

Our subsidiary PT Sapta Indra Sejati (SIS) increased its level of activities at AE's operations. Shown is SIS heavy equipment operating in AI's Tutupan pit.



## Adaro Energy Quarterly Activities Report Fourth Quarter of 2016

*For the Three Months Ending Dec 31, 2016*

**For further information please contact:**

Mahardika Putranto, Head of  
Corporate Secretary &  
Investor Relations Division

E: [mahardika.putranto@adaro.com](mailto:mahardika.putranto@adaro.com)

Febriati Nadira, Head of Corporate  
Communications

E: [febriati.nadira@adaro.com](mailto:febriati.nadira@adaro.com)



Highlights of the quarter:

- Coal production of 13.31 million tonnes (Mt). Adaro Energy's total coal production in 2016 was 52.64 Mt. We delivered on our 2016 production guidance of 52 – 54 Mt.
- A strip ratio of 4.46x. The strip ratio for the year was 4.45x, slightly below our guidance of 4.71x due to above average rainfall at our operations.
- Completion of the acquisition of the Indo MetCoal project from BHP Billiton. Coal production from the project's Haju mine continued.
- Construction of PT Bhimasena Power Indonesia's (BPI) 2x1,000 MW power plant in Central Java and PT Tanjung Power Indonesia's (TPI) 2x100 MW power plant in South Kalimantan progressed on schedule.
- Adaro Energy's Guidance for 2017:
  - Production: 52 Mt to 54 Mt
  - Blended strip ratio: 4.85x
  - Operational EBITDA: US\$900 million to US\$1.1 billion
  - Capex: US\$200 million to US\$250 million

## **REVIEW OF COAL MARKET**

The fourth quarter of 2016 saw the Global Coal Newcastle price touch a four year high of US\$112.50 due to a combination of supply tightness and seasonally higher demand as customers entered a winter restocking period. The supply constraint was prompted by the Chinese government policy to curb production and weather-related challenges faced by suppliers in Indonesia, Russia and Colombia. Indonesia experienced heavy rain in some coal producing areas which created supply tightness from the country.

Following the rally in the coal price, the Chinese government relaxed until March 2017 its policy of limiting working days to ensure enough supply in their domestic market. However, the reduced supply and robust demand in China due to uncharacteristic weather (warmer summer and expectation of a colder winter) supported coal import demand into the country. China increased coal imports, including coking coal, to an estimated 256 million tonnes (Mt) in 2016 despite an initial expectation of lower imports. The majority of China's imports came from Indonesia followed by Australia, Mongolia and Russia. We believe that the coal market fundamentals are gradually improving, propelled by China's supply side reforms.

Imports by India were weak in 2016 due to subdued power demand growth and Coal India's ability to grow production output by 2.8% y-o-y. Towards the end of the 4Q16, power demand in the country grew slightly and additional coal requirements were fulfilled by domestic production.

Annualized figures for thermal coal imports in the Southeast Asia region were 75 Mt in 2016, a 13 Mt increase y-o-y from 2015. In total, the global seaborne thermal coal market expanded by 23 Mt to 894 Mt in 2016.

Indonesia's coal demand in 2016 increased 11% y-o-y following the start-up of several coal-fired power plants, including captive power plants, while coal production remained relatively flat.

## **REVIEW OF ADARO ENERGY OPERATIONS**

We continued strong execution in the quarter across PT Adaro Energy Tbk's (AE) three engines of growth. Our first engine, coal mining, produced 13.31 Mt of coal from PT Adaro Indonesia (AI), PT Semesta Centramas (SCM) and PT Laskar Semesta Alam (LSA) and PT Lahai Coal in 4Q16, 14% higher compared to 11.64 Mt in the same period last year. AE's total coal production for 2016 reached 52.64 Mt, a 2% increase year-on-year, and in line with our production guidance of 52 – 54 Mt.

Overburden removal in 4Q16 increased 11% to 59.35 million bank cubic meter (Mbcm) compared to 4Q15. We removed a total of 234.13 Mbcm of overburden in 2016, a decline of 12% y-o-y. The blended average strip ratio for the quarter was 4.46x and 4.45x for the year. Although this was below our 4.71x planned strip ratio for 2016, on average we are still in the range of our life of mine strip ratio and are not affecting our long-term coal reserves. The lower strip ratio in 2016 was mainly due to prolonged rain in our South Kalimantan operations. In October we experienced substantially higher rainfall volume and rain days. However rainfall and rain days were closer to the historical average figures in November and December.

|                           | Units | 4Q16  | 3Q16  | 4Q16<br>vs.<br>3Q16 | 4Q15  | 4Q16<br>vs.<br>4Q15 | FY16   | FY15   | FY16<br>vs.<br>FY15 |
|---------------------------|-------|-------|-------|---------------------|-------|---------------------|--------|--------|---------------------|
| <b>Coal Production</b>    | Mt    | 13.31 | 13.47 | -1%                 | 11.64 | 14%                 | 52.64  | 51.46  | 2%                  |
| <b>Sales Volume</b>       | Mt    | 13.64 | 13.32 | 2%                  | 11.91 | 15%                 | 54.09  | 53.11  | 2%                  |
| <b>Overburden Removal</b> | Mbcm  | 59.35 | 63.55 | -7%                 | 53.56 | 11%                 | 234.13 | 266.97 | -12%                |

## COAL MINING ASSETS

### PT Adaro Indonesia (AI)

In the fourth quarter of 2016, AI produced 12.59 Mt and sold 13.35 Mt of coal. AI's total coal production in 2016 was 50.77 Mt, relatively flat compared to 2015, while AI's total sales in 2016 reached 52.85 Mt, a 3% growth y-o-y. Total overburden removal from AI's three pits was 57.66 Mbcm in the quarter and 229.30 Mbcm for 2016, 12% lower compared to 2015, consistent with our plan to lower the strip ratio in 2016.

Sales to Indonesian customers constituted 25% of total sales in 2016. This is consistent with our strategy to prioritize domestic volume and in parallel with the 11% y-o-y increase in Indonesia's domestic coal demand. Besides Indonesia, sales volume to Malaysia, South Korea and India also increased y-o-y. The following table shows the geographical breakdown of customers by tonnage.

#### Geographical breakdown of Customers FY16

|             |     |
|-------------|-----|
| Indonesia   | 25% |
| China       | 14% |
| India       | 14% |
| South Korea | 9%  |
| Japan       | 9%  |
| Malaysia    | 9%  |
| Hong Kong   | 7%  |
| Spain       | 5%  |
| Philippines | 3%  |
| Taiwan      | 3%  |
| Others*     | 2%  |

\*Others include Thailand, Cambodia, Vietnam and the USA.

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

During 4Q16, we produced 0.50 Mt of coal from SCM and LSA. Total coal production from SCM and LSA in 2016 was 1.65 Mt, 49% higher than in 2015 and slightly higher than the target of 1.5 Mt. Overburden removal from SCM and LSA in 4Q16 was 0.87 Mbcm, resulting in total overburden removal of 4.01 Mbcm for 2016, 27% lower compared to 2015. The strip ratio for 2016 was 2.43x.

### Adaro MetCoal (AMC)

In October 2016, AE concluded the acquisition process from BHP Billiton of seven Coal Contracts of Work (CCoWs) including an operating mine, the Haju Mine, and associated

infrastructure in Central and East Kalimantan. This acquisition provides AE with significant and sustainable growth options in a new commodity – metallurgical coal. The group of CCoW companies are now referred to as ‘Adaro MetCoal’.

Production of semi-soft coking coal continued from the Haju mine during the quarter. Development options and schedules are under review. Feasibility studies for the development of subsequent mines and associated infrastructure commenced in the quarter and will continue during 2017.

AE is suitably experienced in operating in Kalimantan and considers its environmental and community development programs as particularly relevant and a key element of its operations in the CCoWs.

## MINING SERVICES & LOGISTICS

### PT Saptaindra Sejati (SIS)

During the quarter, SIS booked a total coal production volume of 9.66 Mt and an overburden removal volume of 43.57 Mbcm, 45% and 50% higher y-o-y, respectively. SIS’s total coal production in 2016 was 35.33 Mt, 20% higher compared to 2015, while total overburden removal for 2016 reached 163.09 Mbcm, an 8% increase over 2015.

Overburden removal and coal production volume from AE were 59% and 74% of SIS’s total volume in 2016, respectively. While SIS continues to prioritize AE, we expect that going forward SIS will add more third-party volume.

|                           | Units | 4Q16  | 3Q16  | 4Q16<br>vs<br>3Q16 | 4Q15  | 4Q16<br>vs<br>4Q15 | FY16   | FY15   | FY16<br>vs<br>FY15 |
|---------------------------|-------|-------|-------|--------------------|-------|--------------------|--------|--------|--------------------|
| <b>Overburden Removal</b> | Mbcm  | 43.57 | 46.40 | -6%                | 29.02 | 50%                | 163.09 | 151.07 | 8%                 |
| <b>Coal Production</b>    | Mt    | 9.66  | 9.52  | 1%                 | 6.68  | 45%                | 35.33  | 29.47  | 20%                |

### PT Maritim Barito Perkasa (MBP)

In 4Q16, MBP total coal barging volume was 11.17 Mt and total coal loading volume was 8.99 Mt. Coal barging volume for 2016 was 38.49 Mt, 24% higher than 2015 and coal loading volume for 2016 was 33.90 Mt, 5% lower compared to 2015. MBP continues to prioritize volume from AE, and AE’s coal volume accounted for 96% of MBP’s total coal barging and all of MBP’s coal loading volume in 2016.

|                     | Units | 4Q16  | 3Q16  | 4Q16 vs<br>3Q16 | 4Q15 | 4Q16<br>vs<br>4Q15 | FY16  | FY15  | FY16<br>vs<br>FY15 |
|---------------------|-------|-------|-------|-----------------|------|--------------------|-------|-------|--------------------|
| <b>Coal barging</b> | Mt    | 11.17 | 10.56 | 6%              | 6.80 | 64%                | 38.49 | 31.09 | 24%                |
| <b>Coal loading</b> | Mt    | 8.99  | 8.66  | 4%              | 7.89 | 14%                | 33.90 | 35.85 | -5%                |

## **POWER**

Construction work of BPI's 2x1,000 MW coal-fired power plant in Central Java is progressing on schedule. Construction activities include land clearing, site piling and building of the stockpile area and jetty.

We achieved financial close for TPI's 2x100 MW coal-fired power plant in South Kalimantan in January 2017. As a show of commitment from the sponsors, construction work for TPI had started in June 2016, six months before the financing close. This project is expected to reach Commercial Operation Date in the first half of 2019.

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

In the quarter, AE had one lost time injury (LTI). Our lost time injury frequency rate (LTIFR) for 4Q16 was 0.04 and severity rate (SR) was 0.78. Total man-hours worked during the quarter were 24,233,763 hours.

Our safety performance for the full year was 0.07 for LTIFR and 0.73 for SR, with total man-hours worked of 97,168,410 hours.