

PT Adaro Energy Tbk's coal production in 2018 reached 54.04 million tonnes. We sell a range of sub-bituminous thermal coal branded as Envirocoal which is sought after in the seaborne thermal coal market for its low-pollutant content.



## Adaro Energy Quarterly Activities Report Fourth Quarter of 2018

*For the Three Months Ending Dec 31, 2018*

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### Highlights of the quarter:

- Adaro Energy delivered on operational guidance as coal production in 2018 reached 54.04 million tonnes (Mt) in line with guidance of 54-56 Mt.
- Adaro Energy produced a total of 15.06 Mt of coal in 4Q18 and sold 15.12 Mt, a 21% and 22% increase year-on-year (y-o-y), respectively.
- Adaro Energy's blended strip ratio for the quarter was 4.59x, and 5.06x for 2018, slightly higher than guidance of 4.9x.
- Guidance for 2019 is as follow:
  - Production: 54-56 Mt
  - Strip ratio: 4.56x
  - Operational EBITDA: US\$1 billion-US\$1.2 billion
  - Capex: US\$450 million-US\$600 million

## REVIEW OF THERMAL COAL MARKET

Although coal market in 2018 started with strong prices, starting in the beginning of the second half of 2018, the international spot prices for coals of CV below 5,500 NAR were corrected downwards. Macro environment and increased volatility due to governments' policies controls created significant challenges in the coal market. In spite of that, the global seaborne thermal coal market in 2018 increased by approximately 5% year-over-year (y-o-y) – supported by consumption growth in China, India and Southeast Asia.

In 4Q18 the decoupling between prices of Global Coal Newcastle (gCN) benchmark coal and sub-bituminous coal became wider. Greater supply of the latter was not met by enough demand in the market and hence prices for coal lower than 5,500 kcal/kg NAR were under pressure, with the 4,200 kcal/kg being the most affected. Supply tightness of bituminous coal has kept gCN benchmark price elevated, averaging US\$104.20 per tonne in 4Q18.

Demand from China slowed down at the end of 2018 on the back of reduced power consumption from July to November 2018 before it went up again in December 2018 due to winter. China's manufacturing Purchasing Managers' Index (PMI) was maintained at around 50 during 4Q18 as continued tensions from the trade war between China and US caused demand for coal to be less than expected despite 4Q18 traditionally being a restocking season for China. Despite the slowdown in Q4, China's overall coal imports (excluding coking coal) in 2018 increased by approximately 16 million tonnes y-o-y.

On the other hand, India's PMI was maintained above 50 and coal power generation increased by 7% y-o-y during 4Q18. India's domestic coal supply from Coal India and Singareni Collieries Company increased by 6% y-o-y in 2018; however, limited rakes availability caused coal transportation bottleneck from the pit to power plants. This resulted in strong demand growth on coal imports, mainly from Indonesia, followed by USA and Australia. India's coal imports in 2018 increased by approximately 25 million tonnes to 160 million tonnes. Government's approval on the tariff revisions for power plants in Mundra also helped to boost coal imports.

Demand for coal imports in Southeast Asia, one of the pockets of growth for the global seaborne thermal coal market, increased by 17% y-o-y in 2018 to approximately 79 Mt. Demand for coal imports was led by Malaysia, the Philippines, Thailand and Vietnam. In nominal term, Malaysia was the region's largest coal importer with 34 Mt in 2018, a 25% growth y-o-y. Meanwhile coal imports into Vietnam increased by 44% y-o-y. Demand from this region is expected to continue to grow along with the expansion of coal fired power plants capacity.

Coal originated from Indonesia, US, Russia, Australia covered the increased demand, growing significantly altogether by 7% y-o-y. In Indonesia, according to official from the Ministry of Energy and Mineral Resources, total coal production reached 528 Mt in 2018, 8% higher than the 485 Mt target. Indonesia's flexible

supply side plays a key role in the supply of the 4,200 kcal/kg in the seaborne market.

## **REVIEW OF METALLURGICAL COAL MARKET**

The metallurgical coal market was undersupplied during most of 2018 albeit demand slowing in the fourth quarter. Improved demand from India, Europe, Brazil and Vietnam lifted the seaborne import volume by 11 million tonnes y-o-y. India was the key driver of demand growth in 2018, supported by the improvement in its construction and manufacturing sectors as its economy posted a stellar 8% growth. On the other hand, China, which consumed 16% of total seaborne volume of metallurgical coal in 2018, dropped its imports by 5 million tonnes y-o-y following decelerated GDP growth. Additionally, Japan, Korea and Taiwan imported 4 million tonnes less than the previous year.

On the supply side, China continued to rationalize its production capacity and restructure its steel, coke and mining sectors which resulted in weak domestic supply due to reserve depletion, capacity cuts and stringent environmental and safety measures. Wood Mackenzie estimates that approximately 26 Mt of annual metallurgical coal capacity was closed in China in 2018. Meanwhile, supply from Australia, only increased by approximately 2% y-o-y due to production issues and higher than usual maintenance outages at ports and rail. The supply tightness has supported prices in 2018, with Platts Premium Hard Coking Coal index increased by 10% y-o-y, reaching above US\$200 level on average.

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

We delivered on our operational targets on both production volume and strip ratio. AE produced 15.06 Mt of coal from PT Adaro Indonesia (AI), Balangan Coal Companies and Adaro MetCoal Companies (AMC) in 4Q18, 21% higher compared to 12.43 Mt in 4Q17. AE's total coal production for 2018 reached 54.04 Mt, 4% increase over 51.79 Mt in 2017 and in line with our production guidance of 54 Mt to 56 Mt.

AE's overburden removal in 4Q18 increased to 69.19 million bank cubic meter (Mbcm) or 25% higher compared to 4Q17. AE's total overburden removal for the year reached 273.55 Mbcm, a 15% increase from 2017. AE's blended average strip ratio for the quarter was 4.59x and 5.06x for 2018 compared with 4.47x in 4Q17 and 4.61x in 2017. We achieved a slightly higher annual strip ratio than our guidance of 4.9x as favorable weather in the third quarter supported more overburden removal activities.

	Units	4Q18	3Q18	4Q18 vs. 3Q18	4Q17	4Q18 vs. 4Q17	FY18	FY17	FY18 vs. FY17
Coal Production	Mt	15.06	14.93	1%	12.43	21%	54.04	51.79	4%
Sales Volume	Mt	15.12	15.47	-2%	12.39	22%	54.39	51.82	5%
Overburden Removal	Mbcm	69.19	81.34	-15%	55.53	25%	273.55	238.70	15%

In the quarter, we sold 15.12 Mt of coal, 22% higher than 4Q17 and total sales volume for the year reached 54.39 Mt, a 5% increase y-o-y. Sales to Southeast Asia, including Indonesia, comprised 39% of total sales volume in 2018. Meanwhile, East Asia made up 30% of sales, followed by China and India at 14% and 11%, respectively. The following table shows the geographical breakdown of customers in 2018.

<b>Geographic sales breakdown 2018</b>	<b>%</b>
Southeast Asia	39%
East Asia*	30%
China	14%
India	11%
Others**	6%
<b>Total</b>	<b>100%</b>

\* Excluding China.

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

## **ADARO MINING**

### **PT Adaro Indonesia (AI)**

In 4Q18, AI produced 13.62 Mt and sold 14.99 Mt of coal, 20% and 22% higher compared to 4Q17, respectively. AI produced a total of 48.33 Mt of coal in 2018 or 1% higher y-o-y and AI's total coal sales in 2018 reached 53.54 Mt, 6% higher than 2017. Total overburden removal from AI's three pits was 60.15 Mbcm in 4Q18, 17% higher compared to 4Q17. AI removed a total of 246.47 Mbcm of overburden in 2018, a 9% increase from 2017.

We experienced normal rainy season in our operational area at the beginning of the quarter. While in November and December, we experienced higher rain days and rainfall volume compared to the long-term average. AI employs three mining

contractors at its operations and the portion of each contractor in 4Q18 is shown in the table below.

<b>Contractors</b>	<b>Overburden Removal</b>	<b>Coal Production</b>
SIS	44%	56%
PAMA	38%	33%
BUMA	18%	11%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### **Balangan Coal Companies**

We produced 1.28 Mt of coal from Balangan Coal Companies in 4Q18, a 52% increase from 0.84 Mt in 4Q17. Total coal production from Balangan Coal Companies in 2018 reached 4.70 Mt, 46% higher compared to 3.21 Mt in 2017.

Total overburden removal in 4Q18 was 6.89 Mbcm, more than three times its 4Q17 figure of 2.23 Mbcm. Overburden removal for 2018 was 18.34 Mbcm, 138% higher than 7.70 Mbcm in 2017. As a result, actual strip ratio was 5.38x for the quarter and 3.90x for 2018, in line with Balangan Coal Companies' plan to increase strip ratio in 2018.

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

In 4Q18, AMC produced 0.16 Mt of semi-soft coking coal and high grade thermal coal, a 30% decrease from 4Q17. AMC's total coal production in 2018 was 1.01 Mt, 12% higher than 2017. AMC's coal sales were 0.13 Mt in 4Q18 and 0.85 Mt in 2018, 8% higher 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 2.15 Mbcm during the quarter and 8.74 Mbcm for 2018 which resulted in a strip ratio of 13.44x for 4Q18 and 8.65x for 2018.

### **Kestrel Coal Resources**

Kestrel recorded saleable coal production of 0.88 Mt during 4Q18 bringing annual total production to 4.76 Mt in 2018. Total coal sales during 4Q18 was 1.32 Mt and 4.8 Mt for 2018, which sit well within the budget. This production data represents 100% interest where AE has 47.99% shareholding in Kestrel Coal Resources Pty. Ltd. which has 80% interest in Kestrel Coal Joint Venture.

Since acquisition of the asset on August 1, 2018, Kestrel Coal Resources has embarked on a change program which aims to drive efficiency improvements throughout the business. The result of the change program is expected to significantly increase the production profile for 2019 and beyond. We project a 40% growth in saleable coal production in 2019 compared to 2018. We anticipate the

volume increase to be well absorbed by the market as Kestrel has premium quality coal sought after in the seaborne market.

## ADARO SERVICES

### PT Saptaindra Sejati (SIS)

In 4Q18, SIS recorded a 39% and 37% increase y-o-y in overburden removal and coal production volume to 60.32 Mbcm and 12.49 Mt as volume from Adaro Group and third party customers increased. Overburden removal and coal production volume from Adaro Group were 56% and 82% of SIS's total volume in 4Q18, respectively.

In 2018, SIS recorded 23% increase in overburden removal volume to 220.52 Mbcm and 27% increase in coal production volume to 44.93 Mt compared to the same period last year.

	Units	4Q18	3Q18	4Q18 vs. 3Q18	4Q17	4Q18 vs. 4Q17	FY18	FY17	FY18 vs. FY17
Overburden Removal	Mbcm	60.32	66.46	-9%	43.49	39%	220.52	179.17	23%
Coal Production	Mt	12.49	12.37	1%	9.09	37%	44.93	35.43	27%

## ADARO LOGISTICS

### PT Maritim Barito Perkasa (MBP)

In 4Q18, MBP increased its total coal barging volume by 19% y-o-y to 12.72 Mt. MBP's coal barging volume for 2018 increased by 10% to 47.13 Mt as a result of higher volume from the Adaro Group. Coal volume from Adaro Group accounted for 97% of MBP's total coal barged in 4Q18 and 96% in 2018.

	Units	4Q18	3Q18	4Q18 vs. 3Q18	4Q17	4Q18 vs. 4Q17	FY18	FY17	FY18 vs. FY17
Coal barging	Mt	12.72	13.04	-2%	10.69	19%	47.13	42.75	10%

## ADARO POWER

Engineering, Procurement and Construction (EPC) activities at PT Bhimasena Power Indonesia (BPI) reached approximately 60% at the end of 2018, and EPC activities at PT Tanjung Power Indonesia (TPI) reached 99% at the end of 2018.

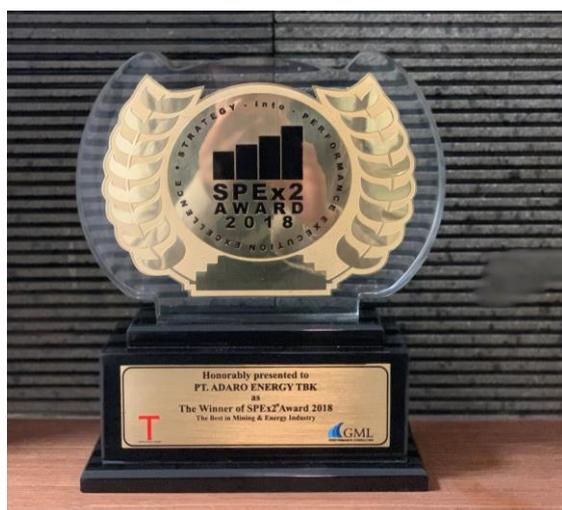
## **QUALITY, HEALTH, SAFETY AND ENVIRONMENT (QHSE)**

In 4Q18, AE recorded total man hours worked of 29,870,664, with lost time injury frequency rate (LTIFR) of 0.2 and severity rate (SR) of 507.58. We experienced five lost time injuries (LTI) and it is regrettable/unfortunate that we had one fatality during the quarter. The safety of our people is of utmost importance to AE, and we further improve our efforts in building zero accident mindset through Adaro Zero Accident Mindset (AZAM) program in order to protect the health and safety of every worker at AE.

In 4Q18, AE's QHSE team also issued several technical guidelines in providing HSE references for Adaro Group, such as Hazardous Waste Management and Fitness for Work.

## **CORPORATE ACTIVITIES**

### **Adaro Energy Awarded as the Best in Mining & Energy Industry at SPEx2 Award – Navigating Digital Shift**



AE received SPEx2 (Strategy into Performance Execution Excellence) Award 2018 as the Best in Mining & Energy Industry. The award is organized by PT Tempo Inti Media in cooperation with GML Performance Consulting. Theme of the award event in 2018 was Navigating Digital Shift and the winner is elected based on survey and presentation to a panel of senior judges.

### **Adaro Energy's IR Team Nominated in 2018 IR Magazine South East Asia Award**

Adaro Energy's investor relations team was shortlisted as a finalist in IR Magazine's 2018 South East Asia award in two categories, i.e. Best in Sector: Energy and Best in Country.

We are honored to be chosen as one of the nominees and would like to extend our gratitude to IR Magazine and all the analysts and investors who took part in the survey.

### **Adaro Energy's Extraordinary General Meeting of Shareholders (EGMS)**

On December 14, 2018, AE held an EGMS at the Adaro Institute in Jakarta. The EGMS was held to restate the composition of AE's Board of Directors following the resignation of Mr David Tendian as a member of AE's Board of Directors.

The majority of shareholders approved the composition of AE's Board of Directors to be as follow:

- President Director: Garibaldi Thohir
- Vice President Director: Christian Ariano Rachmat
- Director: Chia Ah Hoo
- Director: Mohammad Syah Indra Aman
- Director: Julius Aslan



*Mr Lie Luckman, Chief Financial Officer of AE.*

In this EGMS, AE's BoD appointed Mr Lie Luckman as Chief Financial Officer to carry out the duties and responsibilities as the head of AE's Finance Directorate effective from December 1, 2018.

Mr Lie Luckman has worked for the Adaro Group for more than 15 years, where he has held several key positions. His last position before assuming the role of AE's CFO was Finance Director of PT Adaro Indonesia.

### **SHAREHOLDER INFORMATION**

At the end of 4Q18, AE's share price closed at Rp1,215, 13% lower compared to the end of 4Q17. During 4Q18, AE's share price peaked at Rp1,825 and reached its lowest price at Rp1,215. AE's market capitalization at the end of 4Q18 was US\$2.68 billion.

Average daily trading value for AE's share in 4Q18 was US\$6.28 million, a 31% increase y-o-y from US\$4.76 million in 4Q17. Highest daily trading value for AE's share in 4Q18 was US\$16.57 million. Consensus rating for AE's share at the end of 4Q18 was 4.56 from 23 buys, 3 holds and 1 sell.

At the end of December 2018, total public shareholders were 37% out of AE's total shares. Of the public shareholders 41% were domestic holders, an increase from 30% at the end of December 2017, and the rest were foreign holders.