



mineIndonesia 2007*

review of trends in the Indonesian mining industry

December 2007

Contents

1	Executive Summary
7	Highlights for 2006
11	Financial performance
25	Market Capitalisation
29	Investment
39	Financial Position
43	Expenditures of Public Interest
45	Contribution to the Indonesian Economy
47	Employment
49	Survey Background and Details
53	Survey Participants
55	10 Year Summary
61	Contracts of Work and Coal Agreements
63	Glossary
64	Endnotes
65	Acknowledgments
66	PricewaterhouseCoopers
67	Indonesian Mining Association and Indonesian Coal Mining Association

PricewaterhouseCoopers was engaged by the Indonesian Mining Association and the Indonesian Coal Mining Association to prepare the survey, and is very grateful for the support of all the respondents without whose assistance this report could not have been completed. We would also like to thank the Indonesian Mining Association and the Indonesian Coal Mining Association (the "Associations") for their encouragement and co-operation in making this survey a success.

This report is based on a survey of data provided by several respondents, which has not been verified by PricewaterhouseCoopers or the Associations. PricewaterhouseCoopers and the Associations accept no liability (including liability in negligence) and take no responsibility for any loss or damage which users of this publication or any third party may suffer or incur as a result of reliance on this publication.

ADJUSTED FIGURES FROM THE PREVIOUS REPORT

Current year respondents who did not participate in last year's survey have reported their prior year figures when completing this year's questionnaire. Also, some respondents corrected prior year figures. These figures have been revised accordingly in the historical presentation of results. Thus in some cases, figures for 2005 and earlier years appearing in this report differ from the figures in previous reports.

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Cover: The photos throughout this publication illustrate the corporate social responsibility shown by the mining industry in employment, community development and protection of the environment.



**MINISTER OF ENERGY AND MINERAL RESOURCES
REPUBLIC OF INDONESIA**

It is a great pleasure for me to introduce the ninth annual PricewaterhouseCoopers report on trend in the Indonesian mining industry. PricewaterhouseCoopers, IMA and ICMA are well known to government, business and investors for their commitment to the Indonesian mining industry and their desire on the continuation of a strong and vibrant mining industry in Indonesia.

The mining industry remains very important to Indonesia. It is a substantial contributor to export earnings, central and local government budgets, economic activity, employment and regional development. The Government of Indonesia remains committed to the mining sector and encourages all private investors, both foreign and domestic, to continue their support of the Indonesian mining industry.

A number of uncertainties in the mining industry continue to affect the level of new investment in the industry, despite the current high price of mining commodities. The government is continuously working towards removing these uncertainties. I expect the new mining law to be issued in the near future and it will address many of these concerns. I have an expectation that under the upcoming new mining law and the continued strong demand for mining products, Indonesian mining industry will once again have positive growth and become an increasing contributor to the economic development of Indonesia.

Once again, I commend this publication to you and congratulate PricewaterhouseCoopers, IMA and ICMA and the participating mining companies on their valuable contributions.

Jakarta, 1 February 2008
Minister of Energy and Mineral Resources



Purnomo Yusgiantoro

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ASOSIASI PERTAMBANGAN
BATUBARA INDONESIA
INDONESIAN **COAL**
MINING ASSOCIATION

Jakarta, 1 February 2008

We welcome you to the ninth PricewaterhouseCoopers report on trends in the Indonesian mining industry. On behalf of Indonesian Mining Association (IMA), Indonesian Coal Mining Association (ICMA) and the mining industry, we congratulate PricewaterhouseCoopers and thank them for their continued commitment and support to the industry.

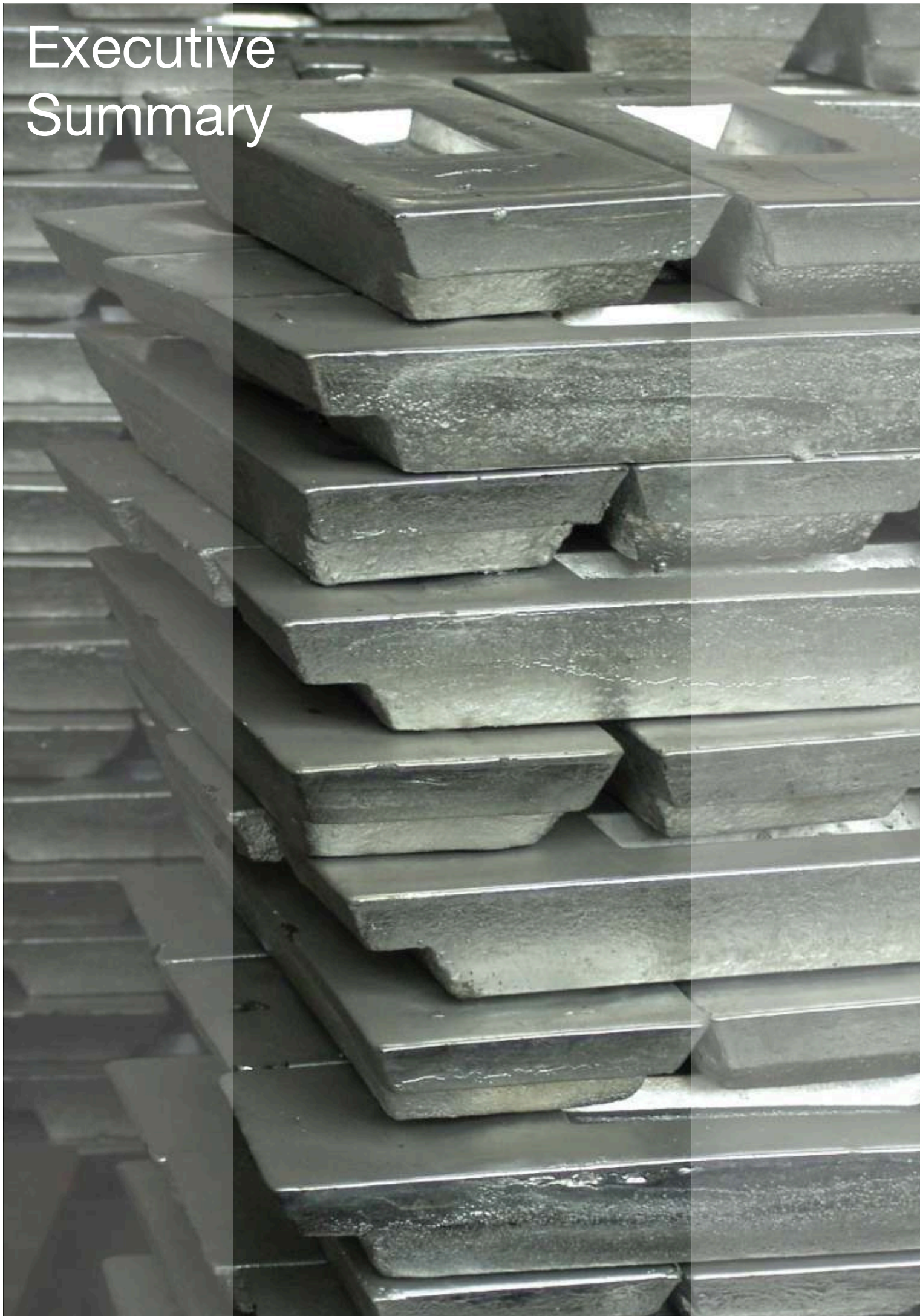
The mining industry is important to Indonesia. It is a substantial provider of export earnings, economic activity and employment, and supports regional development.

We remain passionate about the potential untapped mining reserves in Indonesia. With some further improvements to the business environment there is no reason why these resource would not be developed and Indonesia could once again attracts more share of global mining exploration allocation. IMA and ICMA continue to work together with the members, the government and other relevant parties towards achieving the best regulatory environment to promote further exploration and investment in mining.

Arif S. Siregar
Chairman
Indonesian Mining Association

Jeffrey Mulyono
Chairman
Indonesian Coal Mining Association

Executive Summary



2006 was another spectacular year for the mining industry, both in Indonesia and globally – and with commodity prices at their current highs, 2007 and 2008 will see even better financial results. Globally, investor confidence in the sector and its prospects has remained strong, fuelled by a sustained rise in commodity prices, and as witnessed by a year of significant growth in market capitalisation on both international bourses and the Indonesian exchange. In Indonesia, profits in the sector have continued to increase in line with the rise in commodity prices. Total investment in the mining sector has also increased in 2006, however spending on exploration, and in particular greenfields exploration, continues to be only a fraction of the global spend. It is hoped that several of the large projects currently awaiting investment approval will commence in 2008 and that this, together with finalisation of the proposed new mining law, will help secure the longevity of a lucrative mining industry in Indonesia.

The commodities boom continues

For the Indonesian companies analysed in this survey, revenue has increased by 22% over 2005 and net profits increased by a healthy 17%. This is even more significant considering that 2005 net profits were 71% above the prior year. This is consistent with the global trends. Based on a PricewaterhouseCoopers survey of 40 of the world's largest mining companies (referred to as the global 40¹) revenues increased by 37% and profits increased by 64% in 2006.

Other profit measures also show that, both in Indonesia and globally, 2006 was a year of high performance.

Key Ratios	Top 40 Companies-Global ¹		Indonesia	
	2005	2006	2005	2006
EBITDA Margin	37.0%	44.0%	42.9%	41.2%
Net profit margin	23.0%	27.0%	23.3%	22.5%
Return on capital employed	13.0%	23.0%	24.7%	26.0%
Return on shareholders' fund	26.0%	33.0%	37.3%	39.4%
Net debt to equity ratio	31.8%	36.2%	49.1%	46.5%

While the results of Indonesian miners are still in line with the global average, profitability of Indonesian mines was down compared to the global 40, due to the strong surge in profitability of global players. It is noteworthy that the sustained increase in profitability in the Indonesian sector since 2002 stems largely from the continuing commodities boom, rather than any significant expansion in activities.

Average minerals prices, except for coal, continued to climb in 2006. Growth in copper, gold and nickel prices are stand outs, exhibiting the highest growth levels in the last 10 years. This has continued into 2007, with unprecedented demand, particularly from Asia.

However, these improvements in profitability mask substantial increases in operating costs which have occurred due to supply side constraints. The industry will face a challenge to sustain margins should commodity prices fall.

(see page 12)

Balance sheets remain strong

The continuation of strong profits and operating cash flows has led to an increasingly strong industry balance sheet. This is particularly so for the global industry, with debt to equity ratios having decreased significantly over the last few years. Cash and cash equivalents of the global 40 stood at nearly US\$ 44 billion at the end of 2006 (up 45% on 2005). Current assets of the Indonesian miners surveyed have also increased by 13% from 2005 to US\$ 5.6 billion.

The aggregate debt-to-equity ratio for the Indonesian companies has also dropped in 2006 to 46.5% from 49.1% in 2005. Together with the increased cash reserves reported, this demonstrates that balance sheets remain strong, and indeed are strengthening.

The question remains whether Indonesia's potential projects, no matter how geologically prospective they may be, are attractive enough commercially to attract a significant portion of the global cash available for investment.

(see page 40)

Investment is up, but there is still room for improvement in Indonesia's investment conditions in the mining sector

The real indication of whether Indonesia is viewed as an attractive investment destination, despite its very good mineral prospectivity, is the level of exploration spending undertaken in Indonesia. Overall investment spending reported by survey respondents increased to around US\$ 964 million.

Survey respondents have also reported increased spending on exploration in 2006 to approximately US\$ 157 million (up from US\$ 110 million in 2005), although this is still only a fraction of the global exploration spending of US\$ 7.5 billion forecast for 2006 by Canada's Metals Economics Group ⁱⁱⁱ.

The survey data for Indonesia continues to show low levels of investment in greenfields exploration, and that other investment spending is primarily for replacement plant and equipment to maintain existing operations. It is hoped that several of the large projects currently awaiting investment approval will commence in 2008 and see a significant improvement in the spending on new projects.

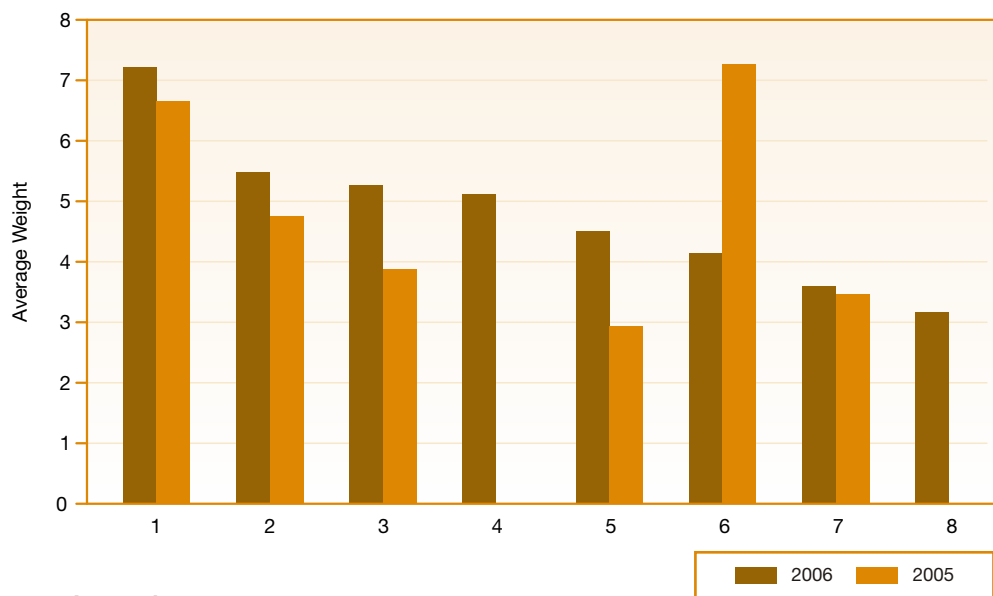
Whilst there has been some activity on the part of local investors and junior mining companies, the low level of exploration expenditure by large global mining companies will continue until they are satisfied that investment conditions have improved. Based on a study by the Fraser Institute ^{iv}, global mining companies would rate Indonesia in the top 10 destinations in the world based on its geological potential, if a "best practice" investment regime was in place. However, they currently rank Indonesia in the bottom 10 based on its current investment climate.

(see page 30)

The industry's opinion – what issues are holding up investment in the Indonesian mining industry?

Survey respondents have highlighted the following key issues for the mining industry, which require immediate attention.

Comparison of areas for improvement



Legend:

1. Conflict between mining operations and forestry regulations
2. Duplication and contradictions between central and regional government regulations
3. Taxation issues (tax incentives, VAT on gold and coal, corporate tax rate)
4. Delay in finalisation of the new mining law (no comparative for 2005)
5. Unfairness in divestment of foreign interests and mine closures
6. Uncertainty in CoW system and other mining regulations
7. Illegal mining
8. Lack of coordination between new investment law and new mining law and implementing regulations (no comparative for 2005)

The “Top 8” issues are consistent with the priorities to improve investment conditions highlighted by the mining industry, as detailed in *mineIndonesia 2006**. These are listed in the investment section of this report with a comment on progress to date as well as the survey respondents’ rating of progress since December 2006.

(see page 36)

The mining industry continues to be an important contributor to the Indonesian economy

The mining industry contribution to the overall Indonesian economy increased significantly in 2006 in comparison with previous years. Owing to the high commodity prices, mining products accounted for approximately 3% of the total Indonesian GDP, up from 2% in 2005 (Source: Badan Pusat Statistik – Indonesia).

The industry also continues to make significant contributions to regional and community development – Rp 991 billion in 2006 based on survey respondents, or an increase of 26% from the previous year, on top of a 65% increase in 2005. Total government revenues (taxes, royalties and other levies) from the survey respondents increased 27% to US\$ 3.4 billion, a record for the last 10 years.

The total number of direct employees has increased by 3% to approximately 38,000 in 2006. Employee compensation has however increased significantly (by approximately 49% overall) due to increased benefits received as a result of increased profits and production.

Given the continuing global mining boom and the potential for new projects or expansions in coming years, the outlook for the job market in the mining industry is extremely positive.

The total economic benefit to Indonesia is significantly greater than the direct benefits captured by the survey. This is because of the indirect multiplier effect that the mining industry's direct contribution has on other economic activity, which is particularly beneficial in the regional and remote areas where the industry operates.

(see page 46 and 48)

Outlook

2006 witnessed the global mining industry riding the wave of the continuing mining boom. The good times have continued into 2007 and look certain to continue for some time yet. Unprecedented demand, primarily driven by Asia, continues. New supply is coming on stream for many commodities, but is struggling to catch demand, partially as a result of under investment in prior years. As such, there remains confidence that demand will continue to exceed supply, leading to the continuation of high commodity prices, at least into the near term.

The Indonesian mining industry continues to post strong financial results on the back of high minerals prices and continuing global demand. This has seen some increase in investment spending in Indonesia in 2006, but exploration spending on new projects is still relatively low, considering the geological attractiveness of Indonesia attested to by many global players. It is hoped that several of the large projects currently awaiting investment approval will commence in 2008 and see a significant improvement in the spending on new projects.

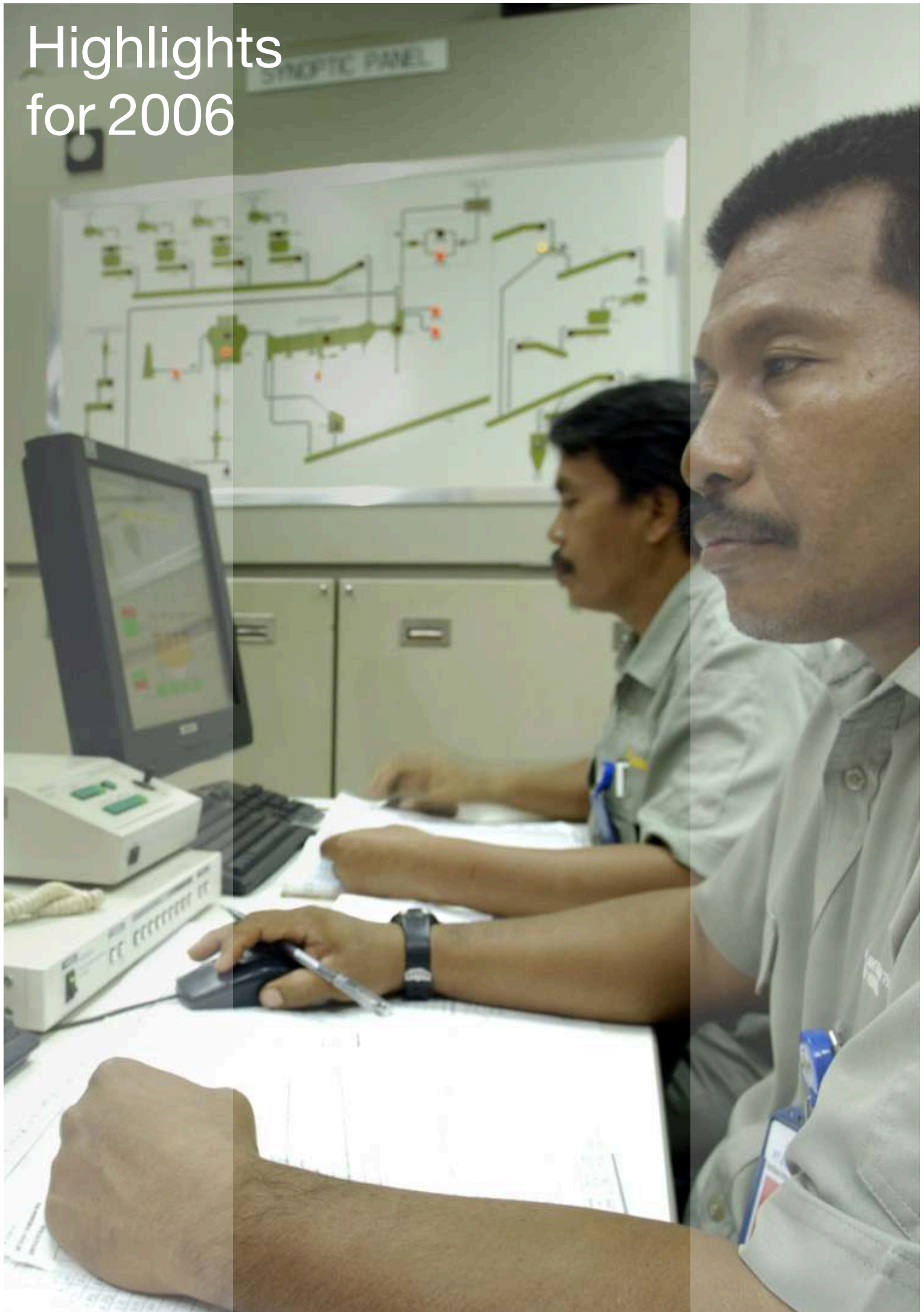
It is clear that global mining companies are willing to invest in exploration activities if the investment conditions are right. Significant and swift action by Indonesia could see a surge in investment spending, while the global mining boom continues. Any delay in changing investors' perceptions of the investment climate could see Indonesia miss out on the significant economic impact from this upswing in the mining industry.

Investors continue to highlight areas of concern which deter investment, even in these highly profitable times for the industry. Among those often cited are conflicts between mining operations and forestry regulations; regulatory duplication between central and regional governments; taxation issues; delay in finalisation of the new mining law; and issues with divestment of foreign ownership.

Of particular concern is the slow pace of finalising the draft mining law, which has been before parliament for several years. Due to the significant changes to the regulatory environment proposed in the draft law (some of which are not supported by mining industry participants), investors have been reluctant to commit significant funds to new projects, until the landscape is more certain. It is hoped that the new mining law will provide legal certainty with respect to licensing, land acquisition and security, as well as improve coordination between the different arms of government.

Given the continuing strength of the commodities market globally, and the Indonesian government's stated aim of attracting investment to the mining sector, it is hoped that the coming years will see significant investment in new projects. Finalisation of an investor friendly mining law may just be the impetus that is needed for Indonesia to really "ride the wave" of the current mining boom.

Highlights for 2006



Highlights for 2006

- Continuing increases in mineral prices have driven profitability higher.
 - Revenue increased by 22% and aggregate net profits by 17%.
 - The return on shareholders' funds was 39.4%, compared to 37.3% in 2005 and 19% on average for the last 10 years.
 - The profitability of Indonesian mines is slightly below the top 40 global companies in 2006, but better in terms of return on investment.
 - Huge increase in market capitalisation of listed mining companies on the Indonesia Stock Exchange on the back of increased profitability and commodity prices.
-
- Sustained increase in coal and nickel production, but lower production in copper, gold and tin.
-
- The government revenue from mining increased to US\$3.4 billion (70% of this amount coming from income taxes and royalties).
 - Increase in mining contribution to Gross Domestic Product to IDR 56 trillion, an increase of 7% compared to 2005.
 - Increase in contribution to Indonesian exports to US\$ 20 billion, an increase of 40% compared to 2005.
-
- Some increase in exploration expenditure during 2006, with 89% related to coal exploration. Non-ferrous metals exploration spending remained at a very low level.
 - Investment conditions continue to receive poor report cards although there has been some progress noted.

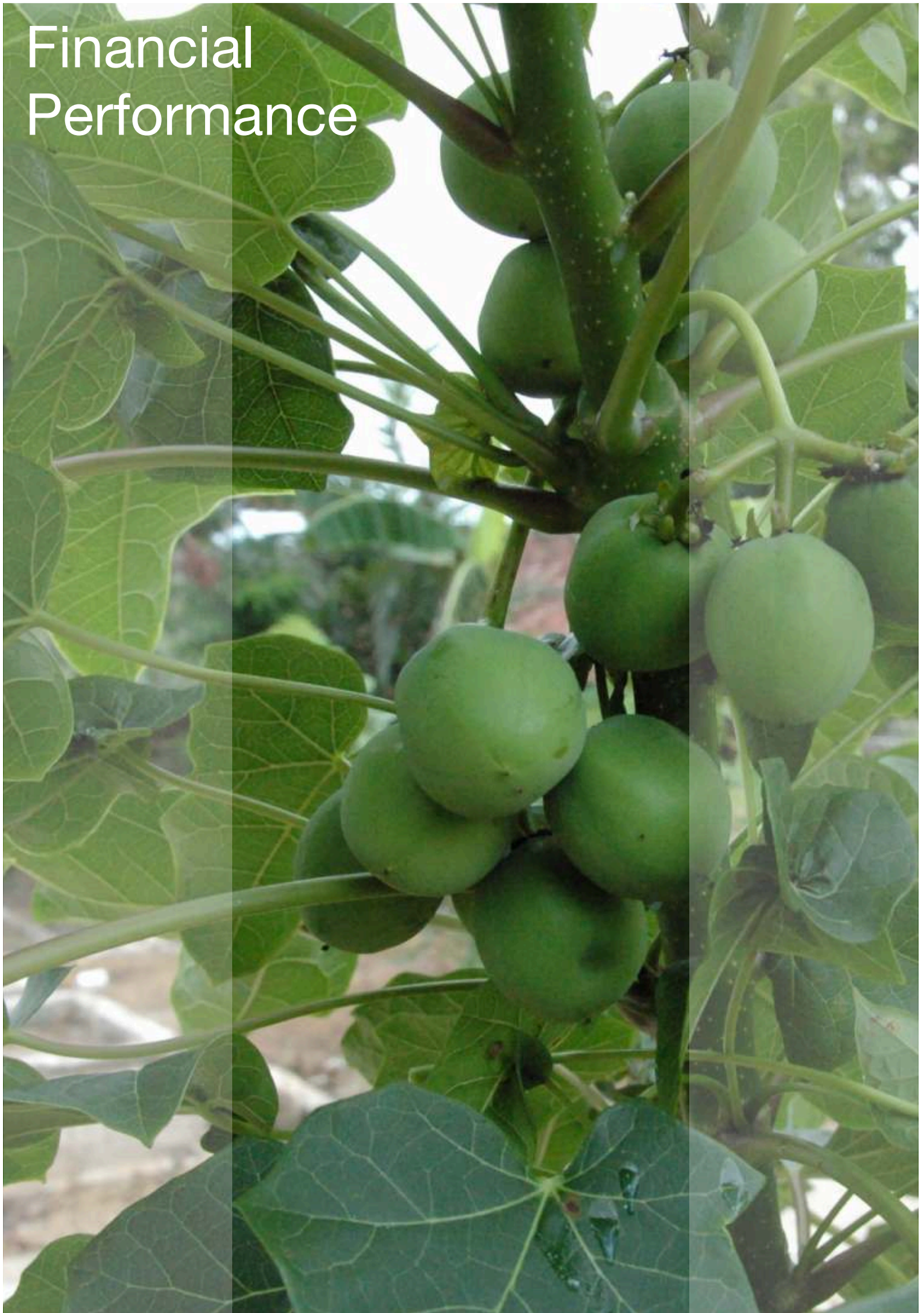
Financial highlights	2005 US\$ million	2006 US\$ million	Year-on-year Movement
Revenue	11,411	13,882	↑ 22%
EBITDA	4,901	5,720	↑ 17%
Net profit	2,662	3,122	↑ 17%
Government revenue	2,691	3,426	↑ 27%
Total assets at year end	14,945	16,483	↑ 10%
Borrowings at year end	3,214	3,526	↑ 10%

Key Ratios	2005*	2006	Average 10 years
EBITDA Margin			
Indonesia	42.9%	41.2%	38.7%
Top 40 companies - global ⁱ	37.0%	44.0%	na
Australia ⁱⁱ	41.5%	42.7%	na
Net profit margin			
Indonesia	23.3%	22.5%	15.6%
Top 40 companies - global ⁱ	23.0%	27.0%	na
Australia ⁱⁱ	22.0%	22.5%	12.0%
Return on capital employed			
Indonesia	24.7%	26.0%	11.8%
Top 40 companies - global ⁱ	13.0%	23.0%	na
Australia ⁱⁱ	17.8%	20.7%	na
Return on shareholders' funds			
Indonesia	37.3%	39.4%	19.1%
Top 40 companies - global ⁱ	26.0%	33.0%	na
Australia ⁱⁱ	24.0%	32.0%	12.0%
Debt to equity ratio			
Indonesia	49.1%	46.5%	115.2%
Top 40 companies - global ⁱ	31.8%	36.2%	na
Australia ⁱⁱ	25.8%	22.3%	na

* Indonesia: revised figures due to additional responses received for 2006



Financial Performance

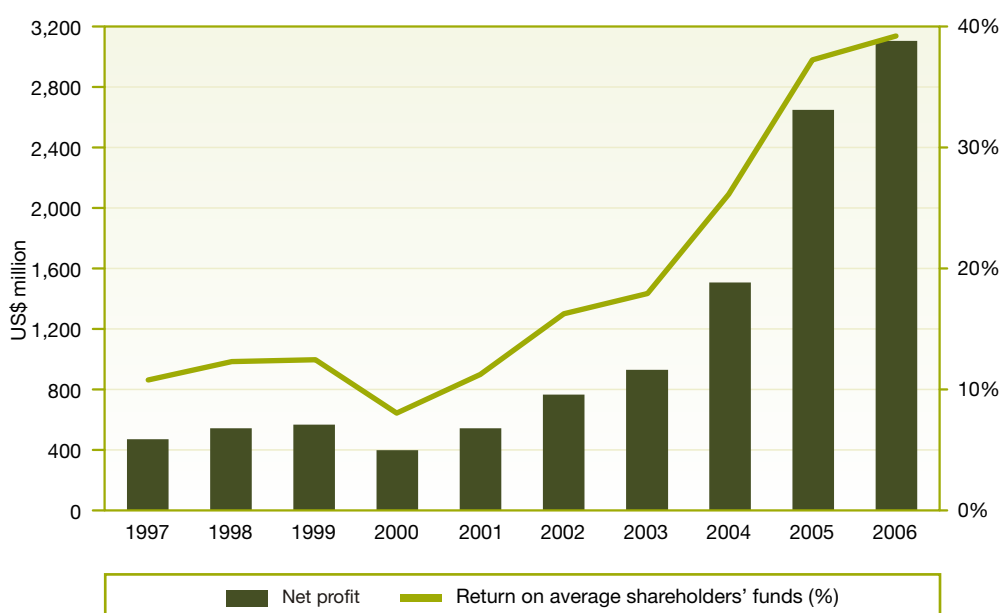


Strong minerals prices continue to drive profitability

The sustained increase in profitability over the last three years is mainly the result of increases in mineral prices, compounded by some increase in production levels (except gold and copper). This increase has been offset by a general increase in cash operating expenses, mainly due to higher production costs. Increases in interest and financing costs were also evident due to additional loans raised during 2006, in line with the expansion of production at the larger coal companies.

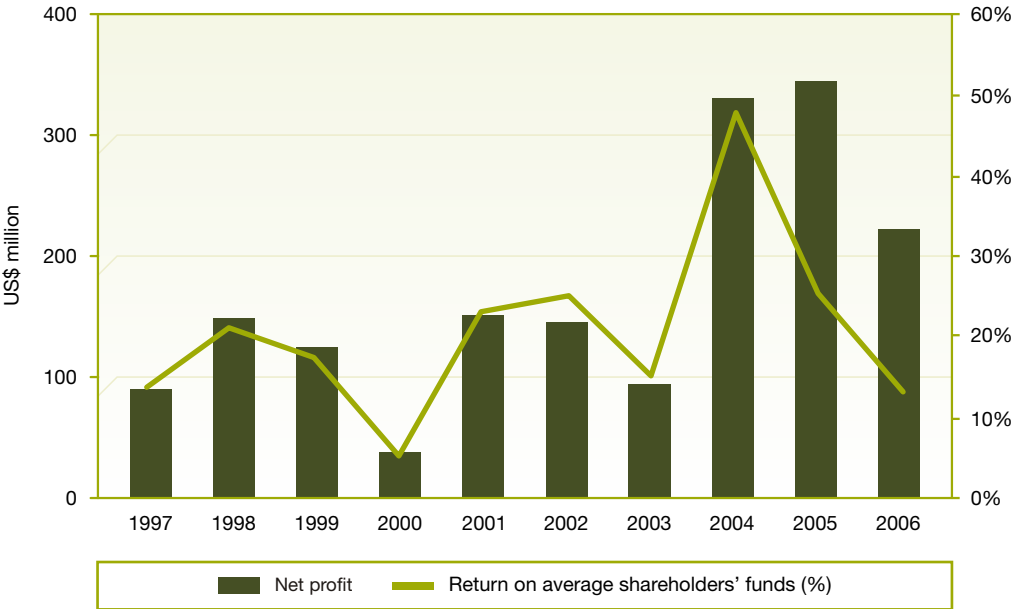
Net profit and rates of return

All companies

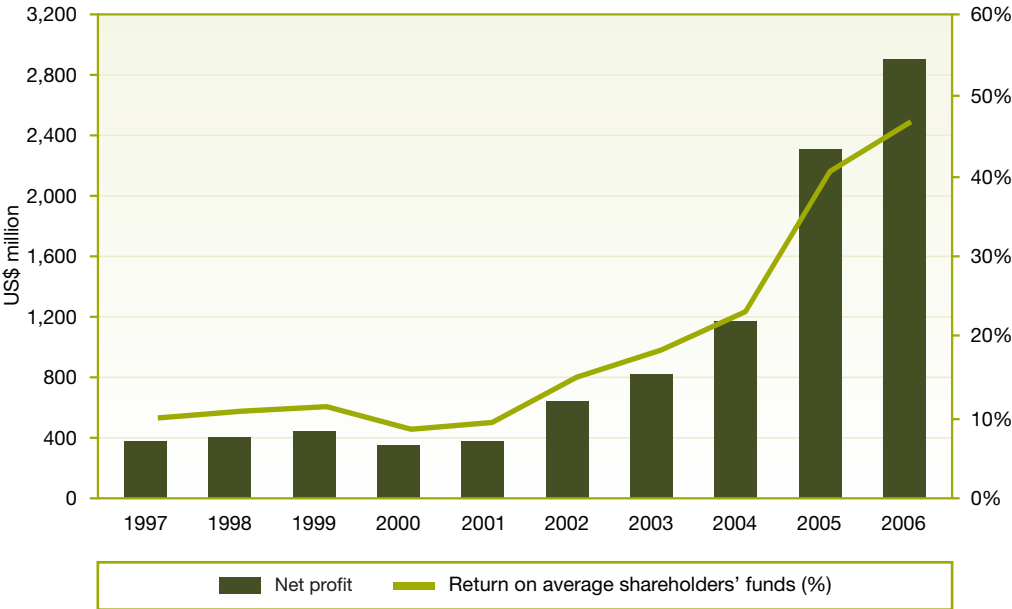


However, similar to 2005, the increase in profits in 2006 did not extend across the whole mining industry. Coal companies in Indonesia bucked the trend of strong profit rises exhibited by the hard rock mining companies. Coal companies surveyed showed an overall decrease in profits. This appears to be due to the increase in cash operating expenses being higher than the increase in net sales revenue due to some of the larger coal companies being locked into long term sales contracts with fixed prices. An increase in interest expense due to net additional debt raised during 2006 by some of the larger coal companies also appears to have contributed to the decline in profits.

Coal companies



Hard rock companies



Aggregate profit & loss*All companies*

	2005* US\$ million	2006 US\$ million	Year-on-year Movement
Net sales revenue	11,411	13,882	↑ 22%
Cash operating expenses	6,510	8,162	↑ 25%
EBITDA	4,901	5,720	↑ 17%
Amortisation and depreciation	564	637	↑ 13%
Profit before interest and tax	4,337	5,083	↑ 17%
Interest	226	288	↑ 27%
Profit before tax	4,111	4,795	↑ 17%
Income tax	1,449	1,673	↑ 15%
Net profit	2,662	3,122	↑ 17%

*Revised figures due to additional responses received for 2006

Coal companies

	2005* US\$ million	2006 US\$ million	Year-on-year Movement
Net sales revenue	3,693	4,797	↑ 30%
Cash operating expenses	2,927	4,065	↑ 39%
EBITDA	766	732	↓ 4%
Amortisation and depreciation	83	148	↑ 78%
Profit before interest and tax	683	584	↓ 14%
Interest	114	182	↑ 60%
Profit before tax	569	402	↓ 29%
Income tax	225	179	↓ 20%
Net profit	344	223	↓ 35%

*Revised figures due to additional responses received for 2006

Hard rock companies

	2005* US\$ million	2006 US\$ million	Year-on-year Movement
Net sales revenue	7,718	9,085	↑ 18%
Cash operating expenses	3,583	4,097	↑ 14%
EBITDA	4,135	4,988	↑ 21%
Amortisation and depreciation	481	489	↑ 2%
Profit before interest and tax	3,654	4,499	↑ 23%
Interest	112	106	↓ 6%
Profit before tax	3,542	4,393	↑ 24%
Income tax	1,224	1,494	↑ 22%
Net profit	2,318	2,899	↑ 25%

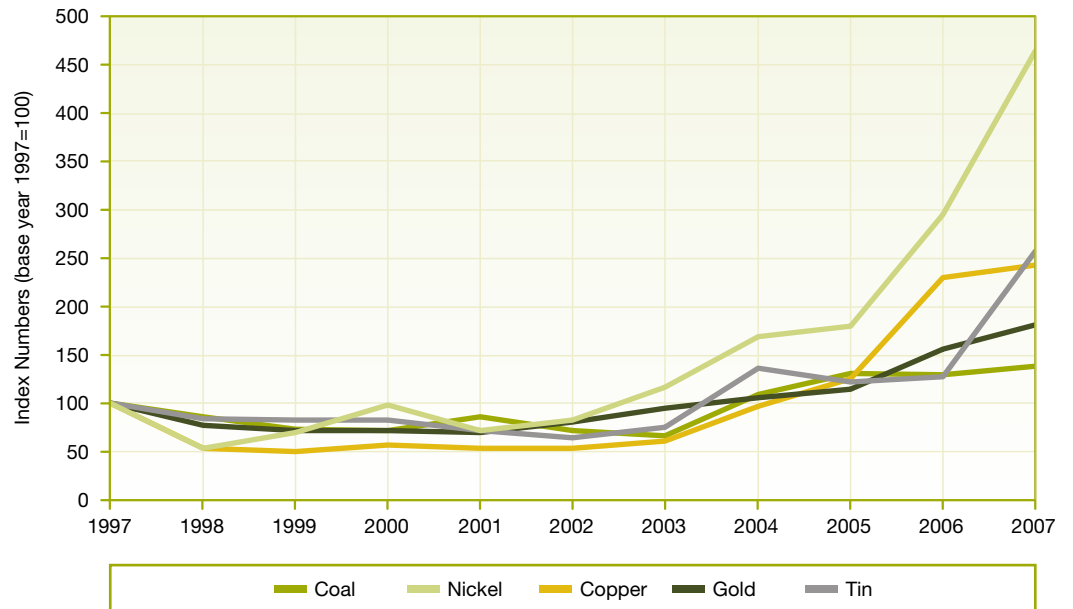
*Revised figures due to additional responses received for 2006

Average minerals prices, except for coal, continued to climb during 2006 and also 2007 based on the latest available information. Growth in copper, gold and nickel prices are stand outs exhibiting the highest growth levels during the last 10 years. Price negotiations for coal during 2006 resulted in a moderate fall in prices, although overall the market remained strong which is evidenced by the increase during 2007. This moderate decrease in coal prices in 2006 was compensated by the increase in production resulting in an increase in net sales revenue of 30%.

The tin price has shown a better performance in 2006 (which has continued into 2007) due to improved law enforcement during 2006 to minimise illegal mining operations in the tin industry in Indonesia. This has resulted in lower tin supply from the black market to the worldwide tin market leading to an increase in the tin price.

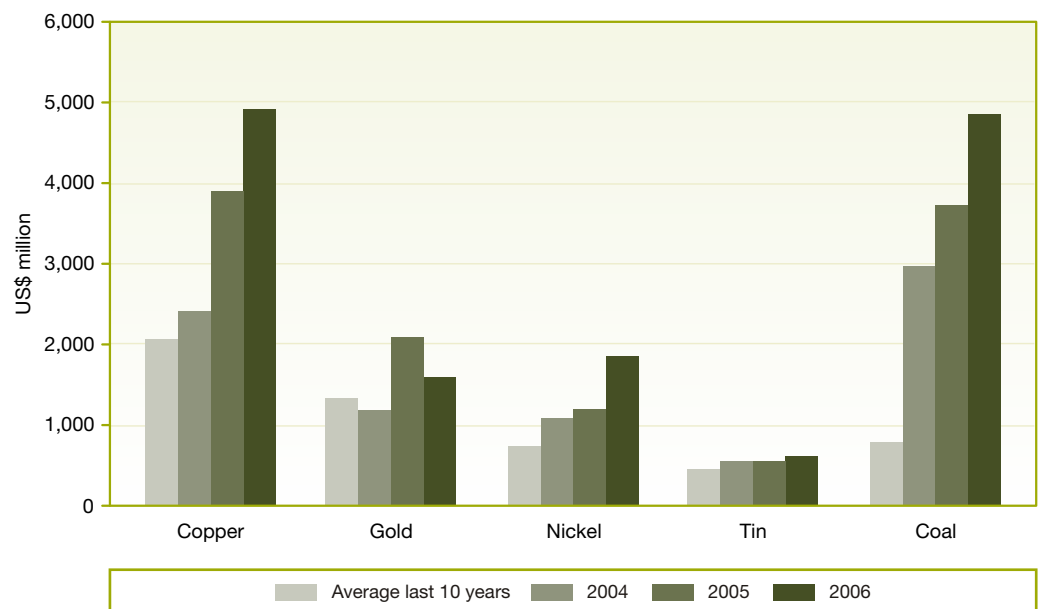
As shown in the following graph, high prices for commodities have continued in 2007 and will result in continued strong financial performance in 2007 and 2008.

Mineral prices



Source: LME average annual prices (except for gold from Kitco.com and Japan-Australia benchmark for coal price)

Sales revenue for major minerals



Production levels variable without any major new mines coming on line in recent years

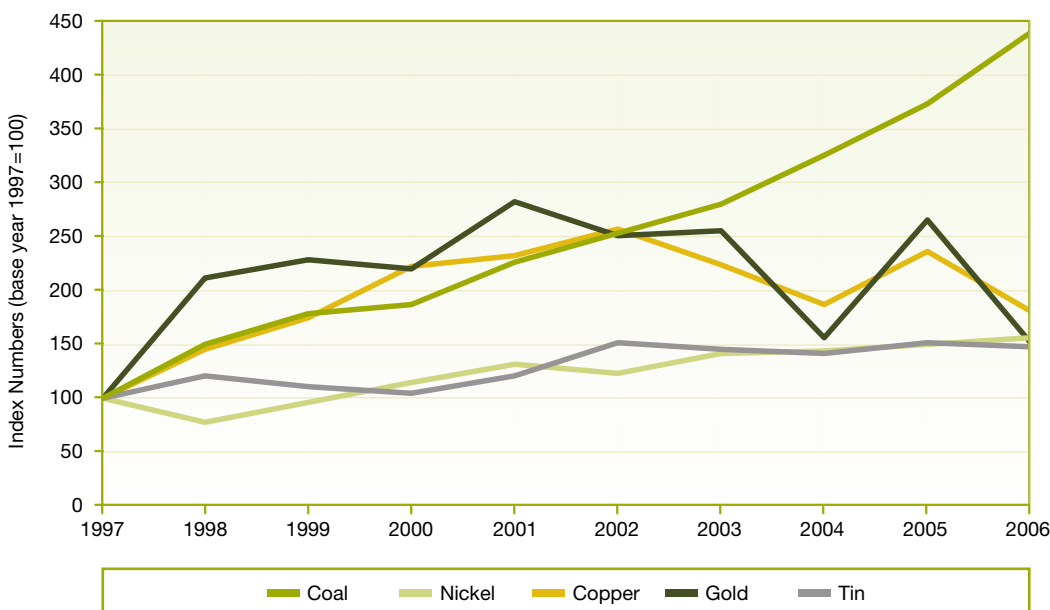
Despite the high price environment, no major new mines have commenced operations during 2006 or indeed in the last three years. Increases in coal production are thanks to expansion of production capacity at some of the larger existing coal operations due to good coal prices achieved during 2005 and 2006, rather than the opening of new mines. This includes the additional production capacity at KPC (Bengalon and Bendili mines) and lower strip ratios across its sites.

Despite the impressive price increases during 2006, copper and gold production declined during the year. This was mainly due to the nature of the mining areas of the main copper and gold producers in Indonesia with varying ore grades causing fluctuations in the timing of ore production, resulting in varying quarterly and annual sales of copper and gold. The 2006 sales volumes were impacted by lower ore grades compared with exceptional grades mined in 2005.

The slight increase in nickel production was due mainly to the commencement of Aneka Tambang's ("Antam") third ferronickel smelter in early 2006 resulting in an increase in Antam's production from 16 million pounds in 2005 to 30 million pounds in 2006. This increase was offset by lower production at Inco due to production problems during 2006 resulting in a decline from 168 million pounds in 2005 to 158 million pounds in 2006.

2006 saw slightly lower tin production as the lower tin price during early 2006 discouraged tin producers from expanding production, as well as production stoppage by one producer during the fourth quarter of 2006. The increase in tin price during the fourth quarter of 2006 resulted in an increase in tin production during this period, however it was not enough to match 2005 production.

Production



Profitability of Indonesian mines down compared to the global average due to the strong surge in profitability of global players. However, Indonesia's return on investment is still strong

In contrast to the 2005 performance, the average profitability of Indonesian mines was lower than the average for the 40 largest mining companies globally, although still largely in line with global metrics. However, from a return on investment (return on capital employed and shareholders' funds) perspective, Indonesian mines continued to perform better than other countries. However, it should be noted that the Indonesian figures are heavily impacted by a few very large operators. The Top 5 companies made up 68% and 82% of total revenue and net profit, respectively, reported by the survey respondents. By analysing these Top 5 companies, it appears that their average profitability (EBITDA margin and net profit margin) was lower than 2005, due mainly to the increase in net sales revenue being more than offset by the increase in operating expenses, primarily due to the increase in fuel prices in the fourth quarter of 2005, and lower production levels at the majority of the Top 5 companies.

In contrast, the financial performance of the companies outside the Top 5 improved marginally in 2006 compared to 2005. This appears to be due to the lower fixed costs of the smaller companies, and an increase in aggregate production from this group.

Key profitability ratios

	2005*	2006	Average 10 years
EBITDA Margin			
Indonesia	42.9%	41.2%	38.7%
Top 40 companies - global ⁱ	37.0%	44.0%	na
Australia ⁱⁱ	41.5%	42.7%	na
Net profit margin			
Indonesia	23.3%	22.5%	15.6%
Top 40 companies - global ⁱ	23.0%	27.0%	na
Australia ⁱⁱ	22.0%	22.5%	12.0%
Return on capital employed			
Indonesia	24.7%	26.0%	11.8%
Top 40 companies - global ⁱ	13.0%	23.0%	na
Australia ⁱⁱ	17.8%	20.7%	na
Return on shareholders' funds			
Indonesia	37.3%	39.4%	19.1%
Top 40 companies - global ⁱ	26.0%	33.0%	na
Australia ⁱⁱ	24.0%	32.0%	12.0%
Debt to equity ratio			
Indonesia	49.1%	46.5%	115.2%
Top 40 companies - global ⁱ	31.8%	36.2%	na
Australia ⁱⁱ	25.8%	22.3%	na

* Indonesia: revised figures due to additional responses received for 2006

Top 5 companies*

Key ratios	Indonesia	
	2005	2006
EBITDA Margin	51.8%	48.5%
Net profit margin	28.8%	27.0%
Return on capital employed	28.6%	29.2%
Return on shareholders' funds	45.8%	47.2%
Debt to equity ratio	30.0%	40.5%

* Top 5 survey respondents based on revenue

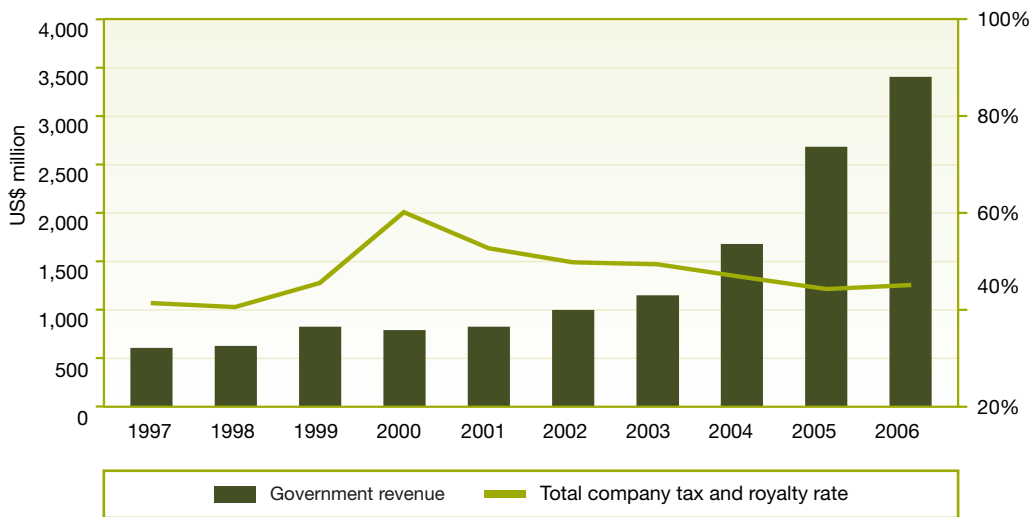
Other companies

Key ratios	Indonesia	
	2005	2006
EBITDA Margin	23.8%	25.6%
Net profit margin	11.5%	12.7%
Return on capital employed	14.2%	17.2%
Return on shareholders' funds	18.7%	22.4%
Debt to equity ratio	124.0%	64.2%

Government revenues from the mining industry continue to increase

In 2006, a new record for Government revenues from the mining industry was reached with a total of approximately US\$ 3.4 billion, an increase of US\$ 0.7 billion or 25% from 2005. This figure refers to total government revenues reported by survey respondents (including local government levies) as set out in the table below. Income taxes and royalties together make up approximately 70% of this amount.

Government share of gross mining returns



Government revenue

	2005* US\$ million	2006 US\$ million	Year-on-year Movement
Income tax expense	1,450	1,673	↑ 15%
Mineral and coal royalties	572	772	↑ 35%
Total direct taxes	2,022	2,445	↑ 21%
Total indirect taxes, levies and local taxes	669	981	↑ 47%
Total Government revenue			
- US\$ millions	2,691	3,426	↑ 27%
- Rp billions	26,134	31,404	↑ 20%

*Revised figures due to additional responses received for 2006

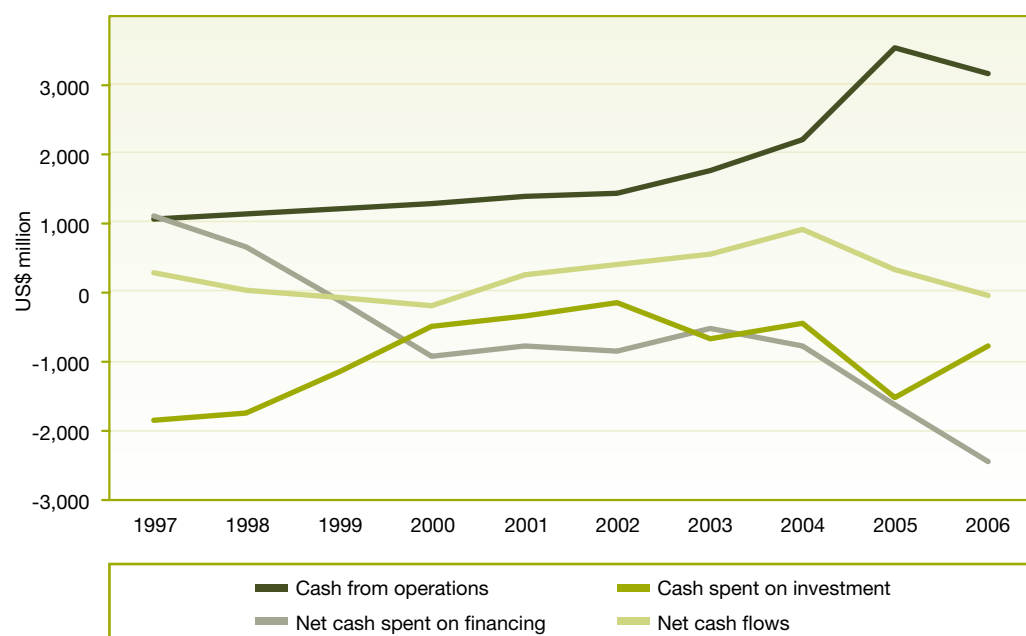
Cash flows

Cash flows from operations was down by approximately 10% due to lower profit margin during 2006, despite the increases in mineral prices.

Net cash outflows from financing activities continues the increasing trend exhibited over the last three years. This mainly represents the payment of dividends, plus net repayments of debt. The overall outflow of approximately US\$ 2.4 billion includes total payments of dividends of approximately US\$ 2.2 billion.

During 2006, total cash spent on investment was lower than 2005. The total 2005 net investment spend was US\$ 1.5 billion, including a large loan from one mining company to a related party amounting to US\$ 0.8 billion. As such, excluding the impact of this US\$ 0.8 billion loan, the cash spent by producing companies was basically flat. On the other hand, total cash spent for investment by exploration companies increased from US\$2.5 million in 2005 to US\$ 22 million in 2006. This represents only minor exploration activities and investment in new mines during 2006 by survey respondents.

Aggregate cash flows



Aggregate cash flows

	2005* US\$ million	2006 US\$ million	Year-on-year Movement
Cash from operations	3,491	3,146	↓ 10%
Net cash spent on financing	(1,656)	(2,441)	↑ 47%
Cash spent on investment	(1,526)	(779)	↓ 49%
Net cash flows	309	(74)	↓ 124%

*Revised figures due to additional responses received for 2006

Market Capitalisation



Strong commodity prices and renewed investor interest in the mining industry have driven the market values of the mining companies listed on the Indonesia Stock Exchange to new heights

During 2006 and 2007 (data until November 2007), the five main listed mining companies showed dramatic increases in market capitalisation. The aggregated market capitalisation of mining companies on the Indonesia Stock Exchange increased from US\$ 4.04 billion (or Rp 39.7 trillion) at 31 December 2005 to US\$ 8.2 billion (or Rp 73.9 trillion) at 31 December 2006, an increase of 100%. This trend continued in 2007, where at 30 November 2007, the total market capitalisation of the same five companies was US\$ 30.8 billion (or Rp 288.3 trillion), a huge increase of 276%.

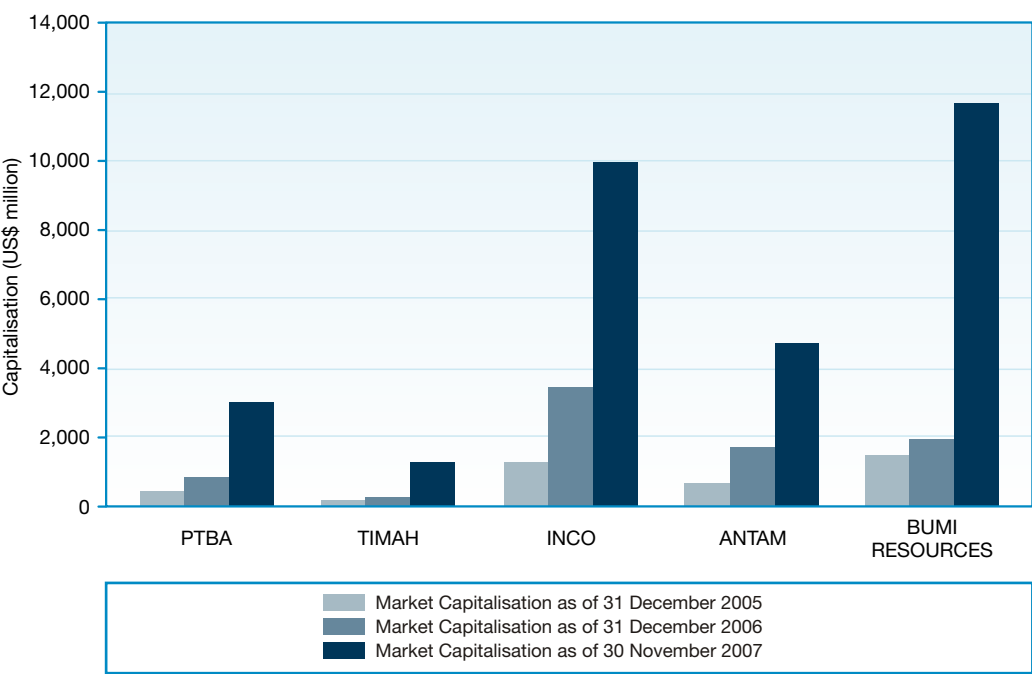
Strong commodity prices and renewed investor interest in the mining industry have driven the market values of the listed mining companies on the Indonesia Stock Exchange to new highs and outperformed the overall trend in market capitalisation of Indonesian stocks.

This increase was purely due to share price accretion as there were no new share issuances during 2006 and up to November 2007. However, in December 2007 a new player entered this small group of Indonesian listed mining companies with PT Indo Tambangraya Megah Tbk, the Indonesian unit of the Thai energy company, Banpu, debuting on the Indonesia Stock Exchange on 18 December 2007 with an implied market capitalisation of approximately US\$ 1.6 billion.

Given the appetite from investors, further initial public offerings of Indonesian mining companies is to be expected in 2008. The following charts describe the trend in market capitalisation of listed mining companies compared with the market capitalisation of all companies listed on the Indonesia Stock Exchange.

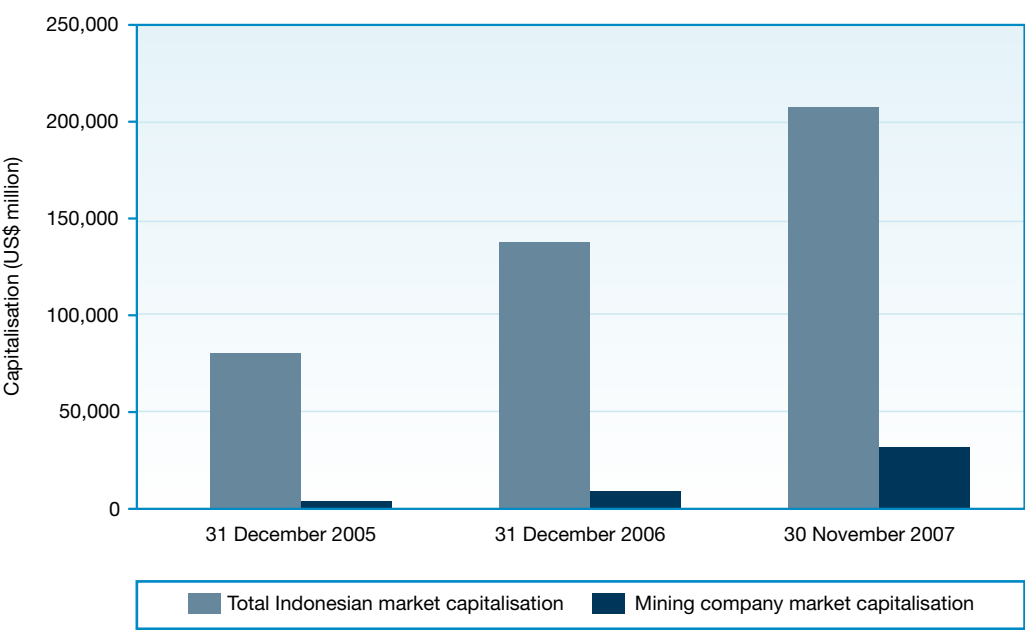
Market capitalisation

Market capitalisation of Indonesian mining companies



Source: Bloomberg

Indonesia Stock Exchange market capitalisation vs. mining market capitalisation

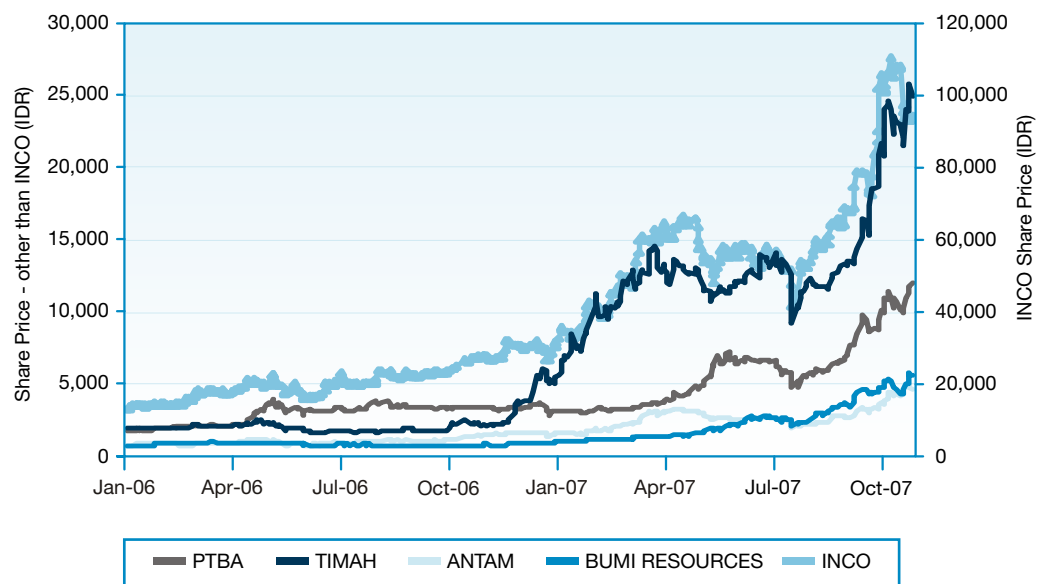


Source: Bloomberg

Share prices

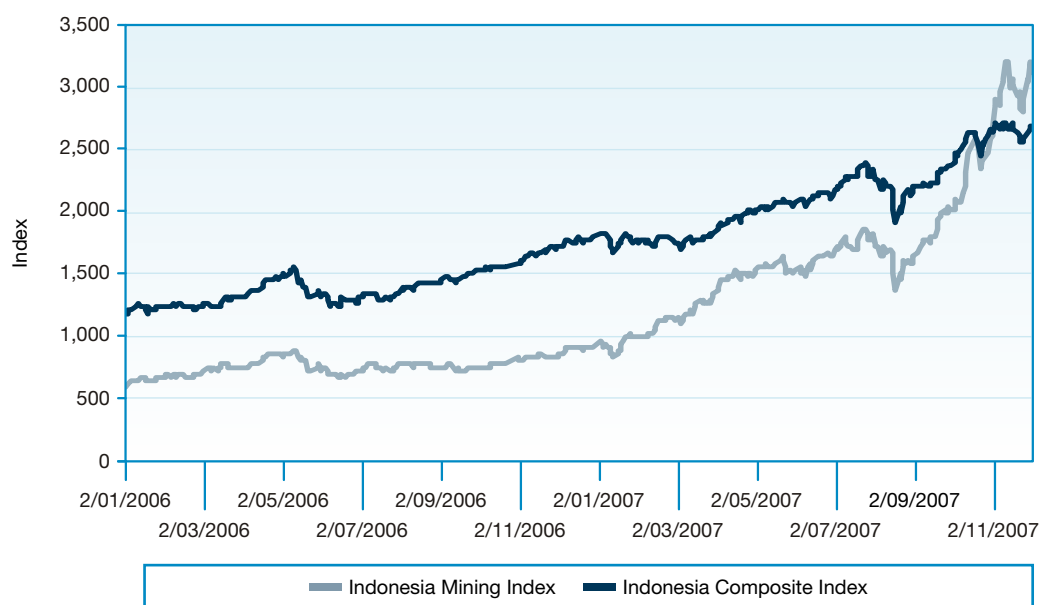
The following charts portray the magnitude of the share price improvements. In early November 2007, the mining index has passed the Indonesia composite index due to this impressive performance during 2007.

Share prices of listed mining companies



Source: Bloomberg

Comparison between Indonesia Stock Exchange index and Indonesia mining index



Source: Bloomberg

Investment



Consistent with previous years, international surveys of mining companies continue to rank Indonesia highly in terms of mineral prospectivity, however assessments of its mineral policies and investment climate are not so positive.

Despite the increase in total mining investment, the Indonesian mining industry was still not able to record the same pace of growth exhibited globally in 2006, especially in the area of greenfields exploration spending.

The industry has seen some new investments made during 2006 and 2007. However, these are mainly for smaller scale mining projects and are predominantly focused on coal. There are several sizeable projects in the pipeline but we have not seen any significant spending to date due to uncertainties, such as forestry permits and outstanding Contract of Work ("CoW") applications.

The increase in total investment during 2006 was mainly due to the capital expenditure for fixed assets by existing mining companies.

	2005 US\$ million	2006 US\$ million	Year-on-year Movement
Greenfields exploration spending	9	48	↑ 433%
Other exploration and feasibility	101	109	↑ 8%
Total exploration	110	157	↑ 43%
Development	81	77	↓ 5%
Fixed assets	550	730	↑ 33%
Total investment	741	964	↑ 30%

The draft mining law is still being deliberated by Parliament at the time of drafting this report. The current draft still contains some areas of concern for investors, for instance the requirement for onshore mining product refining, abolishment of the CoW system, and the intention to introduce a transition period that requires existing mining licences or contracts to be adjusted to the new mining law provisions.

The Indonesian mining industry faces a major test if it intends to remain a significant player in the global mining arena. Indonesia needs to attract more investment in greenfields exploration and/or production expansion in the near future if it wishes to benefit from the continuing upturn in the global mining industry, as a result of the current high energy and mining product demands. This is a crucial time for industry players and the Government to work together and reshape the industry for the benefit of all stakeholders, including the people of Indonesia.

Exploration

Survey respondents reported a significant increase in greenfields exploration spending in 2006, i.e. US\$48 million (average for 2001-2005 was US\$7 million). Approximately 89% of this spending was for coal exploration, which means that non-coal exploration spending remained at a very low level.

Exploration expenditure in Indonesia

	Greenfields US\$ million	Other US\$ million	Total US\$ million
Average 1996 - 2000	30	79	109
Average 2001 - 2005	7	50	57
2006	48	109	157

It should be noted that the reported exploration expenditure includes indirect and administrative costs of exploration companies as well as field costs. The amount spent on pure exploration activities, therefore, is lower. However the reported totals exclude the spending of a few explorers with advanced projects which did not participate in the survey.

Futhermore, the industry has also seen investments from local and foreign investors cooperating with the holders of Mining Rights (*Kuasa Pertambangan*). Most of these investors did not respond to the survey, and hence their results are not included in this report. However, they are generally small scale individually and are (again) mainly in the coal sector.

Notwithstanding the increase in greenfields exploration in 2006, it is noteworthy that, consistent with previous years, Indonesia is yet to capture a fair portion of the global exploration spend despite its geological potential.

As indicated in the table below, according to the Metals Economics Group's surveyⁱⁱⁱ, the global non-ferrous exploration budget is at its highest point since 1997. The 2006 and 2007 budgets are approximately US\$7.5 billion and US\$10.5 billion, respectively. These represent 150% and 200%, respectively of the 1997 budget. Approximately 39% (2006: US\$2.9 billion; 2007: US\$4.1 billion) of the budget is for greenfields exploration. Based on exploration spending reported by survey respondents, Indonesia received around 2% of the global exploration budget in 2006, which is an increase on the 1.89% for the average of the previous five years, but relatively consistent with 2005. With respect to greenfields spending, Indonesia's share represents only 0.2% which is a very low percentage compared to its mineral potential.

Total exploration spending

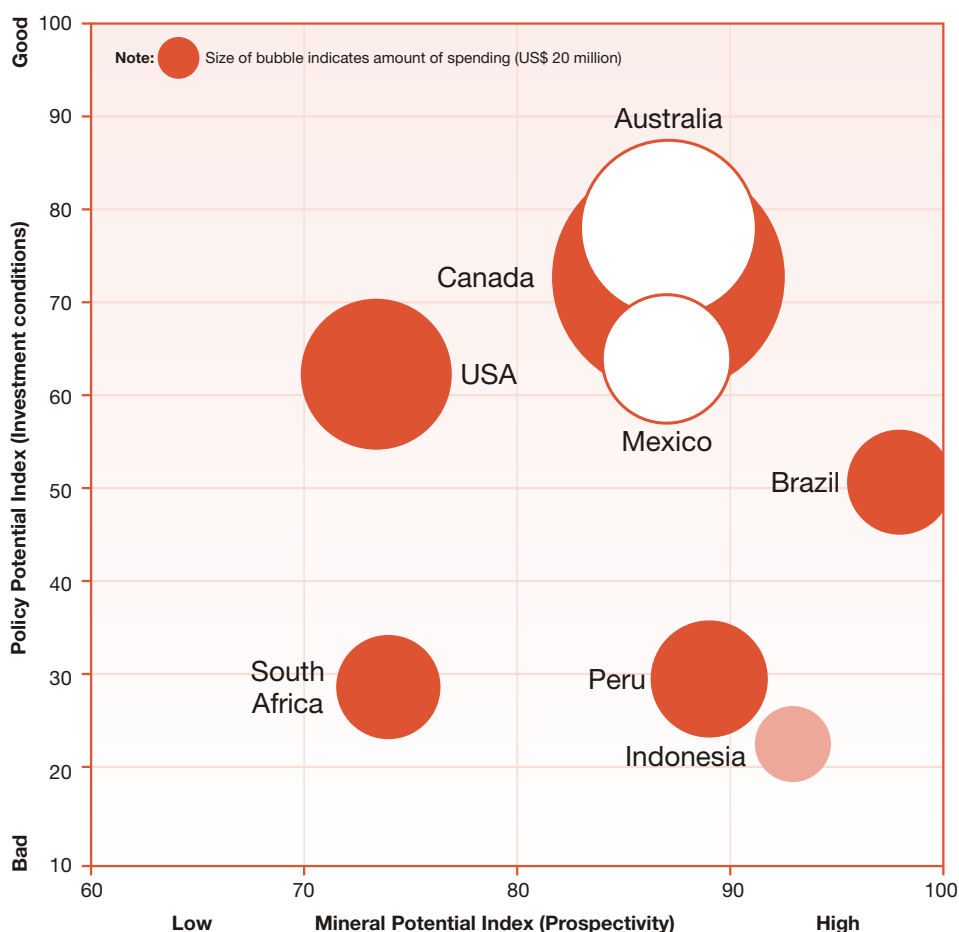
	Average 2001 - 2005	2006	Movement %
In Indonesia	57	157	175%
Globally ⁱⁱⁱ	3,038	7,500	147%
Indonesia's share	1.89%	2.09%	

At the time of drafting this report, there are several potential significant projects that may receive sizeable exploration budget allocation (greenfields and late stage), which will in turn increase Indonesia's share of global exploration expenditures. However, development of these projects would depend on how quickly the associated issues can be resolved, including finalisation of CoWs with the Government. These projects include the La Samphala nickel project of Rio Tinto, the Buli nickel and Gag nickel projects of Antam and BHP Billiton, the Dairi zinc project of Herald Resources, and the Jogjakarta iron sands project of Indo Mines. Subject to the necessary investment approvals being received, these projects should see a surge in investment in the sector over the next few years.

Indonesia's share of the global greenfields exploration budget may increase only if mining companies are satisfied that the investment conditions in Indonesia have improved sufficiently.

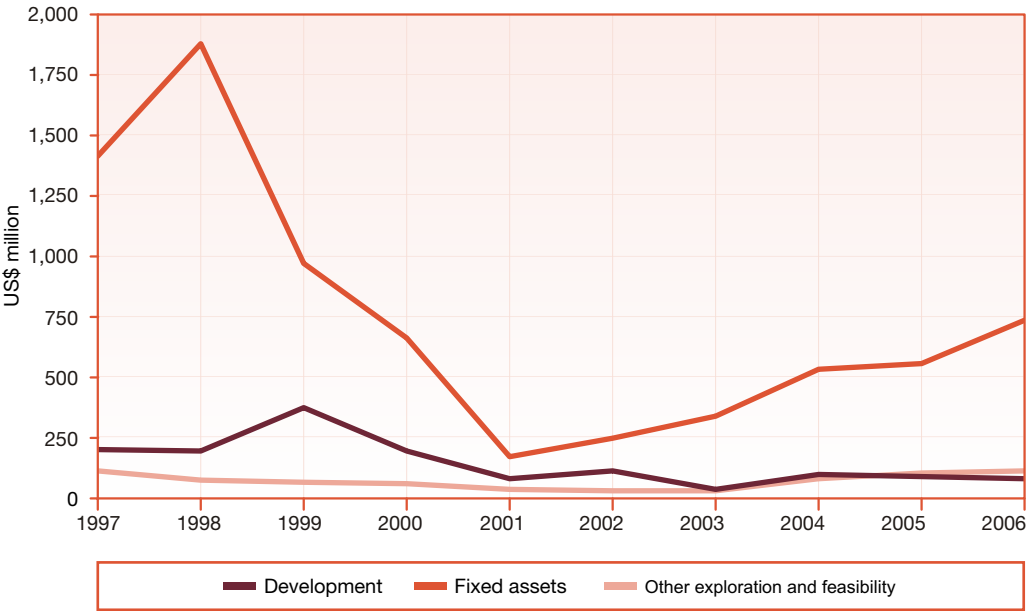
The current low level of greenfields exploration activities is of serious concern for the long-term success of the industry (and the flow-on benefits to the people of Indonesia), and is reflective of the concerns reported by survey respondents with respect to regulatory uncertainty and inconsistency. An increase in exploration, discovery and development of new deposits is essential to sustain the industry beyond the short-term. The high risk of exploration activity compared to the rate of successful discovery of economic deposits, and the lengthy process from discovery to production, means that there will be no significant mine development in Indonesia for a number of years, other than existing known undeveloped deposits.

Exploration conditions and spending by country



Source: Fraser Institute^{iv} and MEGⁱⁱⁱ

Investments in mine development and fixed assets



Investments in fixed assets in 2006 were mainly made by existing mining companies. Indonesia’s three largest mines represented 73% of the total spending on fixed assets, which was almost entirely spent on development of mine infrastructure and acquisition of heavy equipment necessary to increase the production capacity of current mine sites.

Coal production in 2006 reported by survey respondents increased by over 10%, but it did not involve significant capital expenditures due to the nature of coal mining operations, including the use of contract miners.

During 2006 and 2007, the industry did not see any major development of big individual mining projects, although some are in the pipeline as noted above.

Investment conditions

Based on the 2006/2007 survey undertaken by the Fraser Institute^{iv} (the “Fraser Survey”), which was contributed to by 333 mining exploration companies, Indonesia is (again) ranked highly on its geological prospectivity but received a poor report card for its mineral policies.

In respect of investment attractiveness, Indonesia would rank in the world’s top ten under a “best policy” regime (i.e. assuming no land use restriction in place and assuming industry “best practices”).

However, Indonesia is ranked tenth last in respect of policy environment, ahead of only Zimbabwe, Venezuela, Bolivia, Mongolia, the Philippines, Papua New Guinea, Kazakhstan, Russia, and the Democratic Republic of Congo (“DRC”). Indonesia scored 23 out of a maximum of 100 on the policy potential index, only a slight improvement from last year’s 22/100.

Respondents of the Fraser Survey also continued to indicate that there is significant room for improvement in Indonesia’s mineral policies. The Fraser Survey showed that over 50% of survey respondents changed their view of Indonesia’s mineral potential from favourable or neutral under best practices regulations to a negative decision (a deterrent to investment or bad enough to veto investment) under the current regulatory environment.

Indonesia is the sixth ranked region on room to improve after Russia, Mongolia, Bolivia, DRC, and Montana, USA.

The Fraser Survey: Deterrents to investment

The Fraser Survey includes individual factors that contribute to the policy potential index. The following factors have impacted Indonesia's poor policy potential rating^{iv}:

Factor	% of respondents who consider factor to be a strong deterrent to investment in Indonesia			Rank		
	2004	2005	2006	2004 (64 regions)	2005 (64 regions)	2006 (65 regions)
Political stability	90%	63%	56%	2 nd lowest	5 th lowest	11 th lowest
Security	56%	56%	63%	4 th lowest	4 th lowest	7 th lowest
Uncertainty concerning which areas will be protected as wilderness or parks	13%	48%	43%	2 nd lowest	5 th lowest	7 th lowest
Geological database	26%	44%	48%	3 rd lowest	4 th lowest	6 th lowest
Uncertainty concerning the administration, interpretation and enforcement of existing regulations	66%	53%	46%	the lowest	10 th lowest	9 th lowest
Infrastructure	24%	34%	37%	4 th lowest	8 th lowest	14 th lowest
Regulatory duplication and inconsistencies	53%	34%	50%	3 rd lowest	16 th lowest	6 th lowest
Taxation regime	32%	26%	36%	5 th lowest	20 th lowest	10 th lowest

A decrease in the percentage of respondents who consider a factor to be a strong deterrent to investment in Indonesia does not necessarily result in an improvement in Indonesia's rank, or vice versa, because other regions may perform better or worse than Indonesia in addressing the issue.

Indonesia appears to perform well in the areas of "Political stability" and "Uncertainty concerning the administration, interpretation and enforcement of existing regulations". This is shown by a decrease in the percentage of survey respondents who noted the areas as an issue and improvement in Indonesia's rank.

Areas where the survey indicates that respondents do not consider Indonesia is improving include "Security", "Uncertainty concerning which areas will be protected as wilderness or parks", "Geological database", and "Infrastructure". However, Indonesia's rank has improved for some areas despite the increase in the percentage of respondents who consider factors to be investment deterrents.

The Fraser Survey respondents are of the view that Indonesia has not significantly improved its "Regulatory duplication and inconsistencies" and "Taxation regime". This is indicated by improvements achieved in 2005, which were reversed by an increase in the percentage of respondents with concerns, and a decrease in rank recorded in 2006.

In conclusion, the Fraser Survey results indicate that the industry and the Government still have a lot of work ahead of them, if Indonesia's policy potential rating is to be improved. Given the worsening rating related to regulatory duplication and inconsistencies, finalisation of the draft mining law would seem to be a priority.

Indonesia can be a world class mining centre if investment conditions are improved

The Fraser Survey results for the past three years consistently indicate that Indonesia has the potential for a significant increase in exploration activity under the right investment conditions given its geological potential. This is shown in the significant increase in Indonesia's rating and ranking if implementation of industry "best practices", with no land use restrictions, is assumed.

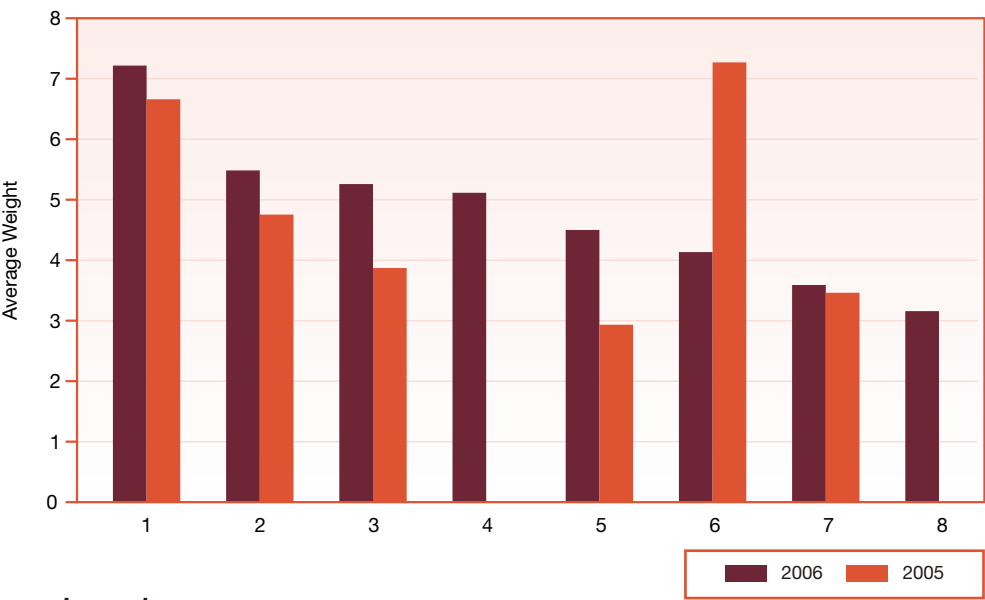
	Based on existing regulations and land use restrictions			Assuming no regulations or land use restrictions, and the application of industry "best practice" standards		
	2004	2005	2006	2004	2005	2006
Indonesia's country rating for mineral policy	53%	45%	41%	97%	100%	93%
Country ranking	43 rd (out of 64)	42 nd (out of 64)	44 th (out of 65)	5 th highest	7 th highest	15 th highest

Issues holding up investment in the Indonesian mining industry

Several of the issues noted in the Fraser Survey are reflected in respondents to this survey. We asked respondents to list the key issues deterring investment in the Indonesian mining sector. The chart below summarises the "Top 8" issues^{ix} based on responses from twenty two mining and exploration companies.

The survey respondents also noted other areas of concern, i.e. various taxation issues (including VAT refunds), progress and content of the draft mining law, and community development in relation to the Corporate Social Responsibility obligations included in the new Corporations Law No.40 of 2007.

Comparison of areas for improvement



Legend:

- 1. Conflict between mining operations and forestry regulations
- 2. Duplication and contradictions between central and regional government regulations
- 3. Taxation issues (tax incentives, VAT on gold and coal, corporate tax rate)
- 4. Delay in finalisation of the new mining law (no comparative for 2005)
- 5. Unfairness in divestment of foreign interests and mine closures
- 6. Uncertainty in CoW system and other mining regulations
- 7. Illegal mining
- 8. Lack of coordination between new investment law and new mining law and implementing regulations (no comparative for 2005)

Survey respondents were also asked to rank progress against the following key priorities reported in mineIndonesia 2006*. The survey respondents’ rating of progress is summarised on the following page:

mineIndonesia 2006* - priorities to improving investment conditions	Progress to date	Survey respondents' rating of progress**
<ul style="list-style-type: none"> Resolving conflicts between mining operations and forestry regulations, without imposing additional financial or other burdens on mining companies. 	<ul style="list-style-type: none"> No significant progress noted after the issuance of Forestry Minister Regulation No. P.14/2006 in March 2006. 	B - C
<ul style="list-style-type: none"> Reduce regulatory duplication and contradictions in regulations between central and regional governments. 	<ul style="list-style-type: none"> No significant progress noted during 2006 and 2007. Overlaps between KP and CoW areas are still an issue. 	C
<ul style="list-style-type: none"> Improving the competitiveness of the taxation and royalty system relative to other prospective countries, including provision of tax incentives to large scale mining operations and VAT refunds for gold and coal producers. 	<ul style="list-style-type: none"> Some issues are still noted by survey respondents, e.g. lengthy refund process and differing interpretations of CoW tax clauses. Tax reforms appear to be heading in the right direction. Under the proposed new tax laws the corporate tax rate may reduce to 25% by 2010 and most mining products are to be VATable again (coal will be a VATable product but the reforms do not appear to extend to gold bars). The taxation of oil and gas companies and mining companies will be set by government regulation. A negative factor was the attempt in 2006 to impose a 5% duty on the value of coal exported, which was subsequently withdrawn. 	B - C
<ul style="list-style-type: none"> Finalisation of the new mining law and inclusion in the new mining law of a mining agreement system similar to a Contract of Work system. 	<ul style="list-style-type: none"> The draft mining law is still before parliament. Some factions within Parliament have suggested inclusion of a CoW-like mining agreement for certain large projects. It is unclear whether this suggestion will be heeded. 	B - C
<ul style="list-style-type: none"> Ensure fairness in divestment of foreign interests and mine closures. 	<ul style="list-style-type: none"> More robust rules on divestment are still required. 	B - C
<ul style="list-style-type: none"> Restoring long-term certainty in Contract of Work system (incl. tax stability) and improving the certainty of legal interpretation of existing Contracts of Work and other mining regulations. 	<ul style="list-style-type: none"> The draft new mining law has not been approved by the Parliament. It is expected that it will be approved in 2008. The current draft eliminates the CoW system for new projects, which may negatively impact on industry attractiveness for foreign investors. However, there is an ongoing discussion in the Parliament on a proposal to include a CoW-like mining agreement for certain large projects. 	B - C
<ul style="list-style-type: none"> Reduce illegal mining 	<ul style="list-style-type: none"> It appears that the Government's actions to clean up illegal activities have had some success to date. 	B
<ul style="list-style-type: none"> Coordination between new investment law and new mining law and implementing regulations 	<ul style="list-style-type: none"> No significant progress to date. 	C

** Survey respondents were asked to rate progress against these issues on a scale of A – C. A – Significant progress; B – Some progress; C – No progress. This is an average of those ratings.

Based on the Fraser Survey and this survey, there is still significant room for improvement in industry policies and practices. This is a crucial time for industry players and the Government to work together and reshape the industry for the benefit of all stakeholders, including the people of Indonesia.

Financial Position



The industry's aggregate balance sheets have improved as a result of substantial mineral price increases this year

Key balance sheet ratios generally improved in 2006. The total funds employed reached its highest level within the past decade. The level of investment in fixed assets has significantly increased from the past four year average, although it is still significantly below the average 1996 - 1999 level, when a number of major projects were being developed. However, the balance of deferred exploration and development costs exhibited a net decrease in 2006 as mines age and reserves are gradually depleted, without significant additional expenditure occurring.

Aggregate balance sheet

	2005*	2006	Year-on-year Movement
Current assets	4,984	5,642	↑ 13%
Fixed assets	6,311	6,561	↑ 4%
Exploration and development	1,158	1,042	↓ 10%
Other assets	2,492	3,238	↑ 30%
Total assets	14,945	16,483	↑ 10%
Current liabilities	3,740	3,631	↓ 3%
Provision/reserve for restoration and mine closure	232	311	↑ 34%
Other liabilities	1,212	1,432	↑ 18%
Total liabilities (excl. borrowings)	5,184	5,374	↑ 4%
Shareholders' funds	6,547	7,583	↑ 16%
Borrowings	3,214	3,526	↑ 10%
Total funds employed	9,761	11,109	↑ 14%
Total equity and liabilities	14,945	16,483	↑ 10%

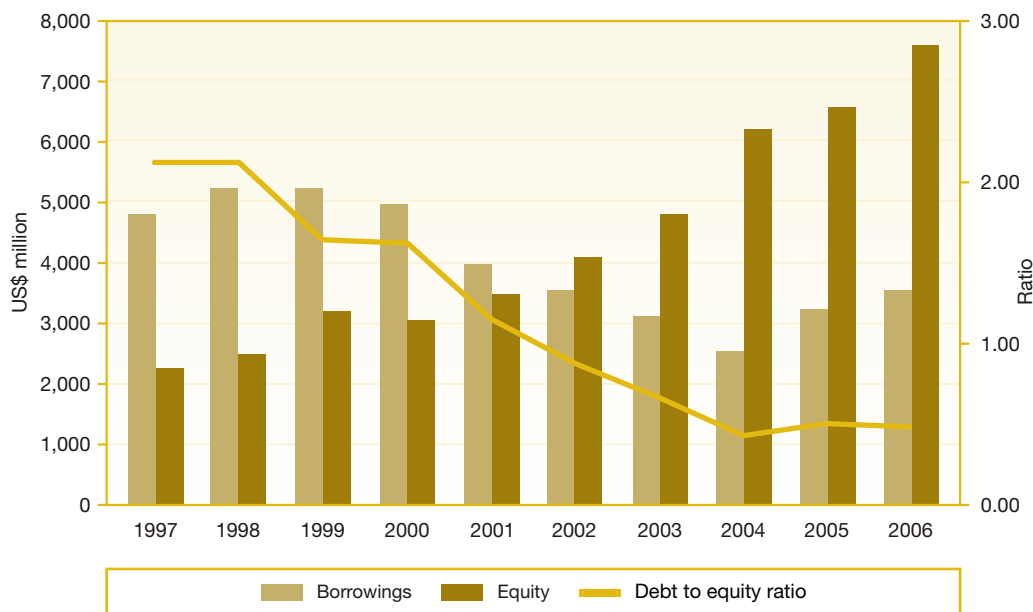
*Restated due to additional responses received for 2006

Borrowings show some increase

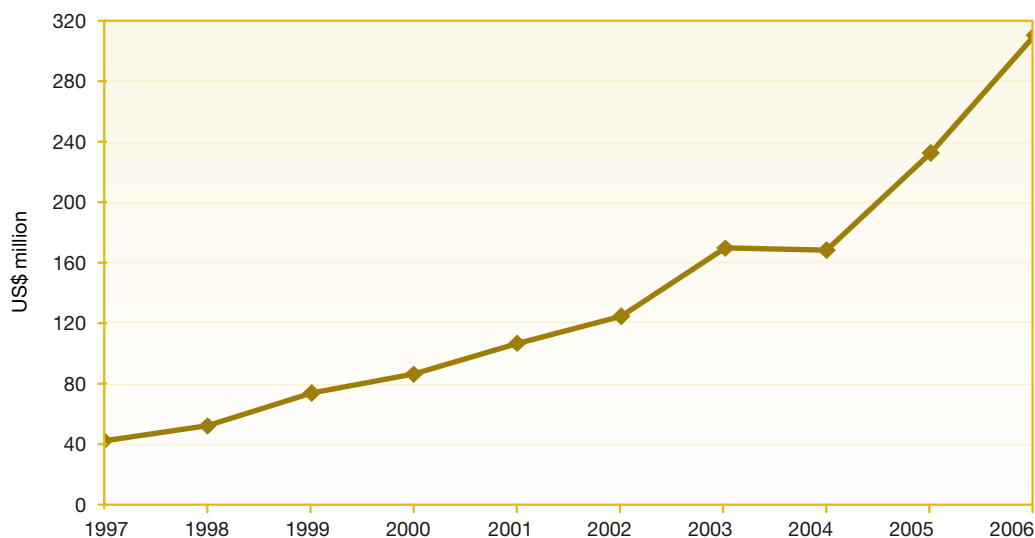
The increase in aggregate debt levels is predominantly driven by two of the major coal groups which obtained new debt of approximately US\$645 million during 2006. This was offset by the general trend of debt repayment by operating mines (profitability and cash flows of which, in general, are improving) and the low level of new investment in the Indonesian mining industry in the past few years. This has also resulted in the average debt to equity ratio decreasing slightly in 2006 to 46.5%, compared to 49.1% at the end of 2005.

The borrowings of two major coal and mineral companies make up nearly 71% of the total related party foreign debt.

Equity & borrowings



Environment and closure provision



Mine closure provision has increased by 34% in 2006 from the previous year's figure

This increase is primarily due to an increase in the provision for restoration and mine closure for a large coal and a large copper mining company, which was offset by the decrease in the provision of one large coal and one large gold mining company which were at the closure stage. It is expected that these provisions will continue to increase in coming years as mines age and reserves are gradually depleted.

Expenditures of Public Interest



Total spending on regional and community development and contributions to charities and not-for-profit foundations has continued to increase in line with the general trend over the past decade. Charitable donations and contributions to not-for-profit foundations increased 48% from last year. Regional and community development spending reported for 2006 was Rp 991 billion, a 26% increase.

Over the last five years respondents have spent more than Rp 4.7 trillion on these activities. This increase has generally been in line with the increased profits reported by the industry. As the industry prospers, so too does the surrounding community.

Expenditures of public interest

	2005	2006	Year-on-year Movement (%)
Rp billions			
Employee training	273	255	↓ 7%
Regional and community development	784	991	↑ 26%
Charitable donations and contributions to not-for-profit foundations	76	113	↑ 49%
US\$ thousands			
Research and development	2,995	4,678	↑ 56%
Net increase in accumulated provision/reserve for reclamation and mine closure	63,885	78,259	↑ 22%

Contribution to the Indonesian Economy



The mining industry benefits Indonesia in many ways. Perhaps of most significance is the development of many remote regions of Indonesia, which otherwise may not have occurred to such an extent, or at such a pace. Mining companies are in many cases the only significant employer in some of these remote areas. This report attempts to capture the direct monetary impact on the Indonesian economy, of the mining sector. However, the true impact on the economy is much greater, given the multiplier effect of mining activities.

Two studies by the University of Indonesia^v on the economic impact of three of Indonesia's larger mining operations (Inco, Kaltim Prima Coal and Freeport Indonesia) demonstrate this multiplier effect on employment and economic activity. The studies indicate that Inco, Kaltim Prima Coal and Freeport Indonesia have created indirect jobs as a result of mining activity at a rate of around 39.1 times, 12 times and 31.6 times the direct employment, respectively.

The measured impacts on the Indonesian economy which are covered by this report include salaries and benefits received by Indonesian employees, purchases from domestic suppliers, taxes and other revenues of the central, provincial and regional governments, dividends received by Indonesian shareholders and interest received by Indonesian banks.

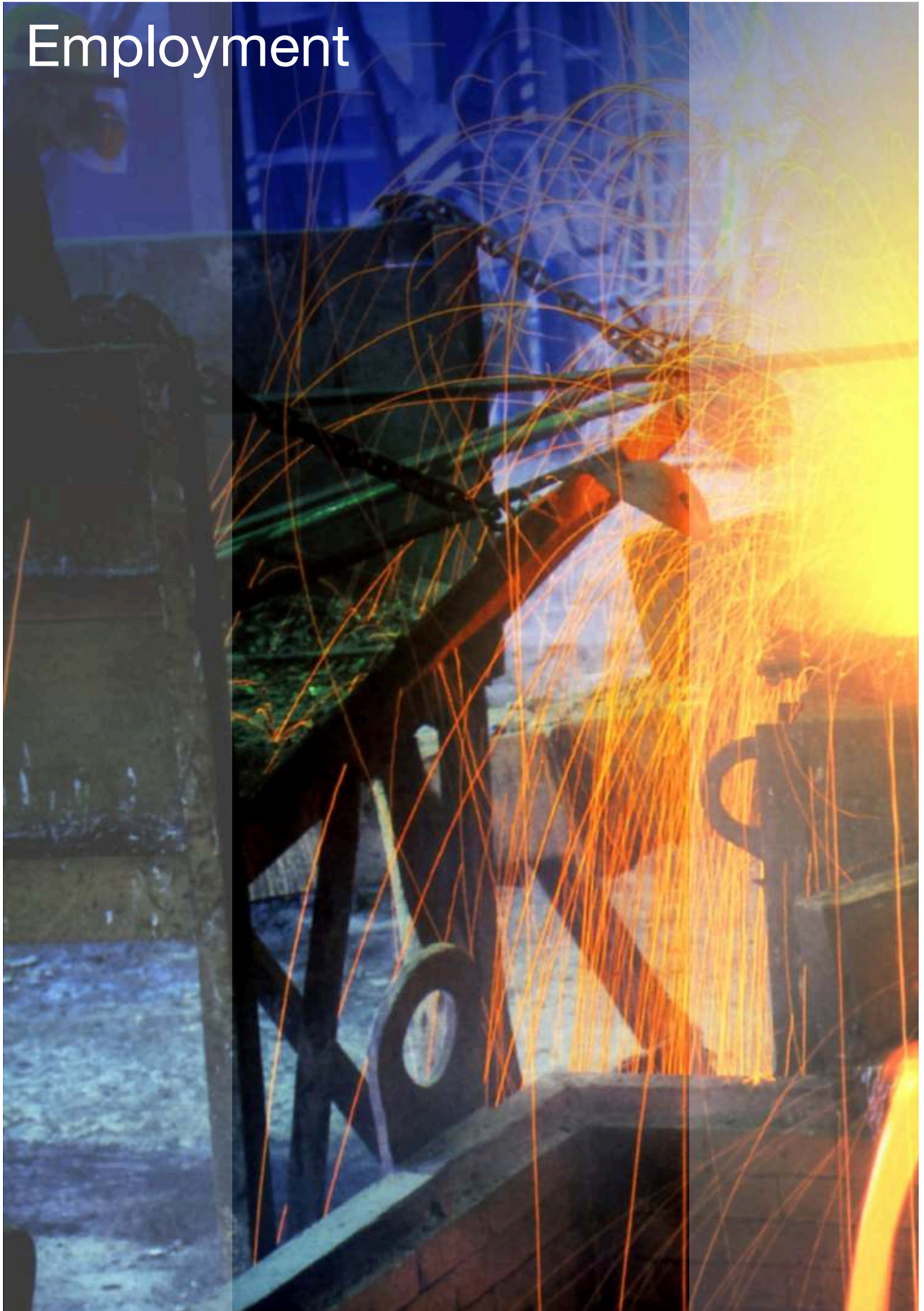
Respondents to this year's survey reported a 5% increase in total contributions to the Indonesian economy. The figures reported do not include the indirect multiplier effect that this contribution has on other economic activity in Indonesia.

Contribution to the Indonesian economy

	2005	2006	Year-on-year Movement (%)
Rp billion			
Employee compensation (Indonesian employees)	3,489	5,476	↑ 57%
Purchases from domestic suppliers	16,025	11,850	↓ 26%
Government revenue	26,134	31,404	↑ 20%
Dividends paid to Indonesian shareholders	3,228	2,650	↓ 18%
Interest paid to Indonesian companies/banks	243	228	↓ 6%
Total contribution	49,119	51,608	↑ 5%
Mining industry contribution to GDP^{vi}	52,605	56,097	↑ 7%
US\$ million			
Total contribution to Indonesian exports^{vii}	14,272	20,028	↑ 40%
Export revenues of survey respondents	9,067	11,053	↑ 22%

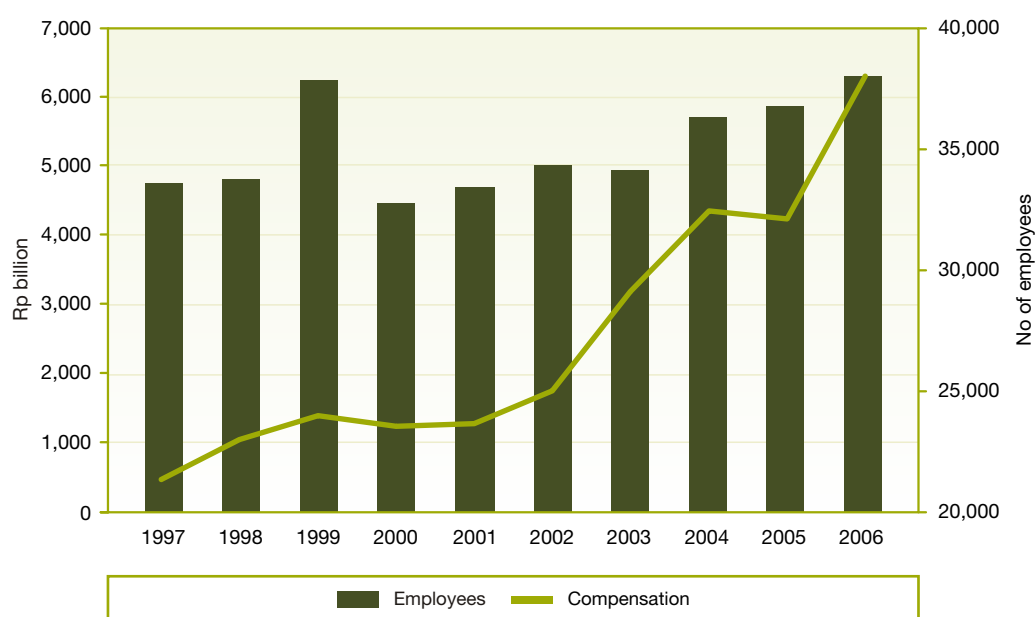
In 2006, the total Indonesian mining industry contribution to GDP has increased 7% on last year to Rp 56 trillion. The Indonesian mining industry contributed approximately 3% to the total Indonesian GDP in 2006, but it should be noted that the mining industry represents a much larger component of the gross regional domestic product of several provinces, including Papua, Bangka-Belitung, West Nusa Tenggara and East Kalimantan.

Employment



The number of individuals directly employed by survey respondents slightly increased compared to that of the prior year, mainly due to expanded production capacities. The higher employment however was offset by the closing or lower production of several mining companies.

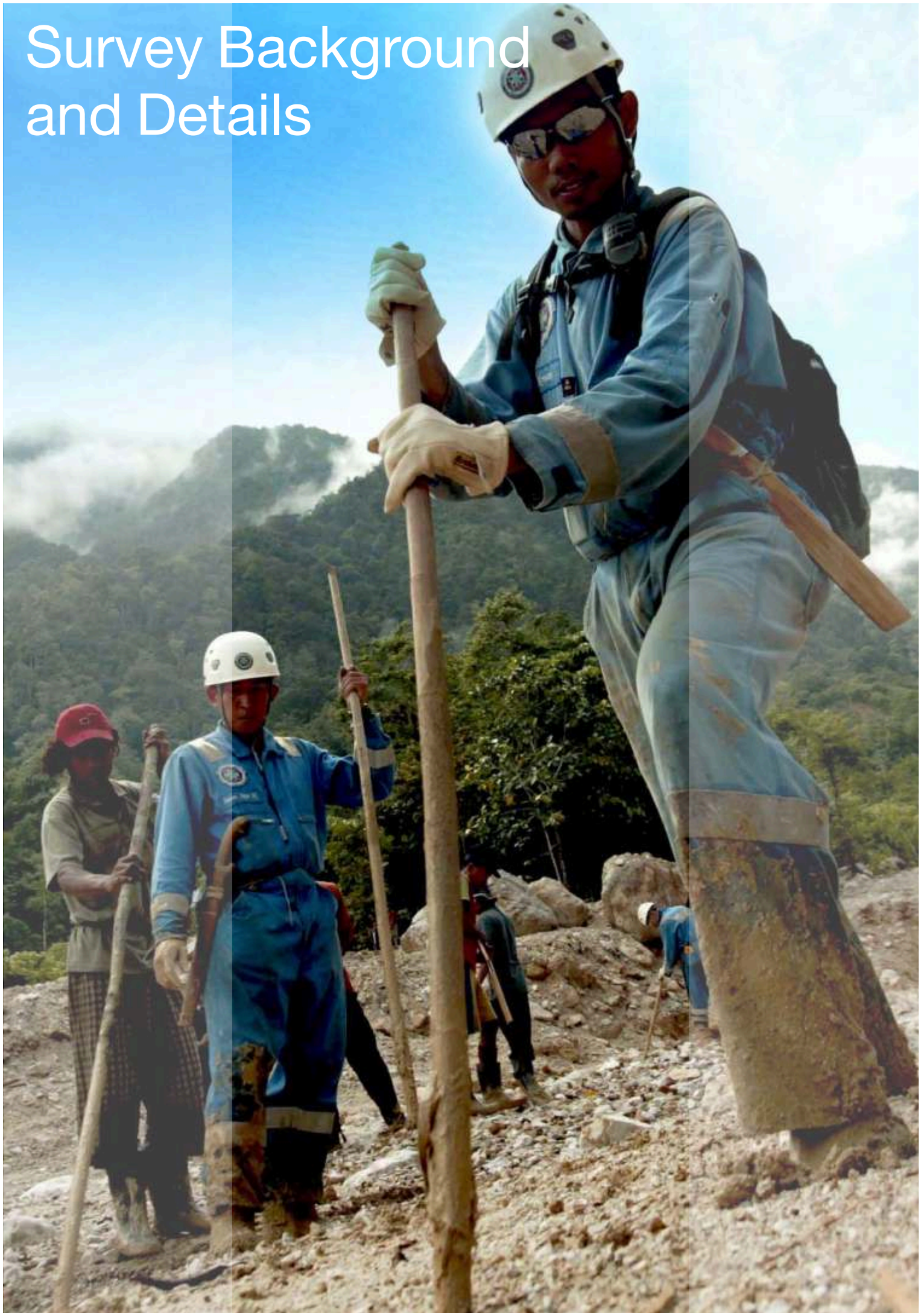
The booming mining sector resulted in higher average annual gross compensation per annum for Indonesian employees by approximately 61% in US\$ terms. This was mainly due to additional benefits received as a result of increased production and/or sales. Overall, the gross workforce compensation increased by 49%.



	2005	2006	Year-on-year Movement (%)
Total direct employees	36,817	38,030	↑ 3%
Gross workforce compensation (Rp billions)	4,251	6,314	↑ 49%

The number of employees includes those persons under employment contracts who were directly supervised by the company. It does not include the many individuals whose employment indirectly relates to the mining industry through contractors and suppliers.

Survey Background and Details



The purpose of this annual survey is to inform the public and private sectors in Indonesia and abroad about the nature of Indonesia's mining industry, and the contribution made by the industry to the economic and social fabric of Indonesia. This is the ninth year the survey has been published and unless otherwise indicated, the data presented in this report is on a calendar year basis.

Survey sample and execution

The report is based on the results of a confidential, comprehensive survey questionnaire circulated by PricewaterhouseCoopers to 68 producing companies and 72 exploration companies that were involved with exploration projects in Indonesia during the period 1999 to 2006. Several exploration companies no longer contribute to the survey because they are now inactive. Survey responses have been reviewed, to the extent possible, for reasonableness and consistency, however, they have not been verified. This information was occasionally supplemented by publicly available reports.

Coverage

The survey results for this year cover the activities of 23 (20 in 2005) producing companies and 18 (16 in 2005) exploration companies. Virtually all geographic areas of Indonesia are represented in the survey, and all major minerals are covered including coal, gold, copper, nickel, and tin. Industrial minerals (aggregates, for example), steel production and oil and gas are not included in the survey.

The survey participants represent a significant portion of Indonesia’s minerals production. The survey coverage of Indonesia’s 2006 production of major minerals is shown in the chart below:

Survey coverage



Although the data in this report is representative of the industry, not all exploration and producing companies participated in the survey, in particular some coal producing companies. The data, therefore, does not offer a complete portrait of the industry. However, a substantial portion of the country’s major producing mines are represented in the survey. The data collected by the survey can be used to draw supportable conclusions about how the industry’s stakeholders (communities, employees, government, creditors, shareholders and suppliers) benefit from the industry, and to make credible observations about investment and spending trends in the industry. PricewaterhouseCoopers intends to continue conducting this survey and publishing this report annually. The survey does not cover informal production - production by parties outside the official CoW/KP system.

the 1990s, the number of people in the UK who are employed in the public sector has increased by 1.5 million, from 2.5 million in 1980 to 4 million in 1999. The public sector has also become an important employer for women, with 50% of public sector employees being women in 1999, compared with 40% in 1980.

There are a number of reasons why the public sector has become an important employer for women. One reason is that the public sector has a high proportion of jobs that are suitable for women, such as teaching, nursing, and social work. Another reason is that the public sector has a high proportion of jobs that are part-time or flexible, which are more likely to be taken up by women. A third reason is that the public sector has a high proportion of jobs that are in the service sector, which is a sector that has grown rapidly in the UK.

The public sector has also become an important employer for women because it has a high proportion of jobs that are in the public sector. The public sector is a sector that has grown rapidly in the UK, and it has become an important part of the economy. The public sector has a high proportion of jobs that are in the service sector, which is a sector that has grown rapidly in the UK. The public sector has also become an important employer for women because it has a high proportion of jobs that are part-time or flexible, which are more likely to be taken up by women.

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Survey Participants

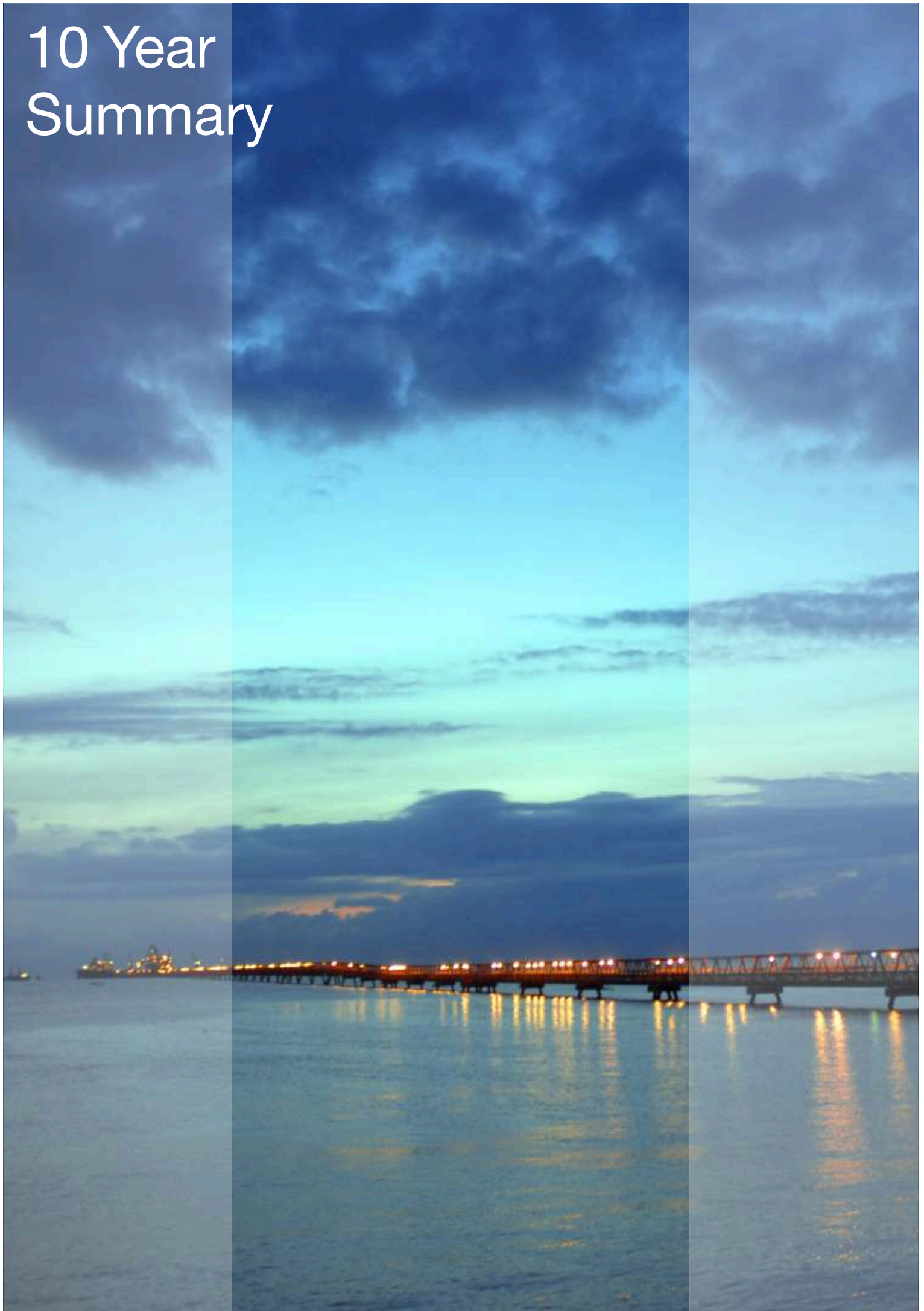


The survey participants represent a significant portion of Indonesia's mineral production. Survey respondents are detailed below:

Producing Companies	Generation	Principal Minerals	Location	2000	2001	2002	2003	2004	2005	2006	2007
Adaro Indonesia	1 st	coal	South Kalimantan	•	•	•	•	•	•	•	•
Allied Indo Coal	1 st	coal	West Sumatera		•						
Aneka Tambang	n/a	bauxite, gold & nickel	Sulawesi, Halmahera, Java, Bintan Isl.	•	•	•	•	•	•	•	•
Arutmin Indonesia	1 st	coal	South Kalimantan	•	•	•	•	•	•	•	•
Avocet Bolaang Mangondow	6 th	gold & silver	North Sulawesi							•	•
Bahari Cakrawala Sebuk	2 nd	coal	South Kalimantan			•	•				•
Berau Coal	1 st	coal	East Kalimantan	•	•	•	•		•		•
Bukit Baiduri Enterprise	n/a	coal	East Kalimantan			•					
Freeport Indonesia Company	5 th	copper & gold	Papua	•	•	•	•	•	•	•	•
Indominco Mandiri	1 st	coal	East Kalimantan	•	•	•	•	•	•	•	•
Interex Sacra Raya	2 nd	coal	South and East Kalimantan							•	•
International Nickel Indonesia	3 rd	nickel	Sulawesi	•	•	•	•	•	•	•	•
Jorong Barutama Greston	2 nd	coal	East Kalimantan								•
Kaltim Prima Coal	1 st	coal	East Kalimantan	•	•	•	•	•	•	•	•
Kelian Equatorial Mining	4 th	gold	East Kalimantan	•	•	•	•	•	•	•	•
Kendilo Coal Indonesia	1 st	coal	South Kalimantan	•	•		•	•			
Kideco Jaya Agung	1 st	coal	South Kalimantan		•				•	•	•
Kitadin	n/a	coal	East Kalimantan						•	•	•
Koba Tin	2 nd	tin	Bangka			•	•	•	•	•	•
Newmont Minahasa Raya	4 th	gold	Sulawesi	•	•						•
Newmont Nusa Tenggara	4 th	copper	Sumbawa	•	•	•	•	•	•	•	•
Nusa Halmahera Minerals	6 th	gold & silver	North Maluku		•	•	•			•	•
Rio Tinto Indonesia	5 th	copper & gold	Papua	•	•	•	•	•	•	•	•
Tambang Batubara Bukit Asam	n/a	coal	Sumatera	•	•	•	•	•	•	•	•
Timah	n/a	tin	Bangka	•	•	•	•	•	•	•	•
Trubaindo	2 nd	coal	East Kalimantan							•	•

Exploration Companies	Generation	Target Minerals	Location	2000	2001	2002	2003	2004	2005	2006	2007
Asmin Koalindo Tuhup	3 rd	coal	Central Kalimantan								•
BHP Billiton Exploration Group	n/a	coal	Central and East Kalimantan		•	•	•	•	•		
Bharinto Ekatama	n/a	coal	East Kalimantan								•
Bukit Tiang Minerals	6 th	gold	West Kalimantan	•	•	•					
Citra Palu Minerals	6 th	gold	Central Sulawesi	•	•	•					
Cyprus Amax Indonesia	n/a	gold	Papua			•	•	•	•	•	•
Dairi Prima Mineral	3 rd	zinc & lead	North Sumatera							•	•
Danum Bukit Minerals	6 th	gold	Kalimantan	•	•	•					
Danum Kelian Minerals	6 th	gold	Kalimantan	•	•	•					
Gag Nickel	7 th	nickel	Gag Island, Papua			•				•	•
Gorontalo Minerals	7 th	copper, gold & silver	North Sulawesi		•	•	•				
Harita Persada Jaya Tambang	n/a	coal	Sumatera	•	•	•					
Horas Nauli	6 th	copper & gold	North Sumatera		•	•					
Ingold Group	5 th & 7 th	base metals	Papua, Central Maluku & Jambi	•	•	•			•	•	•
Irja Eastern Mineral	5 th	copper, gold & silver	Papua						•	•	•
Juloi Coali	3 rd	coal	Central Kalimantan							•	•
Kalimantan Surya Kencana	6 th	gold & base metals	Central Kalimantan	•	•					•	•
Kalsika Indonesia	7 th	gold	Kalimantan	•	•						
Kalteng Coal	3 rd	coal	Central Kalimantan							•	•
Kutaraja Tembaga Raya	6 th	copper & gold	Aceh	•	•	•	•	•	•		
Lahai Coal	3 rd	coal	Central and East Kalimantan							•	•
Mandar Uli Minerals	7 th	gold	South & Southeast Sulawesi	•	•	•					
Maruwai Coal	3 rd	coal	Central and East Kalimantan							•	•
Meratus Sumber Mas	4 th	gold	South Kalimantan					•			
Mitra Sumbawa Minerals	6 th	gold	West Nusa Tenggara	•	•	•					
Normandy	6 th & 7 th	gold	North Sumatra & Papua	•	•	•					
Ocean Resources	6 th	diamond, gold & mineral sand	Kalimantan, Sulawesi & Papua		•	•					
Pari Coal	3 rd	coal	Central and East Kalimantan							•	•
Placer Dome	6 th	gold	Kalimantan, East Java & Sulawesi	•	•	•		•			
Puncak Baru Jayatama	5 th & 6 th	gold	Central Sulawesi, Nangroe Aceh	•	•						
			Darussalam & Bengkulu								
Ratah Coa	3 rd	coal	Central and East Kalimantan							•	•
Rikit Alas Minerals	6 th	gold	Aceh	•	•	•					
Rio Tinto IRJA	5 th	copper & gold	Papua	•	•	•	•	•	•	•	•
Santan Batubara	3 rd	coal	East Kalimantan			•					
Sorikmas Mining	7 th	gold, copper, lead mollybdenam & zinc	North Sumatera	•	•	•	•	•	•	•	•
Scorpion Sampanahan Mining	7 th	gold	South Kalimantan				•	•	•		
Sumbawa Timur Mining	7 th	copper & gold	West Nusa Tenggara			•	•	•	•	•	•
Sumber Barito Coal	3 rd	coal	Central and East Kalimantan						•	•	•
Weda Bay Nickel	7 th	nickel	East Kalimantan		•						

10 Year Summary



Financial performance

Major mineral prices

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Coal	US\$/t	37.65	34.50	29.95	28.75	34.50	28.85	26.75	44.00	53.00	52.50	55.65
Copper	US\$/lb	1.03	0.71	0.68	0.78	0.72	0.71	0.81	1.30	1.67	3.05	3.24
Gold	US\$/oz	331.30	294.00	278.60	279.10	271.00	309.80	363.30	409.72	444.74	603.46	695.39
Nickel	US\$/lb	3.14	2.00	2.59	3.69	2.70	3.07	4.37	6.28	6.68	11.02	17.28
Tin	US\$/lb	2.56	2.39	2.33	2.33	2.03	1.84	2.14	3.84	3.44	3.62	7.26

(Yearly average price). Source: AME Mineral Economics (for coal, copper, and nickel price), Kitco.com (for gold price), minerals.usgs.gov (for tin price).

Mineral production

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Coal ^{viii}	'000 t	54,822	61,931	73,777	77,040	92,540	103,372	114,491	132,255	151,594	180,753
Copper	Mlb	1,167	1,427	1,690	2,157	2,258	2,497	2,165	1,819	2,285	1,753
Gold	'000 oz	2,559	3,641	3,929	3,802	4,856	4,326	4,389	2,719	4,550	2,621
Nickel	Mlb	93	96	120	141	161	151	174	177	185	190
Tin	'000 t	53	54	50	47	54	67	65	63	68	66

Aggregate profit and loss

US\$ millions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net sales revenue	3,665	3,540	3,841	4,811	5,318	5,374	6,333	8,067	11,411	13,882
Cash operating expenses	2,494	2,105	2,167	2,953	3,531	3,310	3,911	4,966	6,510	8,162
EBITDA	1,171	1,435	1,674	1,858	1,787	2,064	2,422	3,101	4,901	5,720
Amortisation and depreciation	358	455	517	805	602	653	767	587	564	637
Profit before interest and tax	813	980	1,157	1,053	1,185	1,411	1,655	2,514	4,337	5,083
Interest	109	129	251	371	273	225	184	148	226	288
Profit before tax	704	851	906	682	912	1,186	1,471	2,366	4,111	4,795
Tax	226	291	326	282	362	402	535	840	1,449	1,673
Net profit	478	560	580	400	550	784	936	1,526	2,662	3,122

Profitability – Return on average shareholders' funds (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Indonesia	11%	12%	12%	8%	11%	16%	18%	26%	37%	39%
Australia ⁱⁱ	2%	4%	4%	14%	13%	8%	7%	14%	12%	13%

Aggregate cash flows

US\$ millions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cash from operations	1,057	1,108	1,179	1,255	1,367	1,420	1,735	2,177	3,491	3,146
Net cash from financing	1,059	634	(118)	(942)	(797)	(876)	(538)	(798)	(1,656)	(2,441)
Cash spent on investment	(1,861)	(1,739)	(1,174)	(515)	(346)	(161)	(671)	(473)	(1,526)	(779)
Net cash flows	255	3	(113)	(202)	224	383	526	906	309	(74)

Taxes and government revenue

US\$ millions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Income tax expense	226	291	326	282	362	402	535	840	1,450	1,673
Mineral and coal royalties	77	65	117	144	176	279	314	431	572	772
Total direct taxes	303	356	443	426	538	681	849	1,271	2,022	2,445
Total indirect taxes, levies and local taxes	325	288	406	406	305	322	328	420	669	981
Total Government revenue										
- US\$ millions	628	644	849	832	843	1,003	1,177	1,691	2,691	3,426
- Rp billions	1,810	6,482	6,684	6,989	8,635	9,349	10,088	14,177	26,134	31,404

Investment

US\$ millions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Greenfields exploration spending	51	27	18	11	7	7	7	7	9	48
Other exploration and feasibility	104	69	60	56	31	19	22	77	101	109
Development	197	192	367	191	73	107	31	94	81	77
Fixed assets	1,410	1,879	963	657	167	240	330	525	550	730
Total investment	1,762	2,167	1,408	915	278	373	390	703	741	964
World exploration and feasibility	5,100	3,500	2,700	2,340	2,200	1,900	2,190	3,800	5,100	7,500

Financial position

US\$ millions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Current assets	1,516	1,495	1,644	1,822	1,649	2,237	2,624	3,645	4,984	5,642
Fixed assets	5,867	6,754	7,144	7,067	6,614	6,376	6,241	6,627	6,311	6,561
Exploration and development	1,008	1,116	1,230	969	678	866	797	798	1,158	1,042
Other assets	339	307	347	310	623	788	1,337	1,518	2,492	3,238
Total assets	8,730	9,672	10,365	10,168	9,564	10,267	10,999	12,588	14,945	16,483
Current liabilities	1,070	953	1,136	1,626	1,419	1,713	2,268	2,248	3,740	3,631
Provision/reserve for restoration and mine closure	42	52	73	86	107	125	170	168	232	311
Other liabilities	553	983	778	454	619	788	658	1,406	1,212	1,432
Total liabilities (excl. borrowings)	1,665	1,988	1,987	2,166	2,145	2,626	3,096	3,822	5,184	5,374
Equity	2,265	2,463	3,173	3,067	3,463	4,095	4,784	6,214	6,547	7,583
Borrowings	4,800	5,221	5,205	4,935	3,956	3,546	3,119	2,552	3,214	3,526
Total funds employed	7,065	7,684	8,378	8,002	7,419	7,641	7,903	8,766	9,761	11,109
Total equity and liabilities	8,730	9,672	10,365	10,168	9,564	10,267	10,999	12,588	14,945	16,483

Contribution to Indonesian economy

Rp billions	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Contribution to Indonesian economy										
Employee compensation (excl. expatriates)	290	545	846	1,080	1,074	1,360	2,475	3,386	3,489	5,476
Purchases from domestic suppliers	1,523	3,253	3,688	4,790	4,304	6,198	6,145	6,923	16,025	11,850
Government revenue	1,810	6,482	6,684	6,989	8,635	9,349	10,088	14,177	26,134	31,404
Dividends paid to Indonesian shareholders	177	203	298	647	338	373	275	1,027	3,228	2,650
Interest paid to Indonesian companies/banks	266	875	294	259	264	430	236	196	243	228
Total contribution	4,066	11,358	11,810	13,765	14,615	17,710	19,219	25,709	49,119	51,608

Expenditures of public interest

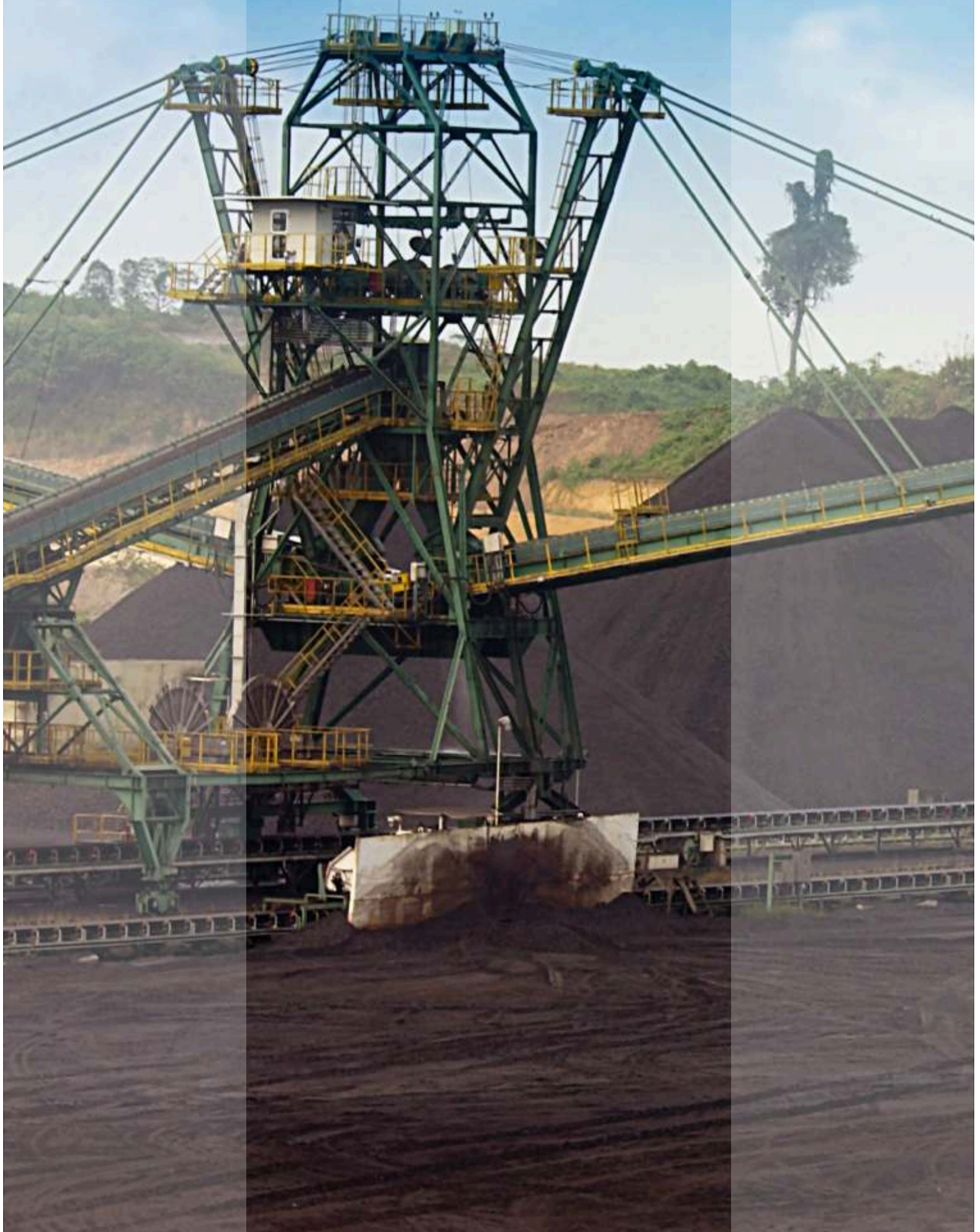
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Rp billions										
Employee training	60	113	119	135	108	100	164	186	273	255
Regional and community development	60	238	211	270	279	466	606	468	784	991
Charitable donations and contributions to not-for-profit foundations	10	41	44	80	40	68	59	85	76	113
US\$ thousand										
Research and development	1,705	1,330	1,336	749	252	271	1,148	1,951	2,995	4,678
Net increase in accumulated provision/ reserve for reclamation and mine closure	10,719	9,863	21,503	12,260	21,240	17,971	44,592	(1,109)	63,885	78,259

Employment

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total direct employees	33,736	33,931	37,877	32,787	33,441	33,603	33,559	36,382	36,817	38,030
Gross workforce compensation (Rp billions)	n/m	1,058	1,409	1,246	1,287	1,759	3,183	4,364	4,251	6,314

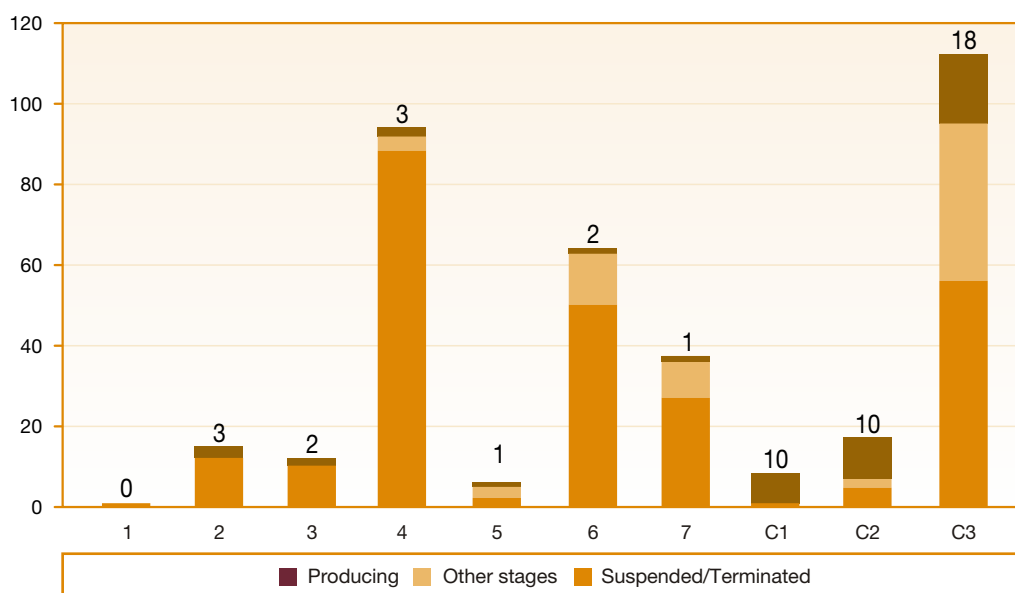
(n/m = not meaningful due to incomplete responses)

Contracts of Work and Coal Agreements



Mining Contracts of Work and Coal Agreements by generation and status

(No. of producing contracts shown)



Source: Directorate of Business Development for Minerals and Coal

Contracts of Work by generation and status

	1st	2nd	3rd	4th	5th	6th	7th	Total
Producing	-	3	2	3	1	2	1	12
Other stages	-	-	-	3	3	12	9	27
Suspended/Terminated	1	13	11	89	3	51	28	196
Total	1	16	13	95	7	65	38	235

Source: Directorate of Business Development for Minerals and Coal

Coal Agreements by generation and status

	C1	C2	C3	Total
Producing	10	10	18	38
Other stages	-	2	38	40
Suspended/Terminated	-	6	57	63
Total	10	18	113	141

Source: Directorate of Business Development for Minerals and Coal

Glossary

CoW	Contract of Work
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Debt to equity ratio	$\frac{\text{Borrowings at year end}}{\text{Shareholders' equity at year end}}$
EBITDA	Earnings before interest, tax depreciation and amortization. A measure of financial performance that is close to the underlying cash earning stream of the company before servicing the asset base.
EBITDA margin	$\frac{\text{EBITDA}}{\text{Total revenues}}$
Effective tax rate	$\frac{\text{Income tax}}{\text{Profit before tax}}$
KP	Kuasa Pertambangan (mining rights)
Net profit margin	$\frac{\text{Net profit}}{\text{Total revenues}}$
Net sales revenue	Net sales revenue is revenues net of freight, insurance, agent commissions and other direct costs relating to shipments. Net sales revenue is not net of royalties.
Return on capital employed	$\frac{\text{Net profit}}{\text{Property plant and equipment plus current assets minus current liabilities. (Average of opening and closing balances)}}$
Return on shareholders' funds	$\frac{\text{Net profit}}{\text{Shareholders' equity and shareholders' borrowings (Average of opening and closing balances)}}$
Unit measures	
t/Mt/Wmt	Metric tonnes/million tonnes/wet metric tonnes
lb/Mlb	Pounds/million pounds
oz	Troy ounces

Endnotes

- i. From “mine* riding the wave - review of global trends in the mining industry - 2007” June 2007 and/or “mine* let the good times roll – review of global trends in the mining industry” June 2006 undertaken by PricewaterhouseCoopers.
- ii. From “Minerals Industry Survey Report 2007” undertaken by PricewaterhouseCoopers for the Minerals Council of Australia.
- iii. From research undertaken by Metals Economics Group “World Exploration Trends” (www.metalseconomics.com), 2007.
- iv. From Fraser Institute’s Annual Survey of Mining Companies 2006/2007 (www.fraserinstitute.ca), 2006 and 2007.
- v. Economic Impact Analysis of Kaltim Prima Coal (2002), Freeport Indonesia (2006), and International Nickel Indonesia (2002) undertaken by Institute for Economic and Social Research, Faculty of Economics – University of Indonesia.
- vi. From Badan Pusat Statistik - Indonesia.
- vii. From Bank Indonesia (www.bi.go.id).
- viii. The coal production figures represent total Indonesian production and were obtained from the Directorate of Business Development for Minerals and Coal (www.dpmb.esdm.go.id).
- ix. The top eight issues are determined based on the top eight highest average scores of all responses. To calculate the weight of each issue against the other top eight, the responses of each survey respondent for the average top eight issues are then “re-ordered” (based on a 100% weight for total of top eight issues).

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Photograph Contributors

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PricewaterhouseCoopers is the leading adviser to the mining industry, both globally and in Indonesia, working with more explorers, producers and related service providers than any other professionals services firm.

Our strength in serving the international and Indonesian mining industry comes from our skills, our experience, and our seamless global network of dedicated professionals who focus their time on understanding the industry and developing solutions to mining industry issues.

Our commitment to the mining industry is unmatched and demonstrated by our active participation in industry associations around the world and our thought leadership on the issues affecting the industry. Through our involvement with the Indonesian Mining Association, Indonesian Coal Mining Association and Indonesian mining companies, we help shape the future of the industry.

Our strength in the mining industry is one of which we are proud. This means we are the most committed firm to achieving mining clients’ needs and actively participate in the industry in all countries in which mining occurs. We work closely with our mining clients, offering the benefits of our experience, to help achieve their goals, and address the challenges of the mining industry into the future.

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Indonesian Mining Association



IMA is a non-governmental, non-political, and non-for-profit national mining organisation, established in Jakarta on 29 May 1975.

Membership is open to both organisations and individuals actively participating in the Indonesian mining industry.

The association serves as a link between Government and the mining industry; organising lectures, seminars and training activities for the members; organising periodic conferences on mining in Indonesia; publishes proceedings and mining information; and represents the Indonesian mining industry at national and international meetings.

IMA is a founding member for the Asean Federation of Mining Associations (AFMA) and currently provides the secretariat for the Federation. The aims and objectives of IMA are to support the Government in its policies to encourage the mining industry development, and to disseminate non-confidential and non-proprietary information to promote the exploration, mining, beneficiation and metallurgical aspects in Indonesia through:

- a. fostering mining development;
- b. facilitating professional and business exchange of know-how and experience of experts active in the industry;
- c. cooperation with similar organisation all over the world in promoting mining business and technology.

The association has 102 company members.

Indonesian Coal Mining Association



ASOSIASI PERTAMBANGAN
BATUBARA INDONESIA
INDONESIAN **COAL**
MINING ASSOCIATION

APBI-ICMA is a non-political and non-profit oriented organization for companies in the coal business sector. APBI-ICMA was established on 20 September 1989 and was registered as a member of the Indonesian Chamber of Commerce on 16 October 2004. On 30th July 2007 APBI-ICMA was officially registered at Department of Law & Human Rights (No.C-61.HT.01.03.TH.2007).

The objectives of APBI-ICMA are to participate in developing the business climate in the coal mining sector which enables the broad involvement of all members and to share a significant role for the national economic development.

The association facilitates a communication and a consultation forum among its members and also serves as a link between the Government and the coal industry. APBI-ICMA also cooperates with other associations, companies or any related parties nationally and internationally for the development of the coal sector in Indonesia.

Currently APBI-ICMA has 62 companies registered as members.

Other PricewaterhouseCoopers Energy, Utilities and Mining Publications



Real Time*

This is your real time guide to examining the reality of reporting under International Financial Reporting Standards for companies in the mining sector.



Mine*

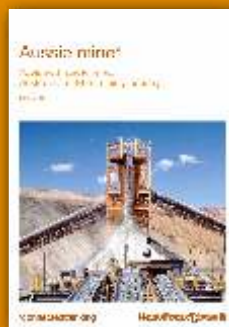
Riding the wave

This review provides a comprehensive analysis of the financial performance and the position of the key players in the global mining industry.



Financial reporting in the mining industry* International Financial Reporting Standards

This edition of 'Financial reporting in the mining industry' describes the financial reporting implications of IFRS across a number of areas selected for their particular relevance to the mining industry.



Aussie mine* 2007

Review of trends in the mid-tier mining industry, is a PricewaterhouseCoopers report which analyses the results of the largest 50 mining companies listed on the Australian Stock Exchange, with market capitalisation below \$5 billion at 31 December 2006.



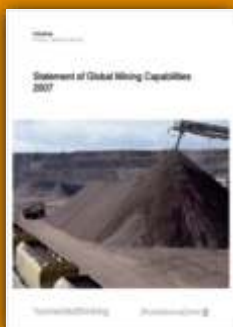
Junior mine* review of trends in the AIM mining industry

Junior mine is a must read for companies in the junior mining industry and for those with an interest in it.



Energy, Utilities & Mining NewsFlash*

PwC Indonesia's Energy, Utilities & Mining NewsFlash is your reference to what is happening in the industry in Indonesia.



Statement of Global Mining Capabilities 2007

This publication discusses the key challenges mining companies face today and how PwC is helping them identify and implement solutions.

