



# PT Adaro Energy Tbk

May 2020

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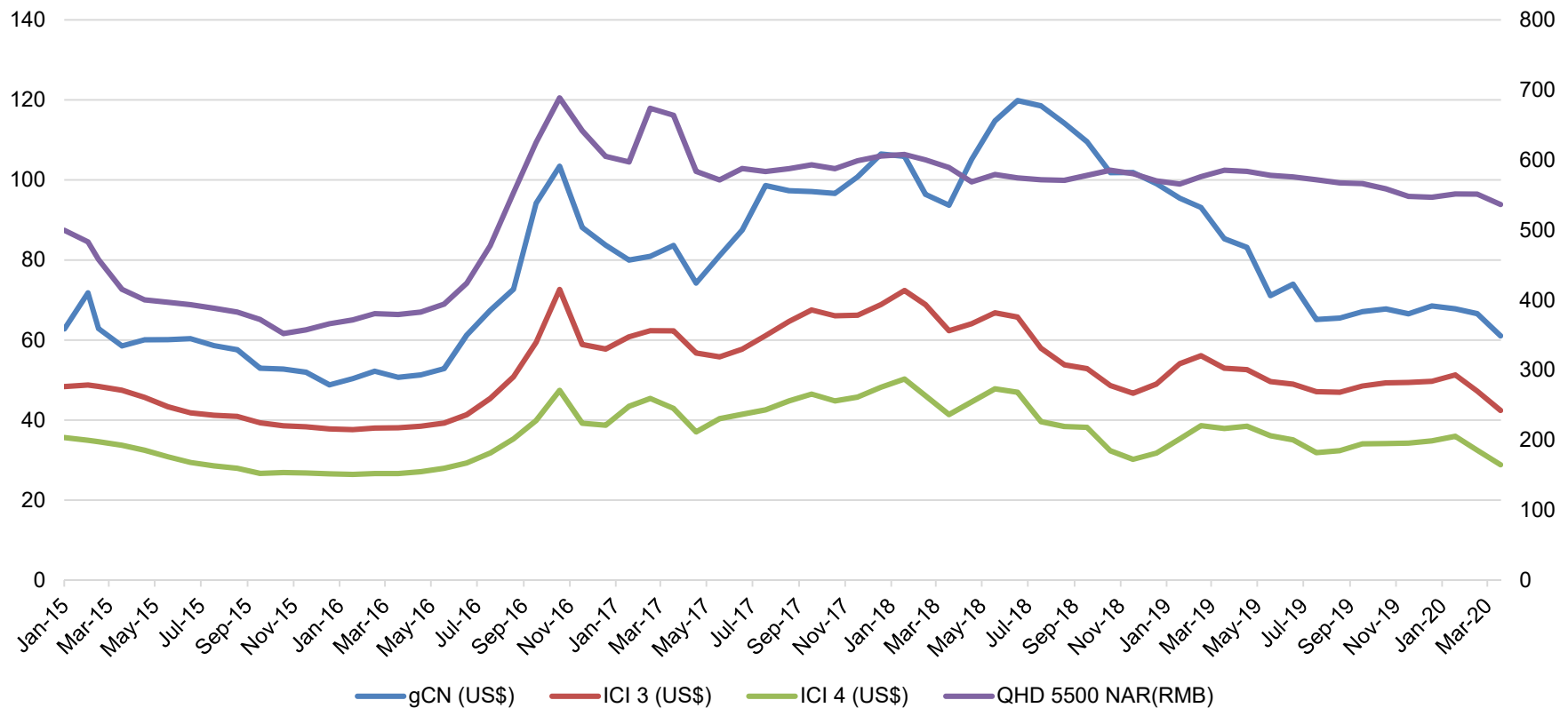
# Key Questions

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- What are the recent trends in coal market and coal price?
- 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

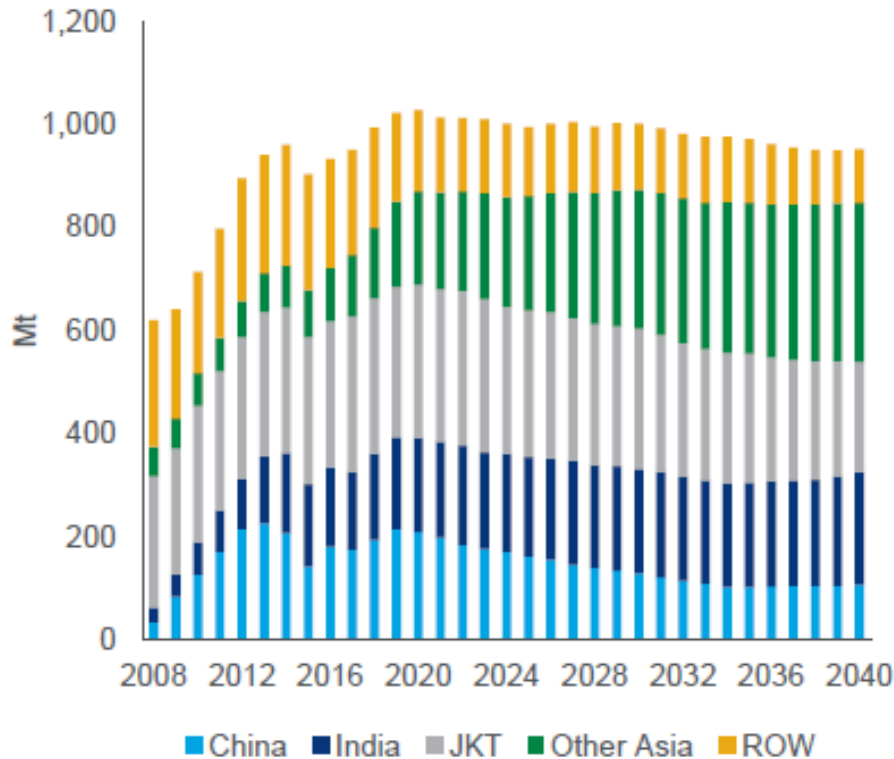


- Seaborne thermal coal demand in 2019 increased y-o-y driven by the Asian market: China, Indian Subcontinent, and Southeast Asia.
- The decline of benchmark gCN price in 1Q20 was due to decline in demand as governments limit industrial and business activities in the wake of Covid-19 pandemic.

# Thermal Coal: Positive Demand Outlook **adaro**



Seaborne thermal coal demand by region (Mt)



- Southeast Asia and South Asia will become more dominant in the seaborne market.
- Electrification in the developing world continues to drive thermal coal demand.
- Global seaborne thermal coal demand is estimated to remain in the ~1 Bt mark in the long-term.
- Coal market is expected to be more volatile in the short-term as a result of policy measures.

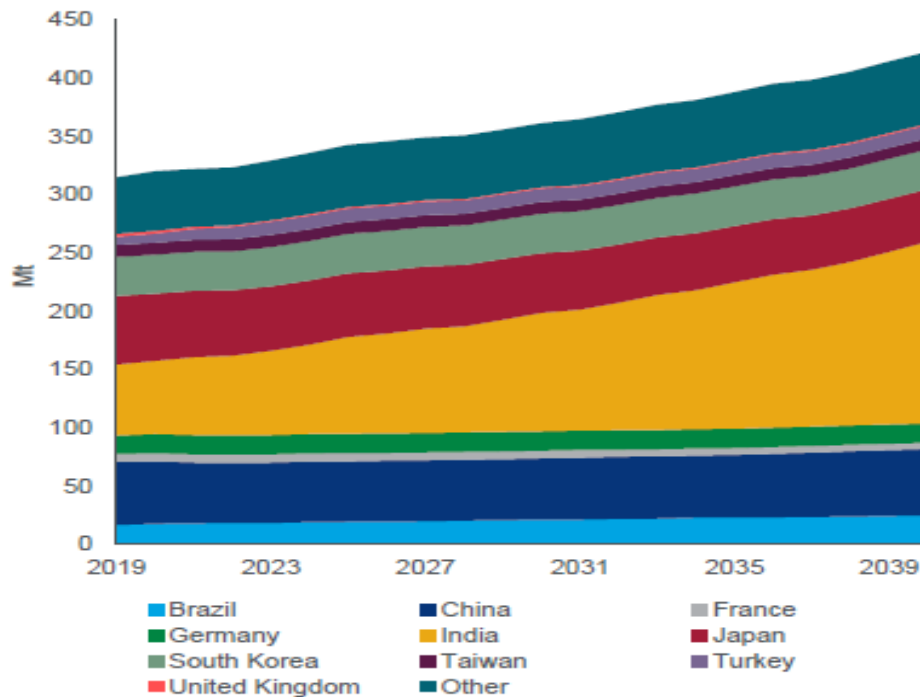
Note: JKT (Japan, Korea, Taiwan); SEA (Southeast Asia); RoW (rest of the world)

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

# Metallurgical Coal: Resilient Outlook



**Demand: Global metallurgical coal imports (Mt)**



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

- As steel production and consumption continue to grow, so does the demand for metallurgical coal.
- It is expected that global seaborne demand for metallurgical coal will rise from 313 Mt in 2019 to 422 Mt in 2040. India is expected to spearhead the demand growth.
- Australia dominates the supply of metallurgical coal, supplying more than 60% of seaborne requirement, while demand is spearheaded by China and India followed by Japan and South Korea.



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# Performance of Adaro Energy

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# Solid operational and financial results



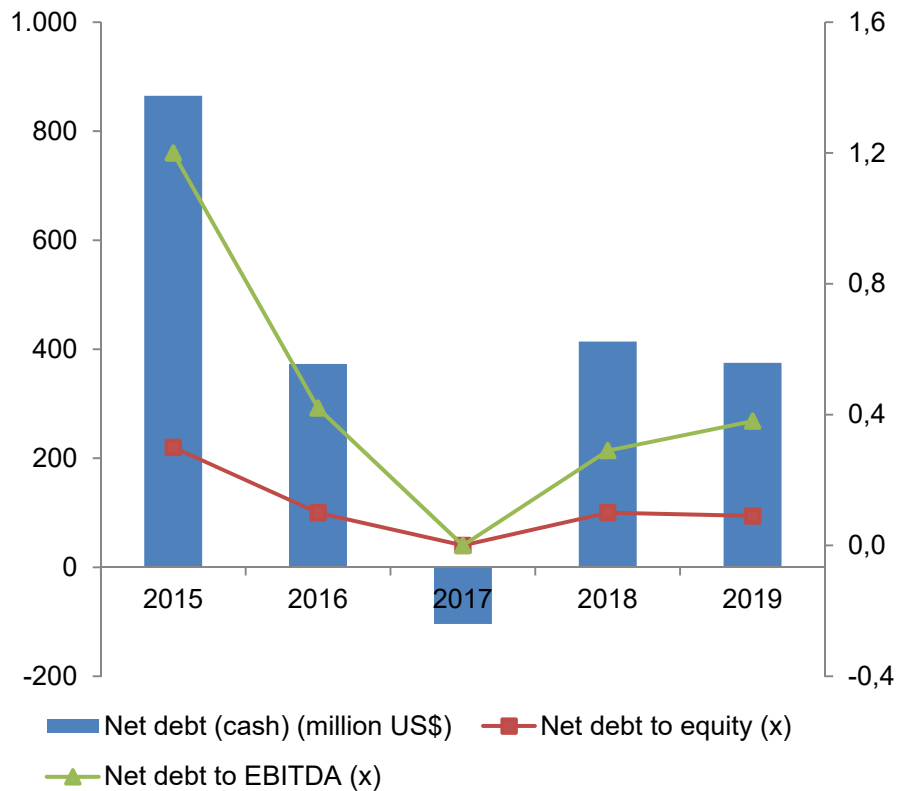
OPERATIONAL	1Q20	1Q19	% Change
Production (Mt)	14.41	13.75	5%
Sales (Mt)	14.39	13.35	8%
OB removal (Mbcm)	49.76	61.50	-19%
FINANCIAL (US\$ millions, unless indicated)	1Q20	1Q19	% Change
Net Revenue	750	846	-11%
Core Earnings	134	166	-19%
Operational EBITDA	265	323	-18%
Cash	1,251	813	54%
Net Debt	568	460	23%
Capex	56	106	-47%
Free Cash Flow	187	115	63%
Operational EBITDA Margin	35.3%	38.2%	-7%
Net Debt to Equity (x)	0.14	0.10	40%
Net Debt to Last 12 months Operational EBITDA (x)	0.49	0.32	57%
Cash from Operations to Capex (x)	2.56	2.63	-3%



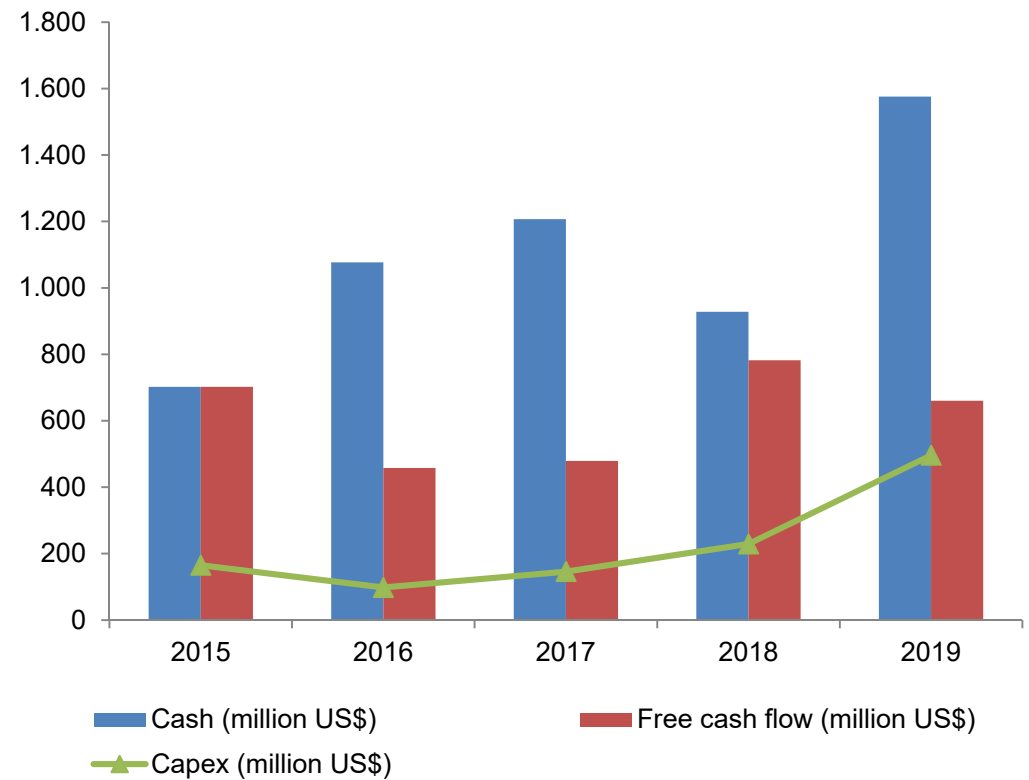
# Solid balance sheet and strong cash generation



## Reduced debt and improved financial position



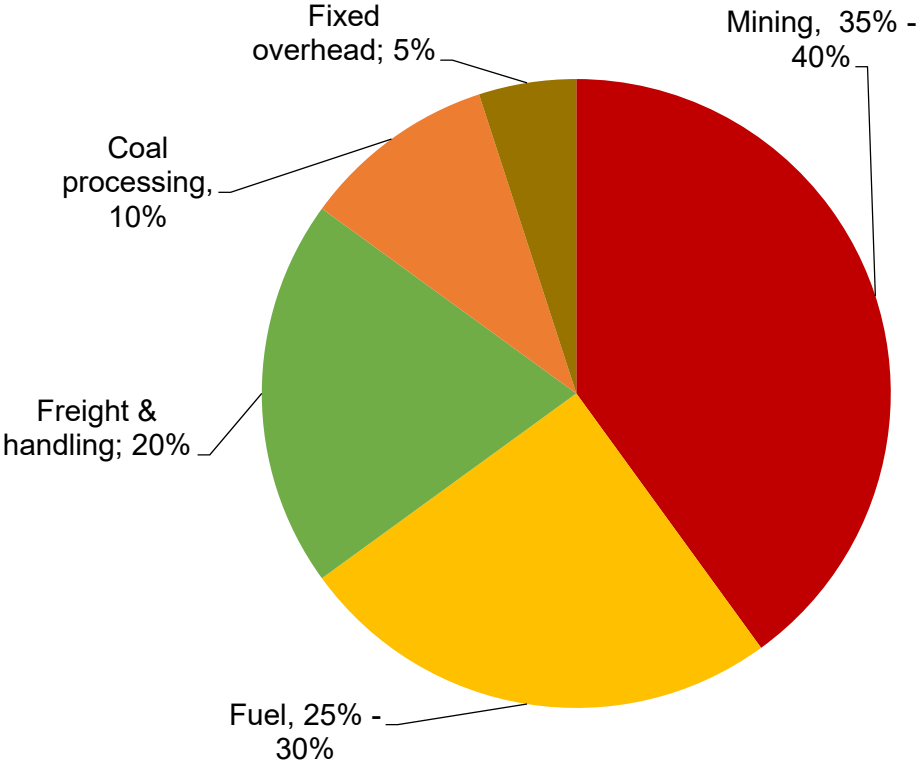
## Strong cash balance and free cash flow generation



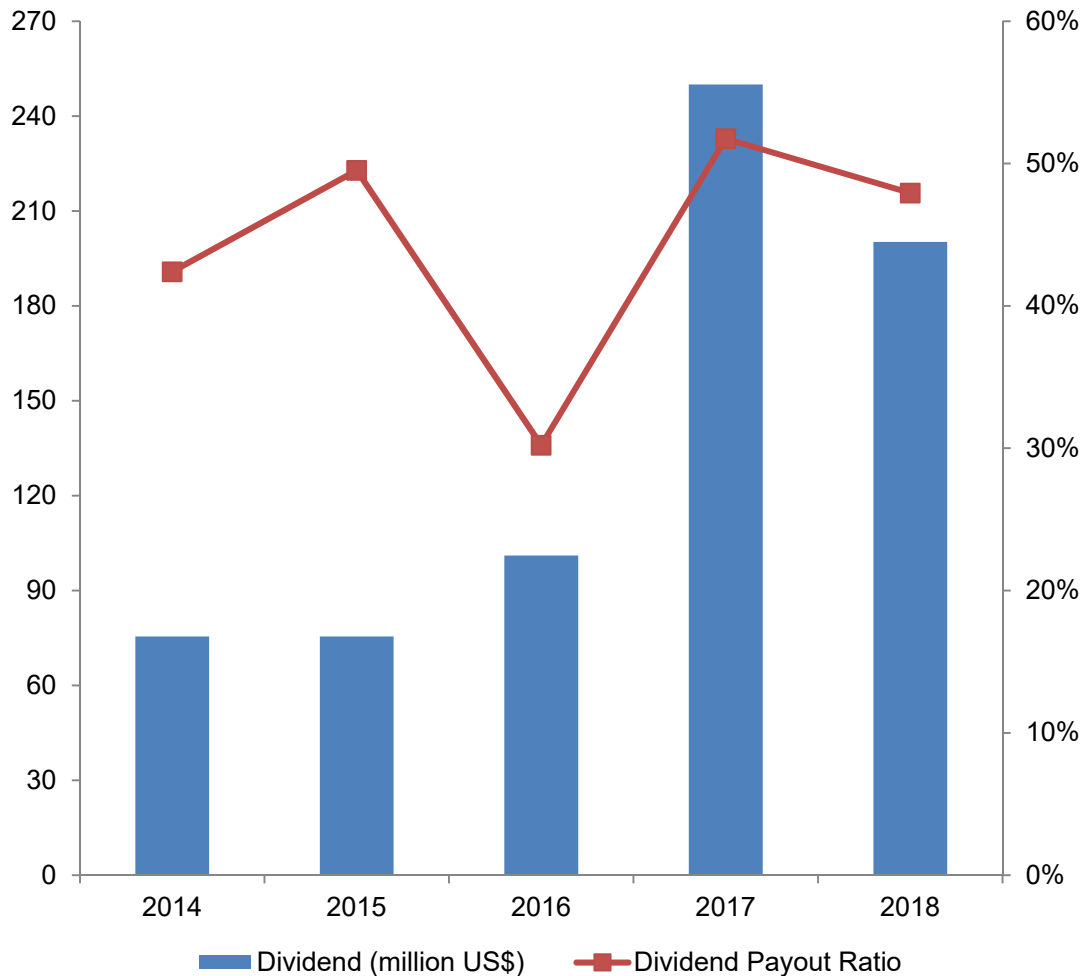
# Cost control – key for strong performance



**Adaro's estimated coal cash cost breakdown (FY19)**



# 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\$1.4 billion in dividend.
- We paid total dividend of US\$200 million for 2018, which translated to a payout ratio of 48%.
- The management has approved to distribute an interim dividend of US\$150 million for 2019 to be paid on January 15, 2020.



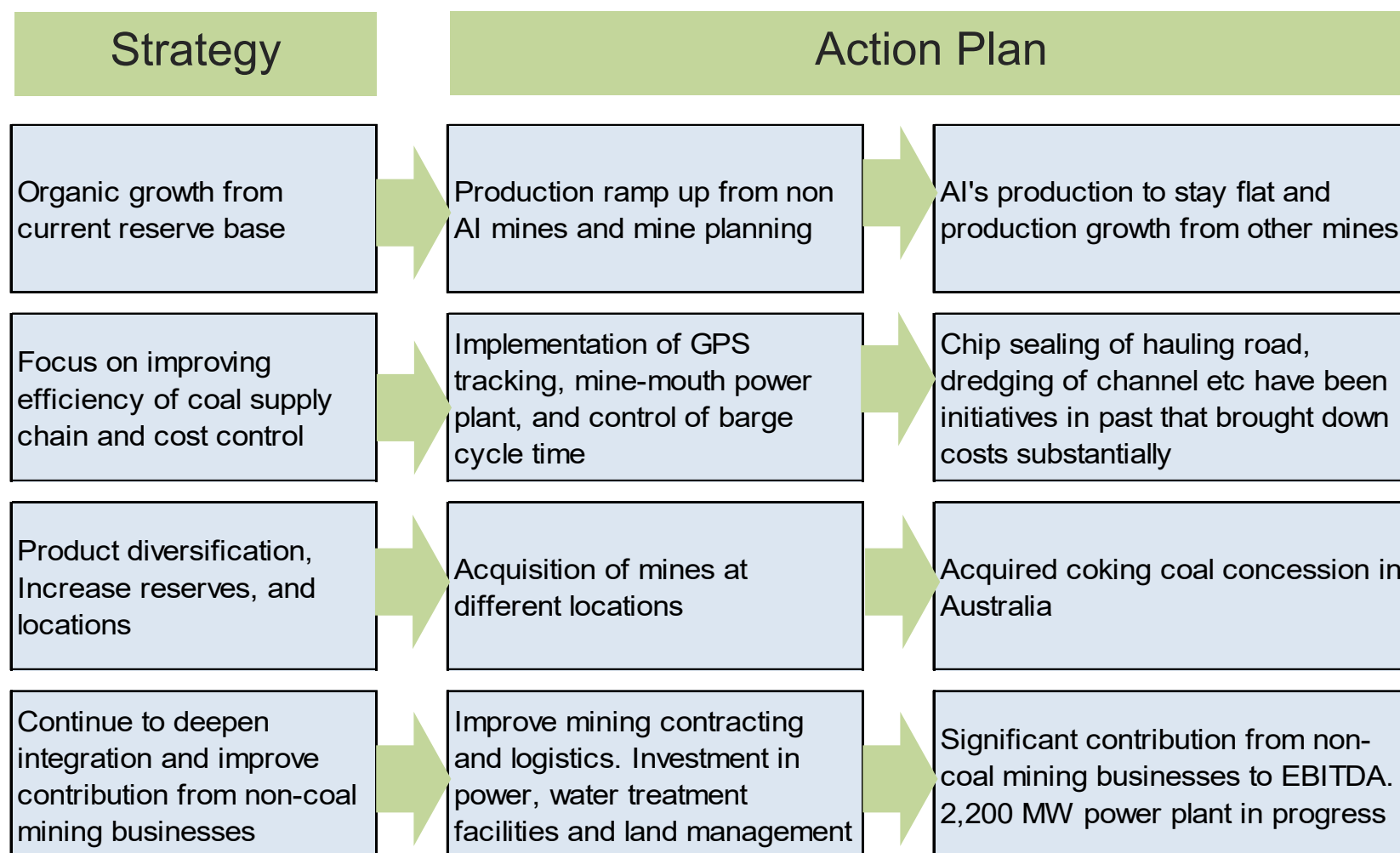
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# Snapshot of Adaro Energy

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# Creating maximum sustainable value



# Resilient integrated business model



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

1) Simplified Corporate Structure

Adaro Mining		Adaro Services		Adaro Logistics		Adaro Power	
<b>Adaro Indonesia (AI)</b> South Kalimantan	88.5%	<b>Saptaindra Sejati (SIS)</b> Coal mining and hauling contractor	100%	<b>Maritim Barito Perkasa (MBP)</b> Barging & shiploading	100%	<b>Makmur Sejahtera Wisesa (MSW)</b> Operator of 2x30MW mine-mouth power plant in S. Kalimantan	100%
<b>Balangan Coal</b> South Kalimantan	75%	<b>Adaro Eksplorasi Indonesia (AEI)</b> Mining exploration	100%	<b>Sarana Daya Mandiri (SDM)</b> Dredging & maintenance in Barito River mouth	51.2%	<b>Bhimasena Power (BPI)</b> Partner in 2x1000MW power generation project in Central Java	34%
<b>Mustika Indah Permai (MIP)</b> South Sumatra	75%	<b>Adaro Mining Technologies (AMT)</b> Coal research & development	100%	<b>Indonesia Multi Purpose Terminal (IMPT)</b> Port management & terminal operator	85%	<b>Tanjung Power Indonesia (TPI)</b> Partner in 2x100MW power plant project in S. Kalimantan	65%
<b>Bukit Enim Energi (BEE)</b> South Sumatra	61%			<b>Indonesia Bulk Terminal (IBT)</b> Coal terminal & fuel storage	100%		
<b>Adaro MetCoal (AMC)</b> , Central & East Kalimantan	100%						
<b>Bhakti Energi Persada (BEP)</b> East Kalimantan	10.2%						
<b>Kestrel Coal Resources<sup>2</sup></b> Queensland, Australia	48%						



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

# Eight business pillars – diversifying beyond coal

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- 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.



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MINING

# Adaro Mining

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# Performance in 1Q20

	Units	1Q20	1Q19	1Q20 vs. 1Q19
Coal Production	Mt	14.41	13.75	5%
Sales Volume	Mt	14.39	13.35	8%
Overburden Removal	Mbcm	49.76	61.50	-19%
Strip Ratio	x	3.45	4.47	-23%

- We posted an 5% y-o-y increase in coal production to 14.41 Mt as a result of strong operational performance and robust customer demand. Strong output from our contractors, and favorable weather condition supported our operation in the period.
- Sales of our coal increased by 8% to 14.39 Mt.
- We booked a lower strip ratio y-o-y in 1Q20 of 3.45x in anticipation of a challenging coal market and in-line with our plan to lower strip ratio in 2020.

# Large Coal Reserves and Diverse Portfolio

**1**  
Adaro Indonesia: 88.5% Existing, S Kalimantan sub-bituminous Resources: 3.1 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 308.2 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 3.3 Bt

**7**  
Kestrel Coal Mine 48% of 80% Queensland, Australia Premium HCC Resources: 427.9Mt Reserves 144.6 Mt



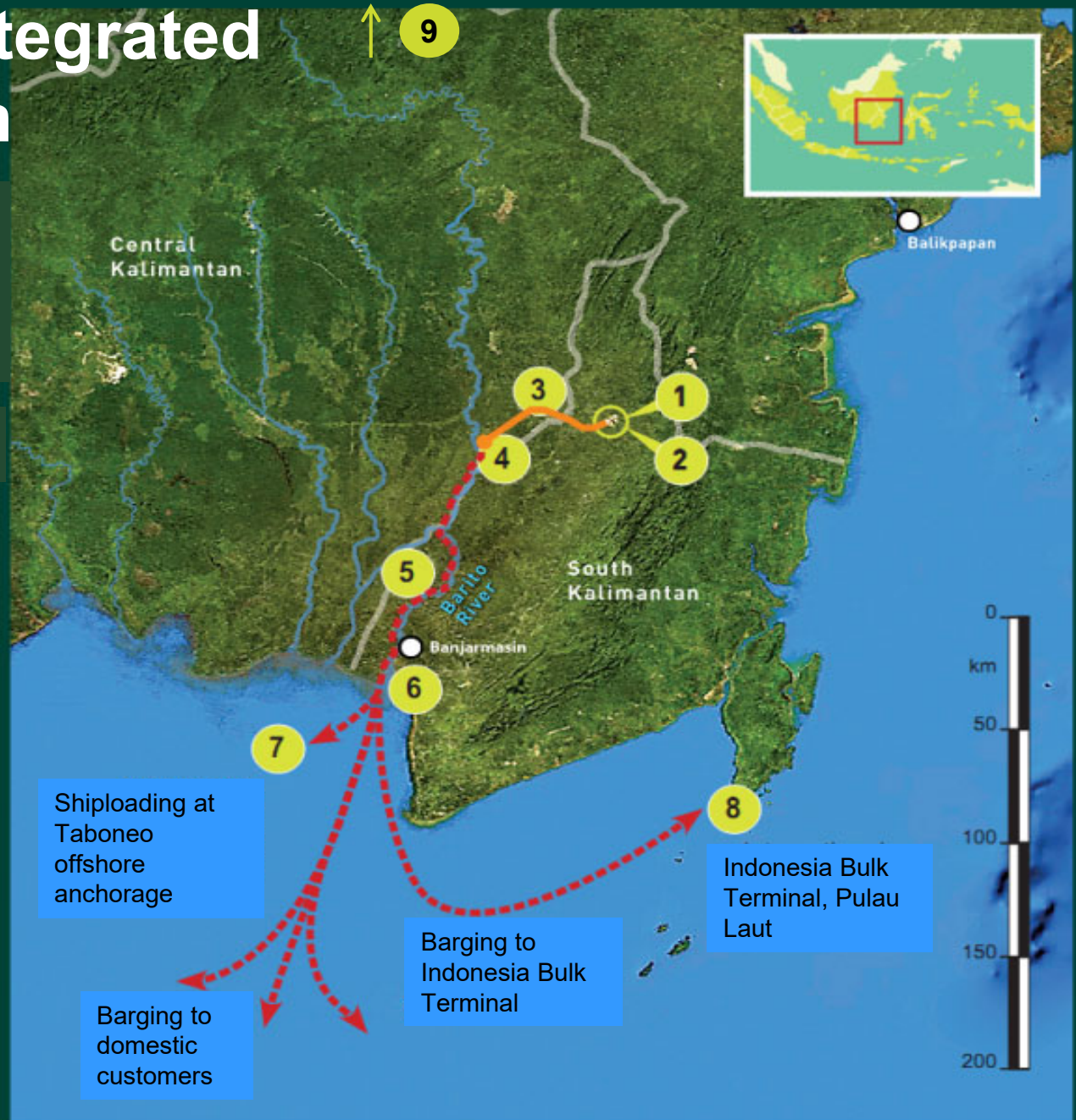
Adaro Energy has more than 8.1 billion tonnes (Bt) of coal resources and 1.4 Bt of coal reserves across thermal and metallurgical coal – providing us with flexibility in the coal market.

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

# Adaro Energy's Integrated Coal Supply Chain

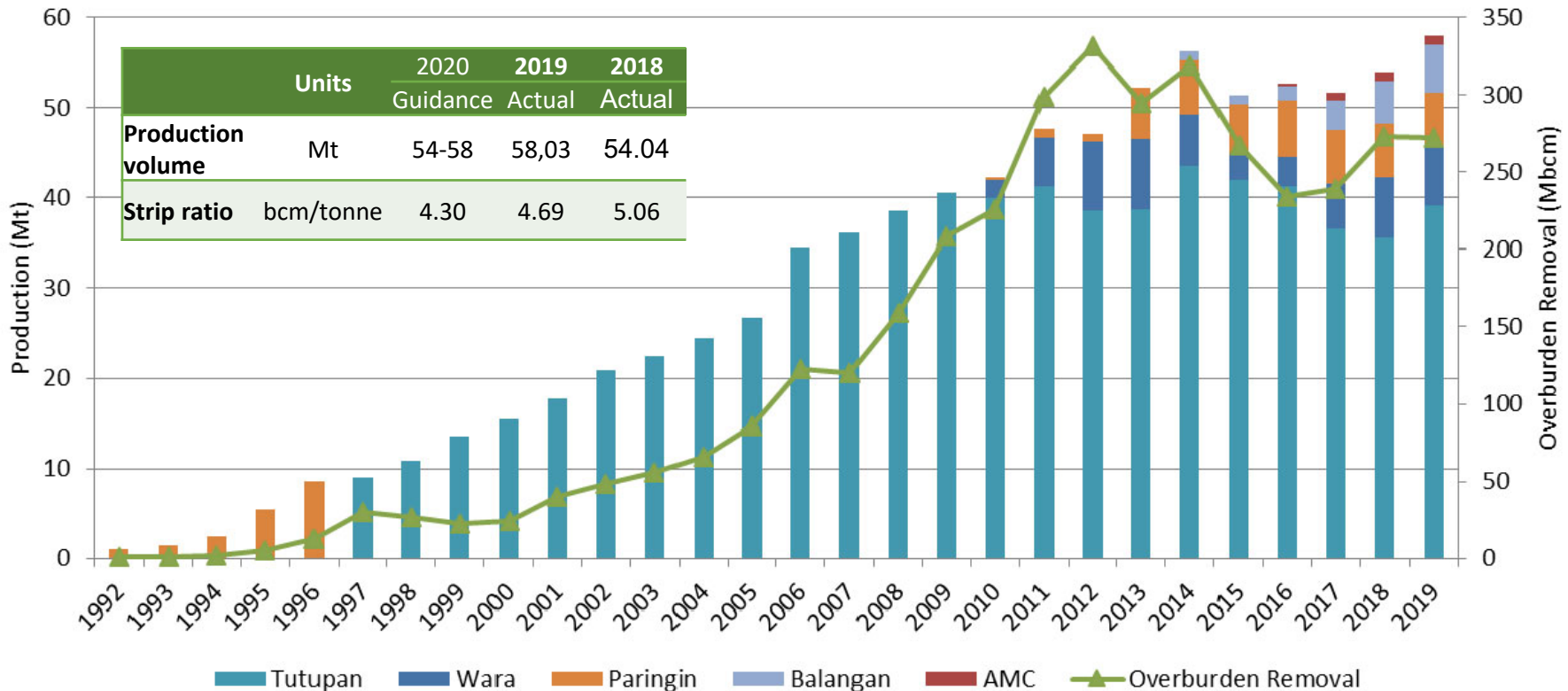
Adaro Energy's main thermal coal mines are located in South Kalimantan, and account for the majority of Adaro Group's coal production. Adaro Indonesia and other key subsidiaries form the main part of the coal supply chain with help from third-party contractors.

- 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

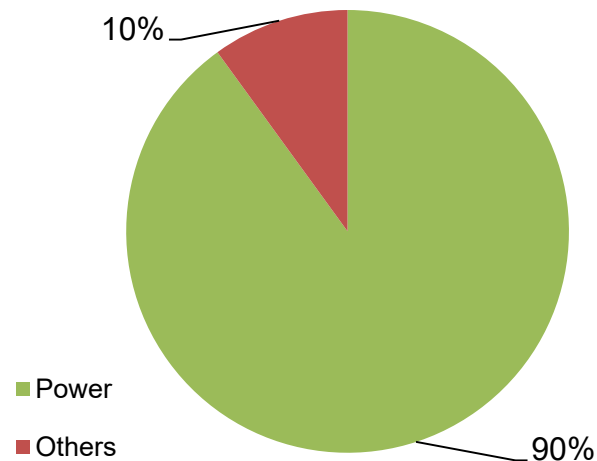


- Produce low to medium heat value coal with low pollutant content, ideal for power generation.
- Control over supply chain ensures timely delivery to customers.
- Continued focus on productivity, safety and sustainability will support value creation for shareholder.

# Strong Customer Base with Focus on Emerging Asia

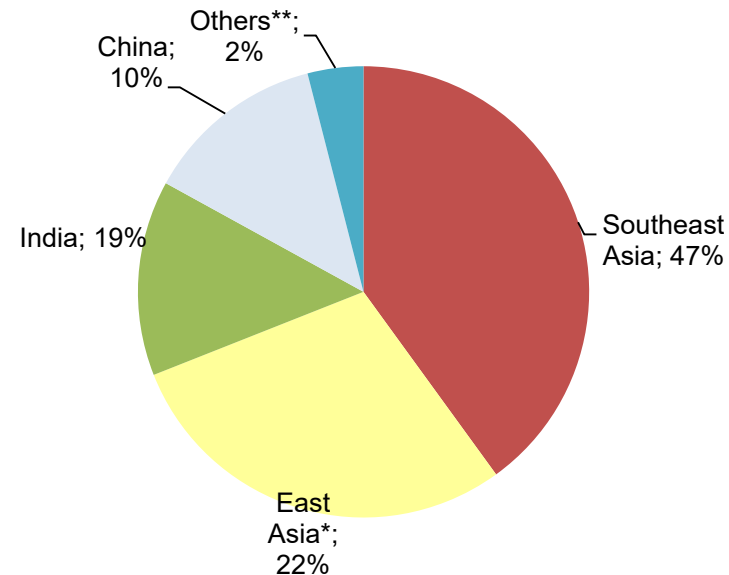


Customer type by volume (1Q20)



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

Geographical breakdown of customers (1Q20)

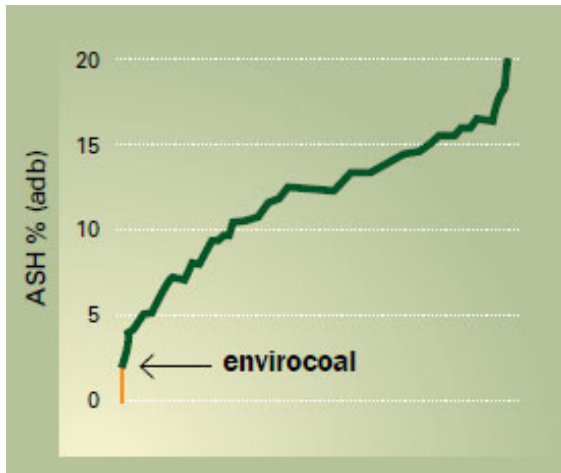


\* Excluding China

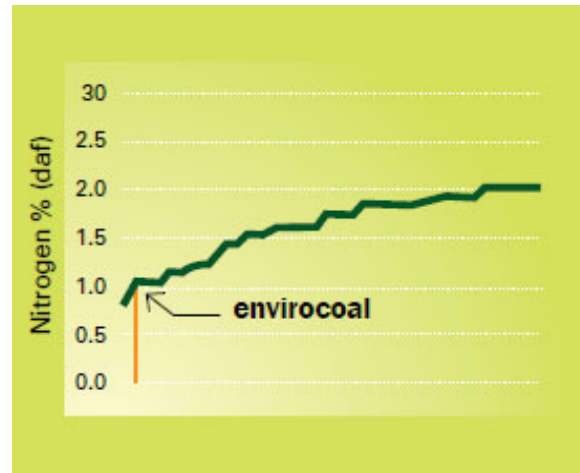
\*\* Others EU countries, New Zealand and Pakistan

- 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.

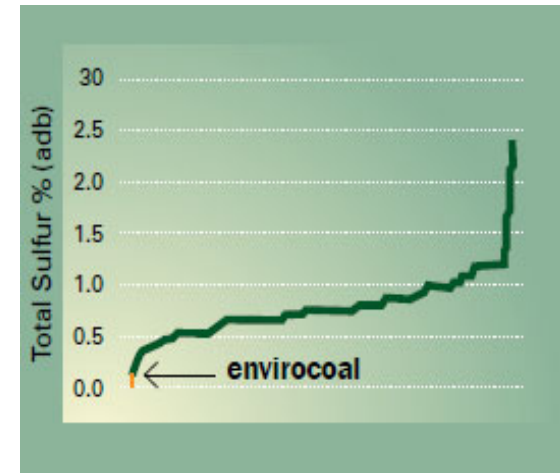
# Envirocoal – a positive energy



Ash content: 2%-3% (adb)



Nitrogen content : 0.9% - 1.0% (daf)



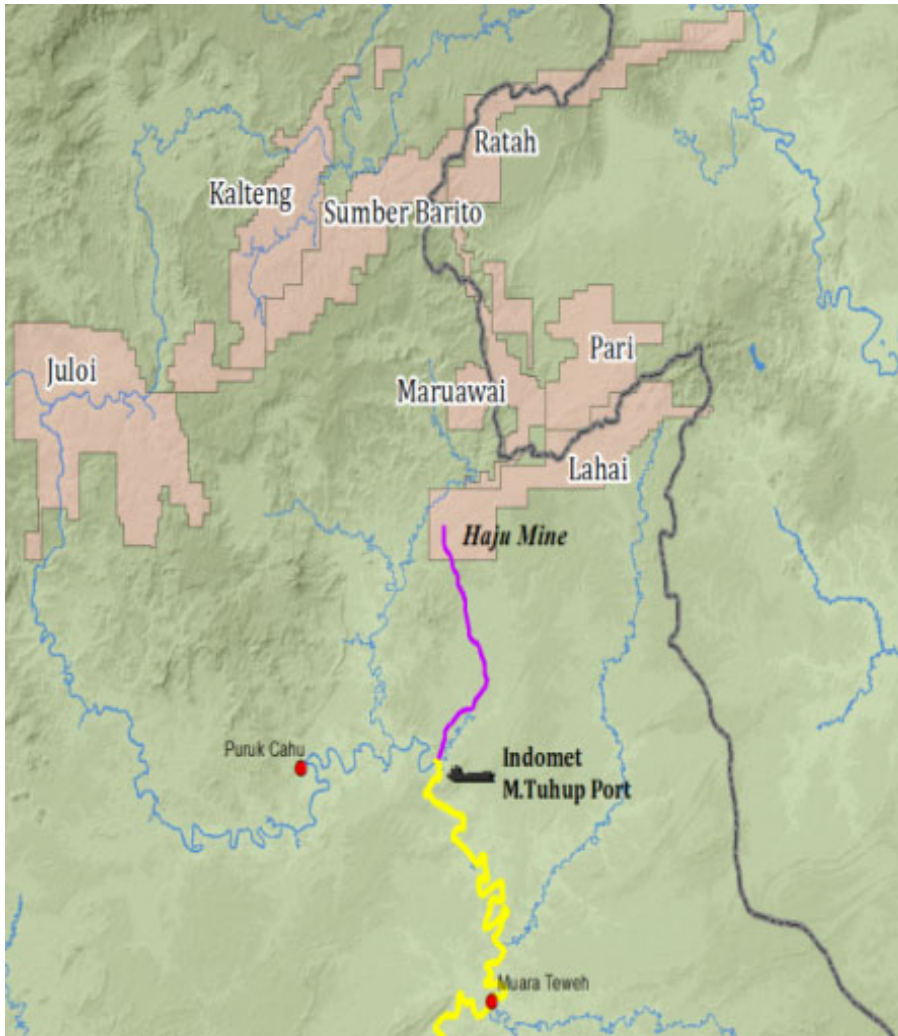
Sulfur content: 0.1% - 0.25% (adb)

- 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.

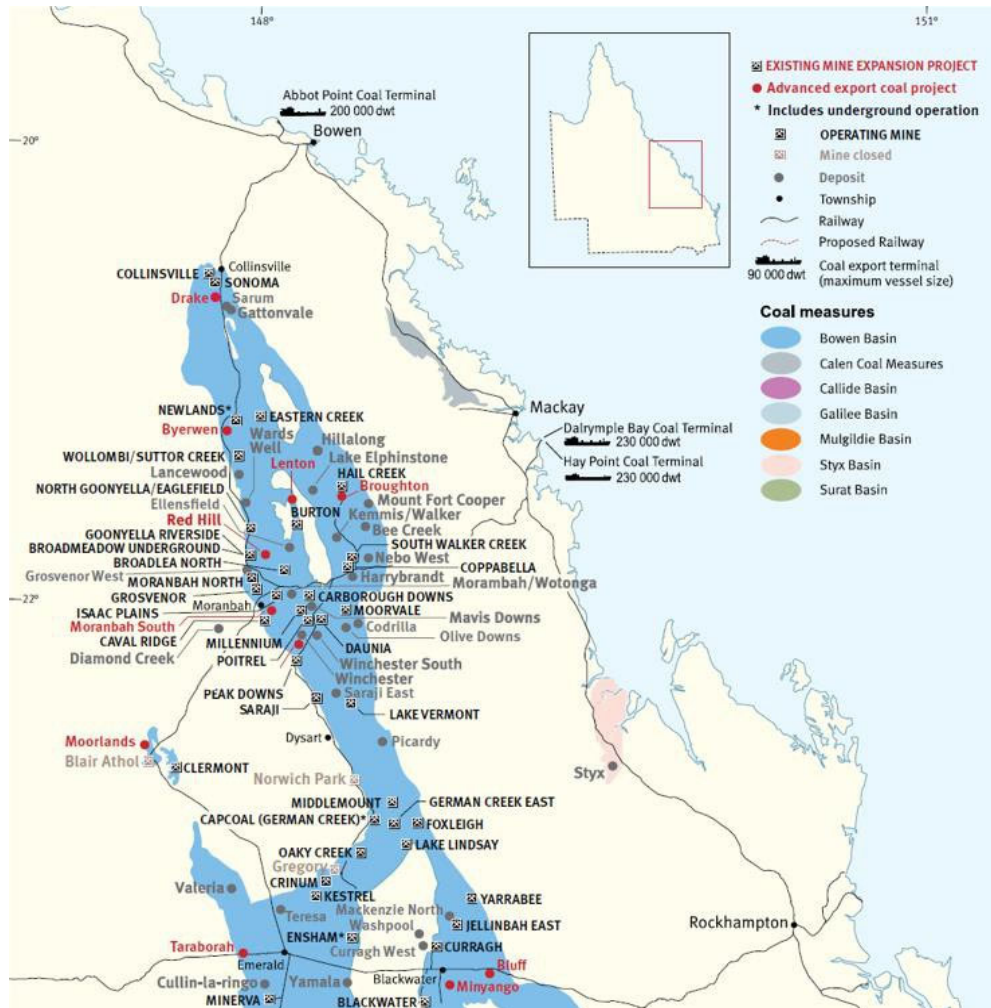
- Envirocoal's ultra low sulfur content enables consumers to meet regulated standards and delay capital expenditure, reducing the cost of plant operation.
- Flue gas desulfurization units can cost up to 20% of the total capital expenditure of a new power station.

# 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.
- In 2019 AMC produced 1.09 Mt and sold 0.98 Mt, 15% higher y-o-y.
- 1Q20 saw first production of Lampung coal from the Maruwai concession.

# 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, resulting in a 40% higher coal production target y-o-y in 2019.
- Kestrel produced 6.76 Mt and sold 6.55 Mt of hard coking coal in 2019, 42% growth y-o-y, in-line with its 2019 production guidance.
- Product is sold mainly to Asian markets: India, Japan, South Korea, Malaysia and Taiwan.





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# Adaro Services and Adaro Logistics

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# 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.
- Non coal mining business accounted for 45% of Adaro Energy EBITDA in FY19.
- Stable earnings profile buffers against the volatility in coal price.
- Actively pursue third-party revenue growth from these businesses.



		Units	1Q20	1Q19	1Q20 vs. 1Q19
<b>SIS</b>	Overburden Removal	Mbcm	49.76	61.50	-19%
	Coal Production	Mt	14.41	13.75	5%
<b>MBP</b>	Coal barging	Mt	11.96	11.79	2%



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# Adaro Power

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# 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>Debt vs. Equity</b>	80:20	75:25
<b>Construction Progress (1Q20)</b>	93.6%	100%. Unit 1 achieved COD in September 2019, Unit 2 achieved COD in December 2019.

- 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

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# 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.

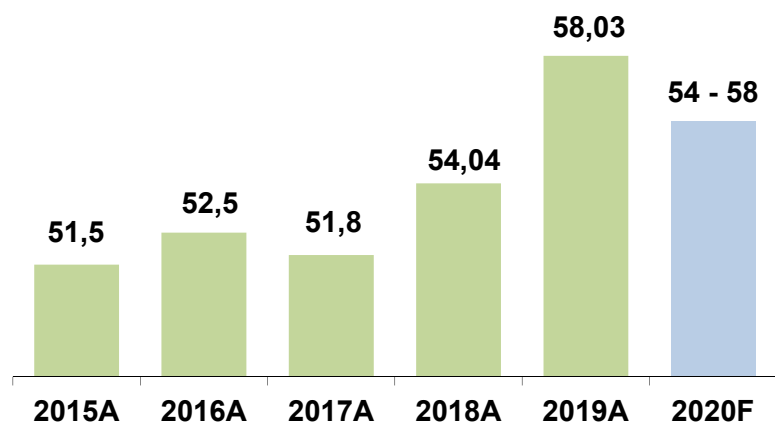
**Adaro's 2x1,000 MW CFPP in Central Java will be a showcase of the latest high efficiency and more environmentally friendly power generation technology in Indonesia.**



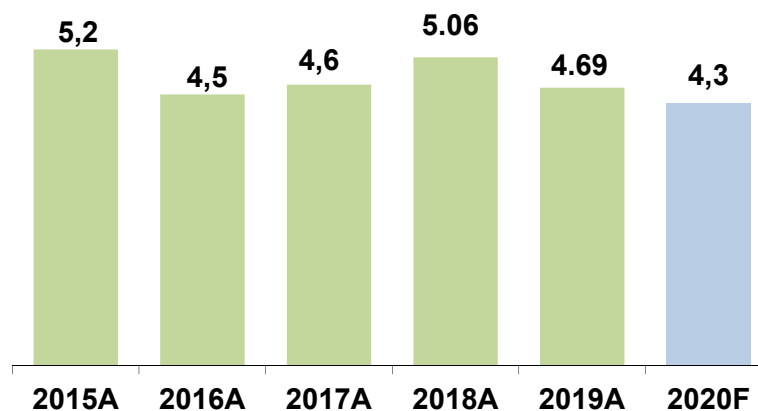
# Adaro Energy 2020 guidance



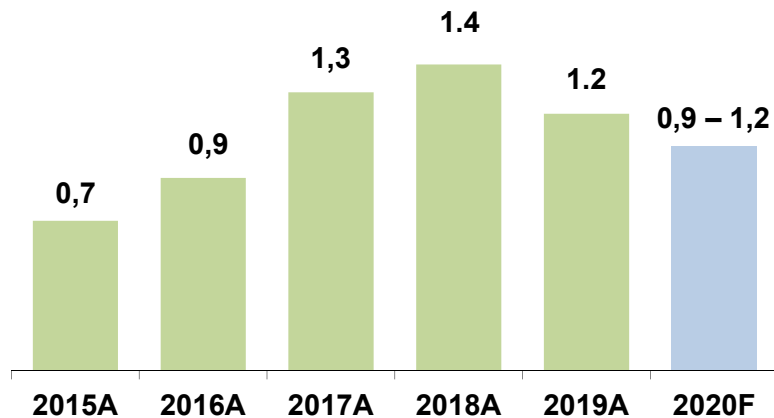
Coal production (Mt)



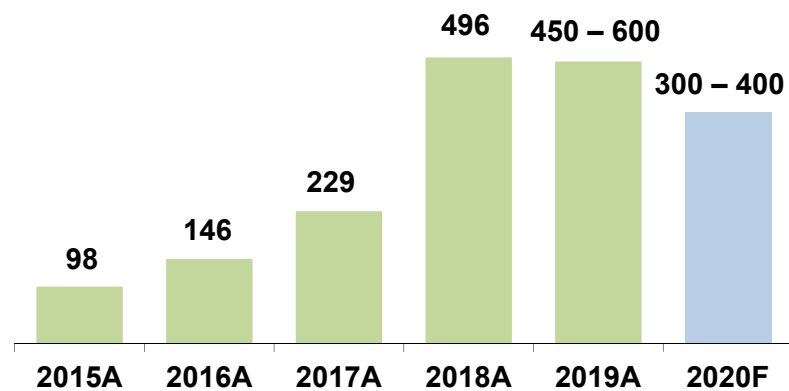
Consolidated planned strip ratio (bcm/t)



Operational EBITDA (US\$ billions)



Capital expenditure (US\$ million)



# Conclusions and takeaways

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- Cautiously optimistic in the near term.
- Business model is resilient to withstand cyclicalities.
  - 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

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- 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

