Bumi Resources

Indonesia, Mining

Accounting		Climate Assumptions		Audit		Date of analysis: May 28 2021[1]
Judgements	Consistency with other reporting	Visibility	Paris alignment	Visibility in KAMs	Consistency check	Year end: December 2020 Report date: May 18 2021 AGM: June 30 2021
Significant concerns	Significant concerns	Significant concerns	Significant concerns	Significant concerns	Some concerns	CA 100+ company, so seen by investors as key to driving global net zero emissions

Summary view:

- Indonesia's largest thermal coal producer, Bumi has an extraordinarily high carbon footprint and exposure to climate change issues.
- Yet these issues are not addressed in any form beyond the sustainability report ambition of reducing the intensity of Scope 1 emissions in operations. There is no discussion of the substantial Scope 3 emissions from its products, and certainly no consideration of climate change issues in the financial statements.

Background

The Business

- Bumi is an Indonesian coal-mining business. It is part of the Bakrie Group, and listed on the Jakarta stock exchange, with the largest reported shareholder (around 22%) being Chengdong Investment Corp, part of CIC, the Chinese sovereign wealth fund. As well as coal, the company has an oil & gas exploration business (currently focused on Yemen, where operations are suspended) and a minority stake in mining businesses at an exploratory stage for gold, copper, zinc and lead in Indonesia. Bumi Resources' holding in Bumi Resources Minerals, the vehicle for these mineral exploration activities, was diluted during the year from nearly 36% to 31% by a share issuance in which the company did not participate.
- The largest thermal coal producer in Indonesia, the company operates through two business units, Kaltim Prima Coal and Arutmin, KPC, 51% held, operates in east Kalimantan. It is the larger unit, producing 59.7mt in 2020, down 2% from 60.8mt in 2019. Arutmin is 90% owned; 2020 production from its 6 open mines in south Kalimantan was 21.4mt, down 16% from 25.5mt in the prior year. Reserves at KPC are some 1.2bn tonnes (resource around 7bn), and at Arutmin 213m tonnes (resource 1.7bn). 38% of sales are to Indonesia, 15% to India, 13% to China, 8.5% to Japan, with smaller proportions sold to other Asian nations.
- Having previously been marginally profitable, the company fell into significant loss in 2020, amounting to some $339m (including its share in the losses of associates and JVs). Cash outflow from operations was $17.5m. The company was affected by a fall in coal prices (down some 14% it reports) as well as the drop in volumes (reported as down 6% overall, to 81.1mt). Costs were cut by nearly 20% but this was not sufficient to avoid the losses.

Approach to climate change

- There is no apparent strategy to address climate change issues. While SDG 13 (Climate Action) is referenced in the company's outline of its approach to the SDGs, the ambition seems to be limited to addressing Scope 1 emissions only, increasing efficiency in operations and nothing more. This does not start to address the key issues facing the company.
- GHG emissions are not disclosed clearly, but appear to refer only to Scope 1 emissions. They are also disclosed separately by the two business units. The reported numbers for 2019 were 1.89m tCO_2e at KPC and 0.47m tCO_2e for Arutmin, giving a total for these units of 2.36m tCO_2e (though if this is the total, then Bumi's shareholding would mean that only 51% of KPC's emissions should be attributable to the parent, and 90% of Arutmin's). Of course, this number will be dwarfed by the Scope 3 emissions from the burning of the coal by customers.

[1] Updated September 2021 to consider Annual Report published after initial analytical work was undertaken.

Accounting: judgements and consistency with other reporting

Accounting judgements	Significant concerns

- The financial statements are produced in accord with Indonesian Financial Accounting Standards. These are partially converged towards IFRS standards.
- There appears to be no reference to climate change in the notes to the financials. It is not apparent that any consideration of climate has been built into the numbers.
- The valuation of mines on the balance sheet (predominantly the fully consolidated Arutmin assets) is $1.49bn. Mines are amortised using the units of production method. Applying the amortisation from the 2019 year (recognising the lower production levels in 2020) implies average remaining lives of more than 40 years[2]. Exploration assets are valued at just $107m.
- Alongside this are the carrying values of investments in associates and joint ventures, including 23% of contract mining business Darma Henwa, and holdings in a range of mines. These totalled some $686m at year end. The largest single item is the $229m valuation of Bumi's 51% stake in KPC.
- Total liabilities for restoration and rehabilitation are estimated at over $200m. The company has pledged time deposits of $198m guaranteeing some of Arutmin's restoration obligations. The potential for physical impacts of climate change to affect the restoration and rehabilitation liabilities does not seem to be taken into account.
- Deferred tax assets amount to some $178m, including $103m at the parent company level and $76m at subsidiary level.
- All these asset valuations depend on assumptions about future profitability, none of which appear to incorporate any consideration of transition issues associated with climate change.
- PP&E is limited despite being held on the balance sheet on long lives, including buildings up to 20 years and machinery and equipment up to 30 years. Depreciation is on a straight-line basis. However, total PP&E is only £20m on the balance sheet, with estimated remaining lives for buildings under 3 years and for equipment negligible.

Consistency with other reporting	Significant concerns

- The discussion of climate risks in the narrative reporting in the 2020 Annual Report is remarkably weak given the glaring climate risks facing the company, but there is brief commentary on both physical and transition risks and several other passing references to climate change. Even this underwhelming discussion of climate risks is inconsistent with the apparent complete absence of any climate considerations in the consolidated financial statements.

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts	Significant concerns

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.

Paris alignment	Significant concerns

- With no visibility, there can be no alignment with the goals of the Paris Agreement.

[2] In the absence of better data, implied lives are roughly estimated using depreciation expense and year end asset values net of depreciation.

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Audit: visibility in KAMs and consistency check

Audit firm: RSM Amir Abadi Jusuf, Aryanto, Mawar & Rekan	Responsible partner: Jimmy Tan
Audit standards: Indonesian Standards on Auditing (an adoption of 2010 ISAs)	

Visibility in Key Audit Matters		Significant concerns

- There is no explicit reference to climate change in the auditor's report.
- As Indonesian standards are an adoption of the 2010 International Standards in Auditing (ISAs), they predate the requirement to disclose Key Audit Matters in the auditor's report. There are thus no KAMs disclosed and nothing of substance is revealed about the audit process.
- The auditor draws attention to two emphases of matter, but makes no further comment about them:
  - A restatement of the accounts which led to a change to the 2019 numbers, reducing the non-current assets by some $91m and further increasing the deficit in equity attributable to owners of the parent company, and non-controlling interests.
  - Doubts over going concern. The deficit in equity attributable to owners of the parent company is more than $3bn, current liabilities exceed current assets and the company is experiencing negative cashflow from operations.

Consistency check		Some concerns

- Although the discussion of climate risks in the narrative reporting is very limited for a company facing such material climate risks, there is still a clear inconsistency with the apparent complete absence of climate considerations in the audited financial statements. However, given the limited nature of this discussion – and especially the company's essentially dismissive commentary – it is perhaps not surprising that these risks and this inconsistency have not been picked up in the auditor's report.
- Furthermore, the 2010 ISAs included an earlier version of ISA720, setting out the auditor's responsibilities relating to other documents containing audited financial statements. The fact that the audit report is published within the financial statements issued on May 18, which are published on the own and ahead of the publication of the annual report, would suggest that the auditor's formal responsibility in relation to other documents is highly restricted.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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