

An aerial view of PT Semesta Centramas' mine at Balangan in South Kalimantan. Our Wara Balangan blend product has been well received by customers in China and India.



## Adaro Energy Quarterly Activities Report Second Quarter of 2016 For the Three Months Ending Jun 30, 2016

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Highlights of the quarter:

- We delivered sound operational results for the quarter, in line with the guidance given at the beginning of the year.
- We entered into an agreement to buy the 75% interest in the Indomet Coal Project of BHP Billiton.
- Coal market dynamics have improved mainly supported by supply cuts in China. Indonesia continues its supply discipline while other coal exporting countries maintain flat or slightly higher exports.
- Coal demand in Indonesia provides a positive picture as in the first six months of 2016 domestic consumption increased 8% y-o-y.
- The financial close for our 2x1,000 MW power plant in Central Java strengthens our move into power generation.

## **REVIEW OF COAL MARKET**

During the quarter, there was improvement in the dynamics of the coal market driven by government-backed production cuts in China which led to supply tightness in the country. This in turn has opened up the arbitrage for imported coal into China, thus propping up the global coal price, evident by a 2% increase on average of the Global Coal Newcastle price in 2Q16 to US\$51.54 from US\$50.32 in 1Q16.

Continuation of China's production cuts caused more imports into the country and further supported the global coal price. Global Coal Newcastle reached US\$62 in July, the highest in the past 17 months. In India, strong performance by hydro power stations led to a dip in coal-fired generation in June. Demand for our coal was strong and India became Adaro's second largest market in the 1H16. However, we expect a slower coal import into India until the end of the year and hence lower sales from Adaro.

Production discipline is also prevalent in Indonesia, the world's largest thermal coal exporter. Based on information from the Ministry of Energy and Mineral Resources, Indonesia has committed at the beginning of this year to reduce coal production by approximately 11% to 419 million tonnes (Mt). Data from the Ministry of Energy and Mineral Resources shows that coal production from CCOW miners, which account for up to 80% of Indonesia's production, declined by 30% year on year in the first six months of 2016. Indonesia exports for the period declined 32% while domestic consumption increased 8%.

Other coal exporting countries maintained flat or slightly higher exports volume. Australian producers cost cutting measures continue to support exports from that country.

## **REVIEW OF ADARO ENERGY OPERATIONS**

In the second quarter of 2016, we produced 13.23 Mt of coal from PT Adaro Indonesia (AI), PT Semesta Centramas (SCM) and PT Laskar Semesta Alam (LSA), a 4% increase compared to 12.72 Mt in the same period last year. Adaro Energy's total coal production for the first six months of 2016 reached 25.86 Mt, relatively flat year-on-year.

Overburden removal for the second quarter of 2016 decreased by 22% to 57.65 million bank cubic meter (Mbcm) compared to 2Q15. The blended average strip ratio for the quarter was 4.36x and 4.30x for the semester, below our 4.71x planned strip ratio. We expect to increase overburden removal in the coming – typically drier – next two quarters and our 2016 strip ratio to reach 4.71x. Adaro continues to maintain strong and safe operations. We had average rainfall days in April and June and a higher than normal rainfall days in May.

We sold 13.66 Mt of coal in the quarter, 4% higher compared to 2Q15. Total sales volume for 1H16 was 27.13 Mt, 2% higher compared to 1H15.

	Units	2Q16	1Q16	2Q16 vs. 1Q16	2Q15	2Q16 vs. 2Q15	1H16	1H15	1H16 vs. 1H15
<b>Coal Production</b>	Mt	13.23	12.63	5%	12.72	4%	25.86	25.88	0%
<b>Sales Volume</b>	Mt	13.66	13.47	1%	13.15	4%	27.13	26.59	2%
<b>Overburden Removal</b>	Mbcm	57.65	53.58	8%	74.24	-22%	111.23	136.35	-18%

## MINING ASSETS

### PT Adaro Indonesia (AI)

In 2Q16, AI produced 12.96 Mt and sold 13.18 Mt of coal. AI's total coal production in 1H16 was 25.20 Mt, 1% lower compared to 1H15, and total overburden removed at AI's three pits was 109.09 Mbcm, 17% lower than 1H15. Our subsidiaries continue to support AI's operations. Mining contractor PT Saptaindra Sejati (SIS) handled more overburden removal and coal production volume in the quarter as SIS continues to perform well at AI's operations. Logistics provider, PT Maritim Barito Perkasa (MBP) also performed most of AI's coal barging and transshipment activities in 2Q16.

We continued to be a leading supplier to the domestic market and are committed to meeting Indonesia's growing coal demand. Our domestic sales portion for the first six months of 2016 was 24%. The following table shows the geographical breakdown of customers by tonnage.

## Geographical breakdown of Customers 1H16

Indonesia	24%
India	16%
China	14%
Hong Kong	8%
Japan	8%
Korea	7%
Malaysia	8%
Spain	5%
Philippines	3%
Taiwan	3%
Others*	3%
<b>Total</b>	<b>100%</b>

\*Others include Thailand, Italy, Cambodia, USA and Vietnam

### PT Semesta Centramas (SCM) and PT Laskar Semesta Alam (LSA)

During 2Q16, we produced 0.27 Mt of coal from SCM and LSA, 73% higher than 2Q15. Total overburden removal from SCM and LSA in 2Q16 was 1.24 Mbcm, relatively flat year-on-year and the actual strip ratio in 2Q16 was 4.59x.

### Indomet Coal Project (IMC)

During the quarter, Adaro entered into an agreement to purchase the 75% interest in IMC of our partner in the project, BHP Billiton for US\$120 million. IMC comprises of seven CCOWs located in Central and East Kalimantan. Completion of the sale is conditional upon the fulfillment of regulatory approvals. The CCOWs are reported to have metallurgical coal resources of 1.27 billion tonnes.

## MINING SERVICES & LOGISTICS

### PT Saptaindra Sejati (SIS)

During the quarter, SIS was able to increase its production performance by 22% year on year to 9.04 Mt. However, overburden removal volume declined by 3% year on year to 41.01 Mbcm, in line with coal miners' strategy to keep their cost in check by lowering strip ratio this year.

SIS continued to focus on serving the Adaro Energy Group. Overburden removal and production volume from Adaro were 61% and 73% of SIS's total volume in the

quarter, respectively. This is compared to 63% and 70% in the same period last year.

	Units	2Q16	1Q16	2Q16 vs. 1Q16	2Q15	2Q16 vs. 2Q15	1H16	1H15	1H16 vs. 1H15
<b>Overburden Removal</b>	Mbcm	41.01	32.11	28%	42.41	-3%	73.12	78.03	-6%
<b>Coal Production</b>	Mt	9.04	7.11	27%	7.42	22%	16.15	14.66	10%

In 2Q16, SIS bought heavy equipment, infrastructure equipment, operational vehicles and other equipment from one of our contractors Rahman Abdijaya. As Adaro continues to believe in the growth of demand for coal, especially in Indonesia, this will give SIS the required capacity and ability to take the market share as it rises.

### **PT Maritim Barito Perkasa (MBP)**

In 2Q16, MBP increased its total coal transport volume by 22% year on year to 9.29 Mt and increased its total coal transshipment volume by 2% year on year to 8.43 Mt. Adaro's coal volume accounted for 96% of MBP's total coal barged and all of MBP's coal loaded to ships.

	Units	2Q16	1Q16	2Q16 vs. 1Q16	2Q15	2Q16 vs. 2Q15	1H16	1H15	1H16 vs. 1H15
<b>Total coal transported</b>	Mt	9.29	7.47	24%	7.64	22%	16.76	15.22	10%
<b>Total coal transshipped</b>	Mt	8.43	7.82	8%	8.24	2%	16.25	17.94	-9%

### **POWER**

In the second quarter of 2016 we achieved a milestone for our strategic move into power generation with the financial closure for our 2x1,000 MW power plant in Central Java, under PT Bhimasena Power Indonesia (BPI), a consortium of Electric Power Development Co., Ltd. (J-Power) – PT Adaro Power (AP) – Itochu Corporation (Itochu).

Total investment for this project will be approximately US\$4.2 billion, and BPI will sell electricity to PT Perusahaan Listrik Negara (Persero) (PLN) under a power purchase agreement (PPA) for 25 years from the completion of construction, the PPA between BPI and PLN was signed on October 6th, 2011. Following the financial closure, we have started construction works at BPI.



*President Director of BPI, Mr Mohammad Effendi with President Director of PLN, Mr Sofyan Basir at the financial close ceremony for PLTU Batang, and other key infrastructure projects, at The State Palace on June 8<sup>th</sup>, 2016.*

We are now focusing, together with our partners, on the financial closure for PT Tanjung Power Indonesia (TPI), to build a 2x100 MW power plant in Tanjung, South Kalimantan.

As we move downstream into power generation, our objective is to become a major player in the Indonesian power sector. The latest RUPTL from PLN shows that coal remains a key source of energy in Indonesia accounting for 35 GW out of the total 81 GW planned in the next 10 years. Adaro is set to utilize its abundant coal reserves to take part in development of power plants in Indonesia while at the same time considering possibilities to build power plants that use other fuel sources to contribute to the country's energy mix.

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

In the quarter, Adaro Energy had four lost time injuries (LTI). Our lost time injury frequency rate (LTIFR) for 2Q16 was 0.173 and severity rate (SR) was 1.56. Total man-hours worked during the quarter were 23,104,176 hours. We continue to improve our health and safety standards and implement strict environmental management.