



# Adaro Energy Quarterly Activities Report First Quarter of 2014

*For the Three Months Ending March 31<sup>st</sup> 2014*

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**Picture above:** Our subsidiary, SIS, carrying out mining activities at the newly developed areas in the North Tutupan pit. In 4Q13, we phased out E4700 and introduced a new product mined from North Tutupan, E4900.

Jakarta, April 29<sup>th</sup> 2014

Dear Capital Market Participants,

Welcome to Adaro Energy's (Adaro) Quarterly Activities Report for the first quarter of 2014 (1Q14). We regularly issue the quarterly activities report one month after the end of each quarter. The report focuses on our operations, business development, exploration and other activities.

### Highlights of the quarter:

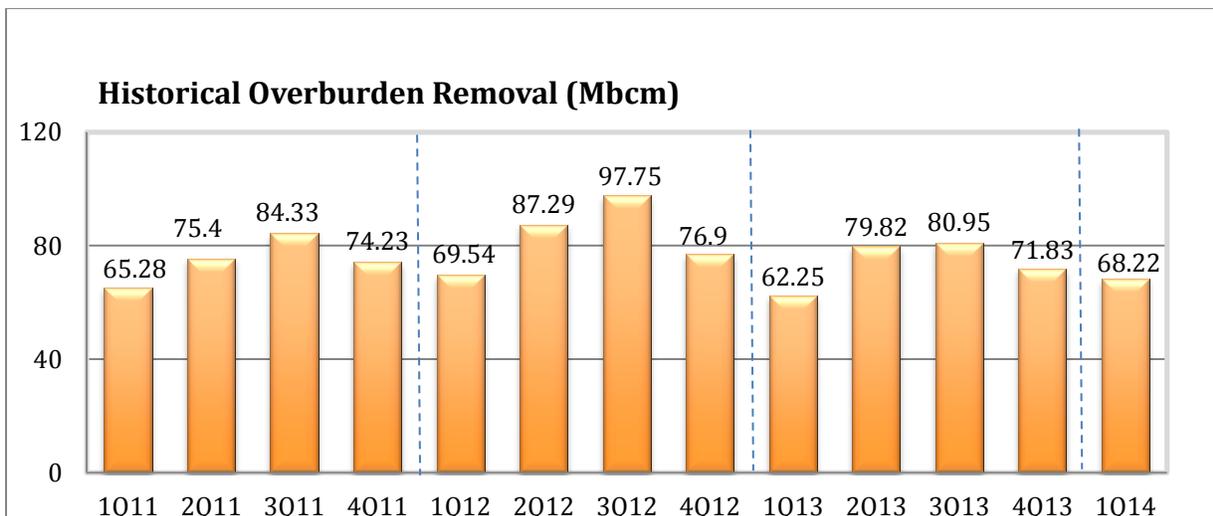
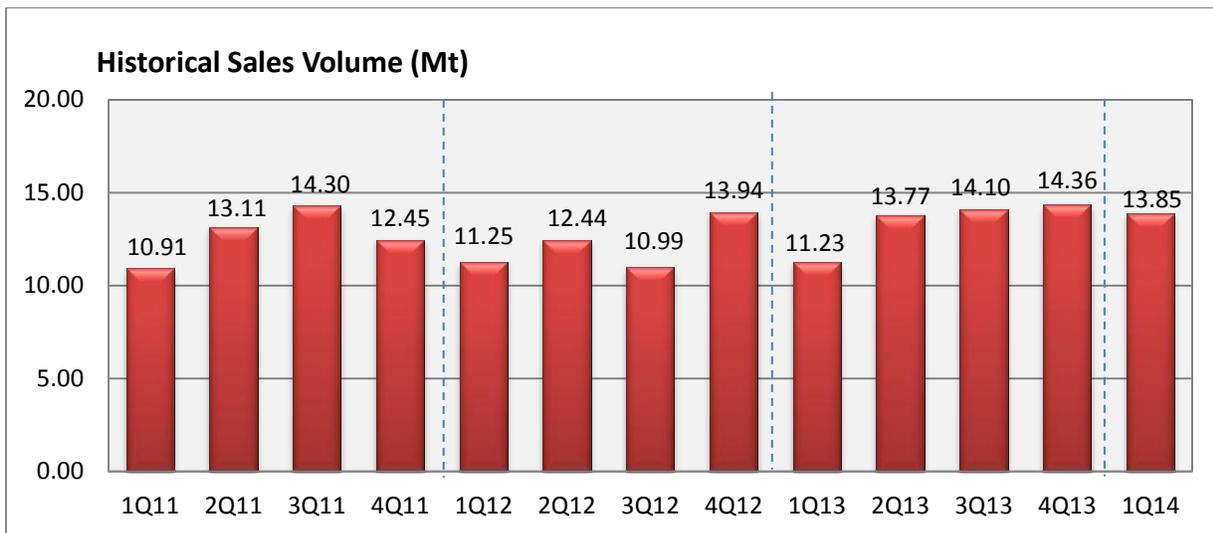
- We achieved a record quarterly coal production of 13.99 million tonnes (Mt), a 23% increase compared to the previous year, due to the combination of strong contractors performance and normal, yet seasonally wet, weather conditions. **(page 4)**
- We are on track to achieve our production guidance of 54Mt to 56Mt (which is pending government approval) for 2014.
- We continued to see solid demand for our coal during the quarter. We sold 13.85Mt, a 23% increase compared to the previous year. Our new product, E4900, continued its success and accounted for more than 50% of our total sales during the quarter. **(page 4,7)**
- We removed 68.22 million bank cubic meter (Mbcm) of overburden, a 10% increase compared to previous year. We were able to lower our strip ratio to 4.88x without harming our long-term mine plan due to the stripping activities we carried out in 2013 and during the years of higher coal prices. We are on track to achieve our consolidated planned strip ratio of 5.78x for 2014. **(page 4,6)**

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

Yours faithfully,

Cameron Tough  
Head of the Corporate Secretary and Investor Relations Division  
PT Adaro Energy, Tbk.

## Historical Quarterly Operations Summary



## Reliable, Strong and Efficient Operations

Our good result in 1Q14 demonstrates the strength and efficiency of our core business and resiliency of our business model. We achieved a record quarterly production of 13.99Mt due to the combination of strong contractors' performance and normal, yet seasonally wet, weather conditions. Our effort to reorganize some of the work done by our contractors at the beginning of last year helped us to increase productivity and efficiency. We are on track to achieve our production guidance of 54Mt to 56Mt (pending government approval) for this year.

Our new product, E4900, continued to be well received in China, India, Hong Kong, Taiwan, Thailand and Indonesia. The sales of E4900 accounted for more than 50% of our total sales during the quarter. We have contracted all of our tonnage for this year and have concluded the majority of pricing negotiation. We are on track to sell 18Mt of E5000, 29Mt to 31Mt of E4900 and 7Mt of E4000 this year.

To maintain reliability of coal supply to our customers, the focus of AI operations in 2014 is to standardize business processes in collaboration with its contractors, as well as to enhance safety and environmental performance. We reward our contractors based on performance and other efficiency measures. We will also work with our mining contractors to jointly improve efficiency and share the benefits of such efforts.

	Units	Actual			Year on Year	
		1Q14	4Q13	% Change	1Q13	% Change
<b>Production Volume</b>	<b>Mt</b>	<b>13.99</b>	<b>13.59</b>	<b>3</b>	<b>11.42</b>	<b>23</b>
Tutupan	Mt	10.74	9.67	11	8.75	23
Paringin	Mt	1.44	1.69	(15)	0.90	60
Wara	Mt	1.81	2.23	(19)	1.77	2
<b>Sales Volume</b>	<b>Mt</b>	<b>13.85</b>	<b>14.36</b>	<b>(3)</b>	<b>11.23</b>	<b>23</b>
E5000 (Tutupan & Paringin)	Mt	4.54	8.55	(47)	8.24	(45)
E4700 / E4900 (Tutupan)	Mt	7.44	3.29	126	0.94	691
E4000 (Wara)	Mt	1.87	2.41	(22)	2.05	(9)
Coaltrade's third party sales	Mt	-	0.11	(100)	-	-
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>68.22</b>	<b>71.83</b>	<b>(5)</b>	<b>62.25</b>	<b>10</b>

## Coal Market Analysis

In 1Q14, international coal prices (Global Coal Newcastle) dropped by 6.6% from 4Q13 despite steady import demand from China (up 6.6% compared to previous quarter) and as inventory in Chinese power plants decreased to a normal level of 15 days. The prices dropped due to further pressure from major Chinese coal producers, which were competing to gain market share in the oversupplied Chinese domestic market.

At the end of 1Q14, the annual Japanese Reference Price, between a major Japanese utility (Tohoku) and an Australian thermal coal producer (Xstrata), was settled at

US\$81.80 per tonne, down from US\$95 per tonne in 2013. The slowing Chinese economy, depreciation of the Chinese Yuan and strong coal supply led to price pressure in the domestic Chinese market, which impacted the international markets.

The prices of Indonesian sub-bituminous coal (ICI3) held up better than Newcastle prices, remaining almost flat compared to 4Q13 (+0.4%). This was due to limited supply of this grade of coal compared to the demand in China as utilities switch from low-rank coal to sub-bituminous coal. The abundant supply of Indonesian low-rank coal caused further price pressure for ICI4 (-1.6% compared to previous quarter). We also expect low-rank coal prices to remain under pressure in the short-term due to the lower demand for this type of coal in China.

During 1Q14, the demand from India was slower than expected, mainly due to the weak Rupee and the run up to the Indian national elections in May. India imported nearly 30Mt of coal in the quarter, flat with respect to 4Q13 and an 8% decline compared to the previous year, with 86% of it coming from Indonesia. We believe buying activity in India will increase in the coming months following the election, and before the monsoon season, when restocking normally takes place.

We expect the oversupply situation to persist for another 12 to 18 months, following which we should see at least the contours of a rebalancing in the thermal coal market and the beginning of a sustainable price recovery.

	28-Mar-14	31-Dec-13	% Change
<b>Bituminous (US\$/Tonne)</b>			
gCN	74.07	86.30	(14.2)
Aus Off-Spec (Platts)	63.6	71.75	(11.4)
<b>Sub-Bituminous Indonesia (US\$/Tonne)</b>			
ICI3 - 5000 GAR	56.07	58.26	(3.8)
ICI4 - 4200 GAR	37.33	39.25	(4.9)
<b>South China CFR (US\$/Tonne)</b>			
5500 NAR	76.25	84.60	(9.9)
<b>Qinhuangdao Coal FOB (RMB/Tonne)</b>			
5500 NAR	518	655	(20.9)

## Our Operating Subsidiaries

### PT Adaro Indonesia (AI)

#### Mining, Hauling, and Overburden Removal

We are on track to achieve our guidance this year as coal mining, coal hauling and overburden removal are 101%, 101% and 95% of the plan as at the end of 1Q14.

To improve coordination and productivity, we reorganized the work of our contractors at the beginning of 2013 and currently our subsidiary, SIS, and PAMA operate in the Tutupan pit, RA operates in the Wara pit and BUMA operates in the Paringin pit.

We aim to have our subsidiaries handle 50% of total production as long as they deliver good performances and other efficiency measures, while third-party contractors will handle the remaining tonnage. Due to SIS's good performance, since 2013, AI gave SIS the responsibility of overburden removal and coal mining activities at North Tutupan, which resulted in a higher contribution from SIS for mining and hauling activities compared to the previous year.

The following table shows the breakdown of overburden removal and mining and hauling activities of our mining contractors:

Contractors	1Q14	
	Overburden Removal (%)	Mining and Hauling (%)
PAMA	41	38
SIS	36	39
BUMA	15	10*
RA	8	13
<b>Total</b>	<b>100</b>	<b>100</b>

\*BUMA's figure is for coal mining only.

### Strip Ratio

Typically the actual strip ratio in the first quarter tends to be lower than the planned strip ratio for the year, while the second and third quarters tend to be higher than the planned strip ratio. During 1Q14, we lowered the consolidated actual strip ratio to 4.88x, 11% lower than 1Q13 due to coal volumes exceeding the plan for the quarter (101%) and overburden removal slightly below the plan (95%). Meanwhile, we are on track to hit our annual targets. The 1Q14 strip ratio was lower than the 2014 planned strip ratio of 5.78x, due to the normal wet season.

### Sales Volume

During 1Q14, AI sold 20% of its product to domestic customers. We continued to be a leading supplier to the domestic market and committed to supporting Indonesia's growing coal demand. We phased out E4700 in 4Q13 and introduced a new product, E4900. E4900's specification resembles E5000's ultra-low ash and sulphur characteristics at 2.5% and 0.15%, respectively.

	Units	Actual	Quarter on Quarter		Year on Year	
		1Q14	4Q13	% Change	1Q13	% Change
<b>Sales Volume</b>	<b>Mt</b>	<b>13.85</b>	<b>14.24</b>	<b>(2)</b>	<b>11.23</b>	<b>23</b>
<b>E5000 (Tutupan &amp; Paringin)</b>	<b>Mt</b>	<b>4.54</b>	<b>8.55</b>	<b>(47)</b>	<b>8.24</b>	<b>(45)</b>
Domestic	Mt	0.80	1.84	(57)	2.27	(65)
Export	Mt	3.74	6.71	(44)	5.97	(37)
<b>E4700 / E4900</b>	<b>Mt</b>	<b>7.44</b>	<b>3.28</b>	<b>127</b>	<b>0.94</b>	<b>691</b>
Domestic	Mt	1.87	0.48	290	0.20	835
Export	Mt	5.57	2.8	99	0.74	652
<b>E4000 (Wara)</b>	<b>Mt</b>	<b>1.87</b>	<b>2.41</b>	<b>(22)</b>	<b>2.05</b>	<b>(8)</b>
Domestic	Mt	0.07	0.1	(30)	0	-
Export	Mt	1.81	2.31	(22)	2.05	(12)

### Crushing, Barging and Shiploading

During 1Q14, we increased barging 22% to 13.30Mt, and loaded as well as direct-barged 13.89Mt of coal, a 24% increase compared to the previous year. We loaded 65% of the total tonnage through floating cranes, 11% 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). To gain better coordination and improve productivity, at the beginning of 2014, we reorganized our shiploading contractors and now only have MBP as contractor with subcontractors working under MBP.

MBP handled the largest volume for Adaro during 1Q14 with 53% for barging activities (vs. 51% in 1Q13). The reorganization of shiploading contractors and the commercial operation of a new Floating Transfer Unit (FTU) in July 2013 significantly increased MBP's shiploading activities to 96% (vs. 52% in 1Q13).

In this quarter, we also decreased the average barge cycle time from our Kelanis Dedicated Coal Terminal to Taboneo anchorage and then back to Kelanis to 96 hours, compared with 105 hours in 1Q13 due to favorable working conditions with a strong cargo lifting program from vessels calling at our ports. Due to the bad weather at Taboneo anchorage, the average vessel waiting time increased to 2.26 days, compared with 1.98 days in 1Q13.

### Rainfall and Pit Dewatering

The normal, yet seasonally wet, weather conditions at the mine site helped us to achieve a record quarterly production. During 1Q14, we had a total of 718mm of rainfall at Tutupan mining area, which was 13.7% below the five-year quarterly average of 832.4mm. Over the quarter the site recorded a total of 54 days, slightly below the five-year first quarter average of 56 days.

### PT Saptaindra Sejati (SIS)

Our mining and contracting subsidiary, SIS, is one of AI's four mining contractors. In 1Q14, AI remained SIS's largest customer, accounting for 64% of SIS's total overburden removal and 74% of its coal getting volume. SIS continued to prioritize AI over servicing new third party business. SIS also continued with mine construction works and pre-stripping activities at our recently acquired Balangan coal project in South Kalimantan.

#### SIS Operating Highlights

	Units	Actual	Quarter on Quarter		Year on Year	
		1Q14	4Q13	% Change	1Q13	% Change
<b>Overburden Removal</b>	<b>Mbcm</b>	<b>38.59</b>	<b>39.86</b>	<b>(3)</b>	<b>36.17</b>	<b>7</b>
Adaro	Mbcm	24.68	25.87	(5)	21.98	12
Others	Mbcm	13.91	13.99	(1)	14.19	(2)
<b>Coal Getting</b>	<b>Mt</b>	<b>7.23</b>	<b>7.32</b>	<b>(1)</b>	<b>6.00</b>	<b>21</b>
Adaro	Mt	5.37	5.25	2	4.04	33
Others	Mt	1.86	2.07	(10)	1.96	(5)

### PT Maritim Barito Perkasa (MBP)

MBP is a key barging and shiploading contractor for AI. MBP now takes more AI volumes as we reorganized our shiploading contractors at Taboneo at the beginning of 2014. During 1Q14, coal volume from AI accounted for 96% and 100% of MBP's total coal barged and coal loaded to ships, respectively.

#### MBP Operating Highlights

	Units	Quarter on Quarter		Year on Year		
		1Q14	4Q13	% Change	1Q13	% Change
<b>Total Coal Barged</b>	<b>Mt</b>	<b>7.55</b>	<b>7.49</b>	<b>1</b>	<b>5.99</b>	<b>26</b>
Adaro	Mt	7.31	7.12	3	5.66	29
Others	Mt	0.24	0.37	(35)	0.33	(27)
<b>Total Coal Loaded</b>	<b>Mt</b>	<b>8.72</b>	<b>6.11</b>	<b>43</b>	<b>3.69</b>	<b>136</b>
Adaro	Mt	8.72	6.11	43	3.69	136
Others	Mt	-	-	-	-	-

### Exploration Activities

We continued to focus on quality infill drilling in Tutupan, infill structural drilling at North Tutupan, and further exploration at North Paringin. In 1Q14, we drilled a total of 114 holes with total depth of 12,787 meters. We spent US\$659,683, a 5% increase compared to the previous year. The exploration activities also included drilling to gather geological, geotechnical and mine drainage data.

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

In 1Q14, AI's lost time injury frequency rate (LTIFR) was 0.17, 10% lower than 0.19 in 1Q13, with total man-hours worked of 17,362,250. AI experienced 3 lost time injuries (LTI), with zero LTI in February, and zero fatalities during this quarter. We continued to

implement full enforcement of our safety procedures to mitigate risks through the Adaro Fatality Prevention Program.

During the quarter, AI planted the reclamation area of 1,291 hectares in Tutupan and Paringin with more than 50,000 trees.

	1Q14	Project to Date
Reclamation (ha)	53	1,291
Land Disturbed - Mine (ha)	49	3,438
Land Disturbed - Others (ha)	247	7,867
Net Land Disturbed (ha)	245	10,014

## Project Development

### Out of Pit Overburden Crusher and Conveyor (OPCC)

We completed the physical construction of the OPCC in 2013, and are now doing reliability testing. We invested US\$0.6 million during 1Q14, bringing total investment to US\$221.9 million.

### 2x30MW Mine-mouth Power Plant

We completed the commissioning of MSW's first 30MW unit in 2013.

### Expansion of Kelanis Dedicated Coal Terminal



*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.*

## Business Development

### Balangan Coal

We continued with construction of the haul road and bridge as well as drilling to define the coal reserves. We conducted first coal hauling in March 2014 with preparation for a first trial shipment in 2Q14. Balangan's coal has received interest from a range of customers, including from Thailand and Indonesia.



*Our subsidiary, SIS, continued the Balangan mine construction work and started pre-stripping activities during the quarter.*

### **Mustika Indah Permai (MIP)**

In 1Q14, we completed an updated resources and reserve report in accordance with JORC, showing total estimated resources of 287.5Mt and reserves of 254.0Mt of 4,292 kcal/kg (GAR) coal. The MIP coal resources increased marginally as a result of minor model changes. Marston also re-estimated MIP coal reserves according to JORC. The result was a marginal fall in reserves due to the revision of the river diversion channels costs and updated pricing assumptions based on Wood Mackenzie's latest forecasts.

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

On May 28, 2012, PT Alam Tri Abadi (ATA), a subsidiary of Adaro, entered into Convertible Loan and Share Subscription Agreement with the option to provide a loan to BEP for up to US\$500 million which is convertible into up to 51% of equity in BEP (Option One), and option agreement which we are granted to acquire BEP shares from its controlling shareholders by offering newly issued shares of Adaro (Option Two). In November 2013, we amended the period for these two options from three years to four years and therefore extend the options period from at the latest 2015 to 2016. We are exploring various development options for BEP's coal including coal beneficiation and are confident of the outlook for BEP. During the quarter, we continued to prepare mine readiness at BEP. ATA has the right to exercise either one of the options mentioned above.

## News Flow

### Awards and Recognition

1) Adaro's President Director and CEO, Mr. Garibaldi Thohir, received a platinum award for CSR Leadership during the 6th Global CSR Summit.



*Ms. Okty Damayanti, AE's GM Corporate Social Responsibility, received the platinum award for CSR Leadership on behalf of Mr. Garibaldi Thohir.*

2) AI received an honor from the Tabalong District's Industry, Co-operatives and SMEs Official for its Banua Bauntung Micro Finance Institution.

### Shareholders Information

As of the end of March 2014, Adaro's market capitalization was US\$2.76 billion, a 16% decrease from US\$3.3 billion at the end of December 2013. We remained one of Indonesia's largest mining companies listed on the Indonesia Stock Exchange.

Within the quarter our share price ranged between Rp 880 to Rp 1,060. On average, our daily trading volume during the quarter was US\$5.56 million, 10% lower from the previous quarter at US\$6.2 million. However, we remained the most liquid stock for Indonesian coal. At the end of March 2014, our analyst consensus rating was 3.89 (on a scale of 5) as a result of 14 buys, 11 holds, and 2 sells.

As at the end of March 2014, the top 20 shareholders held 39% of Adaro's total free float. Jamsostek and GIC remained our largest public shareholders with ownership of 3.11% and 1.77%, respectively.