PT Harum Energy Tbk
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31 July 2019

PT HARUM ENERGY Tbk
1H 2019 Summary and Highlights

Important Note: The results provided below reflect the unaudited consolidated results of PT Harum Energy Tbk. ("the Company") for the 6-month period ending 30 June 2019, which include the results of PT Mahakam Sumber Jaya ("MSJ"), PT Layar Lintas Jaya ("LLJ"), PT Tambang Batubara Harum ("TBH"), PT Karya Usaha Pertiwi ("KUP"), PT Bumi Karunia Pertiwi ("BKP"), PT Santan Batubara ("SB"), Harum Energy Australia Ltd and Harum Energy Capital Ltd. The report below is prepared by the management and unaudited.

- Total coal sales volume for 2Q 2019 came at 1.0 million tonnes, or 7.5% lower from 1.1 million tonnes sold in 1Q 2019, however coal sales volume for 1H 2019 rose by 6.5% to 2.1 million tonnes from 2.0 million tonnes sold in 1H 2018;
- Average Sales Price (ASP) achieved in 2Q 2019 was USD 64.0 per tonne, or 3.0% higher than USD 62.1 per tonne achieved in 1Q 2019. In 1H 2019, the Company's ASP decreased to USD 63.0 per tonne or 14.3% lower than the ASP of USD 73.6 per tonne achieved in 1H 2018;
- Revenues in 2Q 2019 was USD 67.7 million or 6.0% lower from 1Q 2019. In 1H 2019, revenues declined to USD 139.8 million from USD 153.1 million recorded in the same period a year ago.
- FOB Vessel Cash[1] Cost for 2Q 2019 was USD 40.1 per tonne, or 4.5% higher from USD 38.3 per tonne in 1Q 2019. In 1H 2019, the FOB Vessel Cash Cost was USD 39.2 per tonne, or 7.8% lower from USD 42.5 per tonne in the same period a year ago;

		1Q2019	2Q2019	Q-o-Q change	1H2018	1H2019	Y-o-Y change
Sales volume	(million tonne)	1.1	1.0	-7.5%	2.0	2.1	6.5%
Average Sales Price	(USD/tonne)	62.1	64.0	3.0%	73.6	63.0	-14.3%
Revenues	(USD million)	72.1	67.7	-6.0%	153.1	139.8	-8.7%
FOB Vessel Cash Cost[1]	(USD/tonne)	38.3	40.1	4.5%	42.5	39.2	-7.8%
EBITDA	(USD million)	13.0	11.9	-8.6%	40.0	24.9	-37.8%
Net profit attributable to the Company	(USD million)	6.4	6.3	-1.3%	17.2	12.7	-26.2%
Operating profit margin	(%)	13.1%	12.6%		21.2%	12.9%	

[1] FOB vessel cash cost consists of mining, coal hauling, coal processing, coal purchased, coal barging and transshipment, and fixed/overhead costs, excluding depreciation and amortization, marketing, general and administrative, royalty payments and one time charges, if any

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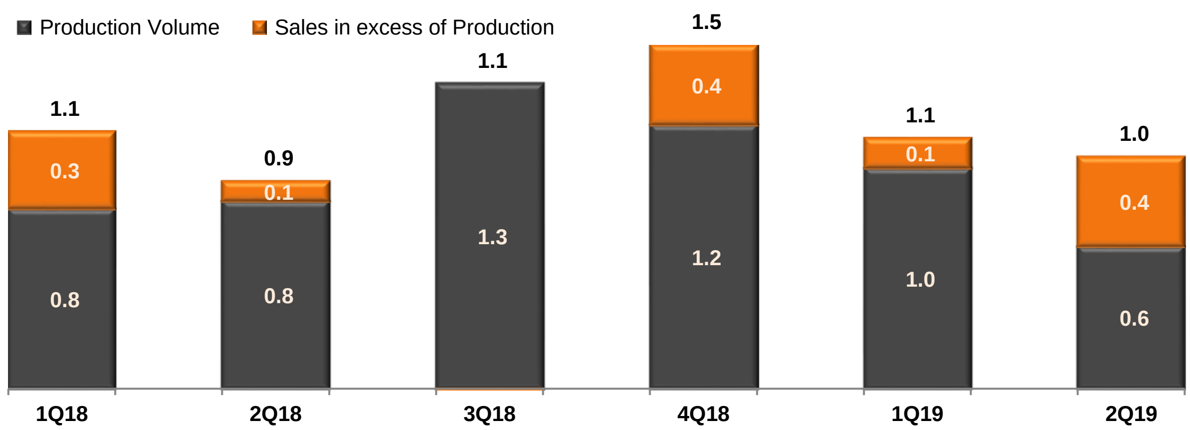
Production and Sales

The Company produced 0.6 million tonnes of coal in 2Q 2019, which brings its total production in the first six months of 2019 to 1.6 million tonnes, or similar to the production in 1H 2018. The Company's sales volume in 2Q 2019 decreased by 7.5% to 1.0 million tonnes from 1.1 million tonnes in 1Q 2019. Overall, the Company's sales volume was 2.1 million tonnes in 1H 2019, or 6.5% higher from the same period a year ago at 2.0 million tonnes (see Chart 1).

The Average Sales Price (ASP) achieved during 2Q 2019 was USD 64.0/tonne compared with USD 62.1/tonne achieved in 1Q 2019. While the average global coal prices had been on a declining trend since the beginning of 2Q 2019, the Company's ASP increased slightly quarter-on-quarter as a result of the higher priced sales contracts carried over from previous periods. However, the Company's ASP for the first six months of 2019 still declined by 14.3% to USD 63.0/tonne from USD 73.6 per tonne in 1H 2018, which was largely in line with the downtrend of global coal prices during the period (see Chart 2).

Due to the lower sales volume, the Company's revenues decreased 6.0% from USD 72.0 million in 1Q 2019 to USD 67.7 million in 2Q 2019. For the first six months of the year, the Company's revenues decreased 8.7% to USD 139.8 million from USD 153.1 million in 1H 2018 mostly due to the 14.3% lower ASP.

Chart 1 – Sales and Production Volume (million tonne)



Production Cost

The Company's FOB vessel cash cost in 2Q 2019 increased slightly by 4.5% to USD 40.1/tonne from USD 38.3/tonne in 1Q 2019. The higher cost was driven by the increase in SR to 12.8x in 2Q 2019 compared to 9.7x in the previous quarter, while the overall lower production volume also contributed to higher unit costs in the quarter. For the first six months of 2019, the FOB vessel cash cost declined 7.8% to USD 39.2/tonne from USD 42.5/tonne in the same period a year ago even though the Company's overall SR rose to 10.9X from 10.2X in 1H 2018. There was no outside coal purchase in the period which lowered the Company's overall cost of sales.

The Company maintained its overall coal inventory at a normal level (raw and industrial coal) throughout 1H 2019. As at 30 June 2019, its coal inventory level was at 0.3 million tonne, compared to 0.9 million tonne at the start of the year.

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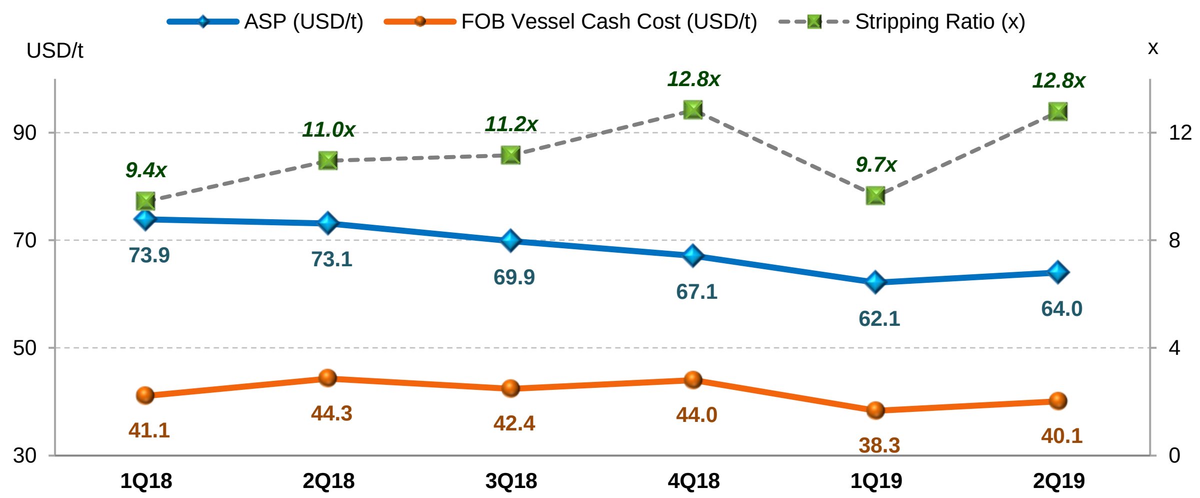
Chart 2 – Average Sales Price and FOB Vessel Cash Cost (USD/tonne)



Profitability

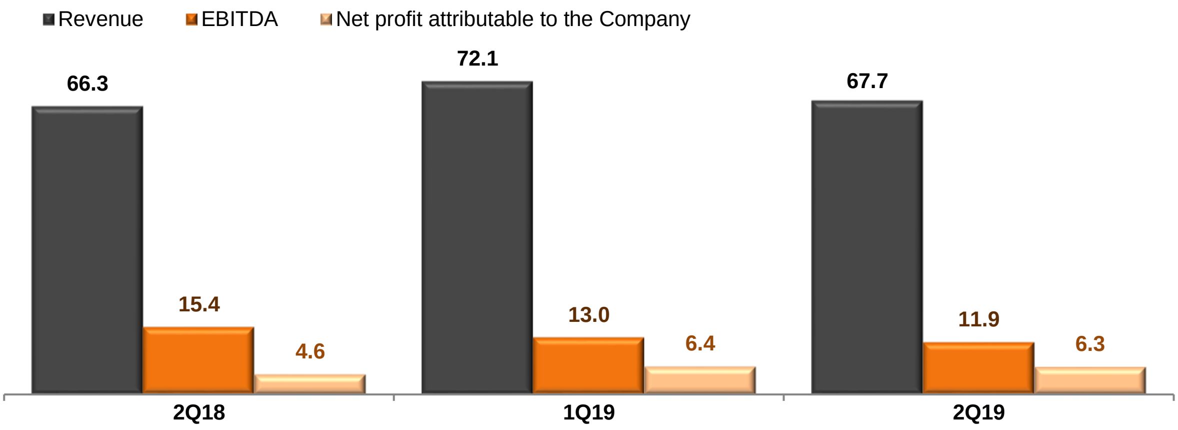
The Company recorded a slight decrease of gross profit margin from 27.6% in 1Q 2019 to 26.1% in 2Q 2019. The lower gross margin was primarily due to the higher production costs, as explained above. Year-on-year, the Company recorded a lower gross profit margin of 26.9% in 1H 2019 compared with 33.0% in 1H 2018.

Due to the lower revenue, the Company generated an EBITDA of USD 11.9 million in 2Q 2019 or 8.6% lower from USD 13.0 million generated in 1Q 2019. Compared with the same period a year ago, the EBITDA generated in 1H 2019 was USD 24.9 million, down from USD 40.0 million generated in 1H 2018. Overall, the EBITDA margin decreased to 17.8% in 1H 2019 from 26.1% in 1H 2018.

The Company recorded net foreign exchange loss of USD 0.6 million during the period despite the appreciation of Rupiah against USD from the start of the year to the end of 1H 2019. The translation loss came since a portion of the Company's trade payables was denominated in Rupiah.

Due to the above factors, the net profit attributable to the Company in 2Q 2019 was USD 6.3 million similar to USD 6.4 million in 1Q 2019 (see Chart 3). For the first six months of 2019, the net profit attributable to the company decreased to USD 12.7 million from USD 17.2 million in 1H 2018. Consequently, the net profit margin also declined to 9.1% in 1H 2019 from 11.2% in 1H 2018.

Chart 3 – Profitability (USD million)



Balance Sheet

As of 30 June 2019, the Company maintained its total assets at USD 439.7 million or 6.0% lower from USD 468.0 million at the end of 2018.

The Company's current assets decreased to USD 282.4 million as of 30 June 2019 compared with USD 310.8 million recorded as of 31 December 2018. The decrease was largely due to lower trade receivables and inventory balance, which was partially offset by the increase of other current assets.

As at 30 June 2019, the Company had a cash and cash equivalents balance of USD 217.2 million, similar to USD 216.4 million as at 31 December 2018. The net increase in the cash balance came from (i) net cash generated for operating activities of USD 10.8 million in 1H 2019; minus (ii) capital expenditure of USD 3.6 million; plus (iii) net cash generated from other investing activities of USD 0.4 million; and minus (iv) cash dividend distribution of USD 6.9 million in June 2019.

The Company's non-current assets remained stable at USD 157.2 million as at 30 June 2019, similar to the level on 31 December 2018. The net movement of non-current assets came from the increase in mine properties and other non-current assets which was offset by the accumulated depreciation of fixed assets.

Total capital expenditure in the first six months of 2019 was USD 3.6 million in relation to the addition of mine property, maintenance expenditure for tugboats and barges in LLJ, building and infrastructure, as well as purchases of heavy equipment.

The Company's total liabilities as of 30 June 2019 stood at USD 42.6 milion, or 46.4% lower compared with USD 79.5 million as of 31 December 2018. The decrease was due to the lower balance of trade payables, accrued expenses and taxes payables.

The equity attributable to owners of the parent as at 30 June 2019 was USD 309.0 million, or 2.3% higher than as at 31 December 2018, due to the income generated during the period, which was partially offset by cash dividend distribution of USD 6.9 million in June 2019.

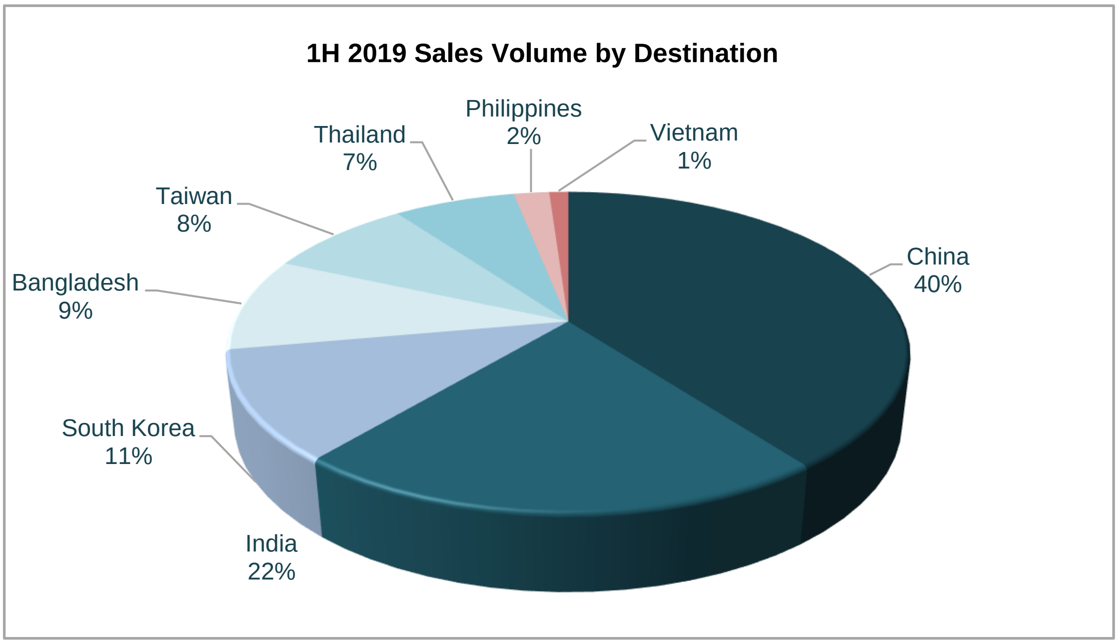
The current ratio (defined as the ratio of current assets to current liabilities) as at 30 June 2019 is 9.3x.

Environment, Health and Safety

During 2Q there were no lost time accidents nor environmental incidents at any of the Company's operations.

Marketing

The Company's sales during the first six months of 2019 were exclusively into the Pacific region. The largest volume was sold to China (40%), followed by India (22%), South Korea (11%), Bangladesh (9%), Taiwan (8%), Thailand (7%), the Philippines (2%) and Vietnam (1%).



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3Q 2019 Outlook

Operations

Production schedules at the Company's two operating mines are forecasting significant increases in both waste removal and coal hauling in 3Q 2019. This ramp up in operations is expected to be at lower strip ratios to 2Q 2019. Across the full year, the 2H 2019 will require a doubling in waste removal volumes versus 1H 2019. And although conditions are somewhat drier, maintaining high mechanical availability across the contractor's fleet will be vital to achieving this plan.

Thus a combination of higher equipment productivities and the availability of new working areas at MSJ will see a strong quarter on quarter uptick in coal exposed. MSJ's coal hauling operations in 2H 2019 are set to almost double 1H 2019 tonnages. However, market conditions will ultimately dictate the coal release rate to to port.

SB mine will continue to lower overburden removal in the coming quarter. This is in direct contrast to the increase in coal production with pit inventories growing over the past quarter. The drop in required overburden volumes at SB will allow the redeployment of the contractors' equipment to the KUP mine. The recommencement of operations at KUP has been pushed back slightly into 4Q 2019 to accommodate the latest production run-rate at SB.

The Company's 4th mine, TBH, remains suspended on care and maintenance. A short window will be required to complete the infrastructure constructions works, primarily along the proposed haul road and at the dedicated port facility.

Markets and Sales

We ended 2Q 2019 with still a fairly good result if compared against the current softening market situation. This is due to some of our sales were carried over from the previous period and still linked with the higher GC Newc levels prevailing at the time. The flexibility of shipment arrangements did help the overall average selling price to some extent.

The weakening of market price is vividly shown in both the GC Newc and ICI indices. The 2Q 2019 GC Newc dropped by 16.7% to USD79.9 from USD95.9 in 1Q 2019, while ICI2 and ICI3 dropped slightly by around 3.5% and 2.5% to USD66.3 and USD51.8 from the 1Q 2019 numbers USD68.7 and USD53.1. The ICI numbers seem to be more relevant with the market movements, while GC Newc had to come down in order to be more in line with physical market. Australia have plenty HA 5500nar coal available and have been struggling to find home especially in China, but with some import restrictions applied by China, they have no option but drop their prices.

Due to ample supply and a surge in global LNG supply driving down gas prices, gas and other renewables has displaced coal consumption leading to Europe ARA coal stocks at historical levels. Coal from Colombia, normally sold into European markets, has increasingly been sold in China due to an overwhelming price advantage. With plenty of coal available flooding the Asia Pacific market, price has to adjust itself.

In 1H 2019, China's total coal imports recorded 155Mt, up 5.8% y-o-y, driven largely by a 32% increase in coking coal imports while thermal coal imports remained flat. However, if China maintains its 2019 total import volume at or below 281Mt (same as in 2018), then coal imports over 2H 2019 should be approximately 126Mt. This implies the average monthly imports over 2H 2019 would be less than 21Mt, which is 18% lower than the average monthly imports over 1H 2019. Unless China relax its control on coal imports in the remaining months of 2019, we should expect a more challenging condition the seaborne coal market, and more pressure on prices.

On the demand side, with a slowing economy reeling from the US-China trade dispute, well-supplied domestic coal market and NDRC's control, the market expects domestic spot prices to stay range bound around RMB600/t. Not the same can be said for coal imports, as policy uncertainties and tight import quotas will add pressure on coal prices over 2H 2019. We expect domestic weakness to continue after the peak summer demand season. Imports fob prices are also checked by rising Asia seaborne freights which have increased markedly by up to USD2/t, boosted by uptick in iron ore trading.

We will continue to cautiously follow these market dynamics towards the following quarters. The majority of the Company's production in 3Q 2019 has already been sold.

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SUMMARY FINANCIAL STATEMENTS
Consolidated Statements of Profit and Loss
For the six months ended 30 June 2018 and 2019

Consolidated Statement of Profit or Loss							(in USD millions)
		Unaudited	Unaudited		Unaudited	Unaudited	
Description		**1Q19**	**2Q19**	***% chg***	**6M18**	**6M19**	***% chg***
Revenues		**72.1**	**67.7**	***-6.0%***	**153.1**	**139.8**	***-8.7%***
Cost of revenues & direct costs		(52.2)	(50.0)	-4.1%	(102.7)	(102.2)	-0.5%
Gross profit		**19.9**	**17.7**	**-11.1%**	**50.5**	**37.6**	**-25.5%**
Operating expenses		(10.4)	(9.2)	-12.0%	(18.0)	(19.6)	8.8%
Operating profit		**9.5**	**8.5**	**-10.1%**	**32.5**	**18.0**	**-44.6%**
Depreciation and amortization		3.5	3.4	-4.7%	7.5	6.9	-8.6%
EBITDA		**13.0**	**11.9**	**-8.6%**	**40.0**	**24.9**	**-37.8%**
Share in net loss of an associate and joint venture		-	-	n/a	(0.5)	-	n/a
Other income (expense)		(0.6)	0.8	237.8%	(2.0)	0.2	111.6%
NPBT		**8.9**	**9.4**	**5.5%**	**30.0**	**18.2**	**-39.2%**
Income tax expense - net		(1.9)	(2.1)	9.8%	(8.2)	(4.0)	-50.8%
Net profit		**6.9**	**7.2**	**4.3%**	**21.8**	**14.2**	**-34.9%**
Attributable to:							
Owners of the Company		**6.4**	**6.3**	**-1.3%**	**17.2**	**12.7**	**-26.2%**
Non-controlling interests		0.6	1.0	67.9%	4.6	1.5	-67.2%
Less: MI preferred dividend		*0.5*	*0.4*	*-13.0%*	*1.2*	*0.9*	*-23.4%*
Core net income		*6.5*	*6.8*	*5.6%*	*20.6*	*13.3*	*-35.5%*
Gross profit margin		27.6%	26.1%		33.0%	26.9%	
Operating profit margin		13.1%	12.6%		21.2%	12.9%	
EBITDA margin		18.0%	17.5%		26.1%	17.8%	
Net profit margin		8.9%	9.3%		11.2%	9.1%	
Sales volume	(million tonne)	1.1	1.0	-7.5%	2.0	2.1	6.5%
Coal purchase volume	(million tonne)	-	-	n/a	0.4	-	-100.0%
Production volume	(million tonne)	1.0	0.6	-35.5%	1.6	1.6	-1.5%
Monthly prod. run rate	(million tonne)	0.3	0.2	-35.5%	0.3	0.3	-1.5%
Average sales price	(US$/tonne)	62.1	64.0	3.0%	73.6	63.0	-14.3%
FOB vessel cash cost *)	(US$/tonne)	38.3	40.1	4.5%	42.5	39.2	-7.8%
Royalty	(US$/tonne)	8.9	8.4	-5.3%	7.6	8.7	13.8%
Commissions, DMO and G&A	(US$/tonne)	7.0	6.9	-1.2%	7.1	7.0	-1.9%
Total cash cost	(US$/tonne)	54.3	55.4	2.2%	57.2	54.8	-4.2%
Average fuel price purchased	(US$ per litre)	0.6	0.7	12.3%	0.6	0.6	-1.7%
Stripping ratio	(times)	9.7	12.8		10.2	10.9	
Overburden volume	(million bcm)	9.3	7.9	-14.6%	16.4	17.2	4.8%
Total inventory							
Raw coal	(million tonne)	0.3	0.1		0.1	0.1	
Industrial coal	(million tonne)	0.5	0.2		0.4	0.2	

Note:
**) FOB Vessel Cash Cost consists of mining, haulage, coal purchased, transportation and fixed/overhead costs, excluding depreciation and amortization, marketing, general and administrative, and royalty payments, as well as any one-off cost item*

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SUMMARY FINANCIAL STATEMENTS
Consolidated Statements of Financial Position
As of 31 December 2018 and 30 June 2019

Consolidated Statement of Financial Position			(in USD millions)
	Audited	Unaudited	
Description	**31-Dec-18**	**30-Jun-19**	***% change***
Cash and cash equivalents	216.4	217.2	*0.3%*
Trade receivables	35.5	23.5	*-33.7%*
Inventories	35.3	12.4	*-65.0%*
Prepaid Expenses	2.5	3.4	*34.5%*
Advances to suppliers	14.5	13.5	*-6.4%*
Financial investments	1.9	2.0	*5.6%*
Deferred tax assets	7.3	6.3	*-13.6%*
Fixed assets	82.2	77.7	*-5.4%*
Mine properties	54.8	56.4	*2.8%*
Goodwill	3.9	3.9	*0.0%*
Other assets	13.7	23.4	*70.8%*
Total Assets	**468.0**	**439.7**	***-6.0%***
Trade payables	41.5	13.3	*-68.0%*
Taxes payable	5.2	1.4	*-73.6%*
Accrued expenses	14.3	10.1	*-29.7%*
Payable to non-controlling interests	2.8	2.6	*-5.4%*
Provision for environmental management	5.5	5.8	*5.4%*
Employee benefits obligation	7.5	8.1	*7.7%*
Other Liabilities	2.7	1.4	*-48.8%*
Total Liabilities	**79.5**	**42.6**	***-46.4%***
Equity attributable to the owners of the parent	302.0	309.0	*2.3%*
Non-controlling interests	86.5	88.0	*1.8%*
Total Equity	**388.5**	**397.1**	***2.2%***
Net debt/(net cash)*	(216.4)	(217.2)	
Net debt/(net cash) to equity (x)	(0.7)	(0.7)	
Current ratio (x)	4.6	9.3	
Trade receivables days	33.1	38.2	
Trade payables days	56.5	48.5	

Notes:
**) Defined as total debt, which consist of bank loans and finance lease obligations, minus cash and cash equivalents*

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SUMMARY FINANCIAL STATEMENTS
Consolidated Statements of Cash Flows
For the six months ended 30 June 2018 and 2019

Consolidated Statement of Cash Flows			(in USD millions)
	Unaudited	Unaudited	
Description	**6M18**	**6M19**	*% chg*
Cash Flows From Operating Activities			
Cash generated from operations	159.8	151.7	*-5.0%*
Cash paid related to operations	(136.5)	(140.9)	*3.2%*
Net Cash Provided by Operating Activities	**23.3**	**10.8**	*-53.4%*
Cash Flows From Investing Activities			
Interest received	2.1	2.8	*35.7%*
Additions to mine properties	(0.7)	(2.7)	*291.1%*
Net additions to fixed assets	(0.6)	(0.9)	*56.8%*
Acquisitions of subsidiaries net of cash acquired	(1.0)	-	*-100.0%*
Others	(0.4)	(2.4)	*534.7%*
Net Cash Used in Investing Activities	**(0.6)**	**(3.2)**	*429.6%*
Cash Flows From Financing Activities			
Payment of cash dividend:			
The Company	(45.0)	(6.9)	*-84.6%*
Subsidiaries to non-controlling interests	(0.2)	-	*-100.0%*
Payment of loan to a third party	(10.4)	-	*-100.0%*
Acquisitions of treasury shares	(1.5)	-	*-100.0%*
Net Cash Used in Financing Activities	**(57.1)**	**(6.9)**	*-87.9%*
Net Increase in Cash and Cash Equivalents	**(34.5)**	**0.7**	*102.1%*
Cash and Cash Equivalents at Beginning of the Year	**266.4**	**216.4**	
Cash and Cash Equivalents at End of the Period	**231.9**	**217.2**	

For further information, investors and shareholders can contact:

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