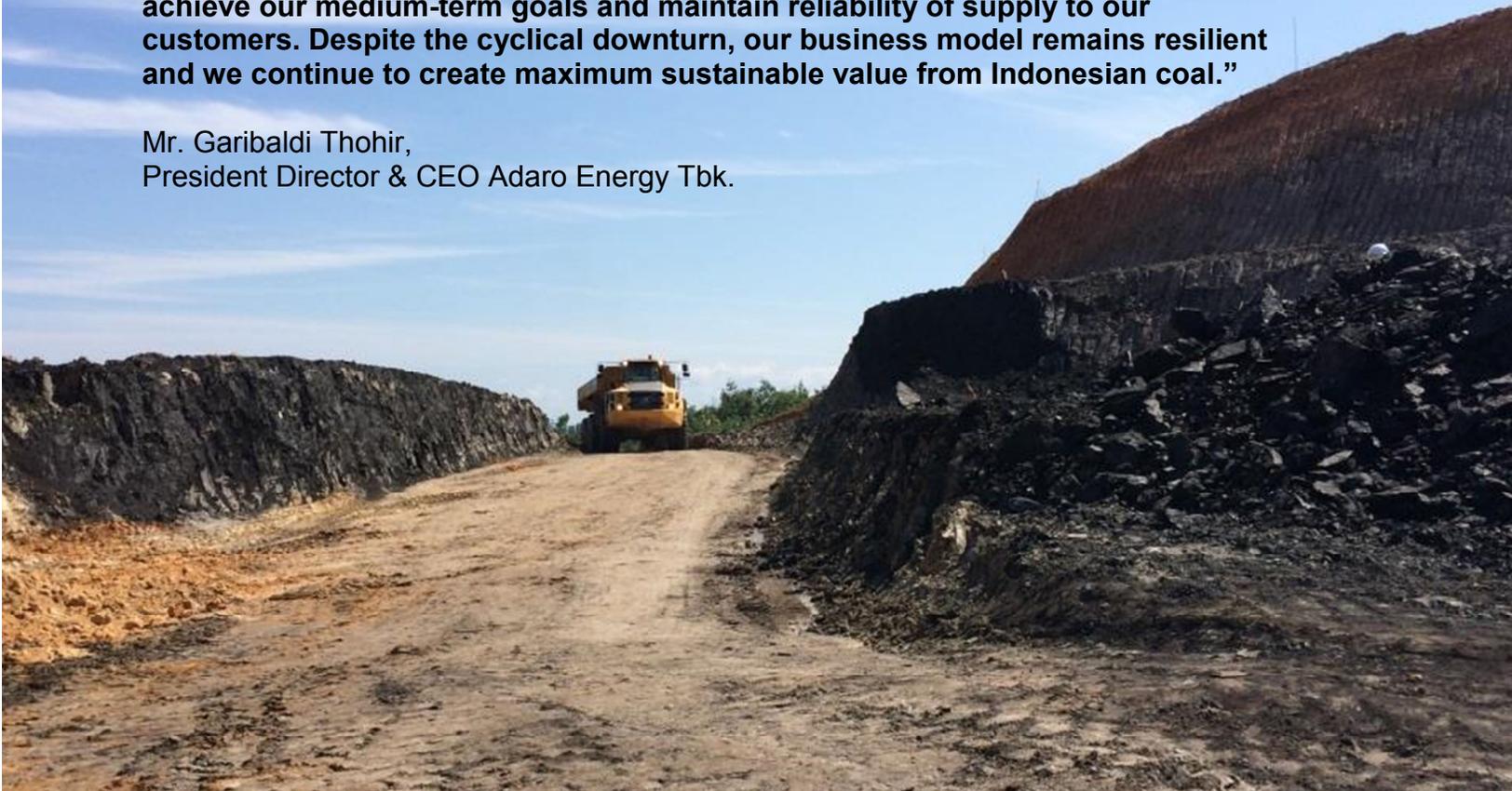


**“We are pleased with the commercial operations of Balangan Coal. The close proximity to our existing infrastructure, good quality of coal and low capex allow us to develop this asset within one year. This brings us one step closer to achieve our medium-term goals and maintain reliability of supply to our customers. Despite the cyclical downturn, our business model remains resilient and we continue to create maximum sustainable value from Indonesian coal.”**

Mr. Garibaldi Thohir,  
President Director & CEO Adaro Energy Tbk.



## **Adaro Energy**

# **Quarterly Activities Report**

## **Second Quarter of 2014**

*For the Three Months Ending June 30<sup>th</sup> 2014*

**For further information please contact:**  
Cameron Tough, Head of Investor Relations  
& Corporate Secretary

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**Picture above**

During 2Q14, we produced 77,335 tonnes and shipped 53,274 tonnes of Balangan Coal to a customer in Thailand.

Jakarta, August 4<sup>th</sup> 2014

Dear Capital Market Participants,

Welcome to Adaro Energy's (Adaro) Quarterly Activities Report for the second quarter of 2014 (2Q14). We regularly issue the quarterly activities report one month after the end of each quarter; however, we file this report slightly later than one month after the end of the quarter, in respect of the Eid Mubarak holiday last week. The report focuses on our operations, business development, exploration and other activities.

### Highlights of the quarter:

- We produced 13.84 million tonnes (Mt) during the quarter. We are on track to achieve our production guidance of 54Mt to 56Mt for 2014. **(page 3 - 5)**
- We continued to see solid demand for our coal during the quarter. We sold 14.47Mt, a 4% increase compared to the previous year. **(3,5)**
- During the quarter, we started commercial production at Balangan Coal with 53,274 tonnes sold to a customer in Thailand. We expect to complete revised estimates of resources and reserves in accordance with JORC by the end of 2014. **(5)**
- We removed 81.31 million bank cubic meter (Mbcm) of overburden, a 2% increase compared to the previous year. AI's actual consolidated strip ratio during the quarter was 5.85x as we were able to remove more overburden due to the end of the wet season. AI is on track to achieve its consolidated planned strip ratio of 5.78x for 2014. **(3,4)**

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

Yours faithfully,



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

## Delivering Strong Operations, On Track to Achieve Targets

We continued to deliver strong operations in 2Q14, evidence of the strength and resiliency of our vertically integrated business model. Production from Adaro Indonesia (AI) during the quarter was 13.76Mt, a 2% increase compared to the previous year due to the combination of solid contractors' performance and the end of the wet season. Demand for our Envirocoal during the quarter was good and we have concluded the majority of pricing negotiation for this year. We are on track to achieve our production guidance of 54Mt to 56Mt for this year.

During the quarter, we started production from PT Semesta Centramas (SCM), one of the three coal license companies we acquired a 75% stake of in 2013. The coal is branded as Balangan Coal, and has similar low pollutant characteristics as our Envirocoal. We produced 77,335 tonnes and shipped 53,274 tonnes of Balangan Coal to a customer in Thailand. We are pleased with the development of Balangan Coal and will continue exploration to fully detail the coal resources and reserves in accordance with JORC.

Our focus in 2014 remains to improve efficiency and productivity of our operations, maintain a reliable coal supply to our customers and continue to preserve our strong balance sheet. We are working hard with our contractors and partners to strive for cost efficiency and use capital more carefully to support our operations. Despite the current weakness in the coal market, we remain on track to achieve our annual targets and long-term objective of creating maximum sustainable value from Indonesian coal.

	Units	2Q14	1Q14	2Q14 vs. 1Q14	2Q13	2Q14 vs. 2Q13	1H14	1H13	1H14 vs. 1H13
<b>Coal Production</b>	<b>Mt</b>	<b>13.84</b>	<b>13.99</b>	<b>(1)%</b>	<b>13.52</b>	<b>3%</b>	<b>27.83</b>	<b>24.94</b>	<b>12%</b>
AI - Tutupan	Mt	10.80	10.74	1%	10.06	7%	21.53	18.82	14%
AI - Paringin	Mt	1.52	1.44	6%	1.62	(6)%	2.96	2.52	17%
AI - Wara	Mt	1.44	1.81	(20)%	1.84	(22)%	3.25	3.61	(10)%
Balangan Coal	Mt	0.08	-	-	-	-	0.08	-	-
<b>Sales Volume</b>	<b>Mt</b>	<b>14.47</b>	<b>13.93</b>	<b>4%</b>	<b>13.77</b>	<b>3%</b>	<b>28.25</b>	<b>25.00</b>	<b>14%</b>
AI - E5000	Mt	4.46	4.54	(2)%	8.27	(46)%	9.00	16.51	(45)%
AI - E4700 / E4900	Mt	7.89	7.44	6%	2.29	245%	15.33	3.23	375%
AI - E4000	Mt	1.80	1.95	(8)%	2.70	(33)%	3.74	4.75	(21)%
Balangan Coal	Mt	0.05	-	-	-	-	0.05	-	-
Coaltrade's 3 <sup>rd</sup> party	Mt	0.27	-	-	0.50	(36)%	0.27	0.50	(36)%
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>81.31</b>	<b>68.22</b>	<b>18%</b>	<b>79.82</b>	<b>2%</b>	<b>148.95</b>	<b>142.07</b>	<b>5%</b>
AI	Mbcm	80.42	68.22	18%	79.82	1%	148.64	142.07	5%
Balangan Coal	Mbcm	0.89	-	-	-	-	0.89	-	-

## MINING ASSETS

### PT Adaro Indonesia (AI)

Our coal mining, coal hauling and overburden removal was 96%, 96% and 95% of the plan as of the end of 2Q14. Our subsidiary, PT Saptaindra Sejati (SIS), and PT Pamapersada Nusantara (PAMA) operate in the Tutupan pit, PT Rahman Abdijaya (RA) operates in the Wara pit and PT Bukit Makmur Mandiri Utama (BUMA) operates in the Paringin pit. The following table shows the breakdown of overburden removal and coal hauling activities of our mining contractors:

Contractors	2Q14	
	Overburden Removal (%)	Coal Hauling (%)
PAMA	44	39
SIS	36	40
BUMA	13	11
RA	8	10

The actual consolidated strip ratio during 2Q14 was 5.85x, 20% higher than the first quarter, as we were able to remove more overburden due to the end of the wet season. The actual consolidated strip ratio for 1H14 was 5.36x and we are on track to meet our target of 5.78x for 2014. The actual strip ratio in the third quarter tends to follow the second quarter, which is higher than the planned strip ratio.

During 2Q14, we increased barging 4% to 13.41Mt, and loading 6% to 14.22Mt. We loaded 64% of tonnage through floating cranes, 12% through self-gearred vessels and 4% through IBT terminal, with 20% barged directly to domestic customers. We employ four barging contractors and one shiploading contractor, including our subsidiary, PT Maritim Barito Perkasa (MBP). The commercial operations of our new Floating Transfer Unit (FTU) allows us to only have MBP as shiploading contractor with subcontractors working under MBP. During 2Q14, MBP handled the largest volume for AI with 56% for barging activities (vs. 48% in 2Q13), and 97% for shiploading activity (vs. 54% in 2Q13). In this quarter, the average barge cycle time from our Kelanis Dedicated Coal Terminal to Taboneo anchorage and then back to Kelanis was 104 hours (vs. 97 hours in 2Q13). The temporary closing of the river passage involving the local government that occurred in early June partially affected our barging operations; however, the channel was opened within one week. We remain on track to deliver on our annual targets of 54Mt to 56Mt for this year.

The exploration activities during the quarter focused on drilling to gather geology, geo-hydrology, and Acid Mine Drainage (AMD) data. We drilled a total of 154 holes with total depth of 17,879 meters, and spent US\$635,288, a 26% decrease from US\$863,146 on the same period last year.

We continued to be a leading supplier to the domestic market and committed to supporting Indonesia's growing coal demand. The following table shows the geographical breakdown of customers measured by tonnage. As this is an interim

period it shows a lower portion for our domestic sales than the approximately 25% we expect to achieve for the full year, which is our standard Domestic Market Obligation.

<b>Geographical Breakdown of Customers as of 1H14</b>	<b>%</b>
Indonesia	22
India	16
China	13
Japan	10
Korea	9
Spain	7
Hong Kong	7
Malaysia	6
Others *)	10
<b>Total</b>	<b>100</b>

Note: \*) Below 5% including Taiwan, the Philippines, Thailand and America

### **PT Semesta Centramas (SCM), PT Paramitha Cipta Sarana (PCS) and PT Laskar Semesta Alam (LSA)**

During 2Q14, we produced 77,335 tonnes of Balangan Coal as we completed the construction of the haul road and bridge to connect to the AI infrastructure. Balangan Coal is strategically located 11km southeast of AI's concession. We also use in-house contractors and AI's existing infrastructures such as the privately-owned haul road and Kelanis to keep the cost to produce Balangan Coal relatively low. SIS is responsible for all mining activities from overburden removal and coal hauling. SIS will deploy more heavy equipment to support Balangan Coal's future production plan. MBP is responsible for the coal barging and shiploading activities.

On June 6<sup>th</sup> 2014, we conducted our first commercial shipment of 53,274 tonnes to a customer from Thailand. We plan to produce up to 1Mt in 2014 as this coal continued to receive interest from a range of customers, including those from Thailand, India and Indonesia. We expect to complete revised estimates of resources and reserves in accordance with JORC by the end of 2014.



*Balangan Coal operates under coal licenses, known in Indonesia as Ijin Usaha Pertambangan (IUP). It has three coal deposits, which are PCS, SCM and LSA, with a total area of 7,500 hectares.*

## MINING SERVICES

### PT Saptaindra Sejati (SIS)

In 2Q14, AI remained SIS's largest customer, accounting for 66% of SIS's total overburden removal and 73% of its coal hauling volume. SIS continued to prioritize Adaro over servicing new third party business. SIS conducted its coal hauling debut activity at Balangan after carrying out pre-stripping activities and mine construction works in early 2014.

	Units	2Q14	2Q13	2Q14 vs. 2Q13	1H14	1H13	1H14 vs. 1H13
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>43.96</b>	<b>42.76</b>	<b>3%</b>	<b>82.55</b>	<b>78.93</b>	<b>5%</b>
Adaro Indonesia	Mbcm	28.52	26.57	7%	53.20	48.55	10%
Balangan Coal	Mbcm	0.89	-	-	0.89	-	-
Others	Mbcm	14.55	16.19	(10)%	28.46	30.38	(6)%
<b>Coal Hauling</b>	<b>Mt</b>	<b>7.22</b>	<b>7.23</b>	<b>0%</b>	<b>14.45</b>	<b>13.23</b>	<b>9%</b>
Adaro Indonesia	Mt	5.20	5.18	0%	10.58	9.22	15%
Balangan Coal	Mt	0.12	-	-	0.12	-	-
Others	Mt	1.90	2.05	(7)%	3.76	4.01	(6)%

### PT Jasapower Indonesia (JPI)

JPI is the owner of the Out of Pit Overburden Crusher and Conveyor (OPCC). We completed the physical construction of the OPCC in 2013, and are now doing reliability testing.

## LOGISTICS

### PT Maritim Barito Perkasa (MBP)

In 2Q14, coal volume for AI accounted for 96% and 100% of MBP's total coal barged and coal loaded to ships, respectively. During the quarter, MBP started barging the Balangan Coal; however, it did not load Balangan Coal as the coal was loaded through a self-geared vessel. MBP continued to prioritize Adaro over servicing new third party business.

	Units	2Q14	2Q13	2Q14 vs. 2Q13	1H14	1H13	1H14 vs. 1H13
<b>Coal Barged</b>	<b>Mt</b>	<b>8.07</b>	<b>6.81</b>	<b>19%</b>	<b>15.62</b>	<b>12.79</b>	<b>22%</b>
Adaro Indonesia	Mt	7.74	6.41	21%	15.05	12.06	25%
Balangan Coal	Mt	0.05	-	-	0.05	-	-
Others	Mt	0.28	0.40	(30)%	0.52	0.73	(29)%
<b>Coal Loaded</b>	<b>Mt</b>	<b>9.06</b>	<b>4.60</b>	<b>97%</b>	<b>17.78</b>	<b>8.29</b>	<b>114%</b>
Adaro Indonesia	Mt	9.06	4.60	97%	17.78	8.29	114%
Balangan Coal	Mt	-	-	-	-	-	-
Others	Mt	-	-	-	-	-	-

## POWER

### PT Makmur Sejahtera Wisesa (MSW)

MSW owns and operates our debut power plant, a 2x30MW mine-mouth power plant in Tanjung, South Kalimantan. We completed the commissioning of MSW's first 30MW unit in 2013.

## **PROJECT DEVELOPMENT**

### **Kelanis Dedicated Coal Terminal Expansion Project**

During the quarter, we continued with the detailed planning for the second stage of the Kelanis upgrade that will bring total capacity to 70Mt per year.

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

In 2Q14, Adaro unfortunately experienced three lost time injuries (LTI) and two fatalities. One fatality occurred at AI mining operations, and the other one at another site where SIS operates as its mining contractor. We extend our sincere condolences to the families affected. A full investigation and follow up actions have been implemented as well as relevant work instructions have been revised to control similar risks in the future. AI's lost time injury frequency rate (LTIFR) was 0.19 during the quarter, which means that there were about 1 lost time accident per 5 million hours worked. The total man-hours worked during the quarter were 25,988,300 hours.

During 2Q14, AI planted the reclamation area of around 84 hectares in Tutupan and Paringin with more than 92,000 trees. Total cumulative reclamation to date conducted by AI was 1,456 hectares.

## **COAL MARKET ANALYSIS**

In 2Q14, international coal prices remained subdued as the oversupply situation continued. The Global Coal Newcastle (gCN) Index has become more correlated with the Qinhuangdong (QHD) Index. The further price drop was due to the pressure from major Chinese coal producers, which were competing to gain market share in the oversupplied Chinese domestic market.

The prices of Indonesian sub-bituminous coal (ICI3 & ICI4) have been more resilient compared to the gCN as power plants in the Southern China still prefer to use Indonesian coal. The discount of Indonesian products to Australian coal has also become narrower than in the past. However, we expect further price pressure to occur in the short-term, especially for the low-rank coals, due to competition from Australian off-spec and Chinese domestic coals.

Coal buying activity has picked up in India following the national election in May after a relatively slow demand at the beginning of the year due to the weak Rupee and run up to the election. As a result, power plants inventory has decreased 6 days on average throughout India. We expect Indian demand will pick up in the second half of 2014 due to an improved political climate from the new government, which allows tenders to be issued and electricity tariff increases to be approved in some states.

	4-Apr-14	27-Jun-14	% Change	YTD Average
<b>Bituminous (US\$/t)</b>				
gCN	73.52	70.89	(4)	75.76
Aus Off-Spec (Platts)	64.00	60.50	(6)	65.25
<b>Sub-Bituminous Indonesia (US\$/t)</b>				
ICI3 - 5000 GAR	55.89	54.81	(2)	56.30
ICI4 - 4200 GAR	37.33	37.75	1	38.05
<b>South China CFR (US\$/t)</b>				
5500 NAR	76.35	69.50	(9)	75.71

## NEWS FLOW

### Social Investment

As part of our social investment activities, Adaro together with Balangan Regency set up “Pasar Modern Tradisional Adaro Balangan” (Adaro Balangan Modern Traditional Market). This market was officially opened on March 12<sup>th</sup> 2014 and is more convenient compared to the previous traditional market. Located in a new building funded by Adaro, the new market is not only more organized but also cleaner and more hygienic than its predecessor.

Building this market is in line with our CSR objectives in economic development, health empowerment and social cultural development. We invested Rp16 billion building the market but the process of introducing the modern market concept might be longer as we want all stakeholders including key members of the community and the government to commit and fully support the development of a modern market.

## SHAREHOLDERS INFORMATION

As of the end of June 2014, Adaro’s market capitalization was US\$3.27billion, a 18% increase from US\$2.76 billion at the end of March 2014. Within the quarter our share price ranged between Rp 940 to Rp 1,325. On average, our daily trading volume during the quarter was US\$6.5 million, 17% higher from the previous quarter at US\$5.6 million and remains one of the most liquid stocks for Indonesian coal. At the end of June 2014, our analyst consensus rating was 3.81 (on a scale of 5) as a result of 14 buys, 10 holds, and 3 sells. Meanwhile, the top 20 shareholders held 38% of Adaro’s total free float. BPJS Ketenagakerjaan and GIC remained our largest public shareholders with ownership of 3.11% and 1.56%, respectively.

## HISTORICAL QUARTERLY OPERATIONS SUMMARY

<b>Adaro Energy</b>	<b>Units</b>	<b>2012</b>			<b>2013</b>				<b>2014</b>	
		<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>	<b>1Q</b>	<b>2Q</b>
<b>Coal Production</b>	<b>Mt</b>	<b>12.05</b>	<b>10.86</b>	<b>13.31</b>	<b>11.42</b>	<b>13.52</b>	<b>13.73</b>	<b>13.59</b>	<b>13.99</b>	<b>13.84</b>
AI – Tutupan	Mt	9.72	9.33	10.48	8.75	10.06	10.17	9.67	10.74	10.80
AI – Paringin	Mt	0.25	0.24	0.23	0.90	1.62	1.53	1.69	1.44	1.52
AI – Wara	Mt	2.07	1.29	2.61	1.77	1.84	2.03	2.23	1.81	1.44
Balangan Coal	Mt	-	-	-	-	-	-	-	-	0.08
<b>Sales Volume</b>	<b>Mt</b>	<b>12.44</b>	<b>10.99</b>	<b>13.95</b>	<b>11.23</b>	<b>13.76</b>	<b>14.11</b>	<b>14.36</b>	<b>13.85</b>	<b>14.47</b>
AI – E5000	Mt	9.68	8.84	10.15	8.24	8.27	9.03	8.55	4.54	4.46
AI - E4500/E4700/ E4900	Mt	0.51	-	0.71	0.94	2.29	1.92	3.29	7.44	7.89
AI – E4000	Mt	1.77	1.81	3.09	2.05	2.70	2.48	2.41	1.87	1.80
Balangan Coal	Mt	-	-	-	-	-	-	-	-	0.05
Coaltrade 3 <sup>rd</sup> party	Mt	0.48	0.34	-	-	0.50	0.69	0.11	-	0.27
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>87.29</b>	<b>97.75</b>	<b>76.90</b>	<b>62.25</b>	<b>79.82</b>	<b>80.95</b>	<b>71.83</b>	<b>68.22</b>	<b>81.31</b>
<b>SIS</b>										
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>53.48</b>	<b>53.00</b>	<b>45.56</b>	<b>36.17</b>	<b>42.76</b>	<b>44.19</b>	<b>39.86</b>	<b>38.59</b>	<b>43.96</b>
Adaro Indonesia	Mbcm	32.07	34.89	27.88	21.98	26.57	28.79	25.87	24.68	28.52
Balangan Coal	Mbcm	-	-	-	-	-	-	-	-	0.89
Others	Mbcm	21.42	18.11	17.68	14.19	16.19	15.40	13.99	13.91	14.55
<b>Coal Hauling</b>	<b>Mt</b>	<b>6.51</b>	<b>5.77</b>	<b>7.08</b>	<b>6.00</b>	<b>7.23</b>	<b>7.33</b>	<b>7.32</b>	<b>7.23</b>	<b>7.22</b>
Adaro Indonesia	Mt	4.18	3.71	4.69	4.04	5.18	5.27	5.25	5.37	5.20
Balangan Coal	Mt	-	-	-	-	-	-	-	-	0.12
Others	Mt	2.33	2.06	2.39	1.96	2.05	2.06	2.07	1.86	1.90
<b>MBP</b>										
<b>Coal Barged</b>	<b>Mt</b>	<b>4.68</b>	<b>6.57</b>	<b>7.32</b>	<b>5.99</b>	<b>6.81</b>	<b>7.07</b>	<b>7.49</b>	<b>7.55</b>	<b>8.07</b>
Adaro Indonesia	Mt	4.47	6.23	6.92	5.66	6.41	6.67	7.12	7.31	7.74
Balangan Coal	Mt	-	-	-	-	-	-	-	-	0.05
Others	Mt	0.21	0.34	0.40	0.33	0.40	0.41	0.37	0.24	0.28
<b>Coal Loaded</b>	<b>Mt</b>	<b>4.17</b>	<b>3.48</b>	<b>4.90</b>	<b>3.69</b>	<b>4.60</b>	<b>6.43</b>	<b>6.11</b>	<b>8.72</b>	<b>9.06</b>
Adaro Indonesia	Mt	4.17	3.48	4.90	3.69	4.60	6.43	6.11	8.72	9.06
Balangan Coal	Mt	-	-	-	-	-	-	-	-	-
Others	Mt	-	-	-	-	-	-	-	-	-