

*Adaro Water pillar develops water treatment facilities in order to provide access to clean water in many areas in Indonesia.*



# PT Adaro Energy Tbk Quarterly Activities Report Second Quarter of 2021

*For the Three Months Ending Jun 30, 2021*

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Highlights:

- PT Adaro Energy Tbk produced a total of 26.49 Million tonnes (Mt) of coal in 1H21, 3% decline year-on-year (y-o-y). Coal sales volume in 1H21 of 25.78 Mt was 5% lower y-o-y.
- PT Adaro Energy Tbk recorded strip ratio of 4.35x in 1H21.
- We began the COVID-19 vaccination program for our employees and their dependents under the “Vaksin Gotong Royong” program in cooperation with the Indonesian Chamber of Commerce.

## **REVIEW OF THERMAL COAL MARKET**

The seaborne thermal coal market in 2Q21 continued to be impacted by supply constraints, with major supply countries such as Indonesia and Australia struggling to increase production despite higher prices. Adverse weather contributed to supply tightness in Indonesia due to prolonged heavy rains and delays in heavy equipment supply. Indonesian miners also struggled to cope with increasing COVID-19 cases amongst front-line workers. At the same time, Australian vessel congestion increased due to limited port throughput, while traditional Northeast Asian 6,000 NAR coal buyers competed for coal to restock for the approaching summer season. These supply and demand factors strengthened Newcastle coal prices throughout the quarter. Further, during the period, supply from Colombia was also weak, and only US and Russia's supply showed y-o-y growth, backed by new port capacity in Russia and higher seaborne prices which supported US export volumes.

In terms of imports, seaborne coal demand was supported by several factors, including summer restocking, weak hydro performance and higher gas prices in Northeast Asia, as well as 10% y-o-y thermal power generation demand growth in China. While demand in China was strong, country-wide mine safety checks started in March, resulting in a decline in mine and port stocks to below 2020 levels. This led domestic coal prices to rise dramatically to record highs. Further, Chinese coal imports strengthened from April to June amid the supply crunch. With China's unofficial ban on Australian coal still in place, demand for Indonesian coal remained firm. Strong demand from China also strengthened Indonesian coal prices, which increased almost every week during 2Q21. On the other hand, demand growth from India was limited given social restrictions from the second COVID-19 outbreak and a buildup of inventories due to increased domestic coal production, which weighed on thermal coal imports by power plants. In Southeast Asia, spot appetite fell y-o-y on the back of stronger renewable power generation and a rise in COVID-19 cases. In Europe, despite the continuous yearly declines of coal imports, imports in the first six months of 2021 increased, supported by low gas inventories and economically favorable coal versus gas spreads.

Against the backdrop of supply constraints and higher power demand, seaborne prices have reached historic high levels. Australia's 6,000 NAR coal surpassed the US\$100/t mark and continued to rise through to June to almost US\$130/t. Moreover, Indonesian coal prices broke an all-time record high when June's monthly average for 4,200 GAR reached almost US\$60/t, while 5,000 GAR reached almost US\$85/t. The price rally further continued in July 2021, with Australia's 6,000 NAR coal reaching more than US\$150/t and Indonesian coal prices for 4,200 GAR and 5,000 GAR coal reached high US\$60s/t and high US\$90s/t, respectively.

## **REVIEW OF METALLURGICAL COAL MARKET**

The seaborne met coal market in 2Q21 saw strong support from China and ex-China markets. This was driven by record government stimulus and the global economic reopening, which has spurred an increase in global steel production, led by China. According to the World Steel Association, total crude steel production from March to June 2021 increased by 6% q-o-q, and 1H21 production reached 997 Mt. In addition, Chinese 1H21 steel production reached 560 Mt,

annualizing higher than China's record 2020 output. Chinese industrial output and real estate investments grew rapidly and has continued to support demand into 2H21. Moreover, 1H21 steel production also improved y-o-y in India, Japan and South Korea. In India, major steel mill utilization rate performed at close to 100% after pandemic restrictions were eased following the second COVID-19 wave. In South Korea, steel production was supported by the demand for manufactured goods export while in Japan, automotive and flat steel demand was strong. European demand also recovered, and traditional trade flows of Australian coal into China have started to balance as a result of increases in US/Canadian coal exports to China. US exports to China have been supported by an ongoing and significant price arbitrage caused by China's ban of Australian coals. Consequentially, metallurgical coal demand has firmed markedly throughout the period

Meanwhile, scarcity of Australian and non-Australian origin coal increased during the period. Australian supplies were limited with Moranbah North and Grosvenor out of service. While supply from Mongolia fell in April and May y-o-y as major trucking borders were closed for most of June due to a spike in COVID-19 infections. US met coal supplies were also constrained by lower overall production from Warrior Met Coal and the labour strike that began in April.

With supply struggling to meet strong demand in both China and ex-China markets, seaborne met coal prices improved significantly compared to the previous quarter and year. The PLV FOB Australia index increased to US\$185/t and averaged US\$134/t in 2Q21, up 6% q-o-q. The PLV CFR China index increased to a record high of US\$300/t by the end of the quarter, benefiting Indonesian, US, Canadian and Russian producers. The average PLV CFR China price in 2Q was around US\$254/t, up by 17% q-o-q.

## REVIEW OF PT ADARO ENERGY TBK (AE) OPERATIONS

AE produced 26.49 million tonnes (Mt) of coal in 1H21, 3% lower year-on-year (y-o-y) compared with 1H20. Coal sales volume in 1H21 of 25.78 Mt was 5% lower y-o-y. AE removed a total of 115.22 million bank cubic meter (Mbcm) of overburden in 1H21, 12% higher y-o-y, in line with our guidance to increase strip ratio this year. AE's strip ratio in 1H21 was 4.35x. We maintain our strip ratio guidance for 2021 of 4.8x and we will catch up with overburden removal in the drier quarters.

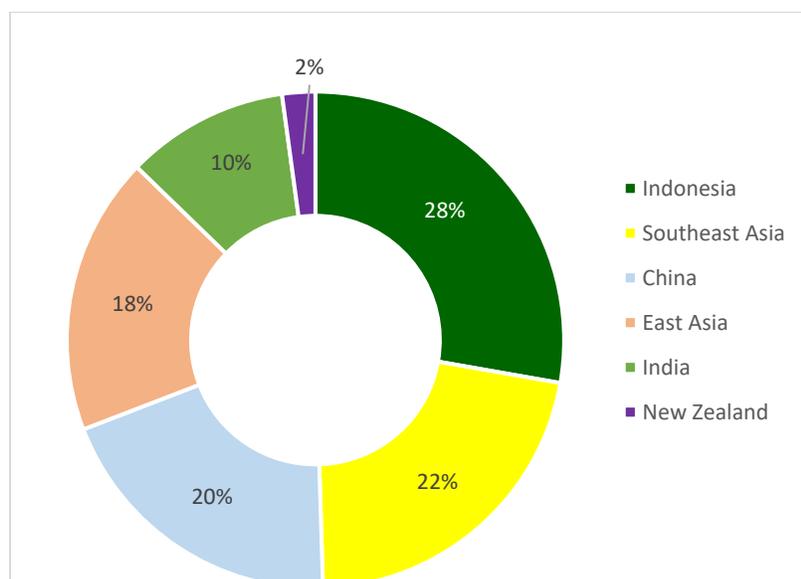
In 2Q21, AE's coal production reached 13.62 Mt, 7% higher compared with 2Q20. Coal sales volume in 2Q21 was 13.19 Mt, or 4% higher y-o-y. Total overburden removal volume in 2Q21 was 62.68 Mbcm, 18% higher y-o-y, which resulted in strip ratio of 4.6x in the quarter. We experienced higher than expected rainfall volume and rain hours in May and June which affected mining operations.

	Units	2Q21	1Q21	2Q21 vs. 1Q21	2Q20	2Q21 vs. 2Q20	1H21	1H20	1H21 vs. 1H20
Coal Production	Mt	13.62	12.87	6%	12.88	6%	26.49	27.29	-3%
Sales Volume	Mt	13.19	12.59	5%	12.74	4%	25.78	27.13	-5%

Overburden Removal	Mbcm	62.68	52.54	19%	53.25	18%	115.22	103.01	12%
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The favorable industry landscape with coal prices reaching decade-high level further support our strategy to increase strip ratio and achieving our strip ratio guidance to allow for long-term operational flexibility. We will also continue our effort to improve productivity and efficiency along our vertically integrated coal supply chain.

The E4700 and E4900 products continued to dominate AE’s coal sales, supported by solid demand from customers. Indonesia was our main sales destination in 1H21, accounting for 28% of AE’s coal sales. Southeast Asia market constituted 22% of our coal sales in 1H21, led by Malaysia. Sales portion to China increased to 20%, in-line with the higher demand for our thermal and metallurgical coal product from the country. The chart below shows our sales destination in 1H21.



Note: Southeast Asia excluding Indonesia, East Asia excluding China.

## ADARO MINING

### PT Adaro Indonesia (AI)

AI, our main coal asset, produced 21.73 Mt of coal in 1H21, 9% lower y-o-y. Sales of AI’s coal in 1H21 reached 23.84 Mt, 8% lower y-o-y. In 1H21, AI’s total overburden removal volume reached 103.33 Mbcm, 9% higher y-o-y and AI’s strip ratio for 1H21 was 4.76x.

In 2Q21, AI produced 10.92 Mt of coal, 3% lower from 2Q20. AI recorded coal sales of 12 Mt in 2Q21, 2% lower y-o-y. Total overburden removal volume in 2Q21 was 55.84 Mbcm, 14% higher y-o-y, and AI’s strip ratio for the quarter was 5.11x.

We have selected PT Bukit Makmur Mandiri Utama (BUMA) to take over the mining portion of PT Pamapersada Nusantara (PAMA) as one of AI's mining contractors upon the expiration of AI's contract with PAMA at the end of July 2021. Both PAMA and BUMA have provided reliable mining services to AI for more than 20 years. Given its proven track record we are confident that BUMA will continue to deliver on its performance requirement. We expect that post the transition, AI will be able to further strengthen its competitiveness and reliability.

### **Balangan Coal Companies**

Balangan Coal Companies produced 2.46 Mt of coal in 1H21, 7% increase y-o-y. Total overburden removal in 1H21 was 7.73 Mbcm, or 24% higher y-o-y, resulting in a strip ratio of 3.15x for Balangan Coal Companies in 1H21. In 2Q21, Balangan Coal Companies produced 1.28 Mt of coal, 11% increase y-o-y. Overburden removal by Balangan Coal Companies in 2Q21 was 4.42 Mbcm, 44% higher than in 2Q20 and its strip ratio for the quarter was 3.46x.

### **Adaro Metcoal Companies (AMC)**

AMC achieved coal production of 1.43 Mt in 1H21, 99% increase y-o-y compared with 1H20. Sales of coal in 1H21 reached 1.17 Mt, 63% increase y-o-y. Overburden removal in 1H21 reached 3.05 Mbcm, double its 1H20 achievement of 1.52 Mbcm. AMC recorded a strip ratio of 2.13x in 1H21. In 1H21, AMC sold its coal to customers in China, Japan and Indonesia.

AMC's coal production in 2Q21 was 0.78 Mt, 86% increase y-o-y from 0.42 Mt in 2Q20. AMC sold 0.66 Mt of coal in 2Q21, 61% higher y-o-y from 0.41 Mt in 2Q20. Overburden removal in 2Q21 was 1.66 Mbcm, 110% higher y-o-y. Strip ratio for the quarter was 2.12x.

### **Mustika Indah Permai (MIP)**

In 1H21, coal production from MIP reached 0.87 Mt, 289% higher y-o-y. MIP's coal sales for the period was 0.77 Mt, 254% higher y-o-y. Total overburden removal from MIP in 1H21 was 1.10 Mbcm – compared to 0.29 Mbcm in 1H20 – and resulted in strip ratio of 1.27x for 1H21.

MIP's coal production in 2Q21 reached 0.65 Mt, nearly six times its 2Q20 coal production of 0.11 Mt. MIP sold 0.53 Mt of coal in 2Q21, compared to 0.14 Mt in 2Q20. Overburden removal in 2Q21 reached 0.75 Mbcm and hence MIP booked a strip ratio of 1.15x in the quarter.

In 1H21, we sold MIP's coal to customers in Indonesia and we continue to develop the market for MIP's coal in the region.

## Kestrel Coal Mine (Kestrel)

In 1H21, Kestrel saleable coal production reached 2.86 Mt, 10% lower y-o-y, while its coal sales reached 2.67 Mt, 18% lower y-o-y. Kestrel's saleable coal production in 2Q21 was 1.53 Mt, 18% higher than in 2Q20. Kestrel recorded coal sales of 1.37 Mt in 2Q21, 8% higher y-o-y.

Kestrel's sales destination is dominated by customers in major Asian markets. India remained as the largest sales destination in 1H21 followed by South Korea and Japan. Adaro Capital Ltd (48%), a subsidiary of AE, and EMR Capital Ltd (52%) own 80% of Kestrel.

## ADARO SERVICES

### PT Saptaindra Sejati (SIS)

In 1H21, SIS overburden removal and coal production volume declined by 5% and 12%, respectively, to 80.46 Mbcm and 19.02 Mt. SIS recorded lower volume y-o-y as a result of prolonged wet weather which continued to the early part of 2Q21 and affected operations.

In 2Q21, SIS recorded a 5% increase in overburden removal volume y-o-y compared to 2Q20, to 44.31 Mbcm, while its coal production volume in 2Q21 declined 7% y-o-y to 9.64 Mt.

	Units	2Q21	1Q21	2Q21 vs. 1Q21	2Q20	2Q21 vs. 2Q20	1H21	1H20	1H21 vs. 1H20
<b>Overburden Removal</b>	Mbcm	44.31	36.15	23%	42.23	5%	80.46	84.65	-5%
<b>Coal Production</b>	Mt	9.64	9.38	3%	10.31	-7%	19.02	21.56	-12%

## ADARO LOGISTICS

### PT Maritim Barito Perkasa

MBP's coal barging volume in 1H21 increased 8% y-o-y to 24.55 Mt supported by higher volume from the Adaro Group. MBP's total coal barging volume in 2Q21 was 12.56 Mt, 16% higher than in 2Q20.

Coal volume from its sister companies in the Adaro Group accounted for all of MBP's total coal barging volume in 1H21. MBP continues to prioritize coal volume from the Adaro Group and is a key part of the Group's vertically integrated coal supply chain, ensuring reliable, efficient, and timely coal delivery.

	Units	2Q21	1Q21	2Q21 vs. 1Q21	2Q20	2Q21 vs. 2Q20	1H21	1H20	1H21 vs. 1H20
<b>Coal barging</b>	Mt	12.56	12.00	5%	10.82	16%	24.55	22.78	8%

## **ADARO POWER**

Our power plants achieved solid performance in 2Q21. PT Makmur Sejahtera Wisesa (MSW) reached actual availability factors (AF) of 99.7% on average up to the end of 2Q21. Meanwhile, PT Tanjung Power Indonesia (TPI) continued on its exceptional operations performance and reached 91.5% actual AF on average up to the end of 2Q21. PT Bhimasena Power Indonesia has reached 95.6% of construction progress at its 2x1,000 MW power plant in Batang, Central Java, though certain critical path items remain outstanding.

PT Adaro Power is also progressing with its plan for capacity expansion of its Solar PV in Kelanis Dedicated Coal Terminal, which it plans to increase from 130 kWp up to 597 kWp. First batch of equipment arrived at site on 2 July 2021, with COD targeted for Q4 2021.

## **ADARO WATER**

PT Dumai Tirta Persada (DTP) started the first stage of operation of up to 50 liters per second (lps) out of the total capacity of 450lps. DTP is currently in preparation to enter the next phase of adding up to 200 lps. Meanwhile, other ATM's operating Water Treatment Plant assets maintained their operational performance as forecasted, including PT Drupadi Tirta Gresik (DTG), PT Drupadi Tirta Intan (DTI) and PT Adaro Tirta Mentaya (ATMe). Another ATM's operating subsidiary, PT Adaro Wamco Prima (AWP) continued its strong performance and has become AI's primary partner for slurry management. In June 2021, ATM entered into a Sales-Purchase Agreement to acquire 49% shares of PT Grenex Tirta Mandiri which will build, own and operate WTP Sukatani project with capacity of up to 200lps.

## **HEALTH, SAFETY AND ENVIRONMENT (HSE)**

It is with deepest regret that we have to report that we experienced two fatalities throughout Adaro Group's operations in 1H21. We will ensure that the necessary steps are taken to avoid such incidents in the future through further strengthening the implementation of Adaro Zero Accident Mindset (AZAM) to all of our workers. We are committed to work on improving the safety performance in Adaro Group. We recorded a lost-time injury frequency rate (LTIFR) of 0.16 in 1H21 and severity rate (SR) of 236.34 with total man-hours worked of 51,265,700 in the period.

In June 2021, Industrial Hygiene & Occupational Health (IHOH) Department together with AE's Human Resources Division launched COVID-19 vaccination program for the Adaro Group's employees in Jakarta. The vaccination program is divided into several batches for the employees, and for dependents of employees. We have also started the COVID-19 vaccination program for employees in South Kalimantan.

We recognize the increasing environmental concerns surrounding coal and fossil fuel in general. While coal will continue to be the backbone of our operations, we continuously seek to improve the portion of non-coal businesses and continue to execute various green initiatives to reduce the adverse impact of our operations. Some initiatives that have been proven to reduce our GHG emission are fleet management system for dump trucks and tug boats, Kelanis smart inverter solar cell, and load management in MSW.

## **CORPORATE ACTIVITIES AND AWARD**

### **PT Adaro Energy Tbk Received Special Appreciation Corporate Social Initiatives for Pandemic Solution 2020**

On 14 July 2021, AE was awarded with “Special Appreciation Corporate Social Initiatives for Pandemic Solution 2020” from SWA Magazine in Indonesia Corporate Pandemic Heroes event. This event was organized by SWA Magazine and Inventure. SWA and Inventure assessed 50 Indonesian corporates with significant contribution in the handling of COVID-19 pandemic in Indonesia, 20 corporates, including AE, were selected as Indonesia Corporate Pandemic Heroes.

### **PT Adaro Energy Tbk and Emergency Response Team Received Appreciation from the Ministry of Energy and Mineral Resources**

AE and AE’s Emergency Response Team (ERT) received appreciation from the Ministry of Energy and Mineral Resources (MOEMR) for AE and ERT’s effort in the management of natural disaster in several provinces in Indonesia together with MOEMR’s Siaga Bencana Team.

### **PT Adaro Energy Tbk Received Gold Champion in Corporate Social Responsibility Program**

AE was awarded Gold Champion in Corporate Social Responsibility Program in Bisnis Indonesia Corporate Social Responsibility Award (BISRA) 2021, organized by Bisnis Indonesia. The awarding ceremony was held on 22 April 2021 in Jakarta.

### **PT Adaro Energy Tbk Received Several Awards from TOP CSR Award**

On 22 April 2021, AE received TOP CSR Award in three categories as follow:

1. TOP Leader on CSR Commitment 2021 awarded to Mr. Garibaldi Thohir, AE’s President Director and CEO.
2. TOP CSR Awards 2021 on Star 5.
3. TOP CSR Awards 2021 on Social License to Operate – Indonesia Bright Future Leaders Program for Adaro Ignites Education.