

Coal from Adaro Indonesia's pits is transported along an 80-km hauling road to the Kelanis Dedicated Coal Terminal on the Barito River using double trailer trucks.



## Adaro Energy Quarterly Activities Report Second Quarter of 2018

*For the Three Months Ending Jun 30, 2018*

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### Highlights of the quarter:

- Adaro Energy produced a total of 13.11 Mt of coal in 2Q18 and sold 12.88 Mt, 20% and 18% higher respectively than in 1Q18 as weather condition improved.
- Adaro Energy's strip ratio for the quarter was 5.26x.
- Construction for both BPI and TPI are progressing well reaching 47% and 94% at the end of 1H18, respectively.
- Japan Credit Rating Agency, Ltd affirmed BBB- rating on PT Adaro Energy Tbk with positive outlook.

## **REVIEW OF COAL MARKET**

In the second quarter, coal supply continued to be tight as several coal producing countries experienced supply issues arising from infrastructure hurdle to unfavorable weather conditions. Demand for coal remained robust due to restocking activity as the northern hemisphere entered into summer period, weak nuclear generation in Japan and South Korea, and increased power generations in China and India due to stronger economic activities. The global coal Newcastle (GCN) price reached US\$120/t in June 2018, and in the quarter, GCN average was \$105.32/t, a 3% increase over 1Q18 average.

Ongoing mine inspections in China has put pressures on coal production in the country. India's domestic production continues to fall short of target despite the increased tonnage y-o-y which led to power outages in several areas in the eastern part of the country. The inability of domestic supply to fulfill demand has driven the two countries to import more coal. Coal imports to China were approximately 20 % higher in 1H18, and according to vessel tracking data as cited by Reuters, coal imports to India in the first seven months of 2018 are expected to be 9% higher y-o-y.

In Indonesia, after the government announced the price ceiling for domestic utilities, most coal producers plan to increase production in order to gain more export despite heavy rains that affected several coal producing regions in the country. Initial data from the Ministry of Energy and Mineral Resources suggested that Indonesia's coal production increased 18% y-o-y in 1H18.

One notable event in the quarter was the cancellation of coal price negotiation between Tohoku Electric and Glencore for the March/April contracts. Japan power utilities are now expected to do more spot or index-based pricing and to diversify their coal suppliers.

## **REVIEW OF PT ADARO ENERGY TBK (AE) OPERATIONS**

AE produced 13.11 million tonnes (Mt) of coal from PT Adaro Indonesia (AI), Balangan Coal Companies and Adaro MetCoal Companies (AMC) in 2Q18, 1% lower compared to 13.27 Mt in 2Q17. AE's total coal production for the first six months of 2018 reached 24.06 Mt, 4% less than in the same period last year.

AE booked strong overburden removal activities with total overburden removed of 68.96 million bank cubic meter (Mbcm) in 2Q18, 21% higher compared to 2Q17. AE's total overburden removal for 1H18 was 122.99 Mbcm, a 10% increase from 1H17. AE's blended average strip ratio for the quarter was 5.26x and 5.11x for the semester. We continue to maintain our coal production guidance of 54-56 Mt for 2018 as we expect higher production and sales volume in 3Q18 as a result of additional mining faces at PT Adaro Indonesia, increased delivery rate of new mining equipment and expectation of more favorable weather.

	Units	2Q18	1Q18	2Q18 vs. 1Q18	2Q17	2Q18 vs. 2Q17	1H18	1H17	1H18 vs. 1H17
<b>Coal Production</b>	Mt	13.11	10.95	20%	13.27	-1%	24.06	25.13	-4%
<b>Sales Volume</b>	Mt	12.87	10.93	18%	13.24	-3%	23.80	25.27	-6%
<b>Overburden Removal</b>	Mbcm	68.96	54.05	28%	57.02	21%	123.01	111.78	10%

In the quarter, we sold 12.87 Mt of coal, 3% lower compared to 2Q17 and total sales volume for 1H18 was 23.80 Mt, 6% lower than 1H17. We have secured a large portion of coal sales volume for the rest of the year and we continue to actively build market understanding and acceptance for our E4700 and E4200 product. Sales to the domestic market constituted 22% of our coal sales in the first six months of 2018. The following table shows the geographical breakdown of customers by tonnage in 1H18.

Sales breakdown 1H18	%
Indonesia	22%
Malaysia	12%
China	12%
India	12%
Japan	10%
South Korea	9%
Hong Kong	8%
Spain	5%
Taiwan	4%
Philippines	3%
Thailand	2%
Others*	1%
<b>Total</b>	<b>100%</b>

\*Others include Singapore, The USA, The Netherlands and New Zealand

## ADARO MINING

### PT Adaro Indonesia (AI)

In 2Q18, AI produced 11.46 Mt and sold 12.65 Mt of coal, 7% lower and 1% higher compared to 2Q17, respectively. AI's total coal production and total coal sales in 1H18 was 21.26 Mt and 23.31 Mt, respectively, 8% and 3% below 1H17. AI's total

overburden removal from its three pits was 63.47 Mbcm in 2Q18, 17% higher compared to 2Q17. In 1H18, AI removed a total of 112.82 Mbcm of overburden, a 6% increase over 1H17. As a result, AI's strip ratio was 5.54x for 2Q18, and 5.31x for 1H18.

Having experienced longer rain days in April, the weather condition at AI's site improved in May and June, which presented an opportunity for AI's operations to pick up and AI was able to complete pre-stripping operations in the North Western side of its large scale Tutupan mine. These additional mining faces, the arrival of more favorable weather and increased delivery rate of new mining equipment will further enhance monthly production rate and sales volume in 3Q18.

AI employs three mining contractors at its operations and contribution from each contractor in 2Q18 is shown in the table below.

<b>Contractors</b>	<b>Overburden Removal</b>	<b>Coal Production</b>
SIS	41%	51%
PAMA	42%	35%
BUMA	17%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### **Balangan Coal Companies**

We produced 1.32 Mt of coal from Balangan Coal Companies in 2Q18, a 67% increase from 0.79 Mt in 2Q17. Total coal production from Balangan Coal Companies in the first six months of this year reached 2.18 Mt, 46% higher compared to 1.49 Mt in 1H17. Total overburden removal in 2Q18 was 3.30 Mbcm, an increase of 80% from 1.83 Mbcm in 2Q17. Overburden removal for 1H18 was 6.05 Mbcm, higher by 112% than 1H17. As a result, actual strip ratio was 2.50x for the quarter and 2.78x for 1H18.

### **Adaro MetCoal Companies (AMC)**

In 2Q18, AMC produced 0.33 Mt of semi-soft coking coal and high grade thermal coal, a 50% increase from 0.22 Mt in 2Q17. AMC's total coal production in 1H18 was 0.62 Mt, 37% higher than 0.45 Mt in 1H17. Sales in 2Q18 were 0.22 Mt and 0.49 Mt for 1H18, 16% and 28% higher y-o-y, respectively. Overburden removal at AMC was 2.19 Mbcm during the quarter and 4.14 Mbcm for the first semester which resulted in a strip ratio of 6.64x for 2Q18 and 6.68x for 1H18. AMC's coal received good acceptance from customers in the following countries Japan, Thailand, Indonesia, India, China and The Netherlands.

## ADARO SERVICES

### PT Saptaindra Sejati (SIS)

In 2Q18, SIS recorded a 17% and 27% increase y-o-y in overburden removal and coal production volume to 52.30 Mbcm and 10.99 Mt as volume from Adaro Group and third party customers increased. Overburden removal and coal production volume from Adaro Group were 56% and 79% of SIS's total volume in 2Q18, in that order.

In 1H18, SIS recorded 11% increase in overburden removal volume to 93.73 Mbcm and 24% increase in coal production volume to 20.05 Mt compared to 1H17.

	Units	2Q18	1Q18	2Q18 vs. 1Q18	2Q17	2Q18 vs. 2Q17	1H18	1H17	1H18 vs. 1H17
<b>Overburden Removal</b>	Mbcm	52.30	41.43	26%	44.56	17%	93.73	84.53	11%
<b>Coal Production</b>	Mt	10.99	9.06	21%	8.64	27%	20.05	16.15	24%

## ADARO LOGISTICS

### PT Maritim Barito Perkasa (MBP)

In 2Q18, MBP increased its total coal barging volume by 13% y-o-y to 11.54 Mt. MBP's coal barging volume for 1H18 increased by 7% to 21.37 Mt. The increase was a result of higher volume from both Adaro Group and third party customers. Coal volume from Adaro Group accounted for 95% of MBP's total coal barged.

	Units	2Q18	1Q18	2Q18 vs. 1Q18	2Q17	2Q18 vs. 2Q17	1H18	1H17	1H18 vs. 1H17
<b>Coal barging</b>	Mt	11.54	9.83	17%	10.20	13%	21.37	19.91	7%

## ADARO POWER

Engineering, Procurement and Construction (EPC) activities at PT Bhimasena Power Indonesia (BPI) and PT Tanjung Power Indonesia (TPI) reached 47% and 94%, respectively, at the end of 1H18. TPI recorded a major milestone in its

construction progress on July 20, 2018 when it conducted Initial Oil Firing test of Unit-1 at its power plant in the Tabalong district, South Kalimantan. The successful outcome of this test will guarantee the achievement of TPI's target to commence operations in 2019 as planned. Once in operations TPI will contribute to power supply in South and Central Kalimantan area.

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

In 2Q18, AE recorded a strong safety performance with lost time injury frequency rate (LTIFR) of 0.067 and severity rate (SR) of 5.37. We experienced two lost time injuries (LTI) and total man-hours worked during the quarter were 29,782,176 hours.

## **CORPORATE ACTIVITIES**

### **Recognition on Adaro Energy's CSR programs in The 10th Annual Global CSR Awards 2018**

The CSR programs implemented by Adaro Energy through its subsidiaries were acknowledged in The 10<sup>th</sup> Annual Global CSR Awards 2018. In this event, Adaro Energy won in several categories as follow: Platinum Best Environmental Excellence Award and Clean Up Days, Platinum CSR Leadership Award for Ms. Okty Damayanti, Head of Corporate Social Responsibility Division, and Silver Excellence in Provision & Literacy Award for Adaro Education Enhancement Program.

### **Adaro Energy received Best Listed Company in Mining Sector award**



Adaro Energy was awarded by Investor Magazine as Best Listed Company in Mining Sector in Investor Awards 2018. This award was given to publicly listed companies as recognition for achieving outstanding performance in 2016-2017.

## **SHAREHOLDER INFORMATION**

At the end of 2Q18, AE's share price closed at Rp1,790, 13% increase compared to the end of 2Q17. During 2Q18, share price peaked at Rp2,260 and reached its lowest price at Rp1,625. AE's market capitalization at the end of 2Q18 was US\$3.9 billion.

Average daily trading value for AE's share in 2Q18 was US\$13.19 million, a 187% increase y-o-y from US\$4.6 million in 2Q17. Highest daily trading value for AE's share in 2Q18 was US\$42.46 million. Consensus rating for AE's share at the end of 2Q18 was 4.81 from 25 buys and 2 holds.

At the end of June 2018, total public shareholders were 37.33% out of AE's total shares. Of the public shareholders, 38.09% were domestic holders, an increase from 33.77% at the end of June 2017, and the rest were foreign holders.