

PT Saptaindra Sejati (SIS), one of the companies under Adaro Services pillar, provides a broad range of services for the coal mining industry, covering many aspects from contract mining, civil works, infrastructure development and inland logistics.



Adaro Energy Quarterly Activities Report Third Quarter of 2018

For the Three Months Ending Sep 30, 2018

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Highlights of the quarter:

- Adaro Energy produced a total of 14.93 Mt of coal in 3Q18 and sold 15.47 Mt, a 5% and 9% increase year-on-year (y-o-y), respectively. Production and sales q-o-q increased by 14% and 20% due to improving weather condition in 3Q18.
- Adaro Energy's blended strip ratio for the quarter was 5.45x, compared to 5.02x in 3Q17 as dry weather allowed for more overburden removal activities. We maintain our 2018 strip ratio guidance at 4.9x.
- The construction of our two power projects are progressing well. PT Bhimasena Power Indonesia reached 57% and PT Tanjung Power Indonesia reached 96% at the end of 3Q18.

REVIEW OF THERMAL COAL MARKET

The third quarter of 2018 saw supply tightness of high energy coal in the seaborne market as the main producer, Australia, was faced with weather-related issues which affected production activities and infrastructure availability. At the same time, demand for high energy coal from Japan, South Korea, and Taiwan was higher than expected. In particular, demand from Germany and Spain increased as gas prices were very high, making coal more beneficial for power utilities. Those factors have resulted in the increase of 6000 NAR coal prices in the seaborne market in 3Q18, including global coal Newcastle (GCN) which increased by 12% over 2Q18, averaging at US\$117.59 per tonne.

Thermal coal supply from Indonesia is expected to increase as 3Q18 was a dry season. Initial data based on media articles citing officials from the Ministry of Energy and Mineral Resources, suggested that Indonesia's coal production up until 9M18 was 319 million tonnes (Mt). This figure did not include production from IUP holders.

There was larger disconnection in the thermal coal market between prices of lower CV sub-bituminous coal and the GCN benchmark coal in 3Q18. This was due to the subdued coal import demand from China causing the decoupling between China's domestic coal and import prices. Higher hydro and other renewables' generation, weakening RMB against the US dollar and import control policies affected China's import demand for sub-bituminous coal and off-spec high ash Newcastle coal. On the supply side, higher coal supply from Indonesia in 3Q18 due to the dry weather increases supply of sub-bituminous coal in the seaborne market. Depleting reserves of high-energy bituminous coal and logistics limitation in Australia due to weather disruption has kept a lid on the supply of this type of coal in the seaborne market. Together, these factors formed the wide gap between prices of lower CV and high CV coal.

Despite recent news on China's firmer take on coal imports, the figure tells a different story. According to data compiled by Wood Mackenzie, China's coal imports increased by approximately 15% y-o-y in 9M18 as China's domestic coal production was flat on the back of strict environmental and safety inspections limiting any potential increase in supply. Several provinces including Shanghai, Henan, and Hunan saw increased power consumption y-o-y in September due to strong industrial growth. This robust power demand helped boost coal consumption.

In India, strong thermal coal import continued in the quarter as power plants in the country faced shortage despite efforts from domestic coal producers to fill the gap. Official data shows in Q3 y-o-y nuclear power grew by 9%, hydro by 15%, coal by 2.9%, while gas and lignite, which is Indian domestic lower rank coal dropped 2.5% respectively. India's coal imports increased by approximately 12% y-o-y in 9M18.

Southeast Asia continued its healthy growth of imports in the quarter with Malaysia, Philippines, Thailand, and Vietnam taking more than 90%. Vietnam had the largest import growth of 31% y-o-y in 3Q18. Malaysia remained the leader in nominal term

with y-o-y import growth of 29% to approximately 8.4 Mt, the majority of which was sourced from Indonesia.

REVIEW OF METALLURGICAL COAL MARKET

Solid fundamentals remained in the metallurgical coal market and are expected to continue as a result of limited supply addition due to critical port congestion at DBCT Australia and Hurricane Florence that threatened US supplies and strong demand from steel producers. There has been no significant capacity expansion, which creates the risk of supply disruption while demand stays solid.

China continues to demand top quality metallurgical coal, especially from Australia, on the back of seasonal restocking and healthy margins for steel production. This condition will support strong metallurgical coal price environment in the near-term.

REVIEW OF PT ADARO ENERGY TBK (AE) OPERATIONS

AE produced 14.93 Mt of coal from PT Adaro Indonesia (AI), Balangan Coal Companies and Adaro MetCoal Companies (AMC) in 3Q18, 5% higher compared to 14.23 Mt in 3Q17. AE's total coal production for the first nine months of 2018 reached 38.98 Mt, 1% less than 39.36 Mt in the same period last year.

AE's overburden removal in 3Q18 increased to 81.34 million bank cubic meter (Mbcm) or 14% higher compared to 3Q17. AE's total overburden removal for 9M18 was 204.36 Mbcm, a 12% increase from 9M17. AE's blended average strip ratio for the quarter was 5.45x and 5.24x for 9M18. We have maintained a higher average strip ratio than guidance as firm coal prices have provided more headroom and flexibility for cost. Further, our coal mines continued to advance pit face and mine development which led to higher overburden removal.

Our strategy is to maintain long-term life of mine's strip ratio and coal reserves, and we consider having a higher strip ratio as an investment due to the cyclical nature of the coal industry. We continue to maintain our coal production guidance of 54 – 56 Mt for 2018 as delivery of new mining equipment continues.

	Units	3Q18	2Q18	3Q18 vs. 2Q18	3Q17	3Q18 vs. 3Q17	9M18	9M17	9M18 vs. 9M17
Coal Production	Mt	14.93	13.11	14%	14.23	5%	38.98	39.36	-1%
Sales Volume	Mt	15.47	12.87	20%	14.17	9%	39.27	39.44	0%
Overburden Removal	Mbcm	81.34	68.96	18%	71.40	14%	204.36	183.17	12%

In the quarter, we sold 15.47 Mt of coal, 9% higher than 3Q17 and total sales volume for 9M18 was 39.27 Mt, relatively flat y-o-y. Sales to Southeast Asia, including Indonesia, comprised 38% of total sales volume in 9M18. Meanwhile, East Asia made up 31%, followed by India and China, each with 13%. India had a bigger portion compared to the same period last year due to the significant increase in India's demand for coal import. The following table shows the geographical breakdown of customers in 9M18.

Geographic sales breakdown 9M18	%
Southeast Asia	38%
East Asia*	31%
India	13%
China	13%
Others**	5%
Total	100%

* Excluding China.

** Others include Spain, The Netherlands, Greece, United States, New Zealand and Pakistan.

ADARO MINING

PT Adaro Indonesia (AI)

In 3Q18, AI produced 13.44 Mt and sold 15.25 Mt of coal, 2% and 9% higher compared to 3Q17, respectively. AI's total coal production for 9M18 was 34.70 Mt or 4% below 9M17, and its 9M18 total coal sales of 38.56 Mt was 1% higher than 9M17. Total overburden removal from AI's three pits was 73.49 Mbcm in 3Q18, 9% higher compared to 3Q17. In 9M18, AI removed a total of 186.33 Mbcm of overburden, a 7% increase over 9M17. As a result, AI's strip ratio was 5.47x for 3Q18, and 5.37x for 9M18.

Despite a rainy July, weather conditions improved in August and September, marked with lower rain days and rainfall volume compared to its long-term average. The dry weather supported AI's working environment and enabled AI to increase overburden removal and coal production.

AI employs three mining contractors at its operations and the portion of each contractor in 3Q18 is shown in the table below.

Contractors	Overburden Removal	Coal Production
SIS	44%	54%
PAMA	40%	34%
BUMA	16%	12%
Total	100%	100%

Balangan Coal Companies

We produced 1.24 Mt of coal from Balangan Coal Companies in 3Q18, a 41% increase from 0.88 Mt in 3Q17. Total coal production from Balangan Coal Companies in the first nine months of this year reached 3.42 Mt, 44% higher compared to 2.37 Mt in 9M17.

Total overburden removal in 3Q18 was 5.40 Mbcm, more than double its 3Q17 figure of 2.62 Mbcm. Overburden removal for 9M18 was 11.45 Mbcm, 109% higher than 5.48 Mbcm in 9M17. As a result, actual strip ratio was 4.35x for the quarter and 3.35x for 9M18, in line with Balangan Coal Companies' plan to increase strip ratio in 2018.

Adaro MetCoal Companies (AMC)

In 3Q18, AMC produced 0.24 Mt of semi-soft coking coal and high grade thermal coal, a 7% increase from 3Q17. AMC's total coal production in 9M18 was 0.86 Mt, 27% higher than 9M17. Sales in 3Q18 were 0.22 Mt and 0.71 Mt for 9M18, 8% lower and 15% higher y-o-y, respectively. AMC's coal was sold to customers in Japan, Thailand, Indonesia, India, China and Europe.

Overburden removal at AMC was 2.45 Mbcm during the quarter and 6.58 Mbcm for 9M18 which resulted in a strip ratio of 10.20x for 3Q18 and 7.65x for 9M18.

Kestrel Coal Resources

On August 1, 2018, AE with EMR Capital Ltd (EMR) – a specialist mining private equity manager – completed the acquisition of Rio Tinto's 80% interest in the Kestrel Coal Mine (Kestrel). EMR and AE will jointly manage and operate the Kestrel mine.

Upon completion of the deal, Kestrel is owned by Kestrel Coal Resources Pty Ltd (80%) and Mitsui Coal Australia (20%). Kestrel Coal Resources Pty Ltd is a joint venture company formed by EMR (52%) and AE (48%).

Kestrel produces mainly hard coking coal of premium quality favored by premium customers in the seaborne market. Kestrel's saleable coal production was 0.57 Mt in August and 0.52 Mt in September and it sold 0.34 Mt in August and 0.44 Mt in September. This achievement was relatively even y-o-y as we carry on with Kestrel's original plan set at the beginning of 2018.

ADARO SERVICES

PT Saptaindra Sejati (SIS)

In 3Q18, SIS recorded a 30% and 22% increase y-o-y in overburden removal and coal production volume to 66.46 Mbcm and 12.37 Mt as volume from Adaro Group and third party customers increased. Overburden removal and coal production volume from Adaro Group were 57% and 82% of SIS's total volume in 3Q18, respectively.

In 9M18, SIS recorded 18% increase in overburden removal volume to 160.19 Mbcm and 23% increase in coal production volume to 32.44 Mt compared to the same period last year.

	Units	3Q18	2Q18	3Q18 vs. 2Q18	3Q17	3Q18 vs. 3Q17	9M18	9M17	9M18 vs. 9M17
Overburden Removal	Mbcm	66.46	52.30	27%	51.15	30%	160.19	135.68	18%
Coal Production	Mt	12.37	10.99	13%	10.18	22%	32.44	26.34	23%

ADARO LOGISTICS

PT Maritim Barito Perkasa (MBP)

In 3Q18, MBP increased its total coal barging volume by 7% y-o-y to 13.04 Mt. MBP's coal barging volume for 9M18 increased by 7% to 34.41 Mt as a result of higher volume from the Adaro Group. Coal volume from Adaro Group accounted for 96% of MBP's total coal barged in 3Q18 and 9M18.

	Units	3Q18	2Q18	3Q18 vs. 2Q18	3Q17	3Q18 vs. 3Q17	9M18	9M17	9M18 vs. 9M17
Coal barging	Mt	13.04	11.54	13%	12.15	7%	34.41	32.06	7%

ADARO POWER

Engineering, Procurement and Construction (EPC) activities at PT Bhimasena Power Indonesia (BPI) and PT Tanjung Power Indonesia (TPI) reached 57% and 96%, respectively, at the end of 9M18.

QUALITY, HEALTH, SAFETY AND ENVIRONMENT (QHSE)

In July and August 2018, AE recorded lost time injury frequency rate (LTIFR) of 0.2 and 0.1, respectively. Severity rate (SR) was 0.99 in July and 30.94 in August. We

experienced three lost time injuries (LTI) and total man-hours worked during the two months period were 19,804,812 hours.

CORPORATE ACTIVITIES

PT Adaro Energy Tbk's 10th IPO anniversary: a decade of business transformation



The Minister of Finance of the Republic of Indonesia, Mrs Sri Mulyani Indrawati (center) attended the celebration of PT Adaro Energy Tbk's 10th IPO anniversary. She is pictured here with members of the Board of Commissioners and Directors of PT Adaro energy Tbk.

On July 16, 2018, AE celebrated its 10th year IPO anniversary. During the 10 year course, AE has transformed from a single-site coal mining company into an integrated coal and energy company through its eight business pillars of Adaro Mining, Adaro Services, Adaro Logistics, Adaro Power, Adaro Land, Adaro Water, Adaro Capital, and Adaro Foundation.

To mark the anniversary AE invited the investment community and other stakeholders to a dinner in Jakarta. The event was also attended by the Minister of Finance of Republic of Indonesia, Mrs. Sri Mulyani Indrawati. Professor Rhenald Kasali also attended the event to launch his book "Self-Disruption" which was based on AE's transformation over the decade.

AE also introduced "Adaro Nyalakan Ilmu" program, a corporate social responsibility program committed to improve education initiated by AE's founding fathers. This program has a grant match scheme whereby AE, through Adaro Foundation, will contribute the same donation amount as the founders' foundations. The total commitment for this program is IDR 1.1 trillion.

AE awarded Most Tax-Friendly Corporate



President Director & CEO of PT Adaro Energy Tbk, Garibaldi Thohir (right) receiving the award from Mr Robert Pakpahan, Director General of Taxes.

At the 2018 Anugerah Tempo Country Contributor Award, AE was recognized as Country Contributor and Most Tax-Friendly Corporate. Adaro is committed to contribute to the development of Indonesia through payment of taxes and royalties which amounted to US\$774 million in 2017.

AE awarded Best Annual Report in Indonesia and ranked first in Best Strategic Corporate Social Responsibility



Corporate Secretary & Investor Relations Division received the award from Mr Siddiq Bazarwala, CEO/Publisher of Alpha Southeast Asia Magazine.

AE's annual report was voted as the Best Annual Report in Indonesia at the 8th Annual Best Corporate Institutional Investor Awards organized by Alpha South East Asia magazine. The award was based on votes from more than 513 investors and analysts across the region as well as US and Europe collected by Alpha South East Asia. The investment community also recognized AE's efforts in the ESG front, as AE ranked first in Best Strategic Corporate Social Responsibility, and ranked second in Strongest Adherence to Corporate Governance in Indonesia.

We would like to extend our gratitude to all analysts, investors and capital market participants that voted for PT Adaro Energy Tbk in the poll. We wish to continue to serve you better.

TPI awarded as Fast-Track Power Plant of the Year



Mr Dharma Djojonegoro (second from left), Deputy CEO of PT Adaro Power, together with team members from PT Tanjung Power Indonesia, at the awarding ceremony on September 19, 2018 in Jakarta.

TPI was awarded as Fast-Track Power Plant of the Year in Asian Power Awards 2018. The Asian Power Awards is the most prestigious award event for leading power generation companies in Asia. Dubbed as the Oscar of The Power Industry, the Asian Power Awards recognizes more ground-breaking projects and trailblazing initiatives in the Asian power sector.

SHAREHOLDER INFORMATION

At the end of 3Q18, AE's share price closed at Rp1,835, relatively flat compared to the end of 3Q17. During 3Q18, share price peaked at Rp2,090 and reached its lowest price at Rp1,700. AE's market capitalization at the end of 3Q18 was US\$3.9 billion.

Average daily trading value for AE's share in 3Q18 was US\$7.25 million, a 48% increase y-o-y from US\$4.87 million in 3Q17. Highest daily trading value for AE's share in 3Q18 was US\$28.97 million. Consensus rating for AE's share at the end of 3Q18 was 4.82 from 26 buys and 2 holds.

At the end of September 2018, total public shareholders were 37.30% out of AE's total shares. Of the public shareholders, 40% were domestic holders, an increase from 33.67% at the end of September 2017, and the rest were foreign holders.