



# PT Adaro Energy Tbk

August 2020

# Disclaimer



These materials have been prepared by PT Adaro Energy Tbk (the “Company”) and have not been independently verified. No representation or warranty, expressed or implied, is made and no reliance should be placed on the accuracy, fairness or completeness of the information presented or contained in these materials. The Company or any of its affiliates, advisers or representatives accepts no liability whatsoever for any loss howsoever arising from any information presented or contained in these materials. The information presented or contained in these materials is subject to change without notice and its accuracy is not guaranteed.

These materials contain statements that constitute forward-looking statements. These statements include descriptions regarding the intent, belief or current expectations of the Company or its officers with respect to the consolidated results of operations and financial condition of the Company. These statements can be recognized by the use of words such as “expects,” “plan,” “will,” “estimates,” “projects,” “intends,” or words of similar meaning. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ from those in the forward-looking statements as a result of various factors and assumptions. The Company has no obligation and does not undertake to revise forward-looking statements to reflect future events or circumstances.

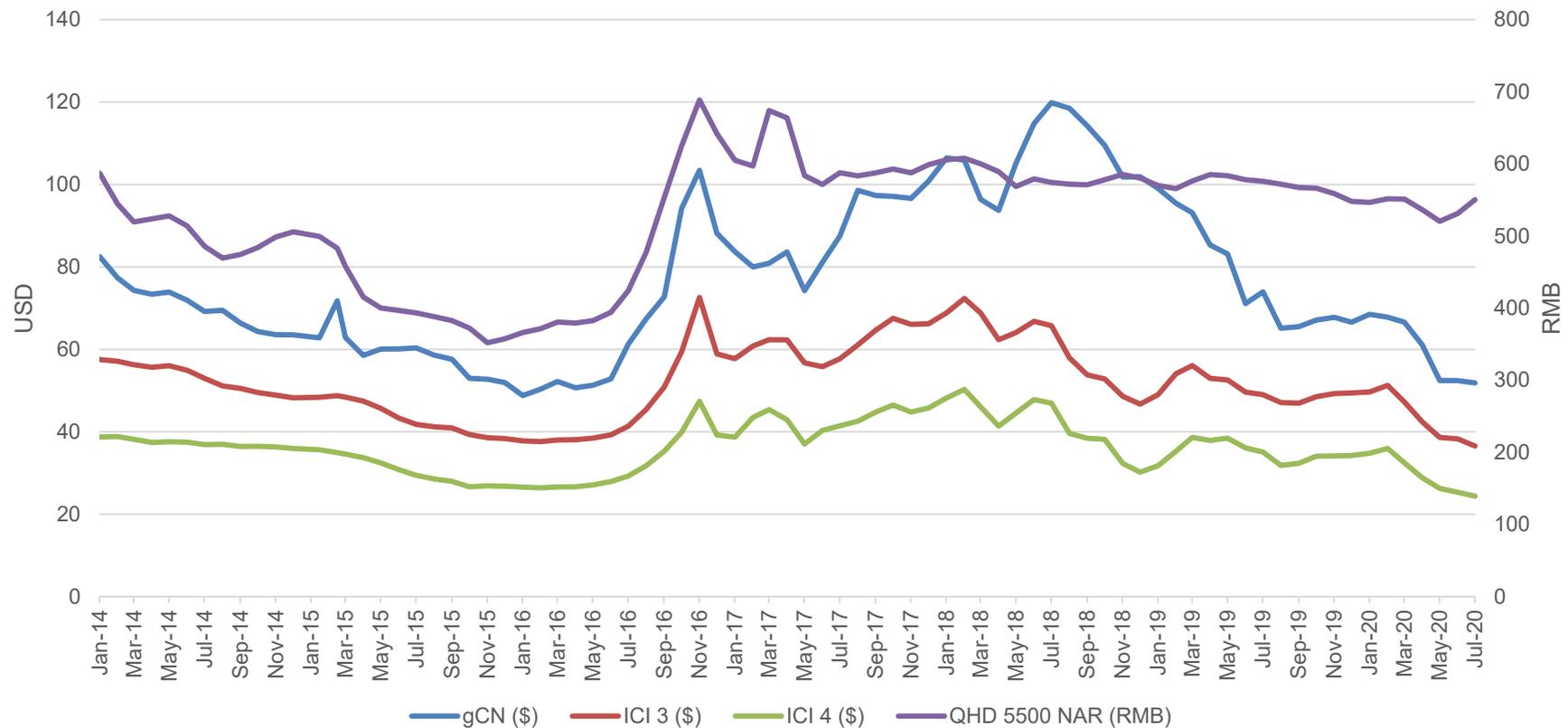
These materials are for information purposes only and do not constitute or form part of an offer, solicitation or invitation of any offer to buy or subscribe for any securities of the Company, in any jurisdiction, nor should it or any part of it form the basis of, or be relied upon in any connection with, any contract, commitment or investment decision whatsoever. Any decision to purchase or subscribe for any securities of the Company should be made after seeking appropriate professional advice.

# Key Questions



- What are the recent trends in coal market and coal price?
- Any impact from Covid-19 to Adaro?
- What is the progress of Adaro's projects?
- How will your strategy to diversify the business model benefit Adaro?
- What is Adaro's approach to ESG?

# Price of various thermal coal types

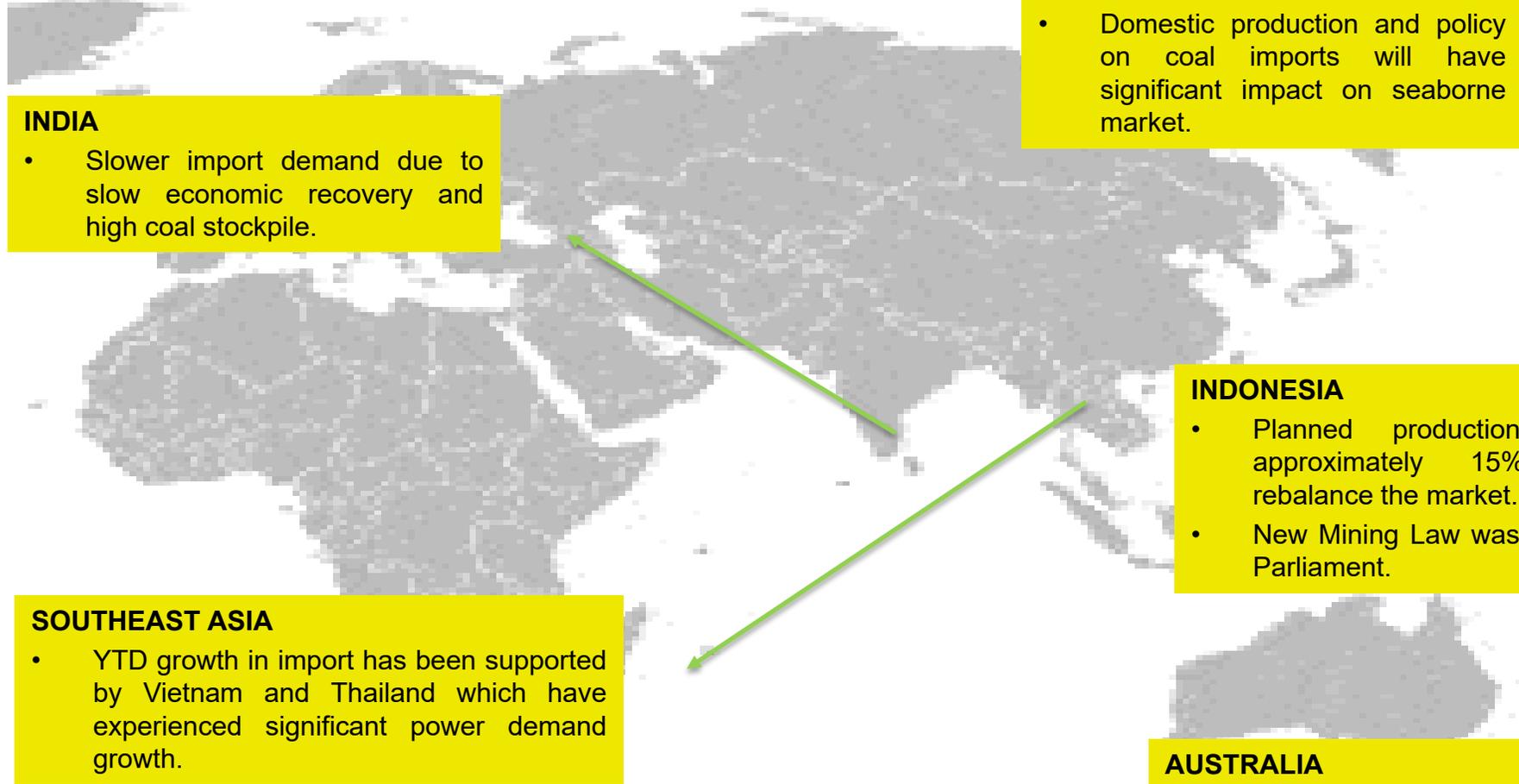


- Coal price has been under pressure as a result of slower demand due to lower industrial and business activities in the wake of Covid-19 pandemic.
- The positive trade flow in 1Q20 was in contrast with 2Q20. Near-term market uncertainties remain.

# Challenges Remain in the Short Term



- Lockdown in many countries to curb the spread of COVID-19 has affected industrial activities and power demand. The global economy has been halted in an unprecedented way and both the World Bank and IMF forecast global GDP to contract in 2020.
- Although many countries have started to ease the lockdown and launched stimulus packages, recovery will take time and global recession may keep coal demand and prices under pressure.
- Fortunately, Southeast Asia market has provided some support to demand in the seaborne coal market led by Vietnam.
- Coal-to-gas switching in Asia will be limited. China, Southeast Asia and South Asia tout coal as the key energy source to fuel economic growth due to coal's affordability and availability. On top of that, they do not have the required infrastructure to enable switching.



## INDIA

- Slower import demand due to slow economic recovery and high coal stockpile.

## CHINA

- Domestic production and policy on coal imports will have significant impact on seaborne market.

## INDONESIA

- Planned production cut of approximately 15%-20% to rebalance the market.
- New Mining Law was passed by Parliament.

## SOUTHEAST ASIA

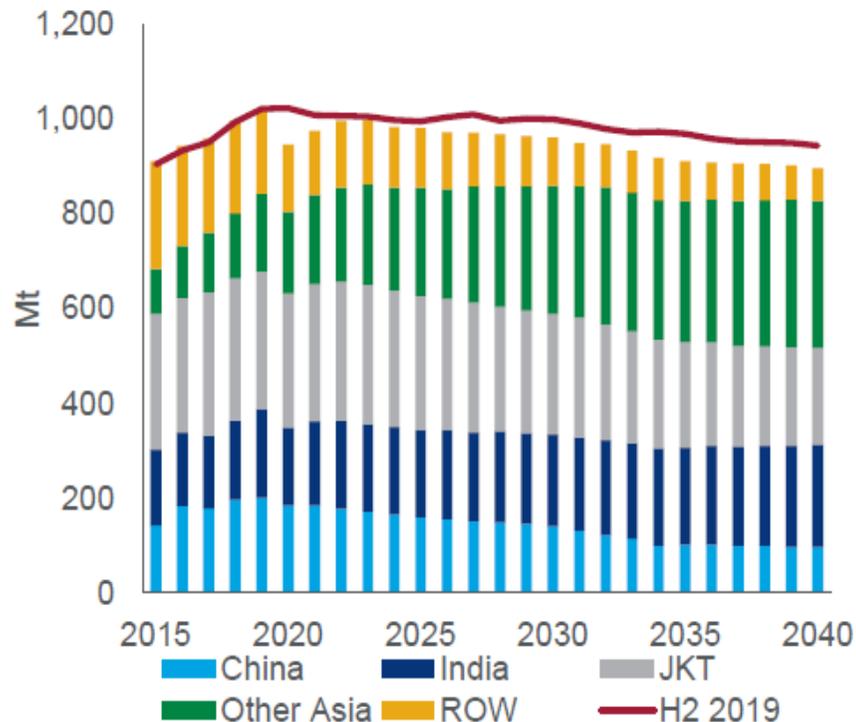
- YTD growth in import has been supported by Vietnam and Thailand which have experienced significant power demand growth.

## AUSTRALIA

- Production cuts expected due to subdued coal prices and increasing costs.

# Positive Outlook in the Long-Term

Seaborne thermal coal demand by region (Mt)



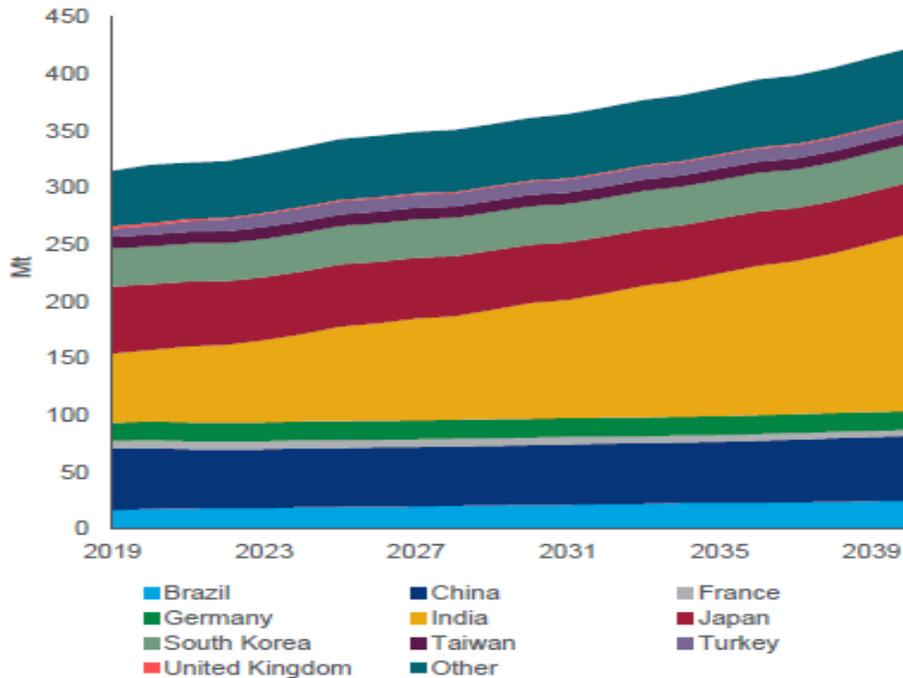
Note: JKT (Japan, Korea, Taiwan); RoW (rest of the world)

Source: Wood Mackenzie, Global thermal coal long-term outlook H1 2020 slidepack

- Electrification in the developing world continues to drive thermal coal demand with Southeast Asia and South Asia becoming more dominant in the seaborne market.
- Indonesian coal has the advantage of proximity with the growing markets and it has naturally low pollutant content compared to other coal in the seaborne market.
- Global seaborne thermal coal demand is estimated to remain in the ~1 Bt mark in the long-term.

# Metallurgical Coal: Resilient Outlook

Demand: Global metallurgical coal imports (Mt)



- Covid-19 has posed challenges for met coal market in 2020 as a result of declining global steel production.
- However, long term outlook remains resilient in line with the expected growth in steel production and consumption. Demand is expected to reach 387 Mt in 2030.
- China and India are expected to lead demand growth in the next decade.

Source: Wood Mackenzie, Global metallurgical coal long-term outlook H2 2019 slidepack

# Performance of Adaro Energy

---



# Solid operational and financial results

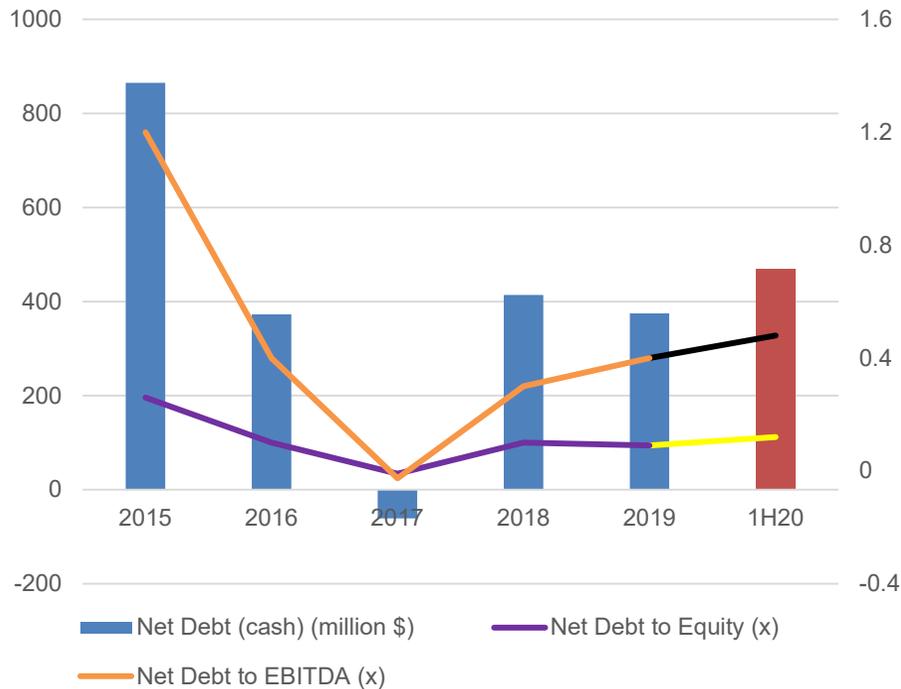


OPERATIONAL	1H20	1H19	% Change
Production (Mt)	27.29	28.47	-4%
Sales (Mt)	27.13	28.77	-6%
OB removal (Mbcm)	103.01	127.49	-19%
FINANCIAL (US\$ millions, unless indicated)	1H20	1H19	% Change
Net Revenue	1,363	1,775	-23%
Core Earnings	227	371	-39%
Operational EBITDA	465	691	-33%
Cash	1,075	895	20%
Net Debt	470	391	20%
Capex	115	245	-53%
Free Cash Flow	312	262	19%
Operational EBITDA Margin	34.2%	38.9%	-5%
Net Debt to Equity (x)	0.12	0.09	0.03
Net Debt to Last 12 months Operational EBITDA (x)	0.48	0.26	0.22
Cash from Operations to Capex (x)	3.57	2.51	1.06

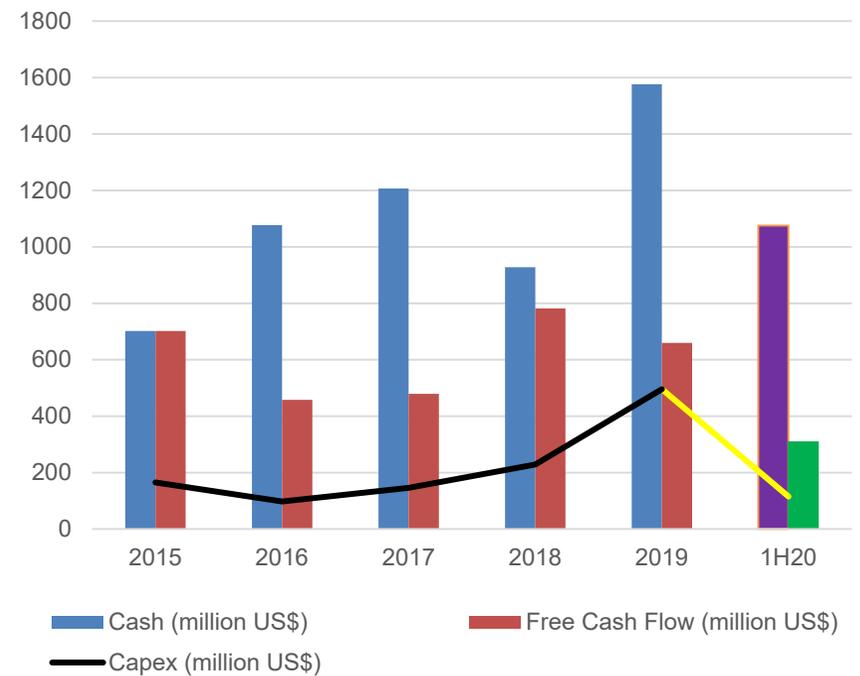
# Solid balance sheet and strong cash generation



## Reduced debt and improved financial position

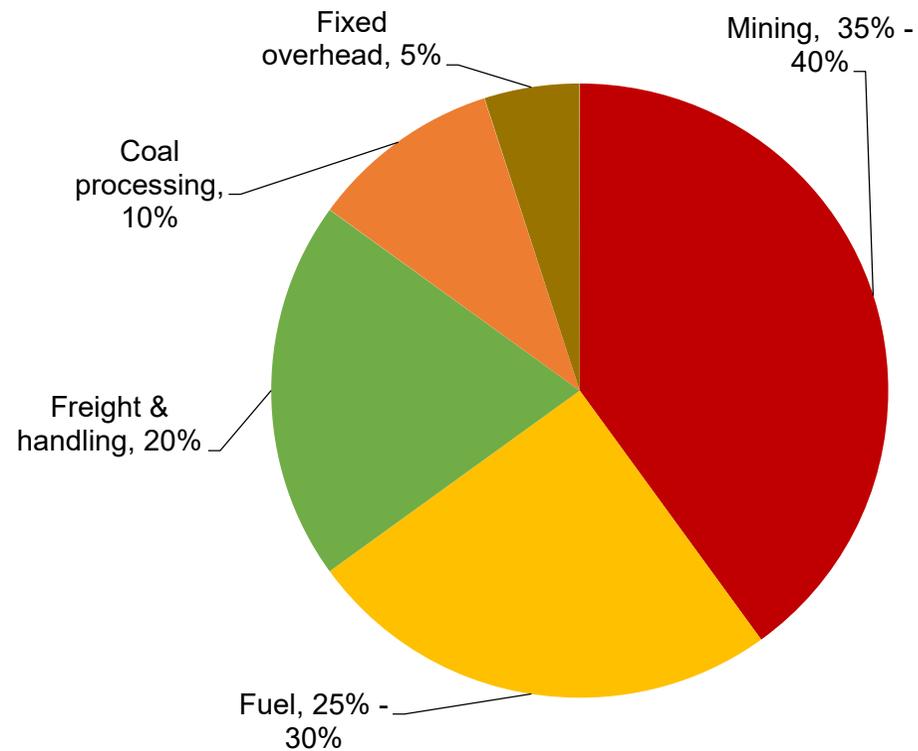


## Strong cash balance and free cash flow generation

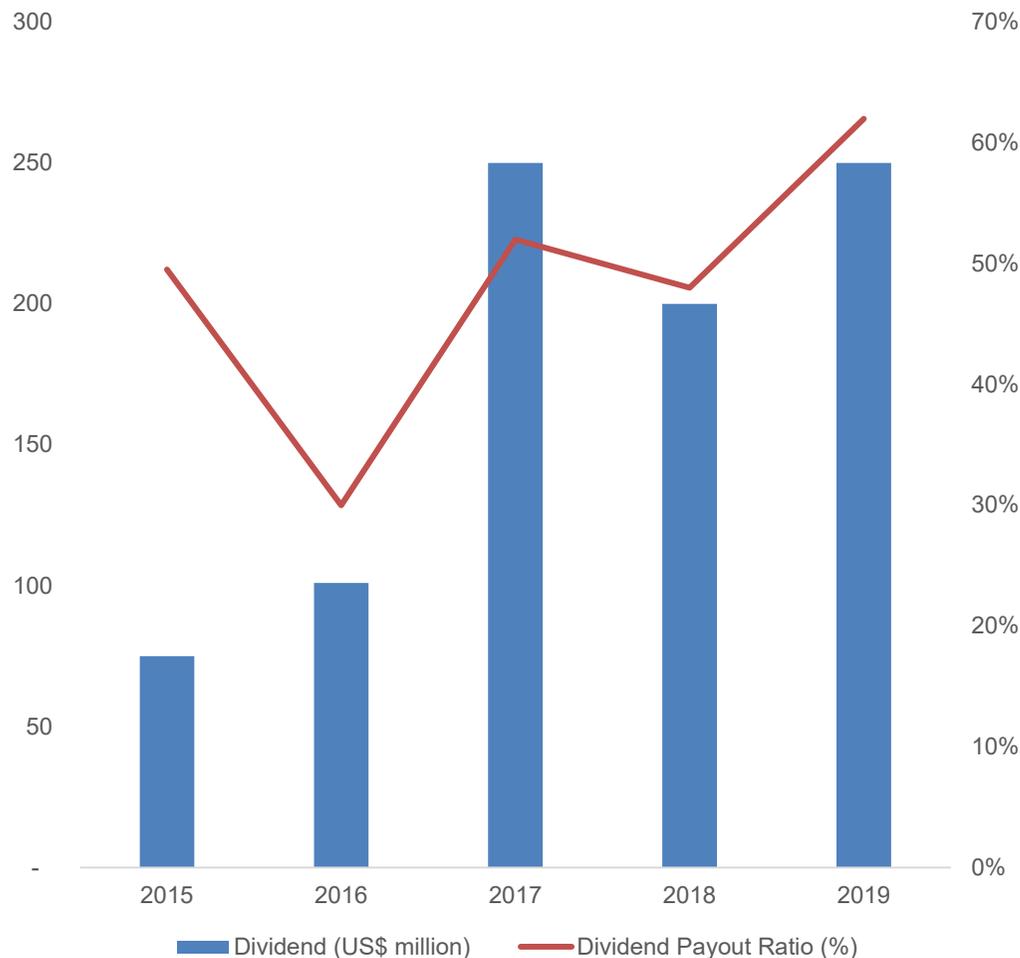


# Cost control – key for strong performance

## Adaro's estimated coal cash cost breakdown (1H20)



# Delivering return to shareholder



- We are committed to deliver return to our shareholders through consistent dividend payment.
- Dividend payout ratio since IPO in 2008 averages ~40% and in total we have paid more than US\$1.6 billion in dividend.
- We paid a total of US\$250 million dividend for 2019 (62% payout ratio), which included US\$150 million interim dividend paid on January 15, 2020 and final dividend of US\$100 million paid on June 19, 2020.

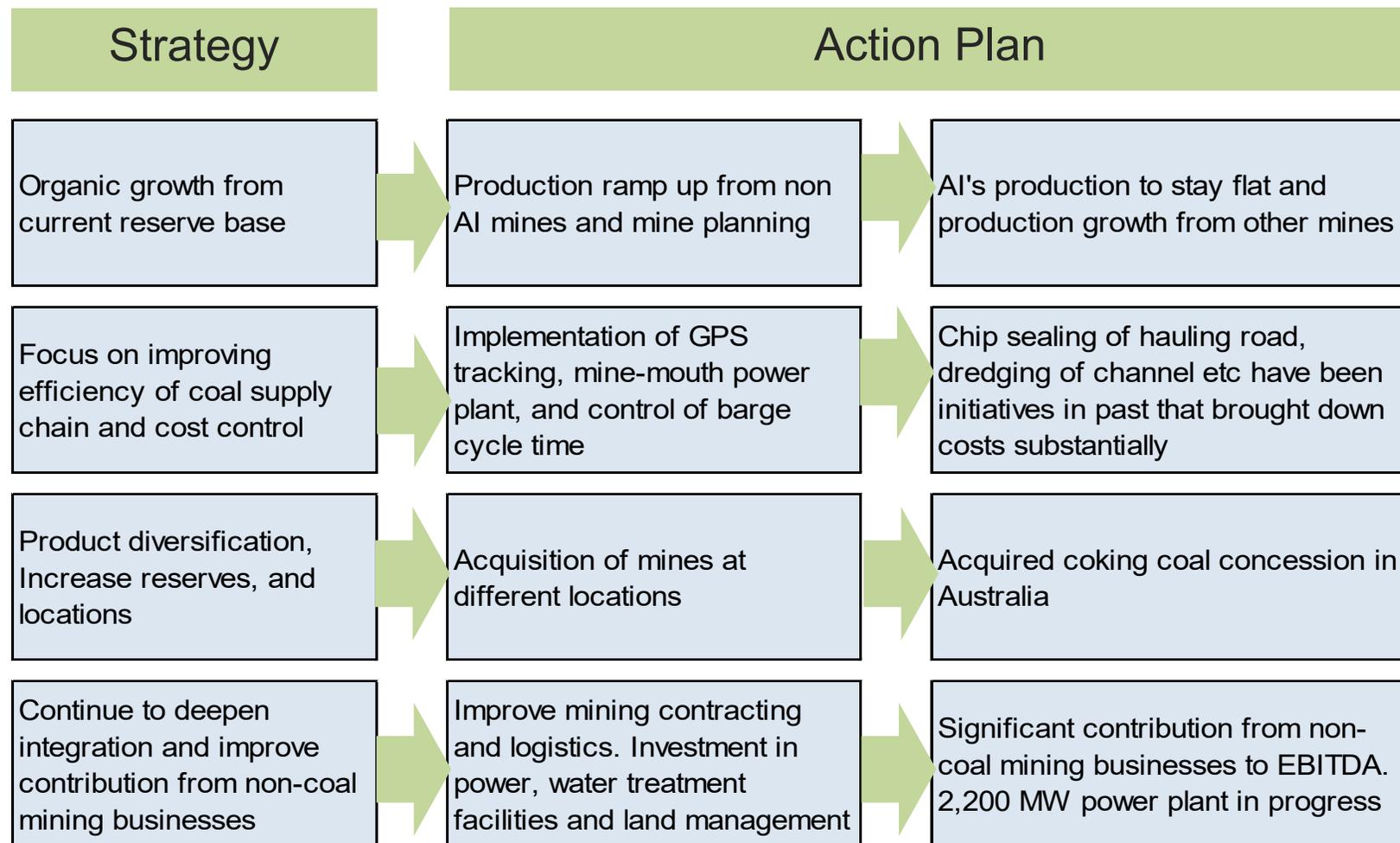


# Snapshot of Adaro Energy

---



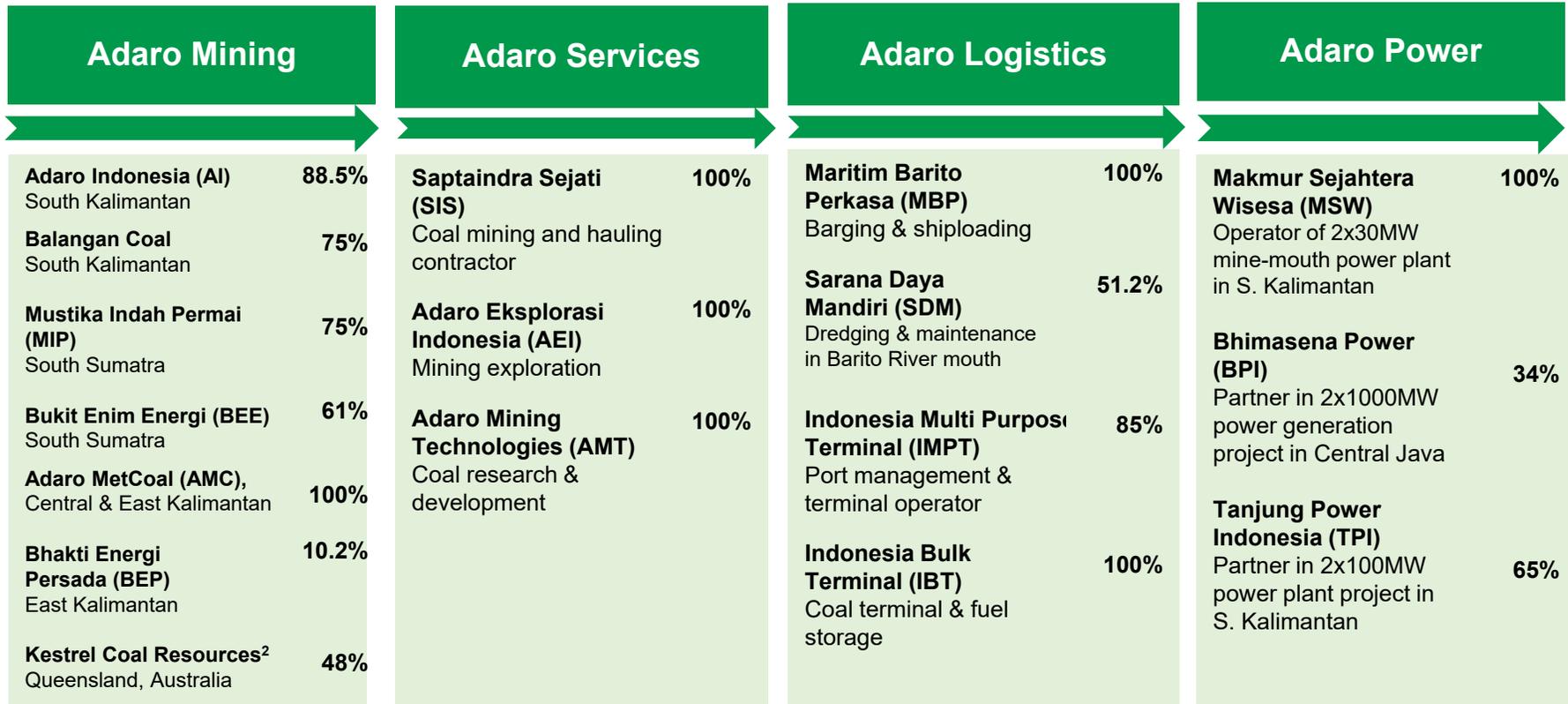
# Creating maximum sustainable value



# Resilient integrated business model

## PT Adaro Energy Tbk (AE)<sup>1</sup>

1) Simplified Corporate Structure



2) Kestrel Coal Resources has 80% ownership on Kestrel Coal Mine.

# Eight business pillars – diversifying beyond coal



- Adaro Energy is well aware of the cyclical nature of the coal industry and its impact to our business. Therefore we are diversifying our business model beyond coal mining and currently operates under eight business pillars.
- Adaro Energy has subsidiaries within each pillar that performs as independent profit centers and strive to keep expanding third-party business besides serving the Adaro Group.



adaro   
MINING

# Adaro Mining

---



# Performance in 1H20

	Units	2Q20	1Q20	2Q20 vs. 1Q20	2Q19	2Q20 vs. 2Q19	1H20	1H19	1H20 vs. 1H19
Coal Production	Mt	12.88	14.41	-11%	14.73	-13%	27.29	28.47	-4%
Sales Volume	Mt	12.74	14.39	-11%	15.42	-17%	27.13	28.77	-6%
Overburden Removal	Mbcm	53.25	49.76	7%	65.99	-19%	103.01	127.49	-19%
Strip Ratio	x	4.13	3.45	20%	4.48	-8%	3.77	4.48	-16%

- Total coal production in 1H20 was 27.29 Mt, 4% y-o-y as we experienced prolonged rainy season at our operational areas and lower demand due to slower global economy and lower industrial electricity demand as a result of COVID-19 lockdowns.
- Sales of our coal in 1H20 was 27.13 Mt, 6% lower y-o-y.
- We removed 103.01 Mbcm of overburden in 1H20, 19% decline y-o-y, in line with our guidance to lower strip ratio this year.

# Large Coal Reserves and Diverse Portfolio

**1**  
Adaro Indonesia: 88.5%  
*Existing, S Kalimantan sub-bituminous Resources: 3 Bt Reserves: 821 Mt*

**2**  
Balangan Coal Companies: *S Kalimantan sub-bituminous Resources 248Mt Reserves 135Mt*

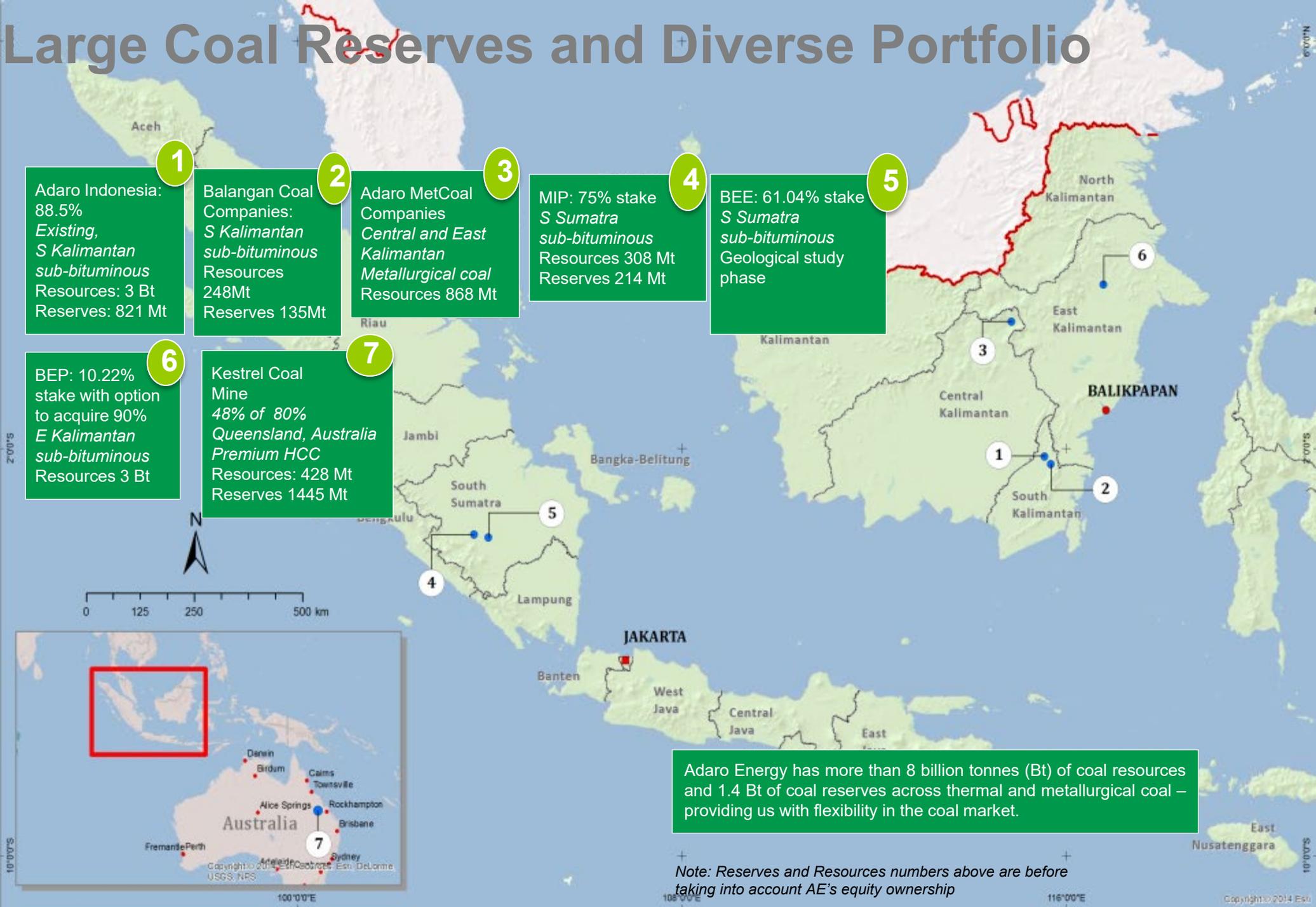
**3**  
Adaro MetCoal Companies *Central and East Kalimantan Metallurgical coal Resources 868 Mt*

**4**  
MIP: 75% stake *S Sumatra sub-bituminous Resources 308 Mt Reserves 214 Mt*

**5**  
BEE: 61.04% stake *S Sumatra sub-bituminous Geological study phase*

**6**  
BEP: 10.22% stake with option to acquire 90% *E Kalimantan sub-bituminous Resources 3 Bt*

**7**  
Kestrel Coal Mine *48% of 80% Queensland, Australia Premium HCC Resources: 428 Mt Reserves 1445 Mt*



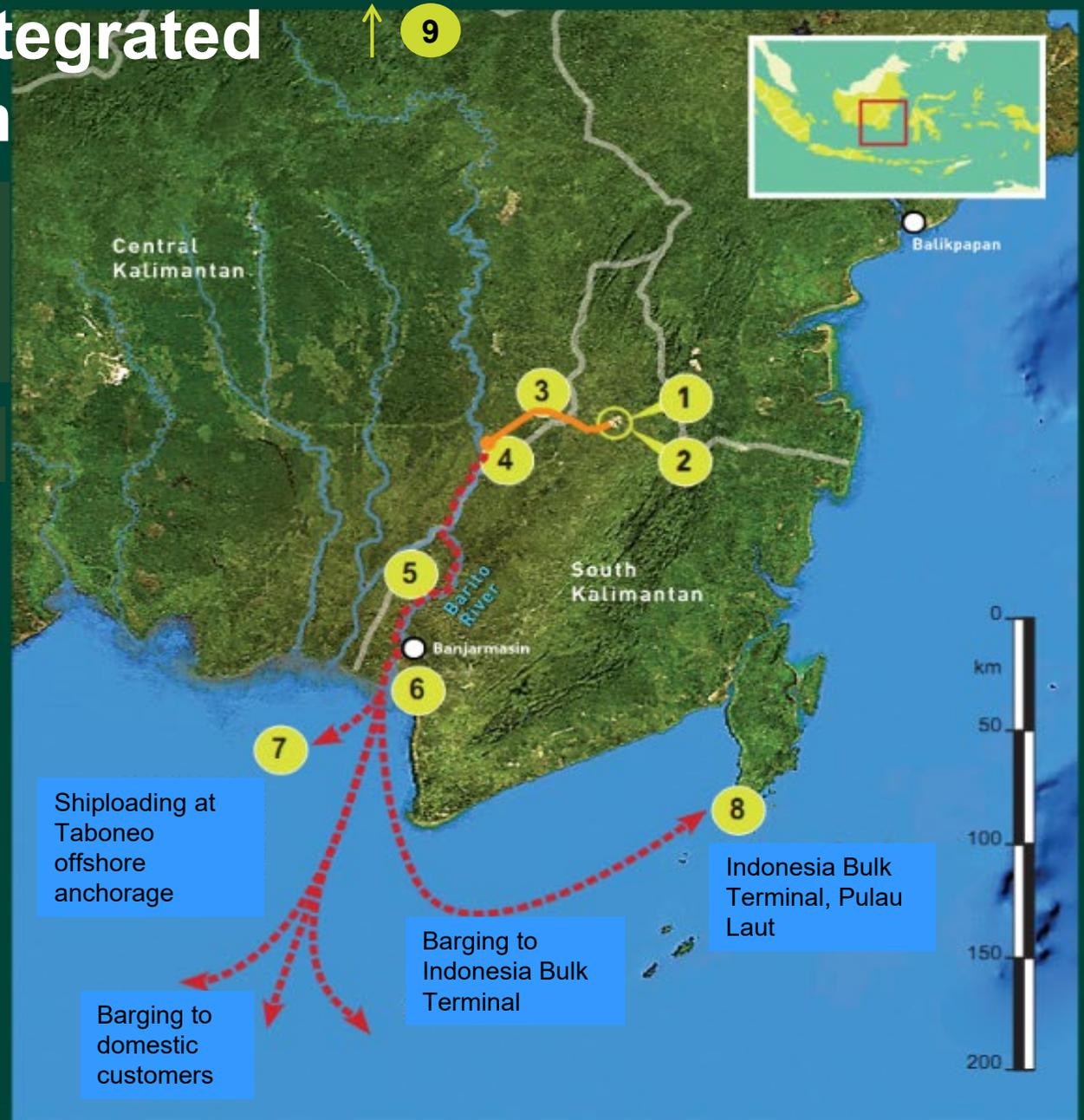
Adaro Energy has more than 8 billion tonnes (Bt) of coal resources and 1.4 Bt of coal reserves across thermal and metallurgical coal – providing us with flexibility in the coal market.

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

# Adaro Energy's Integrated Coal Supply Chain

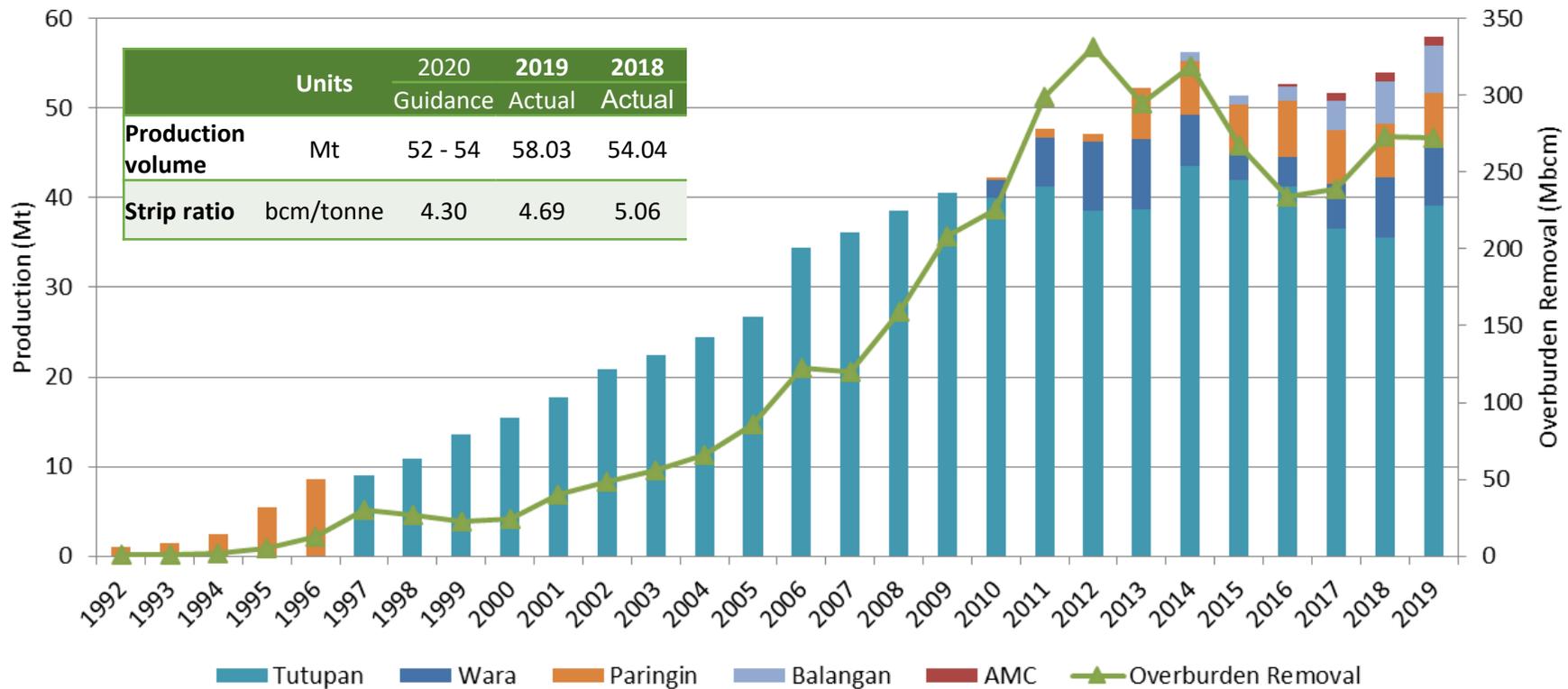
Adaro Energy's main thermal coal mines are located in South Kalimantan, and account for the majority of Adaro Group's coal production. Adaro Indonesia and other key subsidiaries form the main part of the coal supply chain with help from third-party contractors.

- 1 Coal Concessions of AI and Balangan Coal Companies
- 2 Contract mine operations by PT Saptaindra Sejati (SIS)
- 3 Coal hauling road owned and operated by Adaro Indonesia
- 4 Coal crushing and barge loading at Kelanis river bulk terminal by Adaro Indonesia.
- 5 Coal barging to the sea along Barito River by PT Maritim Barito Perkasa (MBP)
- 6 River channel operation and maintenance by PT Sarana Daya Mandiri (SDM)
- 7 Shiploading and sea barging by PT Maritim Barito Perkasa (MBP)
- 8 Coal terminal and fuel supply services by PT Indonesia Bulk Terminal (IBT)
- 9 Coal Concessions of AMC



# Over two decades of solid performance

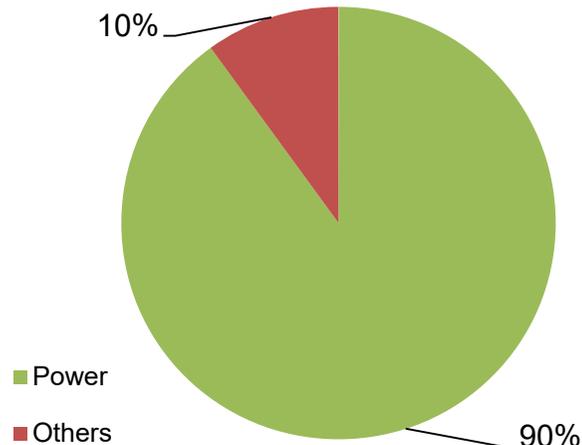
## Adaro Historical Production



- Produce low to medium heat value thermal 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.

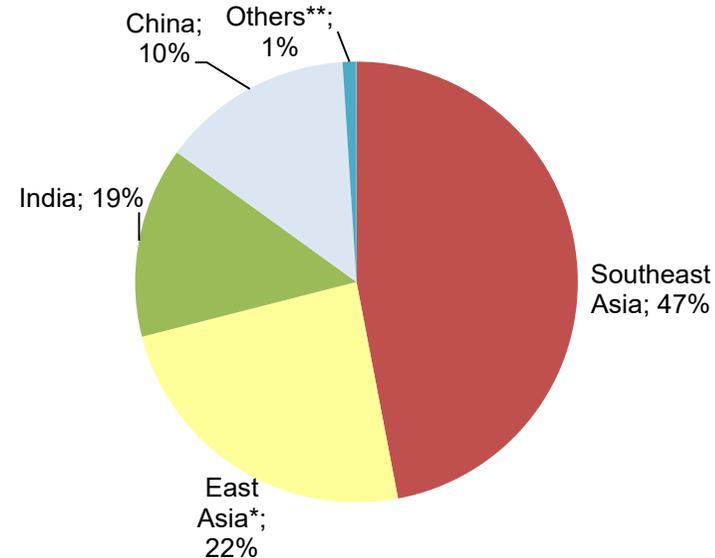
# Strong Customer Base with Focus on Emerging Asia

Customer type by volume (1H20)



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

Geographical breakdown of customers (1H20)

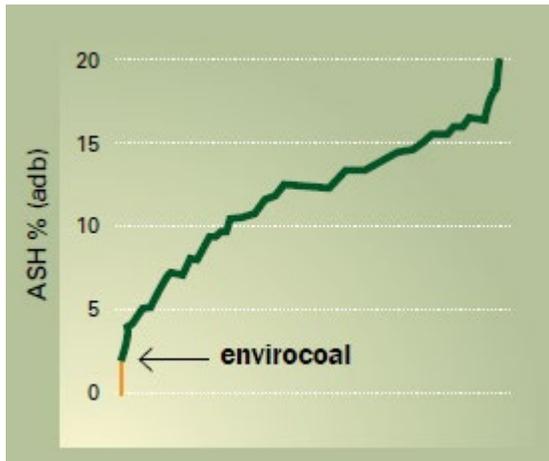


\* Excluding China

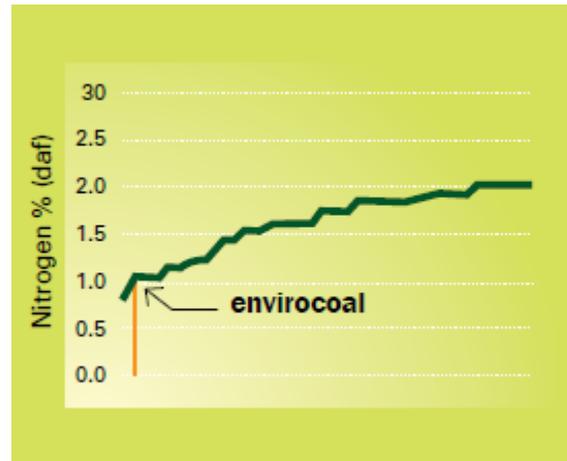
\*\* Others: New Zealand, Pakistan and Europe

- Most customers are sovereign backed power companies, with over 50% have had a relationship for more than a decade
- Long-term volume contract with customers provide stability and volume visibility.
- 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.

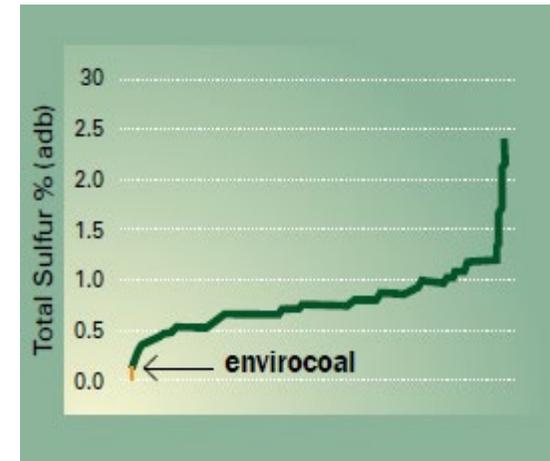
# Envirocoal – a positive energy



Ash content: 2%-3% (adb)



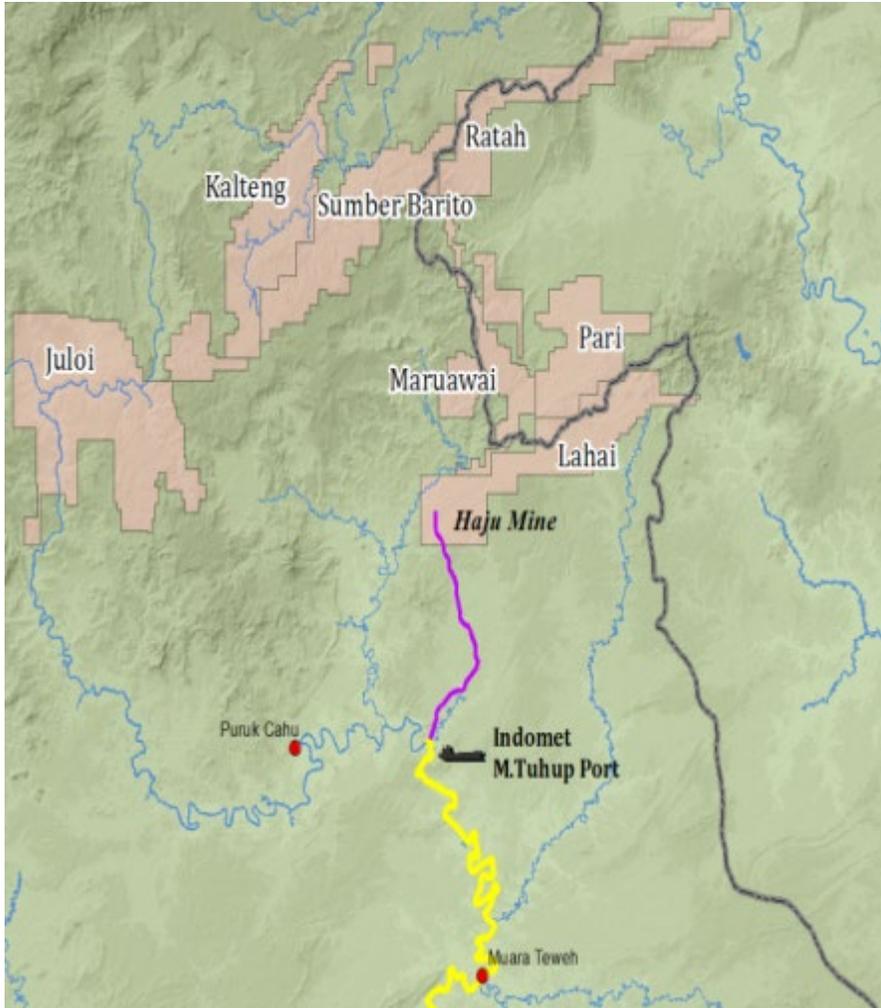
Nitrogen content : 0.9% - 1.0% (daf)



Sulfur content: 0.1% - 0.25% (adb)

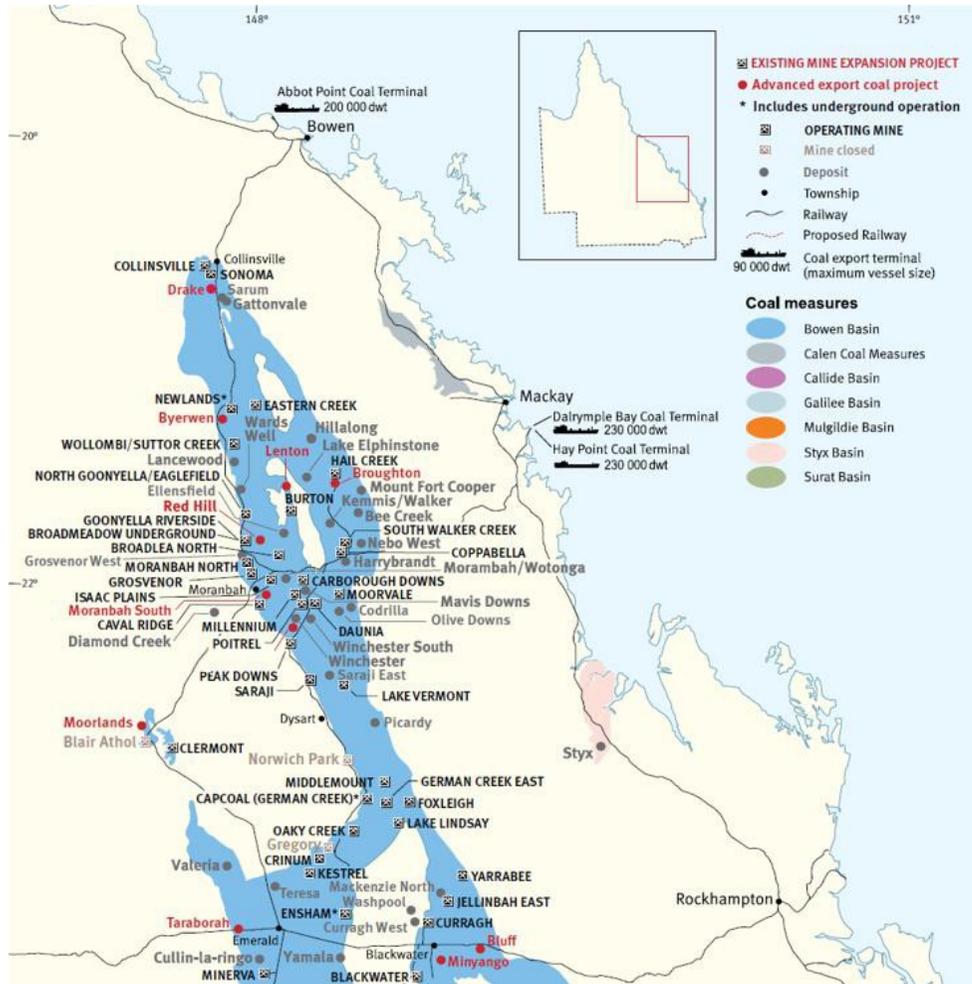
- Lowest ash content among coals produced for global export trade, providing consumers with significant cost savings.
- Blending Envirocoal with higher ash coal reduces the on-costs associated with ash disposal.
- Reduces deposition rates in boilers improving thermal efficiency and reducing maintenance costs.
- Envirocoal is amongst the 10 lowest coals by nitrogen content.
- Enables consumers to reduce the costs associated with removing nitrous oxides from the flue gases.
- Results in more net power for sale and lower electricity production cost.
- Envirocoal's ultra low sulfur content enables consumers to meet regulated standards and delay capital expenditure, reducing the cost of plant operation.
- Flue gas desulfurization units can cost up to 20% of the total capital expenditure of a new power station.

# Adaro MetCoal Companies (AMC)



- Adaro Energy completed the acquisition of AMC from BHP Billiton for 7 CCOWs in Central and East Kalimantan in 2016.
- The transaction value was \$120 million for 75% of the properties. Adaro now owns 100% of the asset.
- AMC's mining activities have progressed to Lampunut mine from the Maruwai concession.
- In 1H20, coal production was 0.72 Mt and coal sales was 0.72 Mt.

# Kestrel Coal Mine



- EMR Capital and Adaro Energy completed the acquisition of Rio Tinto's 80% interest in the Kestrel Coal Mine (Kestrel) on August 1<sup>st</sup>, 2018.
- Since the acquisition, Kestrel has embarked on efficiency improvement programs throughout the business.
- Kestrel saleable production in 1H20 reached 3.10 Mt and sales reached 3.25 Mt.
- Product is sold mainly to Asian markets: India, South Korea, Japan and China.



# Adaro Services and Adaro Logistics

---



# Ensuring operational excellence

*Strengthens Adaro Group's Earnings Profile as Contribution Increases*

- Key part of our vertical integration.
- Ensures operational excellence, productivity improvement and timely reliable delivery to customers.
- Stable earnings profile buffers against the volatility in coal price.
- Actively pursue third-party revenue growth from these businesses.



		Units	2Q20	1Q20	2Q20 vs. 1Q20	2Q19	2Q20 vs. 2Q19	1H20	1H19	1H20 vs. 1H19
SIS	Overburden Removal	Mbcm	<b>42.23</b>	42.42	0%	53.76	-21%	84.65	107.86	-22%
	Coal Production	Mt	<b>10.41</b>	11.11	-8%	12.24	-16%	21.52	23.60	-9%
MBP	Coal barging	Mt	<b>10.82</b>	<b>11.96</b>	<b>-10%</b>	<b>13.56</b>	<b>-20%</b>	<b>22.78</b>	<b>25.58</b>	<b>-11%</b>

adaro 

# 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 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 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>Debt vs. Equity</b>	80:20	75:25
<b>Construction Progress (2Q20)</b>	94.0%	In operation. Availability factor was 98.1% in 1H20.

- 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.

# Our Green Initiatives

---



# Balance of People, Planet and Profit



- We strive to balance our responsibilities among the generation of profit, the utilization of planet and employment of people.
- Our corporate social responsibility programs focus on five main areas: education, economic development, health, environmental enhancement, and socio-cultural enrichment.
- Our environmental programs cover four main areas: land, air, water, and biodiversity.
- We are actively participating in renewable power plant projects and use latest Ultra-Super Critical technology at our coal-fired power plant.

# Delivering beyond compliance



## Biodiesel plant initiatives

Adaro is a pioneer and the only mining company to own a biodiesel plant.

Launched in May 2011, this facility processes jatropha, palm and waste oil from our kitchen at the site as raw material in producing biodiesel.



## Water treatment facilities

Adaro is a pioneer in processing waste water from mining activities into clean potable water.

We then distribute the clean water to surrounding communities as well as using it for internal consumption.

# Did you know?

*The benefits of Ultra-Super Critical technology*



## Higher efficiency

USC steam conditions provide more than 10% higher thermal efficiency compared to subcritical technology.

Higher thermal efficiency means lower coal consumption used to generate per unit of electricity, which in turn, lowers emissions.



## Lower pollution and emission

USC utilizes low NOx burner in fuel combustion process, fabric filter and FGD (Flue-Gas Desulphurization) in flue gas treatment process.

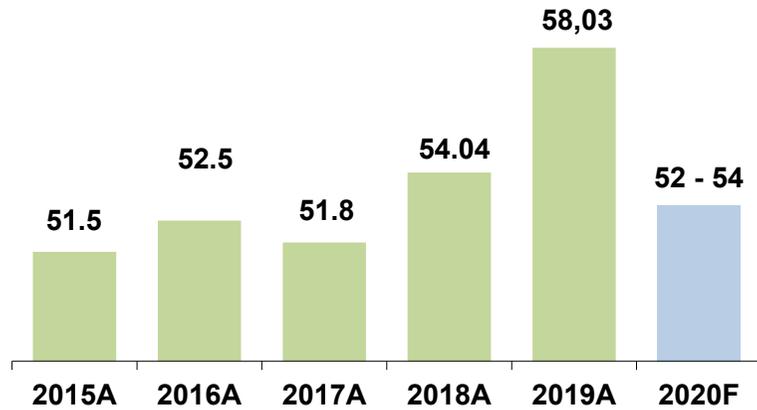
Low NOx burner will minimize NOx, Fabric Filter will collect the particulate (fly ash) and FGD captures SO<sup>2</sup>. The result is lower emission at almost 50% of World Bank requirement.

**Adaro's 2x1,000 MW CFPP in Central Java will be a showcase of the latest high efficiency and more environmentally friendly power generation technology in Indonesia.**

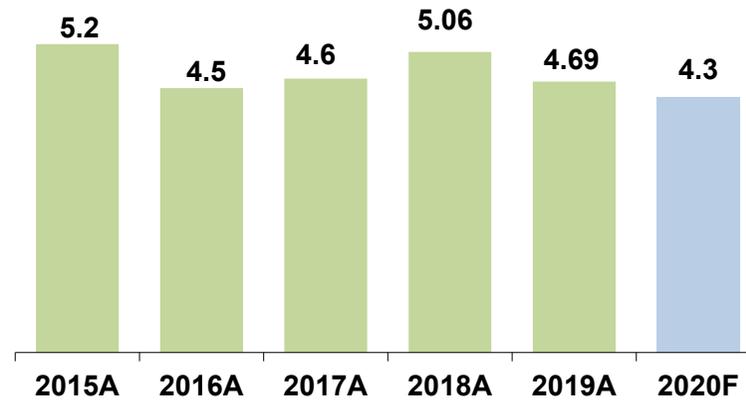
# Adaro Energy 2020 guidance



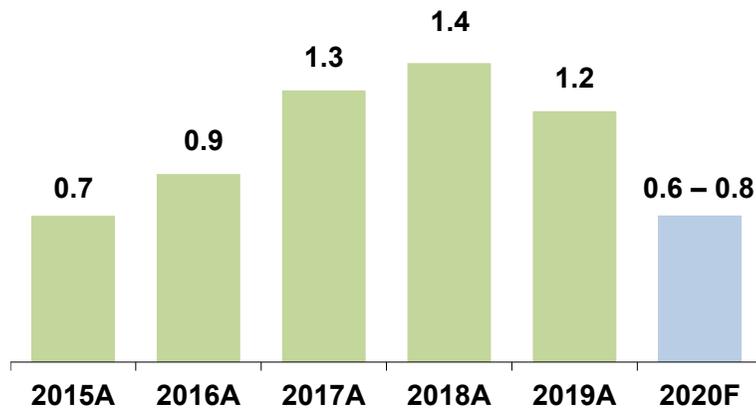
Coal production (Mt)



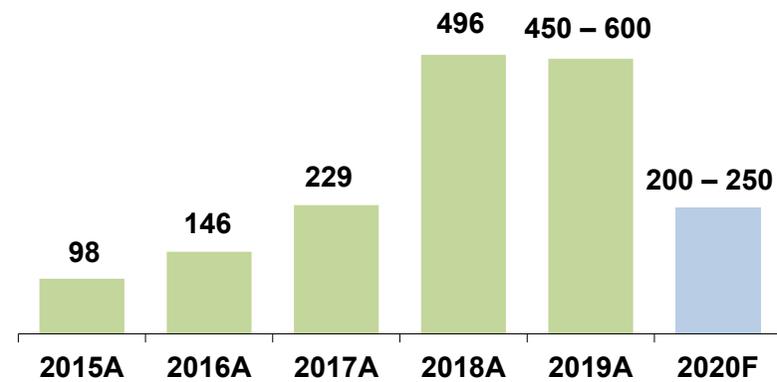
Consolidated planned strip ratio (bcm/t)



Operational EBITDA (US\$ billions)



Capital expenditure (US\$ million)



# Conclusions and takeaways

- Cautiously optimistic in the near term.
- Business model is resilient to withstand cyclicality.
  - Non-coal contribution buffers against volatility in the coal market.
- Long term fundamentals for coal remains promising.
  - Indonesia, Southeast Asia and South Asia will be the main demand drivers.
- Adaro offers a complete portfolio of coal products from low CV thermal coal to premium hard coking coal, providing us with flexibility in the coal market.
- We maintain a strong balance sheet, generate solid cash flow and execute strategic investment opportunities.
- We are committed to deliver return to shareholders through regular payment of cash dividend.

# Conclusions and takeaways

- Our eight business pillars is geared up to take more opportunities.
  - 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.

# Thank you

