Q14 vs. 2Q14	3Q13	3Q14 vs. 3Q13	9M14	9M13	9M14 vs. 9M13
<b>Coal Production</b>	<b>Mt</b>	<b>14.03</b>	<b>13.88</b>	<b>1%</b>	<b>13.73</b>	<b>2%</b>	<b>41.90</b>	<b>38.67</b>	<b>8%</b>
AI - Tutupan	Mt	10.61	10.80	(2)%	10.17	4%	32.15	28.98	11%
AI - Paringin	Mt	1.70	1.52	12%	1.53	11%	4.66	4.05	15%
AI - Wara	Mt	1.25	1.44	(13)%	2.03	(38)%	4.50	5.64	(20)%
Balangan Coal	Mt	0.47	0.12	236%	-	-	0.59	-	-
<b>Sales Volume</b>	<b>Mt</b>	<b>14.13</b>	<b>14.39</b>	<b>(3)%</b>	<b>14.11</b>	<b>(1)%</b>	<b>42.37</b>	<b>39.11</b>	<b>9%</b>
AI - E5000	Mt	4.53	4.46	2%	9.03	(50)%	13.53	25.54	(47)%
AI - E4700 / E4900	Mt	7.58	7.89	(4)%	1.92	295%	22.91	5.14	341%
AI - E4000	Mt	1.50	1.72	(12)%	2.48	(36)%	5.09	7.24	(26)%
Balangan Coal	Mt	0.33	0.06	560%	-	-	0.39	-	-
Coaltrade's 3 <sup>rd</sup> party	Mt	0.19	0.26	(25)%	0.69	(65)%	0.45	1.19	(53)%
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>92.15</b>	<b>81.31</b>	<b>13%</b>	<b>80.96</b>	<b>13%</b>	<b>241.68</b>	<b>223.02</b>	<b>8%</b>
AI	Mbcm	90.47	80.42	13%	80.95	12%	239.11	223.02	7%
Balangan Coal	Mbcm	1.68	0.89	89%	-	-	2.57	-	-

## MINING ASSETS

### PT Adaro Indonesia (AI)

During 3Q14, AI produced 13.56Mt and sold 13.61Mt of Envirocoal. Our coal mining, coal hauling and overburden removal was 94%, 94% and 97% of the plan as of the end of 3Q14. Our subsidiary, PT Saptaindra Sejati (SIS), and PT Pamapersada Nusantara (PAMA) operate in the Tutupan pit, PT Rahman Abdijaya (RA) operates in the Wara pit and PT Bukit Makmur Mandiri Utama (BUMA) operates in the Paringin pit. The following table shows the percentage breakdown of overburden removal and coal production activities of our mining contractors:

Contractors	3Q14	
	Overburden Removal (%)	Coal Production (%)
PAMA	42	38
SIS	36	39
BUMA	14	12
RA	8	11

The actual strip ratio in 3Q14 was 6.67x, 14% higher compared to 5.85x in the second quarter, as we were able to remove more overburden during the dry season. The actual strip ratio for 9M14 was 5.79x, and we are on track to meet our target of 5.78x for 2014.

In 3Q14, we increased barging 5% to 13.21Mt, and loading increased 3% to 13.92Mt. We loaded 67% of tonnage through floating cranes, 12% through self-geared vessels and 5% through the IBT terminal, with 16% barged directly to domestic customers. We employ four barging contractors and one shiploading contractor, including our own subsidiary, PT Maritim Barito Perkasa (MBP). The commercial operations of our new Floating Transfer Unit (FTU) allows us to only have MBP as the shiploading contractor with subcontractors working under MBP. During 3Q14, MBP handled the largest volume for AI with 55% for barging activities, compare to 49% in 3Q13, and 98% for shiploading activity, compare to 67% in 3Q13. In this quarter, the average barge cycle time from our Kelanis Dedicated Coal Terminal to Taboneo anchorage and then back to Kelanis was 96 hours, a 10% decreased from 107 hours in 3Q13.

During 3Q14, exploration activities focused on drilling to gather geology, geo-hydrology, and Acid Mine Drainage (AMD) data. We drilled 161 holes with total depth of 22,118.15 meters. We spent US\$602,805 on exploration in the quarter, a 10% decrease from US\$671,153 on the same period last year.

We continued to be a leading supplier to the domestic market and committed to supporting Indonesia's growing coal demand. The following table shows the geographical breakdown of customers measured by tonnage.

## Geographical Breakdown of Customers as of 9M14

	%
Indonesia	21
India	16
China	12
Japan	10
Korea	10
Spain	8
Hong Kong	8
Malaysia	6
Others *)	9
<b>Total</b>	<b>100</b>

Note: \*) Below 5% including Taiwan, the Philippines, Thailand and America

### PT Semesta Centramas (SCM)

SCM is one of the three coal licenses (IUP) that forms Balangan Coal. It is the last coal asset that we acquired and is strategically located 11km southeast of AI's concession. We completed the construction of the haul road and bridge to connect to the AI infrastructure in the first half of 2014. We employ our subsidiaries, SIS and MBP, to be responsible for all the coal production and logistic activities of SCM.

During 3Q14, we produced 0.47Mt of Balangan Coal and sold 0.33Mt to customers in India and Thailand. The actual strip ratio for this mine was 3.57x in 3Q14, which results in actual strip ratio of 4.40x for 9M14. We plan to produce up to 1Mt of Balangan Coal for this year as this coal continued to receive solid interest from a range of customers.

## MINING SERVICES

### PT Saptaindra Sejati (SIS)

SIS continued to prioritize Adaro over servicing new third party business. AI remained as SIS's largest customer in 3Q14, accounting for 65% of SIS's total overburden removal and 67% of SIS's total coal production volume.

	Units	3Q14	3Q13	3Q14 vs. 3Q13	9M14	9M13	9M14 vs. 9M13
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>50.81</b>	<b>44.19</b>	<b>15%</b>	<b>133.36</b>	<b>123.12</b>	<b>8%</b>
Adaro Indonesia	Mbcm	32.80	28.79	14%	86.00	77.34	11%
Balangan Coal	Mbcm	1.68	-	-	2.57	-	-
Others	Mbcm	16.33	15.40	6%	44.79	45.78	(2)%
<b>Coal Production</b>	<b>Mt</b>	<b>7.86</b>	<b>7.33</b>	<b>7%</b>	<b>22.31</b>	<b>20.57</b>	<b>8%</b>
Adaro Indonesia	Mt	5.19	5.27	(2)%	15.76	14.49	9%
Balangan Coal	Mt	0.47	-	-	0.59	-	-
Others	Mt	2.20	2.06	7%	5.96	6.07	(2)%

### PT Jasa Power Indonesia (JPI)

JPI is the owner of our Out of Pit Overburden Crusher and Conveyor (OPCC). We completed the physical construction of the OPCC in 2013. OPCC is currently at the stage of undergoing certain testing procedures.

## LOGISTICS

### PT Maritim Barito Perkasa (MBP)

MBP continued to prioritize Adaro over servicing new third party business. In 3Q14, coal volume for AI accounted for 91% and 97% of MBP's total coal barged and coal loaded to ships, respectively. During the quarter, MBP continued barging the Balangan Coal, and started loading the Balangan Coal to customer vessels.

	Units	3Q14	3Q13	3Q14 vs. 3Q13	9M14	9M13	9M14 vs 9M13
<b>Coal Barged</b>	<b>Mt</b>	<b>8.09</b>	<b>7.08</b>	<b>14%</b>	<b>23.71</b>	<b>19.87</b>	<b>19%</b>
Adaro Indonesia	Mt	7.49	6.67	12%	22.54	18.73	20%
Balangan Coal	Mt	0.33	-	-	0.38	-	-
Others	Mt	0.27	0.41	(34)%	0.79	1.14	(31)%
<b>Coal Loaded</b>	<b>Mt</b>	<b>9.50</b>	<b>6.43</b>	<b>48%</b>	<b>27.28</b>	<b>14.72</b>	<b>85%</b>
Adaro Indonesia	Mt	9.27	6.43	44%	27.05	14.72	84%
Balangan Coal	Mt	0.23	-	-	0.23	-	-
Others	Mt	-	-	-	-	-	-

## POWER

### PT Makmur Sejahtera Wisesa (MSW)

MSW owns and operates our debut power plant, a 2x30MW mine-mouth power plant in Tanjung, South Kalimantan. We completed the commissioning of MSW's first 30MW unit in 2013.

### PT Bhimasena Power Indonesia (BPI)

BPI is a consortium between JPower (34%), Itochu (32%) and PT Adaro Power (AP) (34%) to build and operate a 2x1000MW IPP project in Central Java. In July 7<sup>th</sup> 2014, BPI declared force majeure due to the instability of the situation at the site to acquire the remaining plots of the land.

## QUALITY, HEALTH, SAFETY AND ENVIRONMENT (QHSE)

In the quarter, Adaro experienced four lost time injuries (LTI), resulting in a lost time injury frequency rate (LTIFR) of 0.17 for 3Q14. This LTIFR means that there were about 1 LTI per 5.9 million hours worked. We had a good safety performance in September with no LTI. Total man-hours worked during the quarter were 29,593,871 hours.

AI planted a reclamation area of approximately 37 hectares in Tutupan and Paringin with more than 41,000 trees. AI has reclaimed a total of 1,493 hectares of land to date.

## COAL MARKET ANALYSIS

The international coal prices (Global Coal Newcastle) remained under pressure in 3Q14, averaging at US\$68. Despite recent correlation between Chinese domestic coal prices (Qinhuangdao Index) and the Global Coal Newcastle index (gCN) recently, the rise of the Qinhuangdao (QHD) price at the end of September did not support any recovery in gCN. Weak Chinese domestic demand and a depreciating AUD against USD were the key drivers behind the ongoing decline in international coal prices.

In 3Q14, Chinese coal demand was low due to strong hydro power generation. Chinese hydro power generation for July, August and September was reported to be the highest on record, achieving more than 100 TWh per month. At the same time, a decline in Chinese coal production and coal imports was not sufficient to balance the slowing thermal power demand. In response, the Chinese government, through NDRC, instructed major Chinese generators and SOE coal importers to cut imports, commencing September 2014. Moreover, Chinese government announced new import tariffs, which will be implemented in 2015. Importantly, due to free trade agreement between China and the Association of Southeast Asian Nations (ASEAN) these import tariffs will have no direct impact on Indonesian coal supply into China.

In India, total 3Q14 imports increased by around eight million tonnes year-on-year, with half of the increase supplied by Indonesian producers. Indian hydro power generation in 2014 has not been as strong as 2013, resulting in increased coal demand. Reported coal inventories at power plants remained at very low levels, averaging just 6 days in 3Q14.

From the supply side, reported year-to-date Indonesian production declined by four million tonnes year-on-year, with total exports declining by almost six million tonnes. In an effort to curb export volumes, after implementing Pemberitahuan Ekspor Barang (PEB) earlier this year, the Indonesian government issued new regulation of Registered Exporter (Eksportir Terdaftar) starting October 1<sup>st</sup> 2014.

## NEWS FLOW

### **Adaro Energy Becomes a Constituent of One of the Morgan Stanley Capital International (MSCI) Global Sustainability Indexes**

Adaro Energy has been listed as a constituent of one of the MSCI Global Sustainability Indexes, which shows the appreciation of our efforts in sustainability. The MSCI Global Sustainability Indexes are maintained with the objective of including companies that have high Environmental, Social & Governance (ESG) performance while seeking to achieve index stability.



## SHAREHOLDERS INFORMATION

In 3Q14, ADRO's share price reached its peak of Rp1,385 on September 8, 2014, a 19% increase compare to Rp1,165 at the beginning of July 2014. However, it then declined to Rp1,175 towards the end of September 2014. The decline was mainly due to the election giving an uncertain political situation in Indonesia, which caused foreign money out flow during September. As of the end of September 2014, Adaro's market capitalization was US\$3.13 billion, a 4% decrease from US\$3.27 billion at the end of June 2014. On average, our daily trading volume during the quarter was US\$4.3 million, 34% lower from the previous quarter at US\$6.5 million. At the end of September 2014, our analyst consensus rating was 3.59 (on a scale of 5) as a result of 10 buys, 15 holds, and 2 sells.



## HISTORICAL QUARTERLY OPERATIONS SUMMARY

		2012		2013				2014		
<b>Adaro Energy</b>	<b>Units</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>
<b>Coal Production</b>	<b>Mt</b>	<b>10.86</b>	<b>13.31</b>	<b>11.42</b>	<b>13.52</b>	<b>13.73</b>	<b>13.59</b>	<b>13.99</b>	<b>13.88</b>	<b>14.03</b>
AI – Tutupan	Mt	9.33	10.48	8.75	10.06	10.17	9.67	10.74	10.80	10.61
AI – Paringin	Mt	0.24	0.23	0.90	1.62	1.53	1.69	1.44	1.52	1.70
AI – Wara	Mt	1.29	2.61	1.77	1.84	2.03	2.23	1.81	1.44	1.25
Balangan Coal	Mt	-	-	-	-	-	-	-	0.12	0.47
<b>Sales Volume</b>	<b>Mt</b>	<b>10.99</b>	<b>13.95</b>	<b>11.23</b>	<b>13.76</b>	<b>14.11</b>	<b>14.36</b>	<b>13.85</b>	<b>14.39</b>	<b>14.13</b>
AI – E5000	Mt	8.84	10.15	8.24	8.27	9.03	8.55	4.54	4.46	4.53
AI - E4500/E4700/ E4900	Mt	-	0.71	0.94	2.29	1.92	3.29	7.44	7.89	7.58
AI – E4000	Mt	1.81	3.09	2.05	2.70	2.48	2.41	1.87	1.72	1.50
Balangan Coal	Mt	-	-	-	0.00	-	-	-	0.06	0.33
Coaltrade 3 <sup>rd</sup> party	Mt	0.34	-	-	0.50	0.69	0.11	-	0.26	0.19
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>97.75</b>	<b>76.90</b>	<b>62.25</b>	<b>79.82</b>	<b>80.95</b>	<b>71.83</b>	<b>68.22</b>	<b>81.31</b>	<b>92.15</b>
<b>SIS</b>										
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>53.00</b>	<b>45.56</b>	<b>36.17</b>	<b>42.76</b>	<b>44.19</b>	<b>39.86</b>	<b>38.59</b>	<b>43.96</b>	<b>50.81</b>
Adaro Indonesia	Mbcm	34.89	27.88	21.98	26.57	28.79	25.87	24.68	28.52	32.80
Balangan Coal	Mbcm	-	-	-	-	-	-	-	0.89	1.68
Others	Mbcm	18.11	17.68	14.19	16.19	15.40	13.99	13.91	14.55	16.33
<b>Coal Hauling</b>	<b>Mt</b>	<b>5.77</b>	<b>7.08</b>	<b>6.00</b>	<b>7.23</b>	<b>7.33</b>	<b>7.32</b>	<b>7.23</b>	<b>7.22</b>	<b>7.86</b>
Adaro Indonesia	Mt	3.71	4.69	4.04	5.18	5.27	5.25	5.37	5.20	5.19
Balangan Coal	Mt	-	-	-	-	-	-	-	0.12	0.47
Others	Mt	2.06	2.39	1.96	2.05	2.06	2.07	1.86	1.90	2.20
<b>MBP</b>										
<b>Coal Barged</b>	<b>Mt</b>	<b>6.57</b>	<b>7.32</b>	<b>5.99</b>	<b>6.81</b>	<b>7.07</b>	<b>7.49</b>	<b>7.55</b>	<b>8.07</b>	<b>8.09</b>
Adaro Indonesia	Mt	6.23	6.92	5.66	6.41	6.67	7.12	7.31	7.74	7.49
Balangan Coal	Mt	-	-	-	-	-	-	-	0.05	0.33
Others	Mt	0.34	0.40	0.33	0.40	0.41	0.37	0.24	0.28	0.27
<b>Coal Loaded</b>	<b>Mt</b>	<b>3.48</b>	<b>4.90</b>	<b>3.69</b>	<b>4.60</b>	<b>6.43</b>	<b>6.11</b>	<b>8.72</b>	<b>9.06</b>	<b>9.50</b>
Adaro Indonesia	Mt	3.48	4.90	3.69	4.60	6.43	6.11	8.72	9.06	9.27
Balangan Coal	Mt	-	-	-	-	-	-	-	-	0.23