



*years*  
AN EVOLVING  
STORY

# ENERGY FOR CHANGE

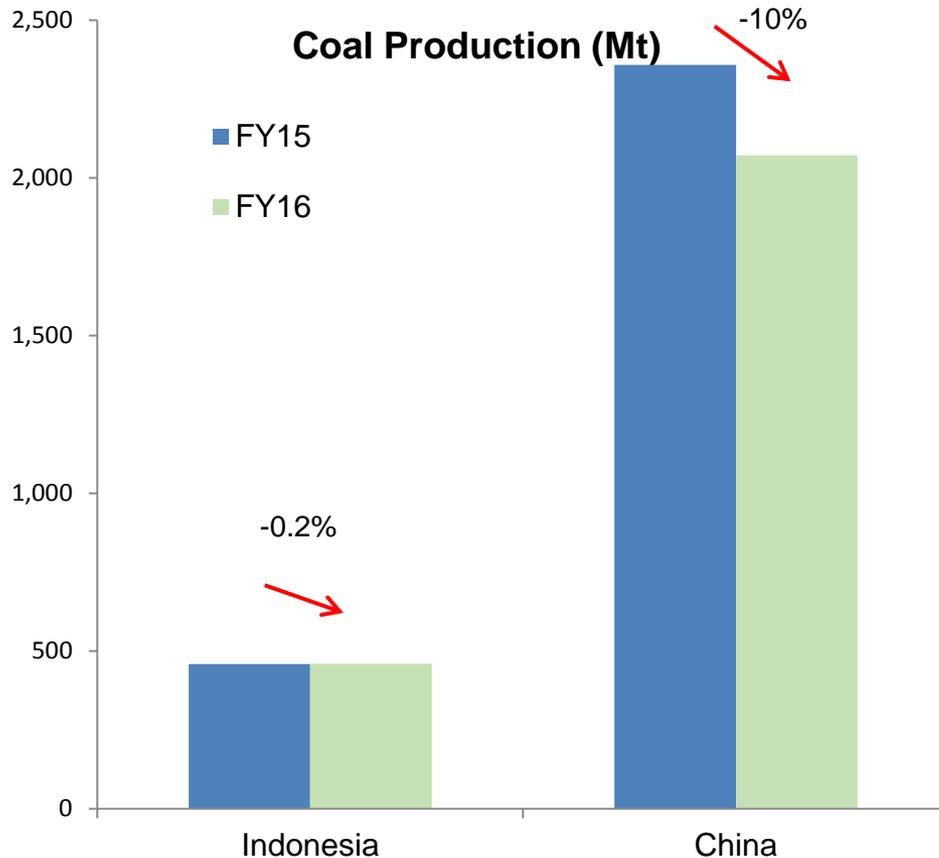
November 2017



## Key questions:

- What is the outlook for coal industry?
- How was Adaro Energy's performance in 9M17 and what is the view for FY17 and FY18?
- What is the progress of Adaro Energy's projects?
- What is Adaro Energy's strategy and future plans?

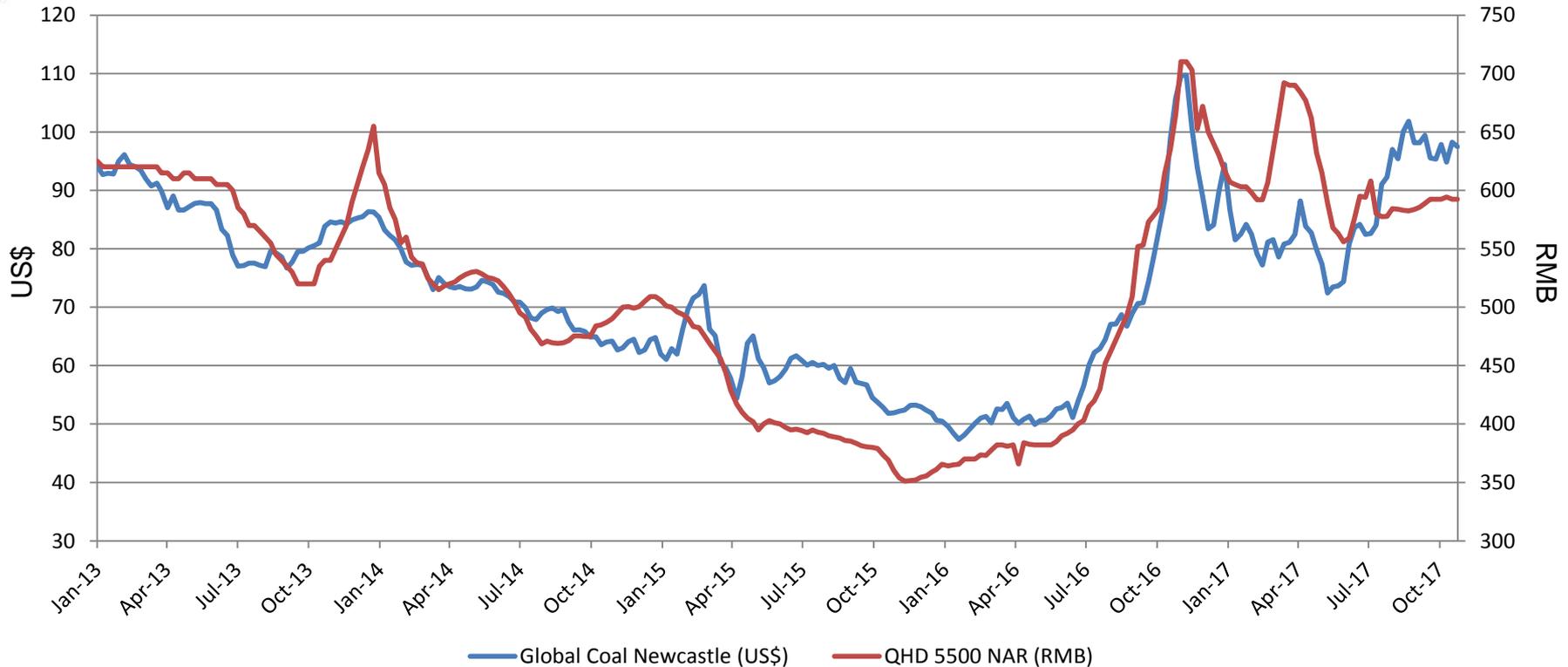
# Supply control to continue



Source: Adaro's research, IHS Energy, WoodMackenzie

- Supply reform in China is expected to continue, targeting up to 1 Bt of excess capacity cut.
- Indonesia is expected to maintain a relatively flat production, and as its domestic requirement increase, its export will decline.
- Australia is constrained by infrastructure capability.
- Overall coal supply continues to be sticky due to:
  - Higher cost structure as a result of high-grading during the downturn.
  - Limited funding availability.
  - Some miners are focusing on restructuring previous debts.
- Coal supply data continues to indicate that supply discipline is prevalent.

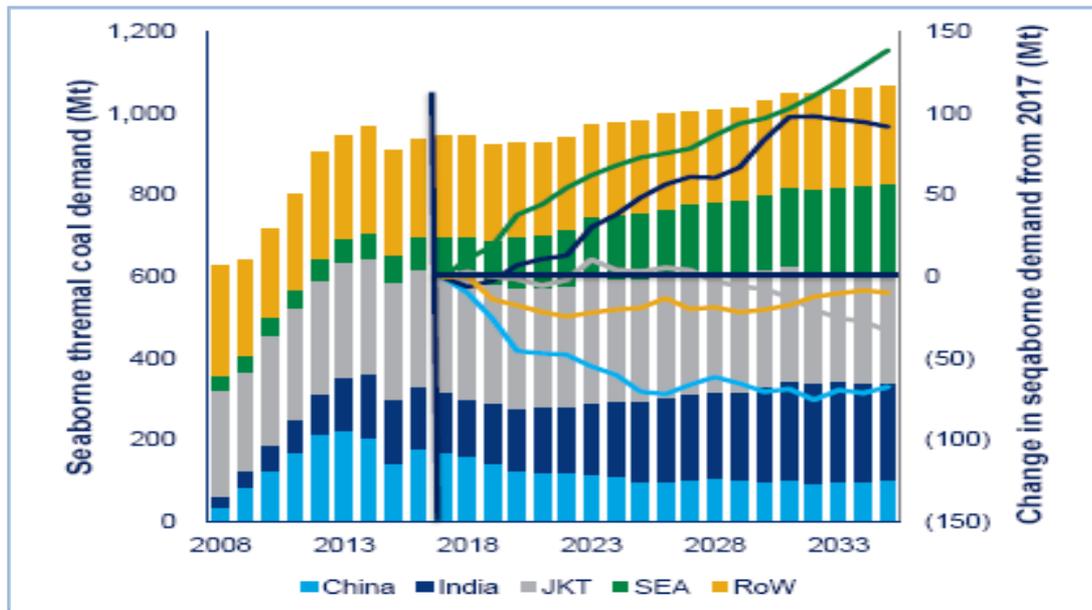
# Coal price gaining back momentum



- Despite a better price outlook in 2017 vs 2016, uncertainties remain in the coal market.
- Higher summer demand and supply shortage due to unfavorable weather in Indonesia have helped maintain a robust price for seaborne coal.
- Domestic coal price in China has been persistently higher than China's price bracket.
- Coal prices are expected to remain fairly strong through the remainder of 2017.

# Long term coal demand outlook remains robust...

## Seaborne coal demand by country (Mt)



Note: JKT (Japan, Korea, Taiwan); SEA (Southeast Asia); RoW (rest of the world)

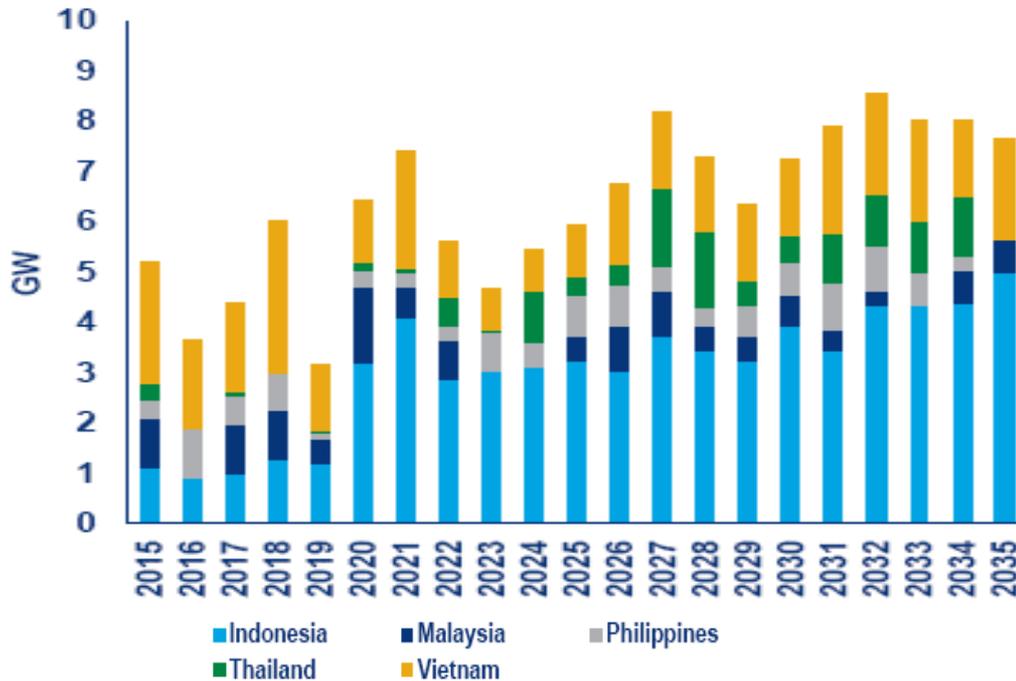
Source: Wood Mackenzie Thermal Trade H1 2017 Long-term Outlook

- China's share in seaborne market to decline.
- Increased potential from Southeast Asia, Indo-China, and India.
- Electrification in the developing world continues to drive coal demand. Despite progress in renewables, coal will still be preferred due to its affordability.

# ...especially from Southeast Asia

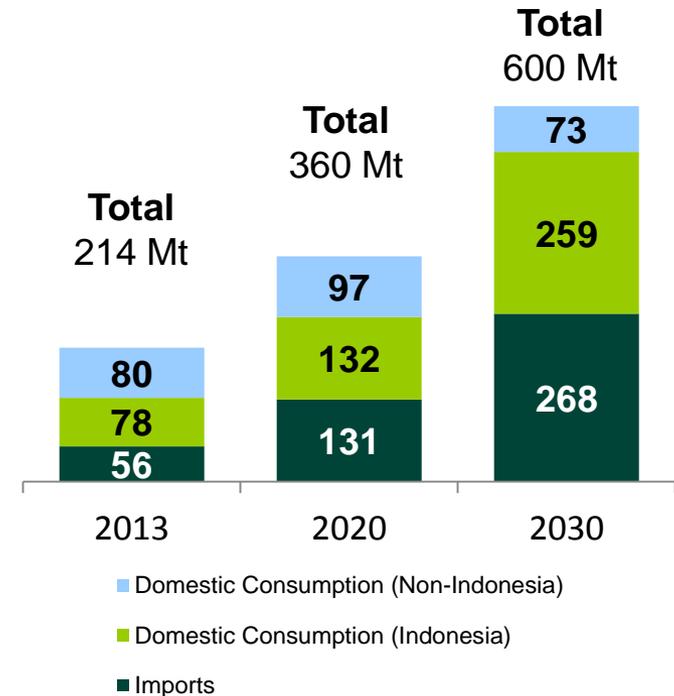


**Coal capacity additions in Southeast Asia per annum**



Source: WoodMackenzie Energy Market Service

**Southeast Asia coal demand**



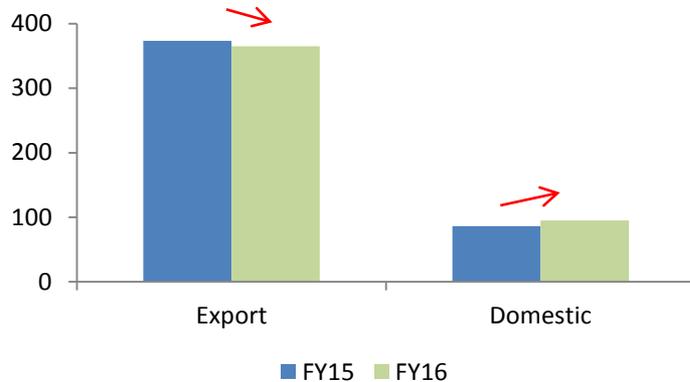
Source: Adaro's Research

- Coal remains as the fuel of choice for developing economies in Southeast Asia.
  - Affordable and abundant.
- 2016-2017: additional ~10GW in coal fired capacity in SEA.
- SEA countries imported 75 Mt of coal in 2016, a y-o-y increase of 13 Mt.
- Wood Mackenzie estimates that in 2017, SEA countries will import 88 Mt of coal.



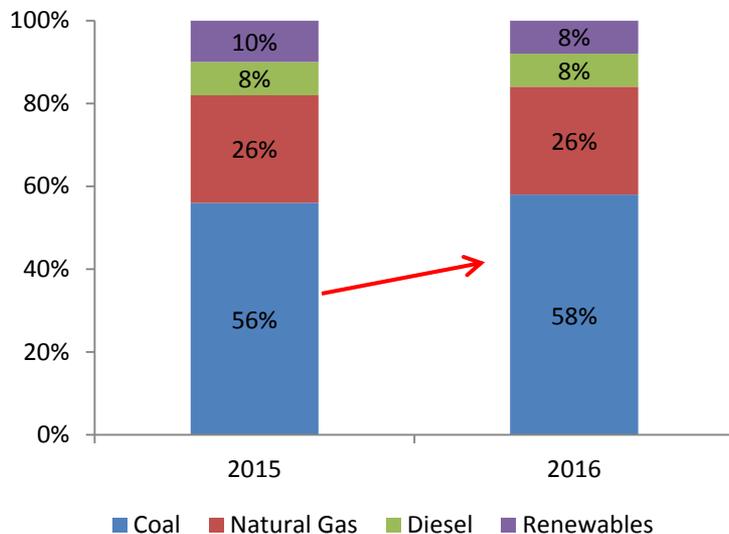
# Quick look on Indonesia

### Indonesia's Coal Sales (Mt)



- While Indonesia's coal production in 2016 was relatively flat y-o-y and its export decreased ~2% y-o-y...
- ...domestic coal demand in 2016 increased ~11% y-o-y.

### Indonesia's Electricity Generation by Source



- Coal accounted for 58% of Indonesia's electricity generation in 2016.
- Despite expected increase from gas and renewables, coal remains as key energy source for power generation in Indonesia.



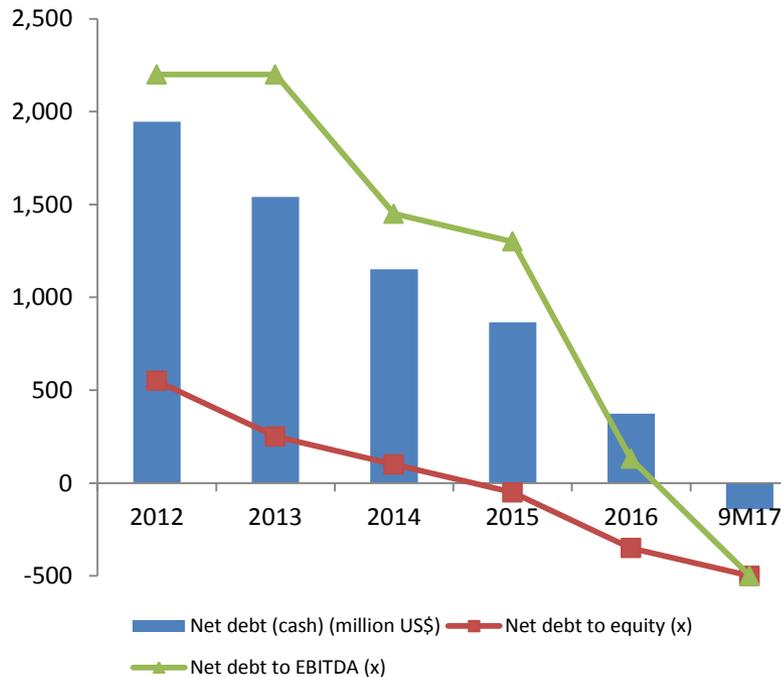
# Resilient operational and financial results



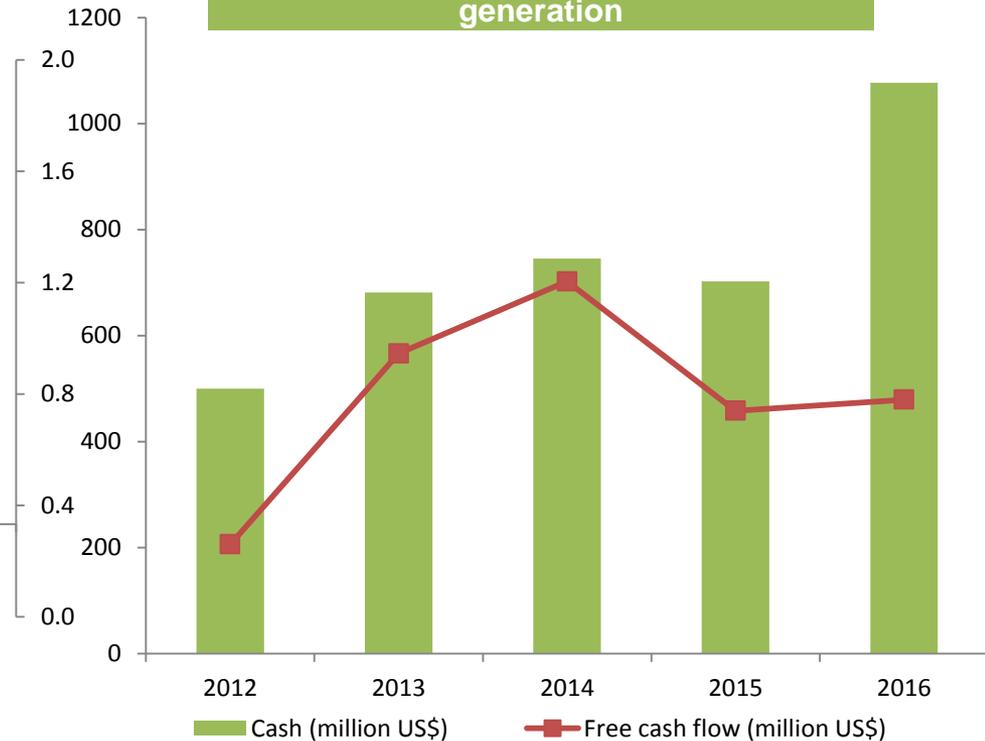
<b>OPERATIONAL</b>	<b>9M17</b>	<b>9M16</b>	<b>% Change</b>
Production (Mt)	39.36	39.33	0%
Sales (Mt)	39.44	40.45	-2%
OB removal (Mbcm)	183.17	174.78	5%
<b>FINANCIAL (US\$ millions, unless indicated)</b>	<b>9M17</b>	<b>9M16</b>	<b>% Change</b>
Net Revenue	2,439	1,778	37%
Core Earnings	495	281	76%
Operational EBITDA	1,006	625	61%
Cash	1,259	964	31%
Net Debt (Cash)	(141)	511	-128%
Net Debt to Equity (x)	Net cash	0.14	-
Net Debt to Last 12 months Operational EBITDA (x)	Net cash	0.65	-
Free Cash Flow	623	352	77%
Cash from Operations to Capex (x)	11.99	6.81	-

# Solid balance sheet and strong cash generation

Reduced debt and achieved net cash



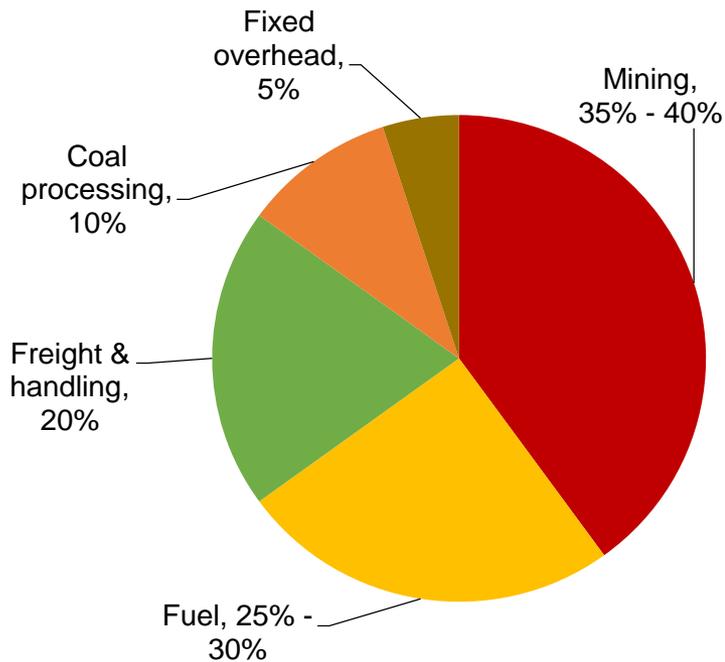
Strong cash balance and free cash flow generation



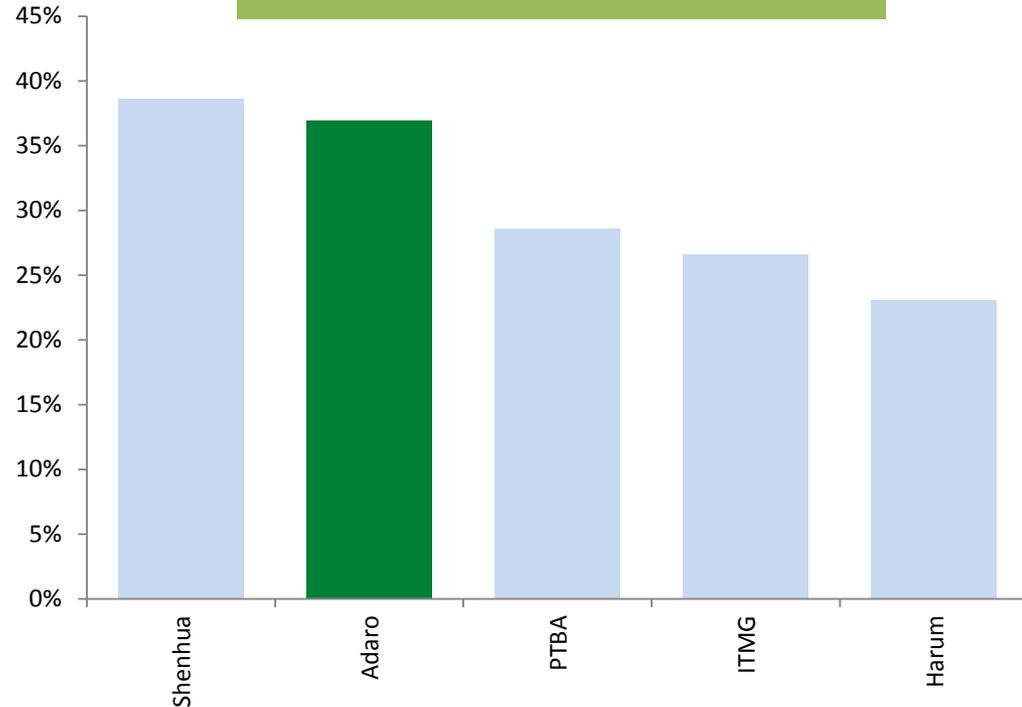
- Discipline debt repayment, combined with higher operating cash flow enabled us to achieve net cash position.
- Investment grade rating (BBB-) from Japan Credit Rating Agency with a POSITIVE outlook.

# Cost control – key in delivering strong performance

Adaro's estimated coal cash cost breakdown (9M17)



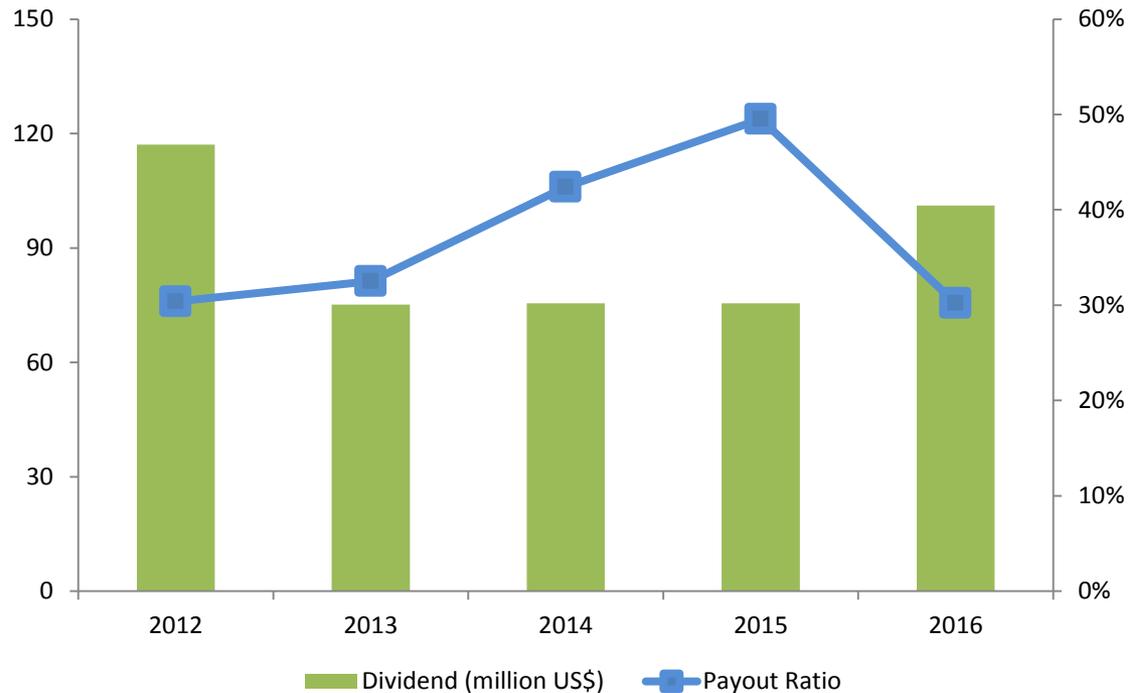
Operational EBITDA margin



Source: Bloomberg, based on trailing 12M EBITDA

- Adaro has one of the highest operational EBITDA margin among thermal coal peers

# Delivering return to shareholder



- Adaro has continued to pay dividend through the cyclical downturn.
- Dividend payout ratio since IPO in 2008 averages ~38% and in total we have paid US\$965 million in dividend.
- Total dividend for 2016 was US\$101.1 million.



# Business model that creates sustainable value



## PT Adaro Energy, Tbk (AE)

\*Simplified Corporate Structure

Mining		Services and Logistics		Power	
<b>Adaro Indonesia (AI)</b> 88.5%	Coal mining, S Kalimantan	<b>Saptaindra Sejati (SIS)</b> 100%	Coal mining and haulier contractor	<b>Maritim Barito Perkasa (MBP)</b> 100%	Barging & shiploading
<b>Balangan Coal</b> 75%	Coal mining, S Kalimantan	<b>Jasapower Indonesia (JPI)</b> 100%	Operator of overburden crusher and conveyor	<b>Sarana Daya Mandiri (SDM)</b> 51.2%	Dredging & maintenance in Barito River mouth
<b>Mustika Indah Permai (MIP)</b> 75%	Coal mining, S Sumatra	<b>Adaro Eksplorasi Indonesia (AEI)</b> 100%	Mining exploration	<b>Indonesia Multi Purpose Terminal (IMPT)</b> 100%	Port management & terminal operator
<b>Bukit Enim Energi (BEE)</b> 61%	Coal mining, S Sumatra	<b>Adaro Mining Technologies (AMT)</b> 100%	Coal research & development	<b>Indonesia Bulk Terminal (IBT)</b> 100%	Coal terminal & fuel storage
<b>Adaro MetCoal (AMC)</b> , 100%	Coal mining, C Kalimantan E Kalimantan				
<b>Bhakti Energi Persada (BEP)</b> 10.2%	Coal mining, E Kalimantan				
				<b>Makmur Sejahtera Wisesa (MSW)</b> 100%	Operator of 2x30MW mine-mouth power plant in S. Kalimantan
				<b>Bhimasena Power (BPI)</b> 34%	Partner in 2x1000MW power generation project in Central Java
				<b>Tanjung Power Indonesia (TPI)</b> 65%	Partner in 2x100MW power plant project in S. Kalimantan





# Adaro Mining

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# Diversified Coal Assets Across Indonesia 5

*Deepening Coal Product Portfolio and Set to Capitalize Assets to Support Indonesia's Development*



Adaro has more than 13.5 billion tonnes (Bt) of coal resources (including option to acquire 7.9 Bt) and 1.2 Bt of coal reserves.

**1**  
Adaro Indonesia:  
88.5% Existing,  
S Kalimantan sub-bituminous  
Resources: 5.4Bt  
Reserves 980Mt

**2**  
Balangan Coal Companies:  
S Kalimantan sub-bituminous  
Resources 333Mt  
Reserves 184Mt

**3**  
MIP: 75% stake  
S Sumatra sub-bituminous  
Resources 288Mt  
Reserves 254 Mt

**4**  
BEE: 61.04% stake  
S Sumatra sub-bituminous  
Geological study phase

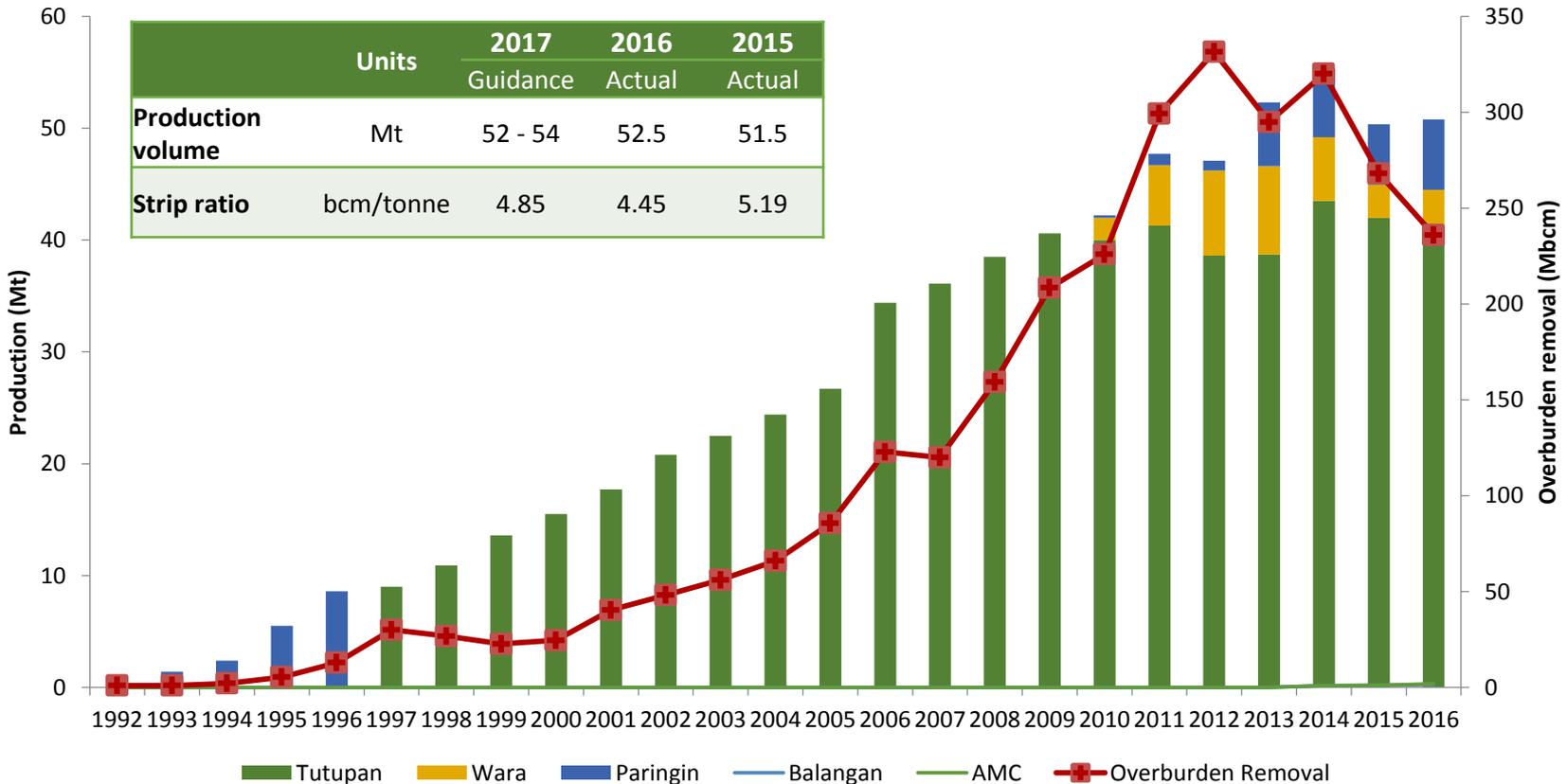
**5**  
BEP: 10.22% stake with option to acquire 90%  
E Kalimantan sub-bituminous  
Resources 7.9Bt

**6**  
Adaro MetCoal Companies  
Central and East Kalimantan Metallurgical coal  
Resources 1.27Bt



*Note: Reserves and Resources numbers above are before taking into account AE's equity ownership*

# Over two decades of solid production performance

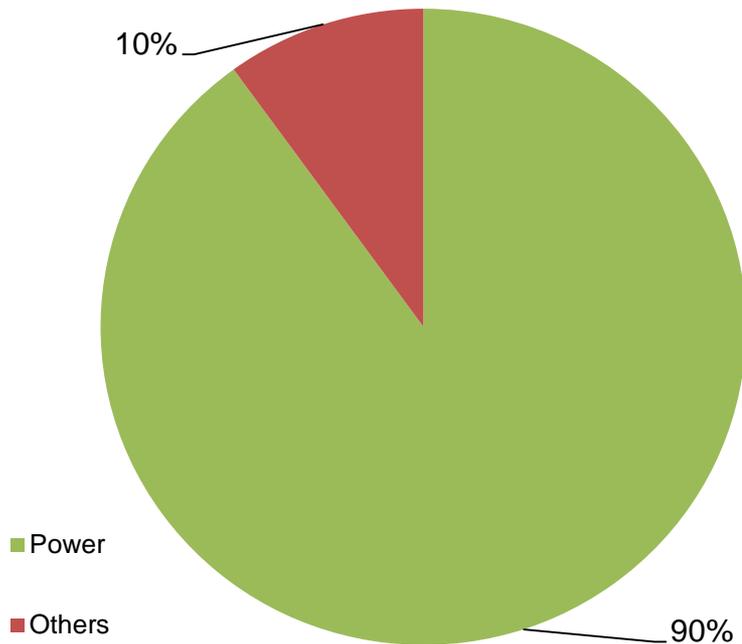


- Produce low to medium heat value coal with low pollutant content, ideal for power generation.
- Control over supply chain ensures timely delivery to customers.
- Continued focus on productivity, safety and sustainability will support value creation for shareholder.

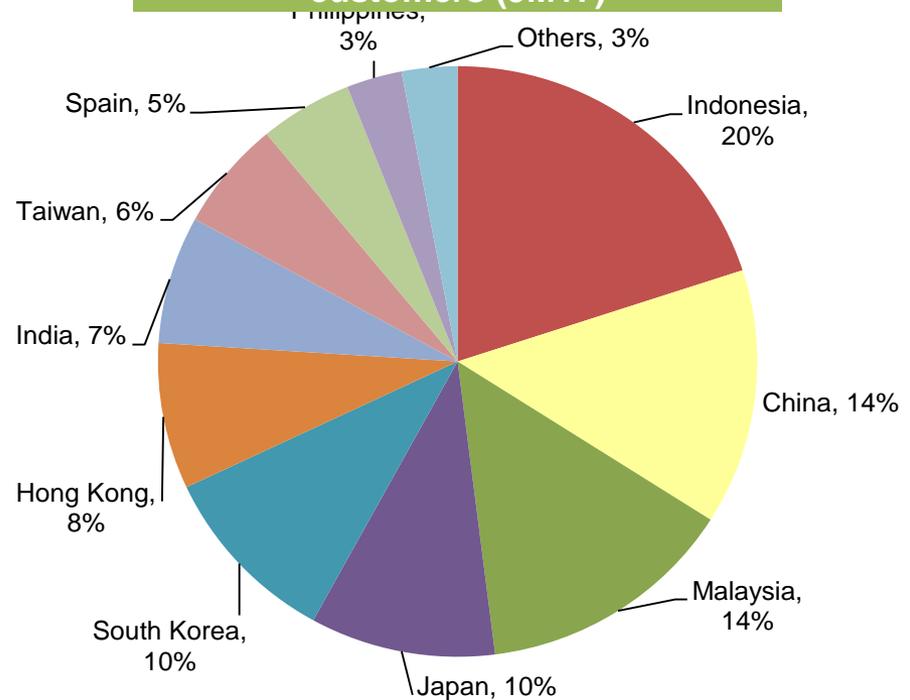
# Strong customer base with focus on Indonesia



Customer type by % volume (9M17)



Geographical breakdown of customers (9M17)

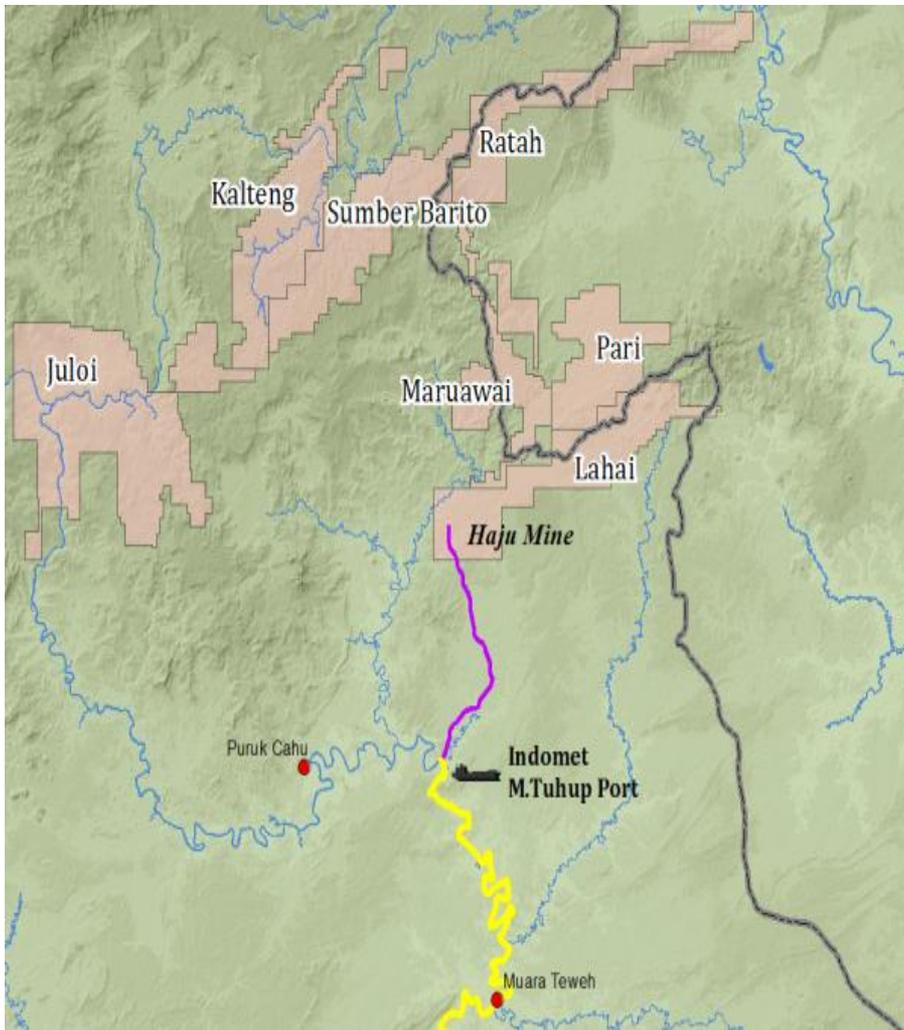


\* Others include cement, pulp & paper, and industrial

\* Others include Thailand, Singapore, New Zealand, The Netherlands and Vietnam

- Most customers are sovereign backed power companies, with over 50% have had a relationship of more than a decade
- Average length of coal supply agreement is 3 to 5 years.
- Many of our contracts are reset annually, with a combination of negotiated, fixed and index-linked pricing.
- Strong relationship with many blue-chip investment-grade clients mitigates risk

# Snapshot of Adaro MetCoal Companies (AMC)



- Adaro Energy completed the acquisition of AMC from BHP Billiton for 7 CCOWs in Central and East Kalimantan.
- The transaction value was \$120 million for 75% of the properties. Adaro now owns 100% of the asset.
- First coal production has started at the Haju mine which has a production capacity of 1 million tonnes a year. Coal is mined and hauled to a barge loading site at Muara Tuhup on the Barito river.



# **Adaro Services and Logistics**

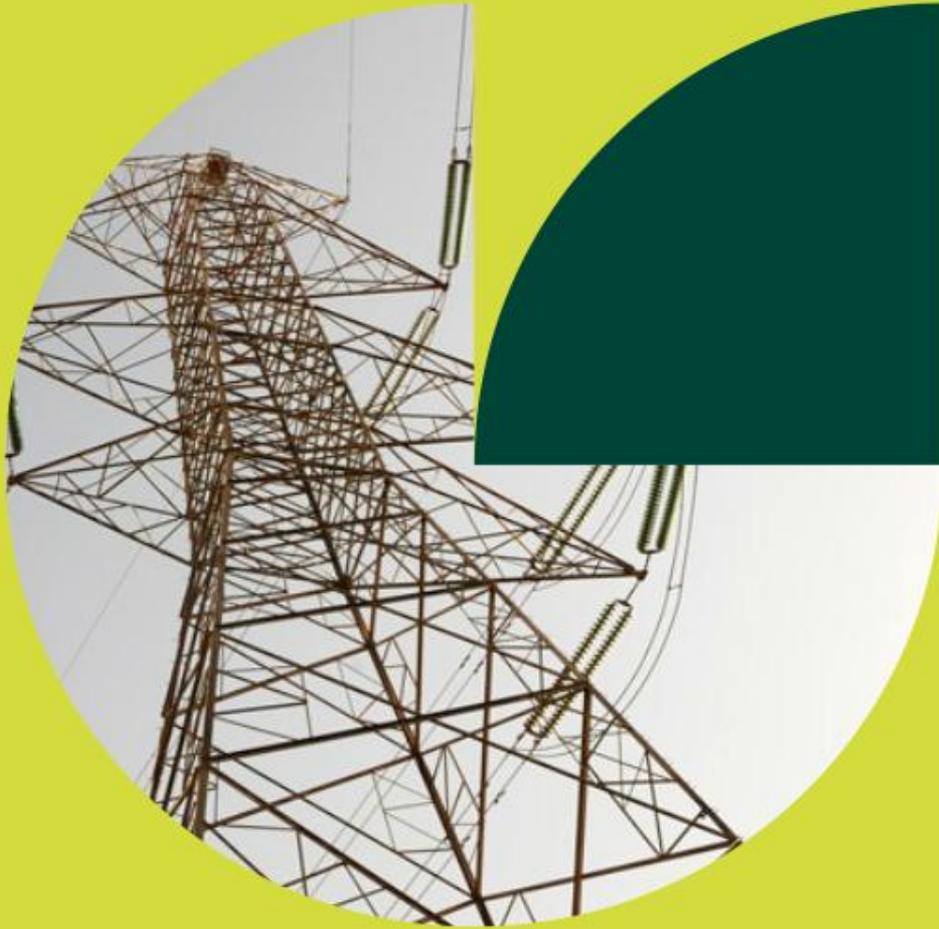


# Ensuring operational excellence

*Strengthens Adaro's Earnings Profile as Contribution to Parent Co Increases*

- Key part of our vertical integration.
- Ensures operational excellence, productivity improvement and timely reliable delivery to customers.
- Non coal mining business accounted for 31% of Adaro Energy EBITDA in 2016. This contribution is expected to grow going forward.
- Actively pursue third-party revenue growth from these businesses.





# Adaro Power

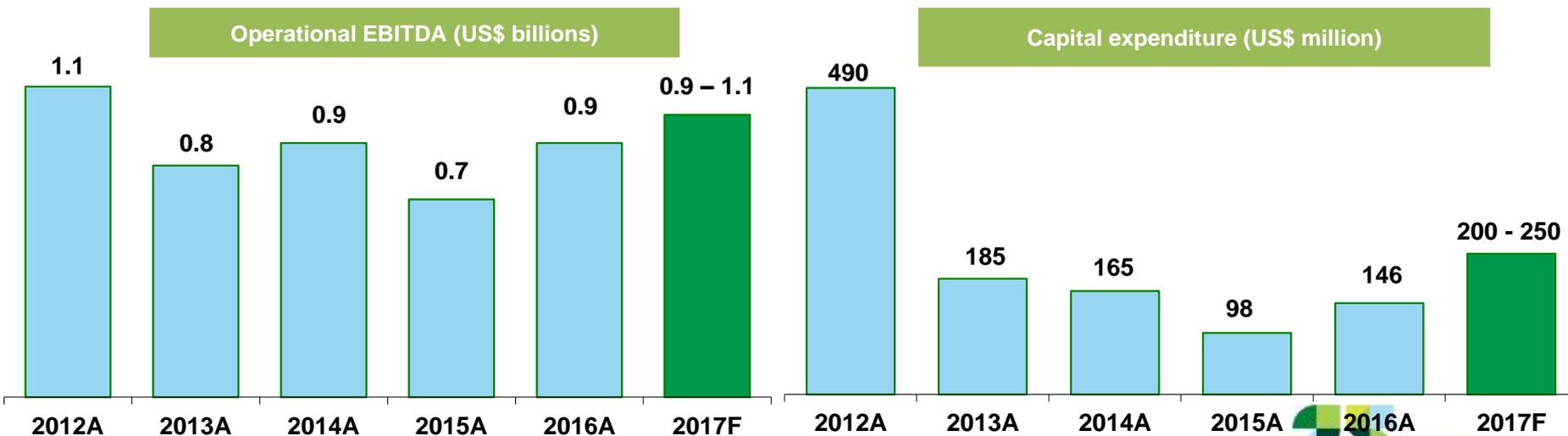


# Building the foundation of Adaro's future

	Bhimasena Power Indonesia	Tanjung Power Indonesia
<b>Capacity</b>	2x1000 MW	2x100 MW
<b>Stake Acquired</b>	34%	65%
<b>Partner(s)</b>	J-Power (34%), Itochu (32%)	Korea EWP (35%)
<b>Location</b>	Central Java	South Kalimantan
<b>Development Progress</b>	<ul style="list-style-type: none"> <li>Signed 25 years PPA with PLN</li> <li>Total Capex: US\$4.2 billion</li> <li>Concluded financing close on June 6<sup>th</sup>, 2016.</li> <li>Expected COD: 2020</li> <li>Expected coal requirement: 7 Mtpa</li> </ul>	<ul style="list-style-type: none"> <li>Signed PPA with PLN</li> <li>Total Capex: \$545 million</li> <li>Concluded financing close in Jan 2017</li> <li>Expected COD: 2019</li> <li>Expected coal requirement: 1 Mtpa</li> </ul>
<b>Financing</b>	Non-recourse project debt financing. Combination of ECA and commercial loan	Non-recourse project debt financing. Combination of ECA and commercial loan
<b>Expected Debt vs. Equity</b>	80:20	75:25

- Commercially and financially attractive with solid IRR and low-cost long-term project financing.
- Creates captive demand for Adaro's coal and helps meet our domestic market obligation.
- Provides a stable revenue stream and helps to lessen volatility in Adaro's business model.
- Contributes to the development of Indonesia's energy needs.
- Extending beyond coal to gas and renewables to replicate Indonesia's energy mix.

# Adaro Energy 2017 guidance



# Conclusions and takeaways

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- Coal market is poised to reach supply and demand balance.
- Indonesia to lessen coal export and focus on the domestic market.
  - Coal production capped to 400 Mtpa in 2019.
- Long term fundamental for coal remains promising.
  - Indonesia, Southeast Asia and India will be the main drivers.
- Our resilient business model is geared up to take the opportunity.
  - Multiple opportunities across the value chain.
  - Each engine of growth is expected to grow along with the growth of coal fired power generations in Indonesia and Southeast Asia.
- Adaro's financials is the strongest in its history.
  - Discipline debt repayment and strong cash flow generation enabled us to achieve net cash position in 9M17.

# Thank you