



**Overburden Out of Pit Crushing and Conveying System (OPCC)**

*The project was 96% complete at the end of December 2012. We estimate this system will be commissioning in May 2013.*

# Quarterly Activities Report

## Fourth Quarter of 2012

*For the Three Months Ending December 31<sup>st</sup>, 2012*

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**Our Guidance for 2013:**

- Production volume : 50 to 53 million tonnes
- Stripping Ratio : 5.75x (average)
- EBITDA : US\$850 million to US\$1 billion

Jakarta, January 31<sup>st</sup> 2013

Dear Capital Market Participants,

Happy New Year 2013 and welcome to Adaro Energy's Quarterly Activities Report that we issue one month after the end of each quarter. We plan to release our FY12 financial press release to accompany our FY12 financial statements and notes separately on March 27<sup>th</sup>, 2013.

Below are some highlights of the fourth quarter for 2012:

- We achieved a record coal production during 4Q12 of 13.31 million tonnes, a 7% increase year-over-year (y-o-y), despite experiencing higher than average volume of rainfall. We recorded our second best year of coal production on history with 47.2 million tonnes. Coal shipments increased sustaining our annual growth in volumes. *(page 4, 5 and 8)*
- As the coal market rebounded toward the end of 2012, our sales volume went up 12% year-over-year (y-o-y) to 13.95 million tonnes with the driver coming from E4000 (Wara). Our subsidiary, Adaro Indonesia (AI), maintains its track record of increased coal sales with 47.41 million tonnes in 2012, a 1% increase y-o-y *(page 4, 5 and 8)*
- We stayed on track for our overburden removal during 4Q12. We achieved a record overburden removal of 331.48 million bank cubic meter (Mbcm) in 2012, exceeding our target of 321.15Mbcm. *(page 4, 5 and 7)*
- We experienced a record volume of rainfall for the month of December in 2012. *(page 10 and 11)*
- Our infrastructure projects to improve efficiency and reduce costs at our existing operations are on track for commercial operations in early 2013. *(page 16 and 17)*

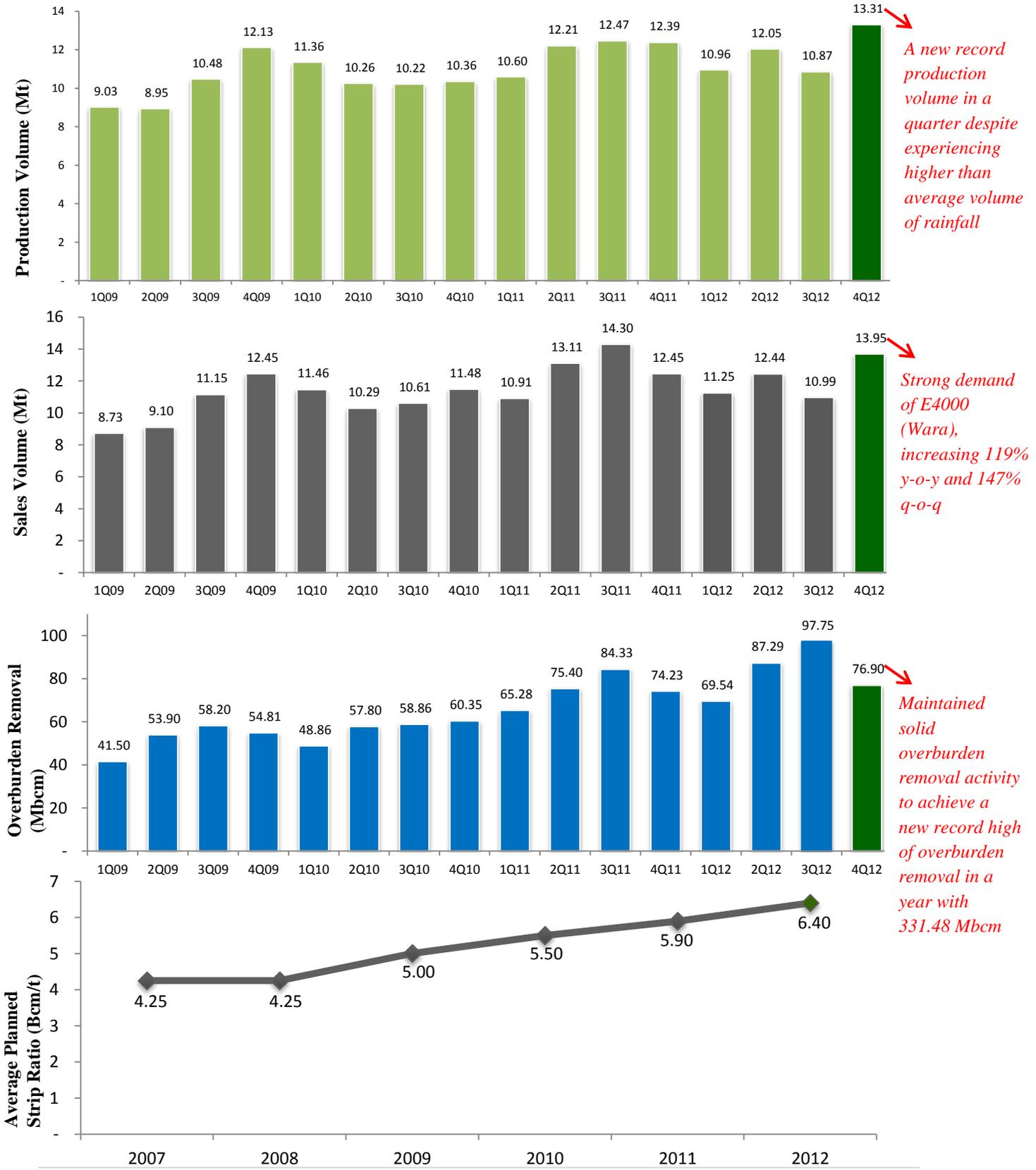
Please do not hesitate to contact us should you have any questions or require additional information.

Yours truthfully,



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

## HISTORICAL QUARTERLY PERFORMANCE



## OUR FOCUS ON PREPARING THE MINE DURING MID-YEAR SETS THE SCENE FOR A RECORD COAL PRODUCTION IN THE FOURTH QUARTER

We achieved a record coal production during 4Q12 of 13.31 million tonnes, a 7% increase year-over-year (y-o-y) and 22% increase quarter-over-quarter (q-o-q), despite experiencing a higher than average rainfall. We recorded our second best year of coal production with 47.2 million tonnes. The coal market rebounded toward the end of 2012 after challenging market conditions, mainly due to excess of coal supply, for much of 2H12. We benefited from our preparation in 3Q12 for the rainy season, as we finished the year in a strong position to meet demand.

During 4Q12, our sales volume went up 12% y-o-y and 27% q-o-q to 13.95 million tonnes. The driver for increased sales volume was strong demand for E4000 (Wara) going up 119% y-o-y and 147% q-o-q. Even though there is more competition for low calorific value coal, which has driven the Indonesian Coal Index 4200 GAR prices down, we were able to increase sales volume of E4000 (Wara) by 42% y-o-y to 7.76 million tonnes. In 2012, we delivered E4000 (Wara) to end users in India, China, Thailand, Hong Kong, Korea and Indonesia.

Meanwhile, sales volume of E5000 declined slightly y-o-y but increased q-o-q, as some of our customers did not invoke their option to buy additional coal at the contracted price. We introduced a new product, E4500, which is a blend between E5000 (Tutupan) and E4000 (Wara) to provide more options to our customers as well as to optimize our product portfolio revenue. We sold 1.95 million tonnes of E4500 to two customers in Korea and Indonesia during 2012.

We kept our overburden removal target the same throughout the 2012, despite lowering our production target amidst market volatility, to achieve a record high of 331.48 million bank cubic meter (Mbcm) in a year, exceeding our target of 321.15Mbcm. Our focus on pre-stripping activity in 3Q12, as evidenced by a new record of overburden removal, helped fuel record coal production in 4Q12. Even though our main focus was coal getting during 4Q12, we continued to maintain solid overburden removal activity, a 4% increase y-o-y, throughout the wet season as part of our long-term mine planning.

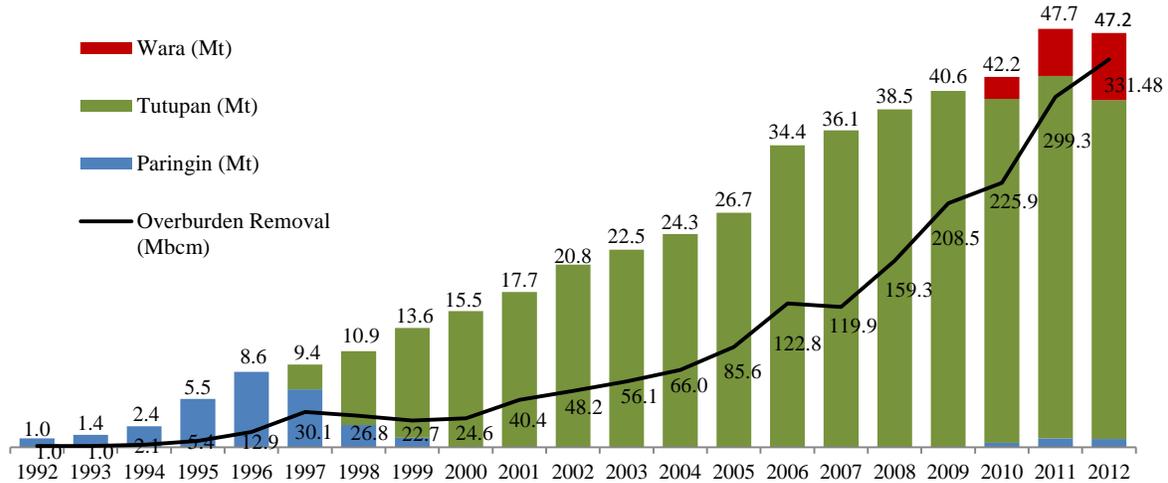
We view 2013 as a year of consolidation to focus on improving our business processes and reduce costs by improving collaboration with all our contractors to have effective, efficient and safe operations. In order to preserve our margin while also maintaining our long-term mine plan, we plan to reduce our average planned stripping ratio from 6.40x to 5.75x and aim to keep the actual stripping ratio in line with the planned stripping ratio throughout 2013. We also aim to improve our mining plan and standard operating procedures throughout the coal supply chain to obtain optimum hauling distance, stripping ratio, fuel usage and cycle time to increase total productivity. Furthermore, we are also pleased to be able to start commercial operations in early

2013 of our infrastructure projects (overburden crushing and conveying system (OPCC) and 2x30MW mine-mouth power plant), which will further improve efficiency and reduce costs.

	Units	<i>Actual</i>			<i>Quarter on Quarter</i>		<i>Year on Year</i>	
		4Q12	3Q12	% Change	4Q11	% Change		
<b>Production volume</b>	<b>Mt</b>	<b>13.31</b>	<b>10.87</b>	<b>22%</b>	<b>12.39</b>	<b>7%</b>		
E 5000 (Tutupan)	Mt	10.48	9.33	12%	10.77	-3%		
E 5000 (Paringin)	Mt	0.23	0.24	-6%	0.19	17%		
E 4000 (Wara)	Mt	2.61	1.29	102%	1.42	84%		
<b>Sales volume</b>	<b>Mt</b>	<b>13.95</b>	<b>10.99</b>	<b>27%</b>	<b>12.45</b>	<b>12%</b>		
E 5000 (Tutupan + Paringin)	Mt	10.15	8.84	15%	10.83	-6%		
E 4500	Mt	0.71	0.56	26%	0.00	100%		
E 4000 (Wara)	Mt	3.09	1.25	147%	1.41	119%		
<b>Overburden removal</b>	<b>Mbcm</b>	<b>76.90</b>	<b>97.75</b>	<b>-21%</b>	<b>74.23</b>	<b>4%</b>		
<b>Average Planned Strip Ratio</b>	<b>Bcm/t</b>	<b>6.40</b>	<b>6.40</b>	<b>-</b>	<b>5.90</b>	<b>8%</b>		

<i>FY12 vs. FY11</i>				
	Units	FY12	FY11	% Change
<b>Production volume</b>	<b>Mt</b>	<b>47.19</b>	<b>47.67</b>	<b>-1%</b>
E 5000 (Tutupan)	Mt	38.62	41.29	-6%
E 5000 (Paringin)	Mt	0.94	1.01	-7%
E 4000 (Wara)	Mt	7.63	5.37	42%
<b>Sales volume</b>	<b>Mt</b>	<b>48.62</b>	<b>50.78</b>	<b>-4%</b>
E 5000 (Tutupan + Paringin)	Mt	37.70	41.69	-10%
E 4500	Mt	1.95	0.00	100%
E 4000 (Wara)	Mt	7.76	5.48	42%
Coaltrade's third party sales	Mt	1.21	3.61	-66%
<b>Overburden removal</b>	<b>Mbcm</b>	<b>331.48</b>	<b>299.27</b>	<b>11%</b>

## HISTORICAL COAL PRODUCTION AND OVERBURDEN REMOVAL



### Market Analysis

#### Supply

The coal market found more support in December than in the previous four months. The gCN (global Coal Newcastle) index rebounded to an average of US\$93/tonne in December. We believe this was due to negotiations of the Q1 Japanese contracts as well as cold weather in China. Similarly, API4 (FOB Richards Bay), API 6 (McCloskey), Australian off-spec coal and Indonesian Coal Index 5000 GAR followed similar pattern with gCN. However, the Indonesian Coal Index 4200 GAR did not follow the same trend with gCN due to the strong supply of low calorific value coal in December.

The exports from Indonesia continued to grow during 4Q12 supported by imports from China. According to Indonesia's Energy and Mineral Resources Minister, Mr. Jero Wacik, Indonesia produced 386 million tonnes of coal in 2012, which was a 23% increase y-o-y. The country exported 304 million tonnes of coal and used the remaining 82 million tonnes for its domestic consumption in 2012.

#### Demand

During 4Q12, the demand for coal continued to grow especially from emerging Asian economies, spearheaded by China and India. Despite the stockpile levels at key power plants remaining high (19 days as of December 31<sup>st</sup> 2012), the arbitrage for imports remained open. This caused strong thermal coal imports during the quarter. Coal statistic shows import of all coals (including anthracite and lignite) during the quarter equaling 55.8 million tonnes, with approximately 45% of it coming from Indonesia. In 2012, China's total electricity consumption grew 4.6% y-o-y to 4.8 million GWh despite their slowing economy. Due to an unusually wet season, the majority of growth was from hydro power generation.

India also continued its high level of imports, averaging approximately 10 million tonnes per month during the quarter especially after the commissioning of the large Tata power plant project in western India. Power generation from coal and lignite India increased by 13% y-o-y while hydro decreased by 12% y-o-y and gas decreased by 23% y-o-y.

**Mining, Hauling and Overburden Removal**

During 4Q12, AI’s contractors performed at a high level. AI achieved a record daily average coal mining and hauling in a quarter of 151,867 tonnes per day despite experiencing above average rainfall, especially as December was its wettest month in for the past 10 years. AI’s mining operations have to be halted temporarily while it is raining as the ramps can become too slippery for our dump trucks. AI’s mining service subsidiary, PT Saptaindra Sejati (SIS), continued its good performance to support AI’s mining operations with its mining and hauling activity increasing 11% y-o-y.

AI’s contractors reduced the pace of its overburden removal activity to 0.88 mbcm per day compared to the previous quarter of 1.12 mbcm per day as they had done sufficient pre-stripping work to achieve the production target.

Contractors Breakdown for Mining and Hauling Activity (%)

Contractors Breakdown for Overburden Removal Activity (%)

<b>Mining &amp; Hauling</b>	<b>4Q12</b>	<b>FY12</b>	<b>OB Removal</b>	<b>4Q12</b>	<b>FY12</b>
PAMA	35%	36%	PAMA	36%	40%
SIS	35%	34%	SIS	36%	36%
BUMA	16%	16%	BUMA	18%	16%
RA	13%	11%	RA	9%	6%
RMI	1%	2%	RMI	1%	2%

AI continued to implement its efficiency and cost reduction initiatives including improving road conditions around the pit, reducing average coal hauling cycle time and requiring our contractors to reduce fuel usage by a target of 2% each year. To decrease cycle time along our hauling road, AI is conducting a due diligence on constructing a coal trailer terminal at the Kelanis River Terminal to reduce coal haulage truck queues and for coal blending purposes.

**Stripping Ratio**

During 4Q12, AI’s actual average stripping ratio of 5.8x was lower compared to the previous quarter of 8.99x. For the full year of 2012, AI’s actual average stripping ratio of 7.0x was higher

than the planned average stripping ratio of 6.4x. In 2012, AI's contractors removed on average of 930,140 bcm of overburden per day.

### Inventory

At the end of 2012, AI had a total Run of Mine (ROM) inventory at the mine of 1.64 million tonnes and a Kelanis inventory of 0.25 million tonnes. This compared to end of last year inventory levels of 1.54 million tonnes and 0.35 million tonnes, respectively. AE's vertically integrated business model allows us to control inventory levels at each part of the coal supply chain.

### Sales and Shipped Volume

In 4Q12, AI sold 23% of its coal, mostly E5000, to domestic IPPs. Due to strong demand for low rank coal, AI exported 92% of its E4000 (Wara) to China, India, Thailand and Hong Kong during the quarter.

	E5000 (Tutupan and Paringin)			E4000 (Wara) and E4500			
	4Q12	FY12	FY11		4Q12	FY12	FY11
Domestic	2.58	10.04	10.50	Domestic	0.27	0.70	0.17
Export	7.51	27.61	31.19	Export	3.32	8.80	5.31
<b>Total</b>	<b>10.10</b>	<b>37.65</b>	<b>41.69</b>	<b>Total</b>	<b>3.59</b>	<b>9.50</b>	<b>5.48</b>

AI sells its Envirocoal to 49 customers in 17 countries, primarily to blue-chip power utilities and some cement producers. AI maintains geographical diversification to reduce risk. In 2012, AI remains a leading supplier to the domestic market with 10.74 million tonnes or 23% of its total sales volume. Meanwhile, AI's coal sales to China decreased compared to the previous year due to the oversupply of coal to that country. AI sold more coal to India due to increased demand from their IPPs. Sales to Spain remained strong as coal fired power plants there were more competitive than gas plants.



*Adaro is preparing to introduce a new brand of Envirocoal, E4700, in 2013 which is a stand alone, non-blended product mined from Northern area of the Tutupan pit*

### Geographical Breakdown of Customers

Country	FY12	FY11
Indonesia	23%	23%
India	15%	10%
Spain	12%	11%
Japan	9%	11%
Korea	8%	5%
Hong Kong	8%	6%
China	6%	9%
Others	6%	8%
Malaysia	5%	5%
Taiwan	4%	6%
America	4%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

During 4Q12, coal transported, coal sold and coal shipped increased 7%, 14% and 12%, respectively. The major driver for the increase was the strong demand for E4000 (Wara). Though there is more competition for low calorific value coal, which has driven the Indonesian Coal Index 4200 GAR prices down, AI was able to increase sales volume of E4000 (Wara). Furthermore, AI maintains its track record of increased coal sales and shipments with 47.41 million tonnes and 47.47 million tonnes in 2012, respectively.

AI plans to lower its average planned stripping ratio from 6.40x in 2012 to 5.75x in 2013 to preserve its margin, without risking its long-term, safe and reliable coal production growth.

	Units	<i>Actual</i>			<i>Quarter on Quarter</i>		<i>Year on Year</i>	
		4Q12	3Q12	% Change	4Q11	% Change		
Coal Mined	Mt	13.32	10.87	23%	12.39	7%		
Coal Haulage	Mt	13.32	10.87	23%	12.39	7%		
Coal Sold	Mt	13.94	10.65	31%	12.23	14%		
Coal Shipped	Mt	13.78	10.89	27%	12.29	12%		
Blended Planned Strip Ratio	Bcm/t	6.4	6.4	0%	5.9	8%		

<i>FY12 vs. FY11</i>				
	Units	FY12	FY11	% Change
Coal Mined	Mt	47.19	47.67	-1%
Coal Haulage	Mt	47.19	47.67	-1%
Coal Sold	Mt	47.41	47.17	1%
Coal Shipped	Mt	47.47	47.22	1%
Blended Planned Strip Ratio	Bcm/t	6.4	5.9	8%

## Barging and Ship Loading

In 4Q12, barging and ship loading increased q-o-q and y-o-y due to higher volume and more vessels loaded. AE's barging and ship loading subsidiary, PT Maritim Barito Perkasa (MBP), continued its good performance and handled 52% of barging activities and 53% of ship loading activities during the quarter. Most of our ship loading activities were done through floating cranes at the Taboneo anchorage, which handled 67% of our total tonnage. We use direct barging to most of our domestic customers, which accounted for 19% of our total tonnage, followed by 9% loaded by self geared vessels at Taboneo and 5% through our IBT terminal.

MBP's continued solid performance has resulted in its proportion of our barging and ship loading activities increasing to 46% and 52%, respectively, in 2012. This was higher compared to 2011 of 32% and 47%, respectively.

		<i>Actual</i>	<i>Quarter on Quarter</i>		<i>Year on Year</i>	
	<b>Units</b>	<b>4Q12</b>	<b>3Q12</b>	<b>% Change</b>	<b>4Q11</b>	<b>% Change</b>
Floating Cranes	Mt	9.23	6.15	50%	7.84	18%
Self Geared	Mt	1.27	1.74	-27%	1.10	15%
IBT	Mt	0.73	0.58	26%	0.44	66%
Barges	Mt	2.55	2.42	5%	2.91	-12%
<b>Total</b>	<b>Mt</b>	<b>13.78</b>	<b>10.89</b>	<b>27%</b>	<b>12.29</b>	<b>12%</b>

<i>FY12 vs. FY11</i>				
	<b>Units</b>	<b>FY12</b>	<b>FY11</b>	<b>% Change</b>
Floating Cranes	Mt	29.84	29.35	2%
Self Geared	Mt	5.21	5.01	4%
IBT	Mt	2.41	2.10	15%
Barges	Mt	10.02	10.72	-7%
<b>Total</b>	<b>Mt</b>	<b>47.47</b>	<b>47.18</b>	<b>1%</b>

## Vessel Waiting Times

The average waiting times per vessel in October, November and December were 0.70, 0.30 and 0.17 days respectively, which combined were slightly lower compared to the same period of last year of 0.28, 0.44 and 0.82 days, respectively. We were able to achieve our target average vessel waiting time below one day, as our average vessel waiting time throughout 2012 was 0.55 days.

## Rainfall and Pit Dewatering

During 4Q12, we had higher than average rainfall at our AI mining area, especially in December. December's rainfall of 545 mm was the highest in our ten years of recording, with the previous record being in March 2010 of 536 mm. Despite the higher than average rainfall, we were able to achieve a new record for quarterly coal production of 13.31 million tonnes. The number of raindays during the quarter was normal.

Volume of Rainfall at the Tutupan Mining Area						
	Units	4Q12	4Q11	% Change	5-yr average 4Q	% Change
Oct	mm	159	116	37%	161	-1%
Nov	mm	268	319	-16%	392	-32%
Dec	mm	545	321	70%	341.8	59%
<b>Total</b>	<b>mm</b>	<b>972</b>	<b>756</b>	<b>29%</b>	<b>894.8</b>	<b>9%</b>

Number of Rain days at the Tutupan Mining Area						
	Units	4Q12	4Q11	% Change	5-yr average 4Q	% Change
Oct	days	11	12	-8%	12.4	-11%
Nov	days	17	19	-11%	19.8	-14%
Dec	days	24	21	14%	20.2	19%
<b>Total</b>	<b>days</b>	<b>52</b>	<b>52</b>	<b>0%</b>	<b>52.4</b>	<b>-1%</b>



## COAL MINING CONTRACTOR: PT Saptaindra Sejati (SIS)

PT SIS is one of the leading mining contractors in Indonesia, providing services for contract mining and civil, infrastructure, and logistical support. In 4Q12, AI continued to be SIS's largest customer accounting for 61% of total overburden removal and 66% of total coal getting. The increase in total overburden removal y-o-y was due to higher than the planned average stripping ratio at AI's mining operations. The increase in total coal getting was due to strong demand and price recovery toward the end of 2012 as well as more coal getting being assigned to SIS. SIS invested US\$8.81 million in capital expenditure for heavy equipment and other infrastructure spending during 4Q12, which brought its total capital expenditure to US\$114.99 million for 2012.

		<i>Actual</i>	<i>Quarter on Quarter</i>		<i>Year on Year</i>	
	Units	4Q12	3Q12	% Change	4Q11	% Change
Overburden Removal	Mbcm	45.56	53.00	-14%	43.60	4%
Adaro	Mbcm	27.88	34.89	-20%	25.15	11%
Others	Mbcm	17.68	18.11	-2%	18.45	-4%
Coal Getting	Mt	7.08	5.77	23%	6.00	18%
Adaro	Mt	4.69	3.71	26%	3.97	18%
Others	Mt	2.39	2.06	16%	2.03	17%

<i>FY12 vs. FY11</i>				
	<b>Units</b>	<b>FY12</b>	<b>FY11</b>	<b>% Change</b>
Overburden Removal	Mbcm	192.89	167.52	15%
Adaro	Mbcm	119.39	95.94	24%
Others	Mbcm	73.50	71.58	3%
Coal Getting	Mt	24.54	22.65	8%
Adaro	Mt	15.98	14.97	7%
Others	Mt	8.56	7.68	11%

**MA. ITIM** **BARGING AND SHIPLOADING CONTRACTOR: PT Maritim Barito Perkasa**  
barito perkasa

PT MBP is a key barging contractor to AI, providing a modern fleet of tugs, barges and self-propelled barges, which carry coal from Kelanis to the Taboneo anchorage, the IBT terminal and direct barging to our domestic customers. In 4Q12, the increase in total coal barged was mainly attributed to higher coal volume from AI, as MBP took over volume from a third party barging contractor when the contractor's term expired. Meanwhile, the increase of total coal loaded was due to higher volumes from AI and more vessels loaded.

	<b>Units</b>	<i>Actual</i>	<i>Quarter on Quarter</i>		<i>Year on Year</i>	
		<b>4Q12</b>	<b>3Q12</b>	<b>% Change</b>	<b>4Q11</b>	<b>% Change</b>
Total Coal Barged	Mt	7.32	6.57	11%	4.22	73%
Adaro	Mt	6.92	6.23	11%	3.94	76%
Others	Mt	0.40	0.34	19%	0.28	44%
Total Coal Loaded	Mt	4.90	3.48	41%	3.85	27%
Adaro	Mt	4.90	3.48	41%	3.85	27%
Others	Mt	-	-	-	-	-

<i>FY12 vs. FY11</i>				
	<b>Units</b>	<b>FY12</b>	<b>FY11</b>	<b>% Change</b>
Total Coal Barged	Mt	22.48	15.82	42%
Adaro	Mt	21.47	14.31	50%
Others	Mt	1.01	1.51	-33%
Total Coal Loaded	Mt	15.62	13.60	15%
Adaro	Mt	15.61	13.53	15%
Others	Mt	0.00	0.07	-96%



## COAL TERMINAL: PT Indonesia Bulk Terminal (IBT)

PT IBT operates the South Pulau Laut coal terminal which is one of only two terminals in Indonesia authorized to provide common user coal handling and ship loading services to the coal industry. In 4Q12, the decrease in total throughput tonnage was mainly due to the absence of third party customers, as they preferred to load the coal through the less expensive Taboneo anchorage compared to barging the coal from the Barito River to the IBT terminal.

	Units	<i>Actual</i>			<i>Year on Year</i>	
		4Q12	3Q12	% Change	4Q11	% Change
Total Coal Loaded	Mt	0.72	0.65	11%	0.93	-22%
Adaro/Coaltrade	Mt	0.72	0.58	24%	0.44	64%
Third party	Mt	-	0.07	-100%	0.49	-100%
No of vessels loaded		10	9	11%	14	-29%

### *FY12 vs. FY11*

	Units	FY12	FY11	% Change
Total Coal Loaded	Mt	3.80	4.39	-13%
Adaro/Coaltrade	Mt	2.41	2.10	15%
Third party	Mt	1.39	2.29	-39%
No of vessels loaded		55	65	-15%



## COAL MARKETING: Coaltrade Services International Pte Ltd (Coaltrade)

Coaltrade is based in Singapore and acts as a coal trading agent to AI for export sales in specific countries. In 4Q12, Coaltrade's total coal sales decreased y-o-y. In order to meet its sales commitment to its customers and promote AI's coal, Coaltrade purchased more coal from AI than from third parties.

	Units	<i>Actual</i>			<i>Year on Year</i>	
		4Q12	3Q12	% Change	4Q11	% Change
Total coal sales	Mt	1.53	1.22	25%	1.64	-7%
Coal purchased from Adaro	Mt	1.53	0.88	74%	1.42	8%
Others	Mt	-	0.34	-100%	0.22	-100%

### *FY12 vs. FY11*

	Units	FY12	FY11	% Change
Total coal sales	Mt	4.83	5.96	-19%
Coal purchased from Adaro	Mt	3.61	2.35	54%
Others	Mt	1.21	3.61	-66%

## EXPLORATION ACTIVITIES

In 4Q12, AI spent US\$781,864 on exploration activities which included detailed drilling to obtain geological and geohydrology data and for geotechnical tests. We drilled a total of 94 holes with a total depth of 15,213 meters and total logging depth of 12,362 meters. We invested US\$3 million for exploration in 2012, which was in line with the budget. The activities during 4Q12 included:

- Dewatering drilling to maintain slope stability and install ground water monitoring systems, vibrating wire piezometers and to identify ground water levels at Tutupan pit.
- Core drilling to analyze if any acid mine drainage possibility at the Tutupan pit.
- Open hole exploration drilling to identify the depth of coal seams and coal seam distribution in the Tutupan pit and Paringin pit areas.
- Open hole exploration drilling at Paringin (50° angle) and Tutupan (90° angle) to identify the thickness of the coal seams for our mine planning and for coal reserve estimation.

Operating Expense	Units	4Q12		YTD	
		Actual	Budget	Actual	Budget
Exploration spending	US\$	781,864	665,415	2,986,661	3,031,335

## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY DEVELOPMENT

### Quality Health, Safety and Environment (QHSE)

The safety, health, and wellbeing of our employees and contractors is our number one priority and fundamental to the way we carry out our activities. Following Board of Director's meeting on November 2<sup>nd</sup> 2012, we included "Quality" in the scope of health, safety and environment function to refer to quality management in the ISO 9001. During 4Q12, there was one fatality at our operations. Our Lost-time Injury Frequency Rate (LTIFR), defined as the number of lost-time injuries per million hours worked, declined to 0.44 in 4Q12, compared to 3Q12 of 0.19 due to unfortunate fatality. A full investigation and follow up actions have been implemented as well relevant work instructions have been revised to control similar risk in the future. In order to minimize accident risk, we launched the Safety Accountability program in 2012. A Lost-time Injury is defined as an occurrence that resulted in time lost from work for a one day shift or more. In 2012, we had a total of 18 LTIs and an LTIFR of 0.28, a total headcount of 23,555 and total man-hours worked of 63,315,000 hours.

We acknowledge that improving our safety performance is not just the right thing to do, but also essential in a running low-cost and low-risk operation. We continuously invest in the well-being and safety of our employees and contractors. As of the end of December 2012, we had conducted 62 safety trainings sessions, attended by 1,041 people. During the quarter, we continued with the first phase of our Health Safety and Environment (HSE) database integration.

	FY12		FY11
	Actual	Plan	Actual
LTI	18	12	21
LTIFR	0.28	0.3	0.42

To ensure our environmental impact is minimized, we carry out a comprehensive environmental management plan to meet international standards as well as comply with Indonesian government regulations. During 4Q12, we rehabilitated 54 hectares, resulting in total rehabilitation to date of 1,176 hectares. Throughout 4Q12, our water treatment facility distributed 44,308 m<sup>3</sup> of clean water for the community and 26,379 m<sup>3</sup> for our internal use. Through the quarter, we continued our research and development activities in environmental management, cooperating with universities and research institutions. One of the activities is the development of a model reclamation forest at the Adaro Indonesia ex-mining areas. In 4Q12, we cultivated 69,185 tree seeds in our nursery in which 66,685 of them has been planted in the reclamation area.

	4Q12	Project to Date
Rehabilitation (ha)	54	1,176
Land Disturbed - Mine (ha)	84	3,066
Land Disturbed - Other (ha)	262	7,068
Net Land Disturbed	291	8,957

### Community Development

Adaro Energy budgeted US\$14 million for community development programs in 2012, a 40% increase from US\$10 million in 2011. During 4Q12, we continued with our community development programs which encompass economic, education, health services, and sociocultural activities. As of the end of December 2012, we had provided scholarships for students, doctors and midwives and carried out development programs and built sanitation and hygiene facilities in local villages.

## PROJECT DEVELOPMENT



### 1 Overburden Out of Pit Crushing and Conveying System (OPCC)

*The project was 96% complete at the end of December 2012. We estimate this system will be commissioning in May 2013.*



### 2 2x30MW Mine-mouth Power Plant

*The plant was 95% complete at the end of December 2012. We estimate the first of commissioning will start in January 2013 and the commissioning of the second unit by April 2013.*



### 3 Capacity Expansion at Kelanis River Terminal

*The project was 69.3% complete at the end of December 2012, which brought total investment to date to US\$42.57 million.*

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## **1 Overburden Out of Pit Crushing and Conveying System (OPCC)**

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The OPCC system will help offset the projected increase in overburden haulage costs using trucks at the Tutupan mine and will reduce our dependency on oil. We estimate this system will be commissioned in May 2013 to transport up to 34 Mbcm of overburden each year, or the equivalent from 100 overburden dump trucks, at a savings of US\$1.00-1.20 per bcm. The system will consist of two 7,000 tonnes per hour (tph) crushing stations and a 12,000 tph 7.7 kilometer conveyor system, which includes a 2.4 kilometer transportable conveyor along with a mobile stacking and spreading conveyor. The project was 96% complete at the end of December 2012. We invested US\$17.4 million during 4Q12, mostly to pay the contractors, which brought total investment to US\$205.6 million. Total manpower used to construct this system consists of 919 personnel and 24 units of heavy equipment.

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## **2 2x30MW Mine-mouth Power Plant**

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The power plant will be operated by our wholly owned subsidiary PT Makmur Sejahtera Wisesa (MSW). The plant will help reduce our dependency on oil as it will use Circulating Fluidized Bed (CFB) technology suited to burn approximately 300,000 tonnes of our E4000 (Wara) coal each year. The plant is expected to operate at 80% availability factor to power the OPCC and support Adaro Indonesia's mining operations by providing reliable, inexpensive electrical power. The plant was 95% completed at the end of December 2012. During 4Q12, we completed the steam blow preparation successfully while the commissioning for the first unit was still underway. Commercial operation of the first unit is scheduled for January 2013. Completion of the second unit by April 2013 is on track with project completion and handover expected in May. We invested US\$8.3 million during 4Q12, which was mostly to pay for construction work, bringing the total investment to date to US\$156 million. The net power output of the plant is guaranteed at 52.5MW. Any excess power, expected to be 1.5 MW, will be sold to the national utility PLN to help supply to nearby communities in Kalimantan.

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## **3 Capacity Expansion at Kelanis River Terminal**

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The US\$55 million capacity expansion project at the Kelanis River Terminal will increase annual terminal throughput capacity from approximately 55 million tonnes to more than 70 million tonnes by early 2013. We are using two local contractors for this project. The scope of the project includes installation of an additional three-stage crushing facility, which will increase in-loading capacity to 10,500 tonnes per hour (tph), upgrade our barge-loading system to increase capacity to 14,000 tph and upgrade the Kelanis' electrical power capacity to 25MW. In addition to the capacity expansion project, we are also installing an operations and control

building, replacing the coal sampling equipment to enhance quality control and adding a coal reclaim bulldozer fleet. The project was 69.3% complete at the end of December 2012. During 4Q12, the contractors continued mechanical, civil and structural work for all the seven hoppers followed by the installation of the electrical works. We invested US\$2.8 million during 4Q12, which brought total investment to US\$42.57 million.

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#### **Investing in Larger Sized Heavy Equipment to Support Our Long-term Growth**

We began purchasing larger sized equipment in 2011 to maximize productivity, improve efficiency and minimize accident risk. During 4Q12, we invested US\$11.3 million to purchase a few 200 tonne class and 150 tonne class Komatsu and Caterpillar trucks, which brought total investment to US\$129 million for 2012. There will be less heavy equipment spending moving forward as our heavy equipment fleet provides us adequate production capacity for 2013.

### 1 Development Progress from Our South Sumatra Investments

#### PT Mustika Indah Permai (MIP)

During 4Q12, we continued with pre-stripping activities at the MIP minesite and stockpile and water control facilities were built. As at the end of 2012, more than one million bank cubic meter of material had been removed exposing up to 125,000 tonnes of coal. Land purchasing progressed and coal crushing started to build stockpile bases. We continued to build orders to sell Ultima, which is the brand name of MIP's low pollutant, low heat value coal, to end users in Indonesia, China, India, Taiwan, Thailand, the Philippines and Vietnam. MIP is 75% owned by Adaro Energy through PT Alam Tri Abadi (ATA).

#### PT Bukit Enim Energi (BEE)

During 4Q12, development alternatives were studied with the aim to produce a work program and budget for approval by all the shareholders. Exploration to date has included surface geological and aerial topographic mapping and 13,100 meters of exploration drilling and sampling. An additional exploration drilling program will be carried out in the BEE mining area during 2013 to provide supplementary data for the preparation of a JORC report on the concession area's reserves and resources. Base line environment and social programs have started. From the exploration results to date, the BEE acquisition is considered to be compatible with Adaro Energy's other investments in electricity generation and is being promoted as the long-term, high volume fuel supply for a dedicated mine-mouth base-load power plant. BEE is 61.04% owned by Adaro Energy through ATA, 20% owned by PT Pamapersada Nusantara, 13.92% owned by PT Triputra Utama Selaras and 5.04% owned by PT Bumi Alam Sejahtera.

#### PT Servo Meda Sejahtera (SMS)

During 4Q12, SMS completed all the earthworks and surfacing of the road. Some of the permanent bridges are still under construction which will be completed in 2013. On November 20, 2012, the haul road was officially commissioned by the South Sumatra Governor. Phase 1 of the Muara Lematang stockpiling and barge loading facility was also completed and a total of ten barges and 70,000 tonnes were loaded prior to the end of the year. The facility will be expanded to a capacity of 30 million tonnes per year over the next few years with future upgrades planned and timed in accordance with market demand. SMS is 35% owned by Adaro Energy through ATA.

Our investments in MIP, BEE and SMS are part of our strategy in South Sumatra to replicate the proven success of Adaro Indonesia's business model in South Kalimantan to create long-term, sustainable value from Indonesian coal.

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## **2 IndoMet Coal (IMC) Project**

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IndoMet Coal, a joint venture between BHP Billiton and Adaro Energy, is continuing the development of its seven Coal Contracts of Work CCoW's in Kalimantan, Indonesia. IndoMet Coal continues to assess development options across all of its seven CCoWs and is currently constructing access roads and developing port facilities.

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## **3 PT Bhakti Energi Persada (BEP)**

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During 4Q12, we continued to work towards getting the required permits from the government, acquiring land, securing social and community support, and completing engineering and geological studies. These programs are required to be finished before significant capital expenditures are made. The current development plan is to bring the BEP concessions to production in 2014.

Adaro Energy has full control of the management, operations and funding of BEP from the date of signing on May 28, 2012.

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## **4 2X1000MW Central Java Power Plant Project (CJPP)**

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Electric Power Development Co Ltd (J-Power), Itochu Corporation and PT Adaro Power established PT Bhimasena Power Indonesia in July 2011. On October 6<sup>th</sup>, 2011, BPI and Indonesia's state-owned electricity company PLN signed a 25 year Power Purchase Agreement, which includes the construction of a 2,000 MW coal-fired power plant in the province of Central Java. As per the announcement on October 6, 2011, BPI expected to achieve financial closure by the end of this year.

Due to not uncommon challenges related to land acquisitions, it is unfortunate that the CJPP will be delayed. However, it will not be lengthy nor harm the project or its sponsors. The challenges are not insurmountable and we will deliver this key project as soon as possible, to bring significant benefit to all stakeholders and to help build the nation. Most parties agree Indonesia cannot achieve its potential without increasing the country's power generation capacity and we intend to help Indonesia achieve its full potential.

## AWARDS AND RECOGNITIONS

### **AI won the Gold Proper Award for Environmental Management Excellence**

AI received the Gold Proper award, the highest standard in Indonesian environmental rehabilitation management, and was the first mining company to receive this award since it was initiated in 2002. AI previously won the Green Proper award, one level below the Gold Proper award, for four consecutive years. The Gold Proper award was awarded to only a few companies that conduct sustainable environmental management system beyond compliance.



*AE's President Director and Chief Executive Officer, Mr. Garibaldi Thohir, holding the Gold Proper award after being presented by the Vice President of the Republic Indonesia, Mr. Boediono.*

### **AI Received an Environmental Permit Approval (AMDAL) to Produce 80 million tonnes a Year**

AI received the environmental impact assessment (AMDAL) approval from the Ministry of Environment to produce 80 million tonnes. Some of the assessments include detailed environmental impact analysis, environmental management plan and environmental monitoring plan. We continue with our effort to prepare all necessary requirements to support our medium term production volume target of 80 million tonnes a year.

### **Senior Mining Managers Reorganization to Better Focus Our Core Operations**

In line with our strategy to build the foundation for our next phase of growth, we promoted several employees to key positions at AI's mining operations. Following the reorganization,

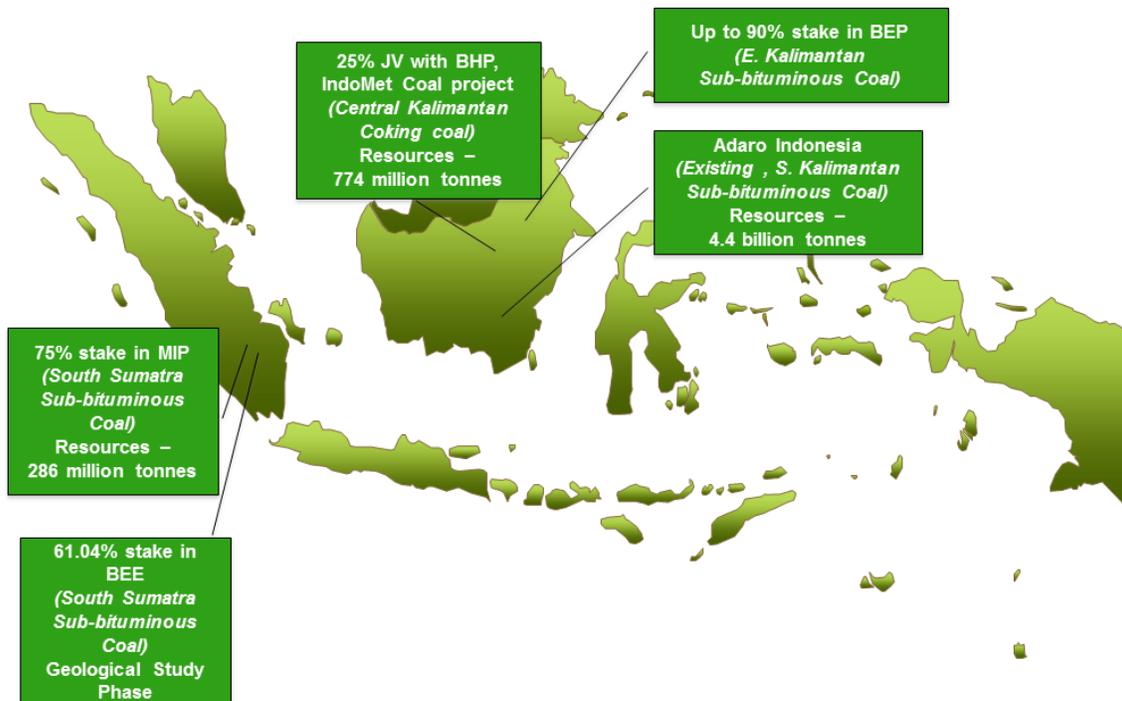
- Mr. Priyadi, formerly GM of Operations, now assumes the role of Chief External Affairs Officer at AI. His main responsibility will be liaising with the local government and communities. Mr. Priyadi has more than 22 years of experience in mining operations. Prior to joining Adaro in 1991, he worked with Tanito Harum. He holds a degree in Mining Engineering from UPN Yogyakarta.

- Mr. Budi Rachman, formerly VP Director of PT Saptaindra Sejati (SIS), now assumes the role of Chief Operating Officer at AI. His main responsibility will be managing the day to day mining operations and maintaining the highest standard of safety. Mr. Rachman has over 30 years of experience in mining operations in Indonesia. Prior to joining SIS in 2000, he worked in various senior operational positions at PAMA and Freeport Indonesia. He holds a degree in Mining Engineering from the Institute Technology Bandung.
- Mr. Andris Pauls Svilans, currently Deputy General Manager of Strategic Planning, will assume the role of Chief Technical Officer at AI. His main responsibility will be creating the AI long term mine plan as well as technology innovation for operational efficiencies. After joining Adaro in 2004, Mr. Svilans has held various senior operational positions. He has over 30 years of experience in open cut mining and has a Degree in Mining Engineering from the University of Melbourne.

## Overview

Adaro Energy is a fully integrated coal mining and energy company from exploration through to power. It is Indonesia's second largest thermal coal producer, operates the largest single coal mine in Indonesia and is a significant supplier to the global seaborne thermal coal market with production volume of 47.2 million tonnes in 2012. The coal characteristics are sub-bituminous, medium heat value and ultra-low pollutant coal, with total resources of 4.6 billion tonnes and total reserves of 1.1 billion tonnes (JORC Compliant 2011). Because of its environmental characteristics, Adaro's coal is trademarked as "Envirocoal" and has proven global acceptance among blue-chip power utilities. The Company's vision is to be a leading Indonesian mining and energy group.

## Map of the Group Operations



## Our Shareholders

Our supportive key shareholders together hold 64.57% of Adaro Energy, of which 43.91% is directly owned by PT Adaro Strategic Investment (ASI), as of FY12. On July 23<sup>rd</sup> 2009, ASI was created to consolidate the ownership of the five key shareholders, namely Rachmat family, the Thohir family, the Subianto family, Mr. Edwin Soeryadjaya and Mr. Sandiaga Salahuddin Uno, as well as to strengthen the commitment of these key shareholders to Adaro Energy.

Below are the top 10 public shareholders that hold Adaro Energy's shares as at the end of December 2012:

No	Public Shareholders	%
1	GIC	2.8%
2	Jamsostek	2.7%
3	Kepeco	1.2%
4	BBH BOSTON S/A VANGRD EMG MKTS STK INFD	0.9%
5	Adcorp Holding	0.8%
6	Blackrock Investment Management (BGI)	0.7%
7	Employees Provident Fund Board	0.6%
8	PT PRUDENTIAL LIFE ASSURANCE-REF	0.6%
9	Newton Asian Income Fund	0.6%
10	CREDIT SUISSE AG SINGAPORE TRUST A/C CLIENTS- 2023904000	0.6%

### Our Corporate Structure

