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Rating Action: **Moody's upgrades Indika to B2 with stable outlook**

Global Credit Research - 11 Apr 2017

Singapore, April 11, 2017 -- Moody's Investors Service, ("Moody's") has upgraded the corporate family rating (CFR) of Indika Energy Tbk (P.T.) (Indika) to B2 from Caa1 following the successful raising of \$265 million of new notes to refinance outstanding notes of \$171 million which mature in May 2018.

At the same time, Moody's also upgraded the ratings on the \$171 million senior secured notes issued by Indo Energy Finance B.V., the \$500 million senior secured notes issued by Indo Energy Finance II B.V., and the \$265 million senior secured notes issued by Indika Energy Capital II Pte Ltd to B2 from Caa1. All notes are unconditionally and irrevocably guaranteed by Indika and rank pari passu.

The outlook on the ratings is stable.

This action concludes the review for upgrade initiated on 27 March 2017.

RATINGS RATIONALE

"The upgrade of Indika's ratings reflects the significant improvement in the company's liquidity profile and debt maturity profile following the successful refinancing of its 2018 notes," says Rachel Chua, a Moody's Assistant Vice President.

On 10 April 2017, Indika issued \$265 million of new senior secured notes due 2022, the net proceeds of which will be used to fully redeem the current outstanding notes of \$171 million maturing in May 2018 as well as repay bank debt held under its key subsidiaries. On 11 April 2017, Indika issued a notice of redemption for its 2018 notes and will repay the notes on 10 May 2017. The rating on the 2018 notes will be withdrawn once they are fully repaid.

The transaction is leverage neutral, with incremental debt of about \$20 million, and has materially extended Indika's debt maturity profile, with the next major maturity in 2022.

"The upgrade also reflects our expectations that Indika's financial profile for 2017-18 will improve on the back of meaningful contract wins at subsidiaries Tripatra and Petrosea which will largely offset lower dividends from Kideco. We expect that Indika's consolidated leverage will be 4.5x-5.0x over the next two years," adds Chua, who is also Moody's Lead Analyst for Indika.

The B2 CFR also takes into account Indika's commitment to conservative financial policies, particularly around liquidity at the holding company level, which balances its risk profile during periods of volatility in thermal coal prices.

A near-term upgrade of the ratings is unlikely, given Indika's projected high level of leverage. Nevertheless, upward momentum in the ratings could develop over time if financial leverage, as measured by adjusted debt / EBITDA falls below 4.0x while maintaining a strong liquidity profile at the holding company.

Downward ratings pressure could arise if Indika's liquidity levels deteriorate, or if coal prices fall, such that leverage increases and registers in excess of 5.5x for an extended period. A deterioration in liquidity, such that the holding company's cash balance falls below \$100 million, could also lead to a downgrade.

The principal methodology used in these ratings was Business and Consumer Service Industry published in October 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Indika Energy Tbk (P.T.) is an Indonesian integrated energy group listed on Indonesia's Stock Exchange. Its principal investment for its energy resources group is a 46% stake in Kideco Jaya Agung (P.T.), Indonesia's third-largest domestic coal producer and one of the world's lowest-cost producers and exporters of coal.

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