

Indonesian Mining Investment Climate

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Agenda

- Background
- Global trends
- Investment trends in Indonesia
- Some key challenges to investment in the Indonesian mining industry
- Outlook

Background

- Asian mining operations and investments are influenced by global as well as local trends in the industry
- Many prospective regions are competing for limited investment spending
- Understanding industry trends, globally and locally, is key to successful mining operations and investment
- Indonesia is geographically advantaged due to abundant natural resources and close proximity with the key minerals/coal demand growth, i.e. China and India
- However, this does not mean investments will come automatically. Mining companies and all stakeholders, including the Government, will need to be agile to ensure an attractive investment climate and long-term investment returns

2012 – a challenging time for miners

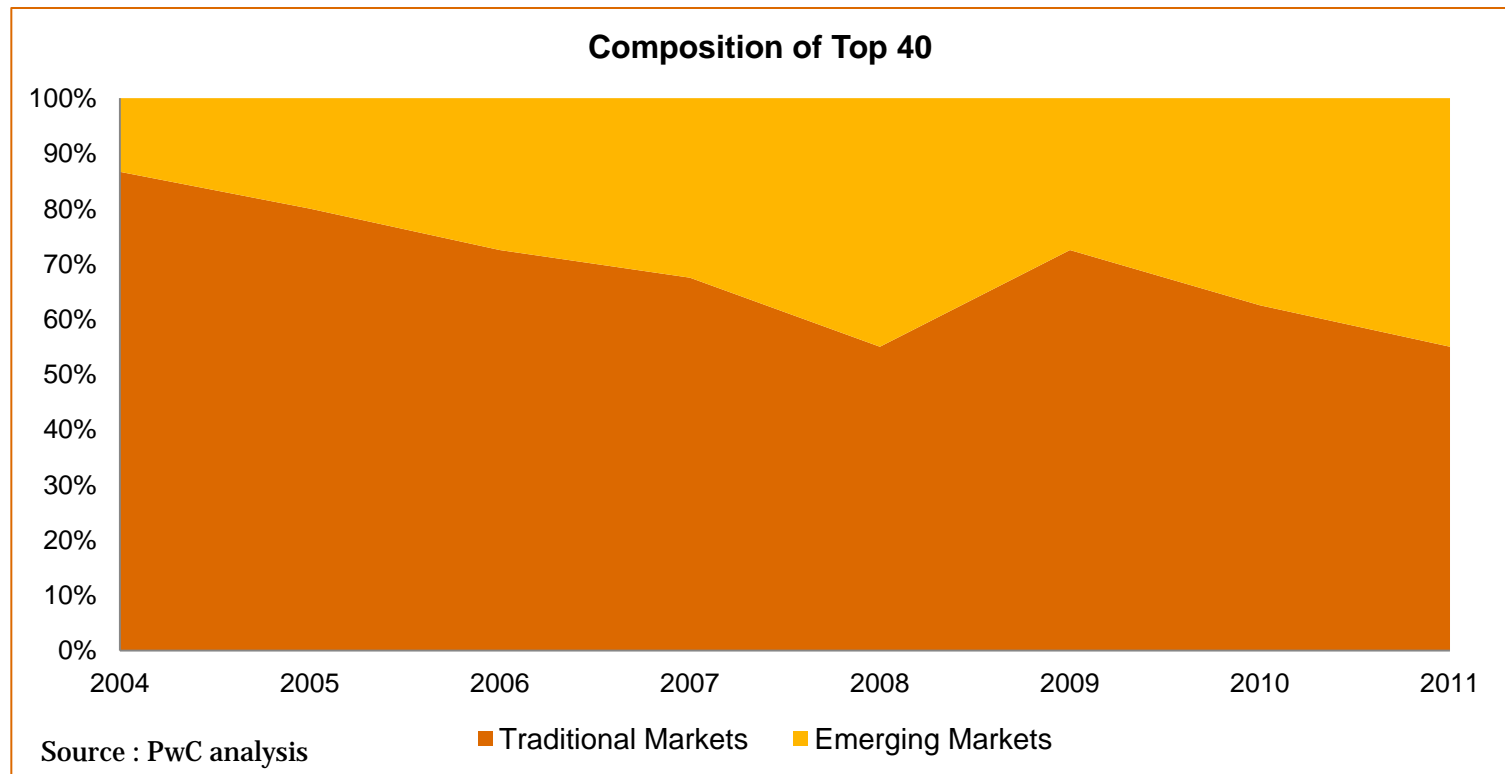
- Commodity prices are under pressure from global economic conditions
- Leads to “knee-jerk” reactions – cost cutting and deferral of capex
- Immediate impact seen in Indonesian coal sector
- Near and medium-term demand will continue to be stoked by growth in the emerging markets (including Indonesia)
- Supply is challenging – declining grades, increased cost of extraction and new mines in remote locations
- Clear shift in the industry to the emerging markets
- Increased focus by governments and other stakeholders – particularly on government-take (taxes and royalties)
- Uncertainties compounded by Indonesian regulatory action.

We are also seeing...

- The new era is bringing a changing face to the industry
 - Vertical integration upstream led by the steel and power industries – seen in Indonesian coal and globally
 - Private Equity and Sovereign Wealth Funds
 - State Owned Enterprises and utilities entering through funding and off-take agreements
 - Traders moving upstream
- Stakeholder management is increasingly critical
- Political attention on the distribution of benefits.

Market Evolution

- Composition of Top 40 global mining companies shifting to emerging markets
- New players on the horizon (e.g. traders, IPOs)



Looking forward

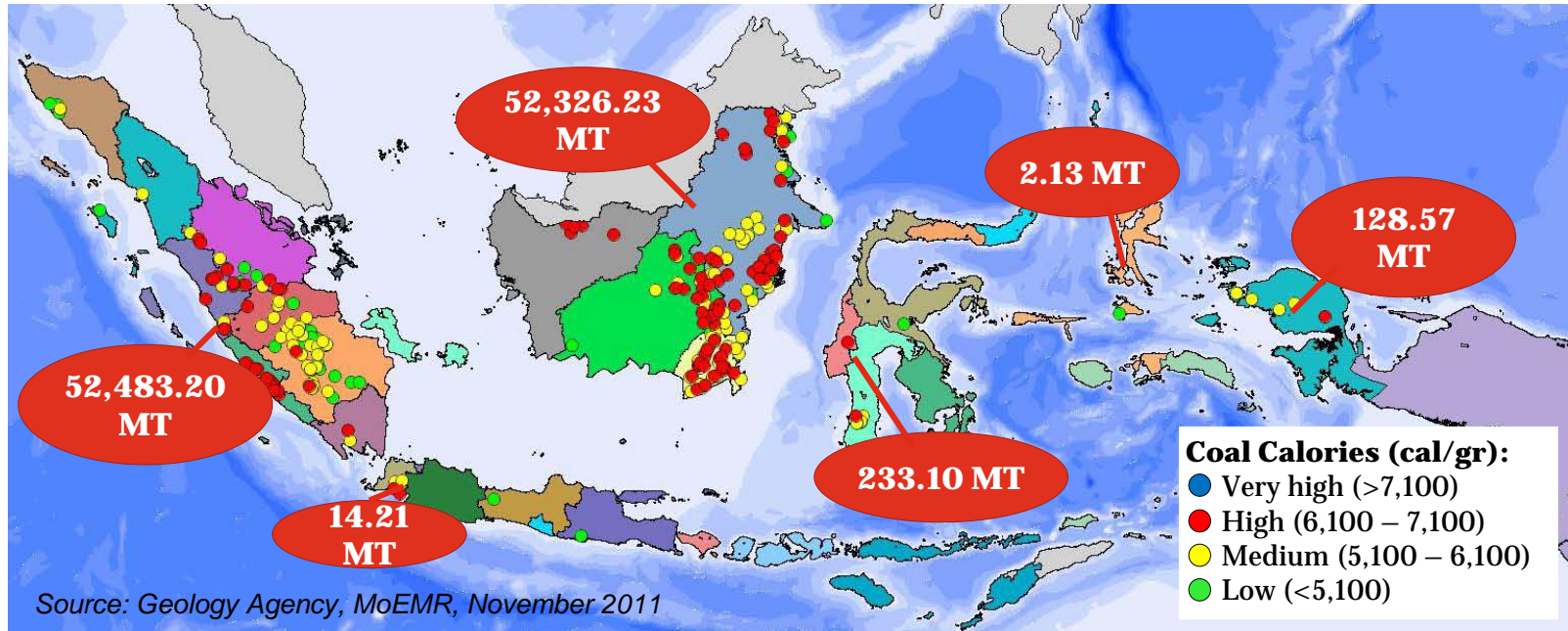
- Strong demand fundamentals remain – particularly in the emerging markets (including Indonesia)
- Commodity price volatility is nothing new – over-reaction will lead to under-investment for the future
- Supply challenges on the horizon for many producing countries – particularly infrastructure constraints for coal in Indonesia and regional competitors
- Costs continue to be an increasing challenge.



Trends in Indonesia

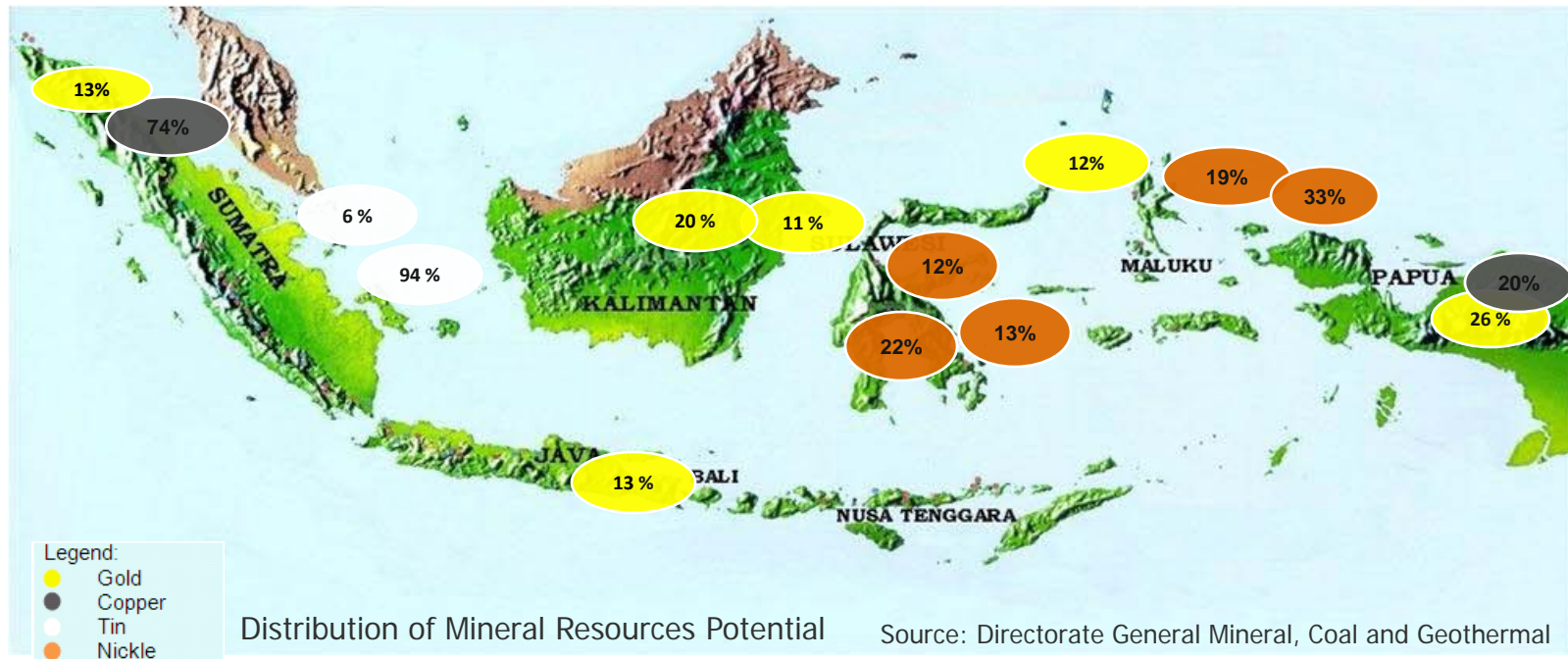


Indonesian thermal coal reserves and resources



- **Total Resources 105.2bn MT in 2011 (Sumatera 52.5bn, Kalimantan 52.3bn)**
- **Total Reserves 21.1bn MT in 2010 (Sumatera 11.5bn, Kalimantan 7.2bn)**
- **Resource quality: approx 25% low rank, 60% medium, and 15% high quality**
- **Five 1st generation CCoWs and PTBA account for approx 50% and 23% of Indonesian coal reserves and resources respectively**

Indonesian mineral reserves and resources

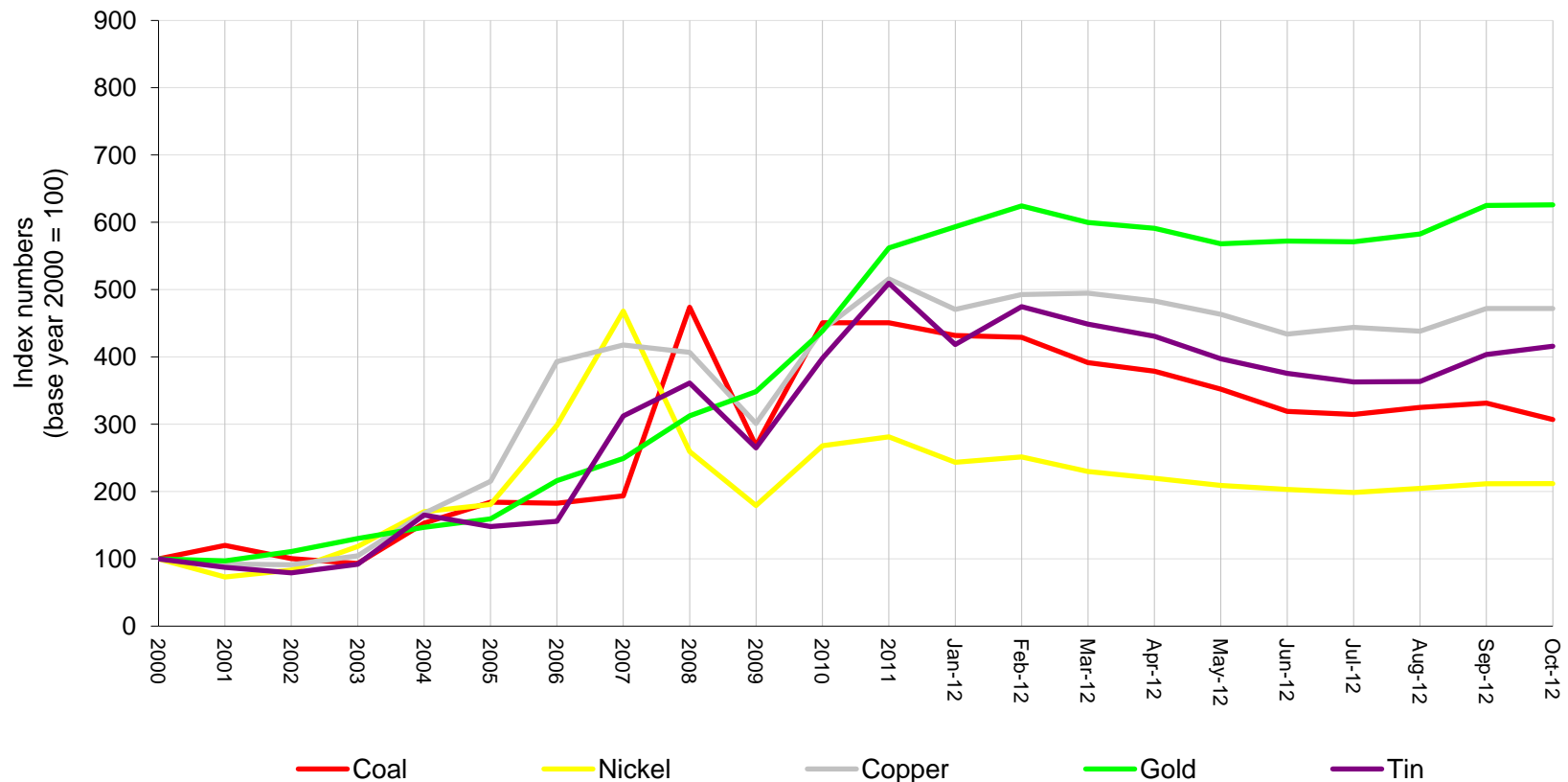


| | Unit | Resources | Reserves |
|--------------|----------------|---------------|-------------|
| Nickel | Tonnes (ore) | 1,878,547,773 | 546,838,401 |
| Tin | Tonnes (metal) | 650,135 | 338,911 |
| Copper | Tonnes (metal) | 69,766,509 | 42,859,957 |
| Primary gold | Tonnes (metal) | 4,347 | 4,250 |

Indonesian thermal coal and mineral reserves and resources

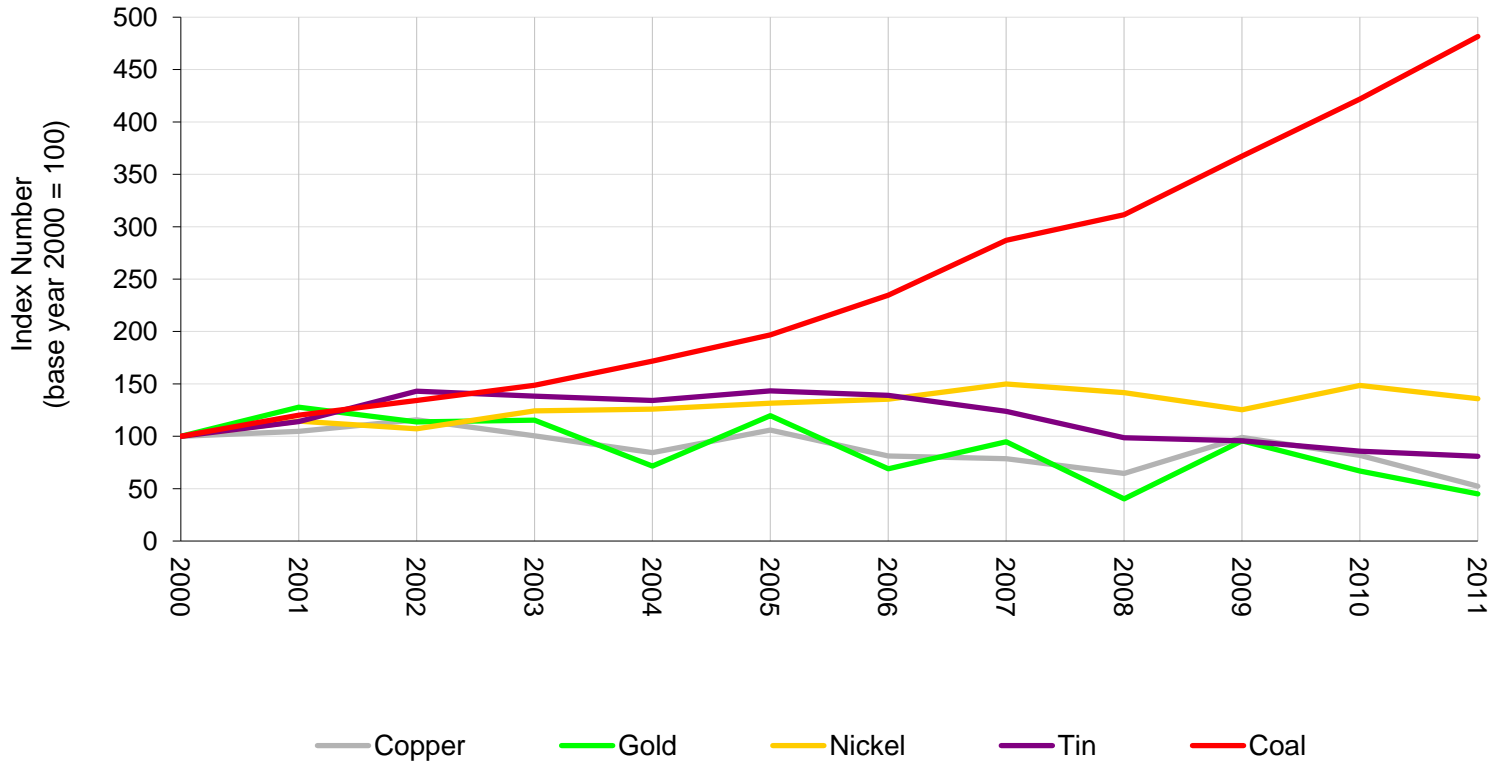
- Still significant under-explored regions with coal and mineral potential e.g. Papua, Sulawesi and Kalimantan with lack of infrastructure. This provides opportunities for exploration and development of mine infrastructure.
- Significant opportunity for coal upgrading and mineral processing and refining industries. This includes utilisation of low rank coal (i.e. coal liquefaction/gasification and mine-mouth power plants), as well as smelters.
- Indonesia's significant remaining undeveloped resources has lead to increased M&A activity in recent years – current downturn in prices may see opportunistic M&A activity.

Commodity Prices



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

Minerals Production - Indonesia



Source : ESDM, APBI & BPS

M&A activities in 2011 and 2012 in the mining sector in Indonesia

| Date | Target | Acquirer | Target Sector | % interest | Deal size (US\$ million)* | Deal Status |
|-------------|-----------------------------------|--------------------------------------|---------------------------------|-------------------|----------------------------------|--------------------|
| Oct 2012 | PT Bumi Resources Tbk | PT Bakrie and Brothers Tbk | Coal | 19 | 278 | Announced |
| Sep 2012 | Indo Mines Ltd | Rajawali Group | Diversified mining | 46 | 52 | Ongoing |
| Aug 2012 | Sakari Resources Ltd | PTT PCL | Coal | 55 | 1,149 | Ongoing |
| Aug 2012 | PT Borneo Berkas Makmur | PT United Tractors Tbk | Coal | 100 | 51 | Ongoing |
| July 2012 | PT Golden Energy Mines Tbk | United Fiber System Ltd | Coal | 30 | 547 | Ongoing |
| July 2012 | PT Ganda Alam Makmur | LG International Corp | Coal | 60 | 224 | Ongoing |
| May 2012 | PT Multi Tambangjaya Utama | PT Indika Energy Tbk | Coal | 85 | 205 | Completed |
| Mar 2012 | Confidential | PT Inovisi Infracom Tbk | Coal | 100 | 150 | Ongoing |
| Jan 2012 | PT Golden Energy Mines Tbk | United Fiber System Ltd | Coal | 67 | 1,215 | Ongoing |
| Jan 2012 | Bumi PLC | PT Borneo Lumbung Energi & Metal Tbk | Coal | 24 | 1,000 | Completed |
| Jan 2012 | PT Apuah Kutai Langgong | Atech Holdings Ltd | Coal | 60 | 42 | Ongoing |
| Dec 2011 | PT Astrindo Mahakarya Indonesia | PT Benakat Petroleum Energy Tbk | Mining services | 100 | 600 | Ongoing |
| Dec 2011 | PT Golden Energy Mines Tbk | GMR Infrastructure Ltd | Coal | 30 | 550 | Ongoing |
| Dec 2011 | PT Tri Tunggal Pitriati | Energy Earth PCL | Coal | 100 | 55 | Completed |
| Dec 2011 | Strand Minerals Indonesia Pte Ltd | Pacific Metals Co Ltd | Investment company in resources | 3 | 39 | Completed |

M&A activities in 2011 and 2012 in the mining sector in Indonesia

| Date | Target | Acquirer | Target Sector | % interest | Deal size (US\$ million) | Deal Status |
|-------------|-----------------------------------|--|----------------------|-------------------|---------------------------------|--------------------|
| Nov 2011 | PT Gunung Besi Utama | PT Bumi Citra Permai Tbk | Metal-iron | 97 | 260 | Ongoing |
| Oct 2011 | PT Bumi Resources Minerals Tbk | Bumi Plc | Diversified mining | 75 | 2,261 | Discontinued |
| Oct 2011 | Multiple targets | China Nickel Resources Holdings Co Ltd | Diversified mining | 100 | 266 | Ongoing |
| Oct 2011 | PT Bukit Enim Energi | PT Adaro Energy Tbk | Coal | 46 | 46 | Completed |
| Aug 2011 | PT Mustika Indah Permai | PT Adaro Energy Tbk | Coal | 75 | 223 | Completed |
| July 2011 | Coal Vista Resources Ltd | Thionville Financier Ltd | Coal | 100 | 80 | Ongoing |
| June 2011 | Pakar Thermal Coal Project | Kangaroo Resources Ltd | Coal | 99 | 281 | Completed |
| June 2011 | PT Berau Coal Energy Tbk | Bumi PLC | Coal | 10 | 215 | Completed |
| June 2011 | South East Asian Assets | J&Partners LP | Gold | 100 | 200 | Completed |
| Apr 2011 | PT Mitrabahtera Segara Sejati Tbk | PT Indika Energy Tbk | Transport-marine | 51 | 213 | Completed |
| Mar 2011 | PT Berau Coal Energy Tbk | Bumi Plc | Coal | 75 | 1,514 | Completed |
| Mar 2011 | PT Bumi Resources Tbk | Bumi Plc | Coal | 25 | 1,334 | Completed |
| Mar 2011 | Lion Gold Holdings Ltd | Bel Global Resources Holdings Ltd | Gold | 100 | 62 | Discontinued |
| Mar 2011 | PT Indoasia Cemerlang | STX Corp Co Ltd | Diversified mining | 33 | 33 | Completed |

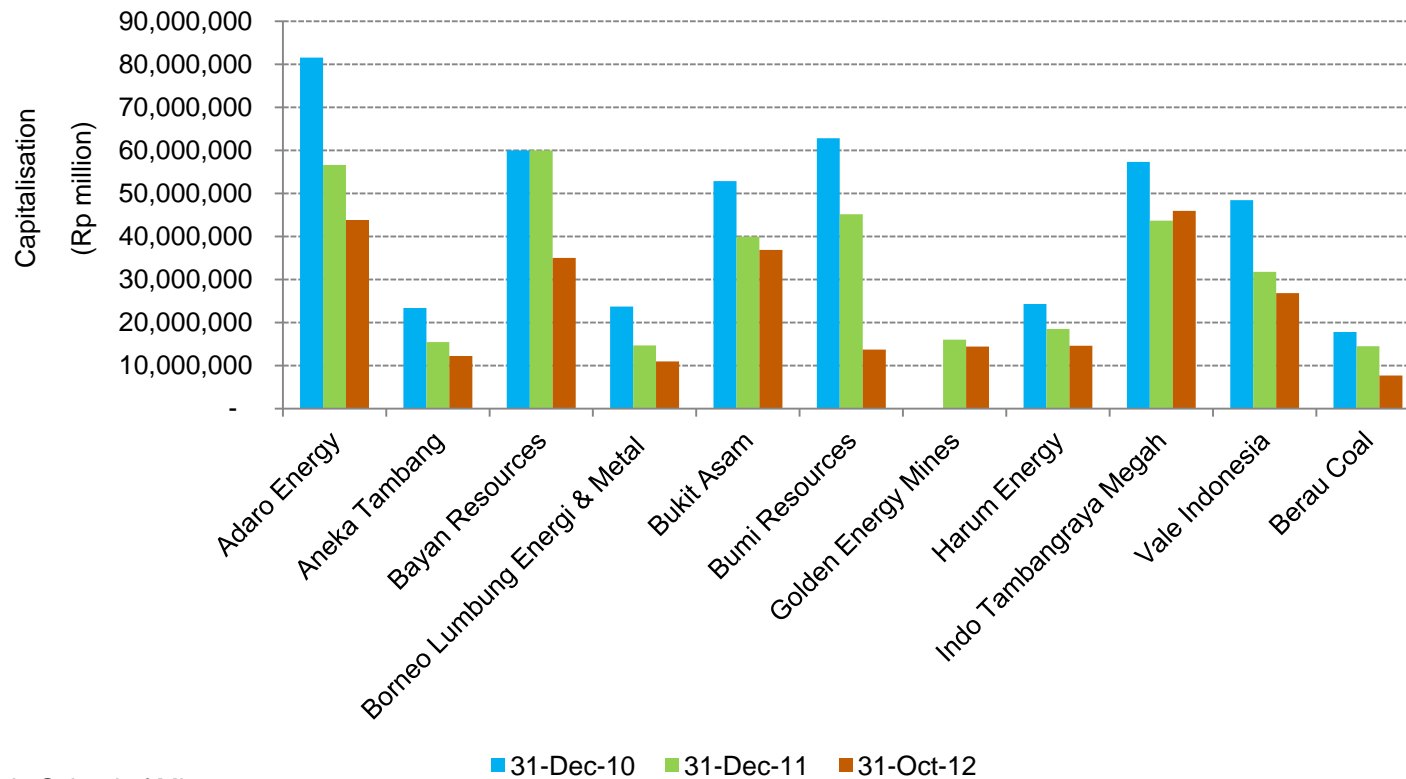
Mining Companies in IDX

Indonesia Stock Exchange market capitalisation vs. mining market capitalisation

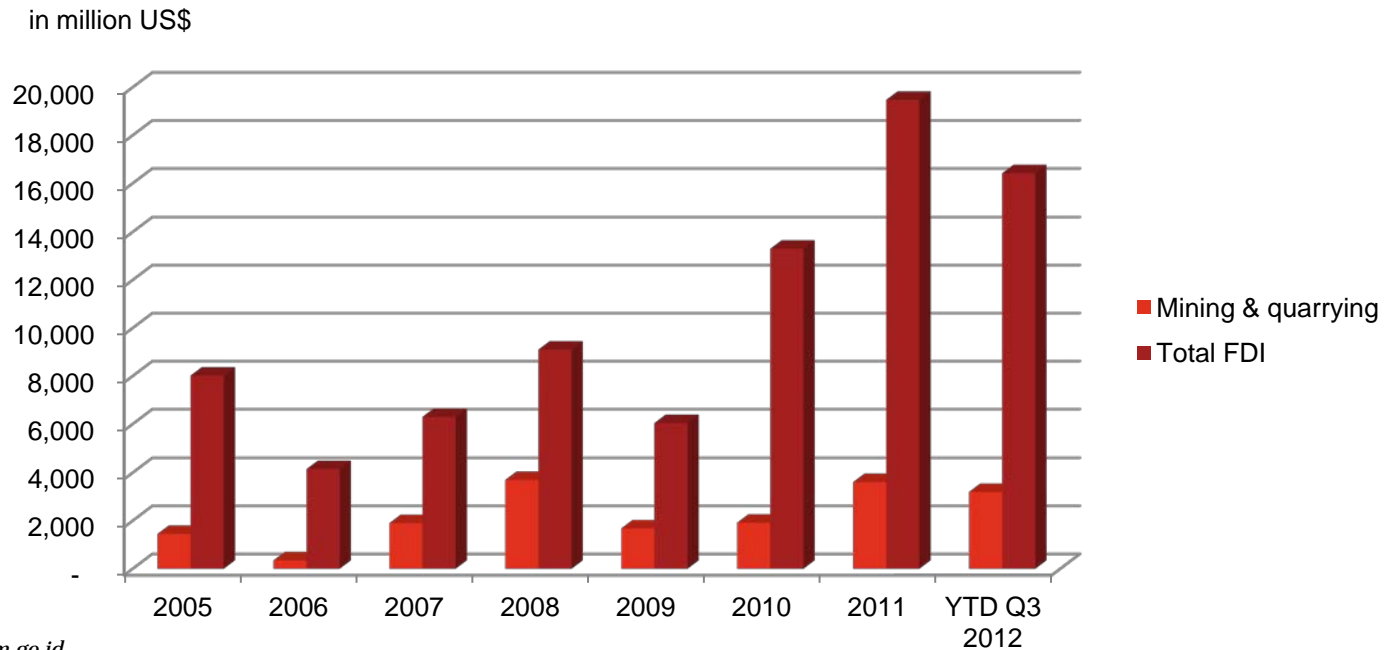


Mining Companies in IDX

Market capitalisation of Indonesian mining companies with market cap > Rp. 10 trillion



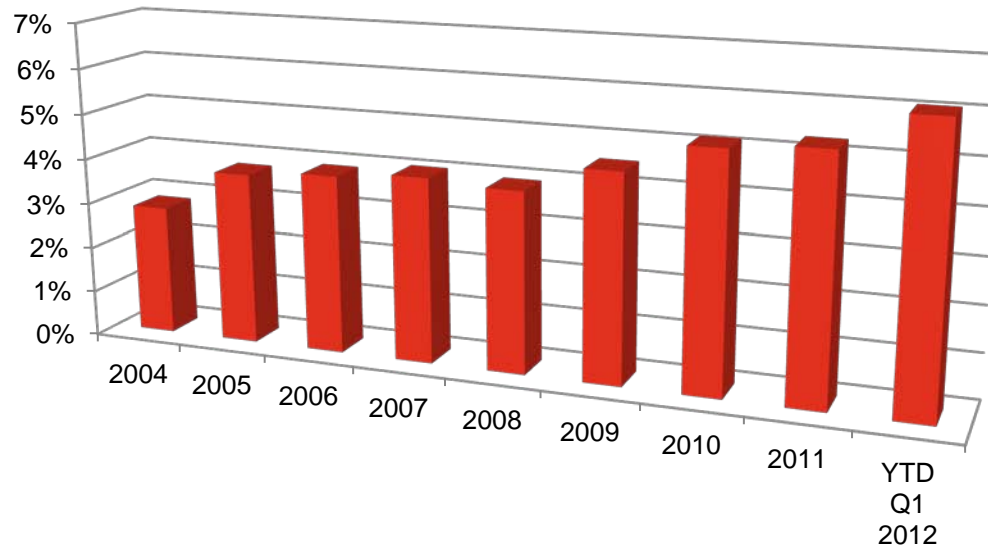
Trend of foreign direct investment (FDI) in Indonesia



Source: www.bkpm.go.id

- Gradual increase in FDI during the last 5 years, except for 2009 due to the global financial crisis.
- 2011 shows a significant increase both for mining investment and FDI in general, with 2012 likely to show a slight increase.

Contribution of mining sector to Indonesian GDP



Source: Badan Pusat Statistik

- Some increase in contribution during 2009 and 2010, mainly due to higher commodity prices, with 2011 flat.
- Contribution in 2012 appears set to remain above 5% of GDP, based on Q1 information, subject to the impact of decline in commodity prices over the following quarters.

Trend of exploration and investment expenditures in Indonesia

- Some increase in total investment in 2011, and projected to increase slightly for 2012. No real increase in exploration expenditure spending. 2013 may be impacted by current belt-tightening.
- Spending on greenfields exploration expenditures stagnant during last 5 years – most investment on existing projects.

Total investment in mining industry (existing and greenfields):

| | 2008 | 2009 | 2010 | 2011 | Projected 2012 |
|---------------------------------|------|------|------|------|----------------|
| Total investment (US\$ billion) | 1.7 | 1.8 | 3.1 | 3.4 | 3.6 |

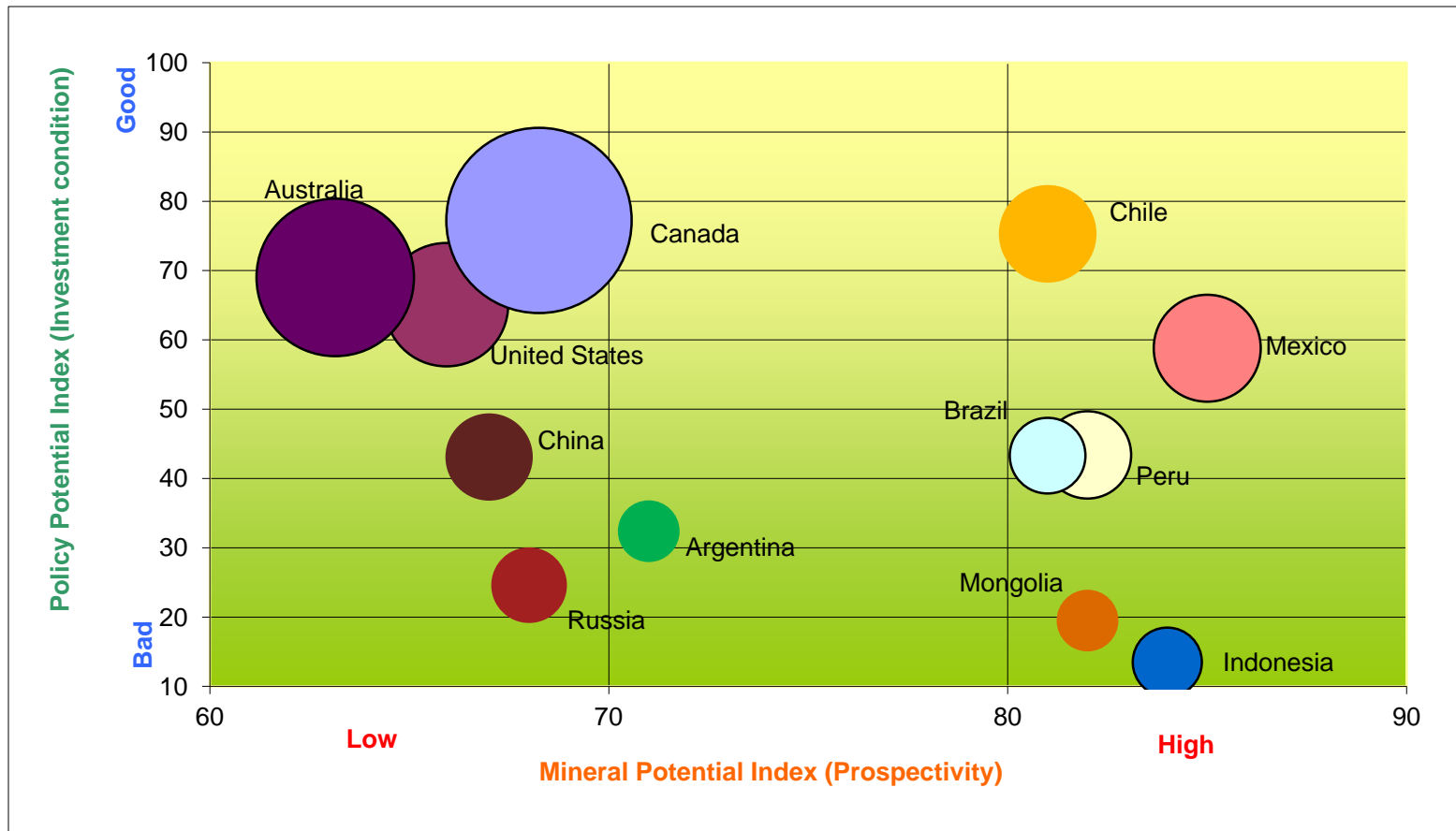
Source: PwC, IMA and ICMA survey , Metal Economics Group's survey, Directorate General of Mineral, Coal and Geothermal

Key Mining Expansion Plans

- There are limited new expansion plans announced for Indonesia (mainly from the old players in Indonesia, except for G-Resources and Eramet).
- Greenfields exploration is likely to remain at low levels in the next couple of years – but some large projects commenced or in the pipeline.

| Company | Mine | Expected Output | Date |
|--------------------|------------------------|----------------------------------|-------------|
| G-Resources | Martabe, North Sumatra | Gold: 250kozpa; silver: 2-3mozpa | 2012 |
| Rio Tinto | Sulawesi | Nickel: 46-100 ktpa | 2015 |
| Eramet | Weda Bay | Nickel: 65ktpa; cobalt: 4.6ktpa | 2017 |
| PT Antam | Gag Island | Nickel: 40ktpa; cobalt: 4ktpa | 2013 ? |
| Vale | East Pomalaa/Bahadopi | Nickel: 50mnt resources | n/a |
| Intrepid Mining | Tujuh Bukit | Gold: 130mnt resources | n/a |
| Freeport | Wabu | Gold: 43mnt resources | n/a |
| Churchill Mining ? | East Kutai | Coal: 30mntpa | 2013 ? |

Survey result of mining investment climate in Indonesia



Source: Fraser Institute and Metal Economics Group

Survey result of mining investment climate in Indonesia (continued)

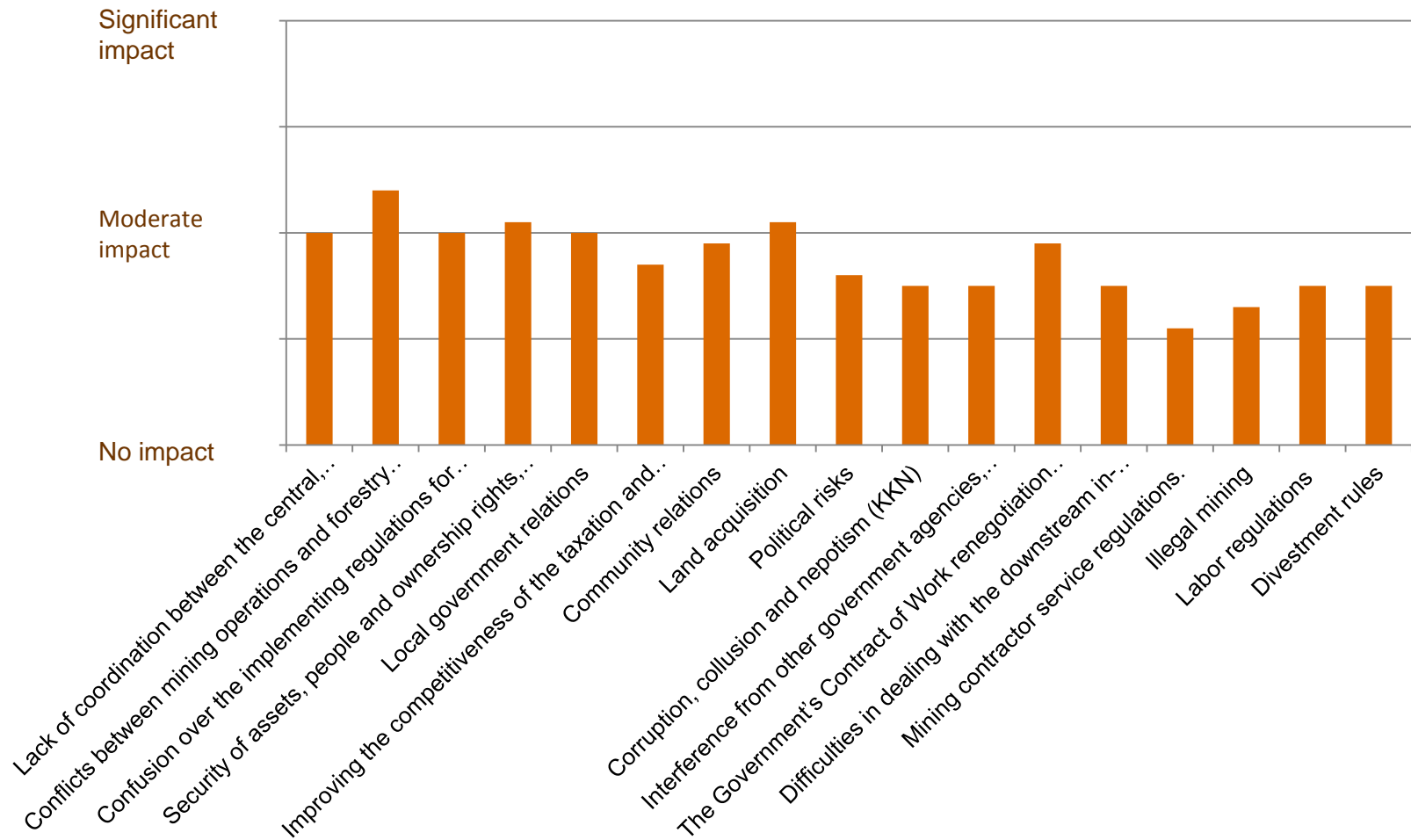
- Based on the 2011 global mining policy survey (Fraser Institute), consistent with previous years, Indonesia has a high rank in terms of mineral prospectivity, but low rank in investment conditions.
- This perception contributes to Indonesia's low proportion of global exploration spending.
- The new mining regime based on the 2009 mining law has not yet had a positive impact on the investment climate, despite some initial improvement in perception of regulatory certainty overall.
- Recent regulatory activity in 2012 may see further negative impact in coming years.

What are current issues in the Indonesian mining sector?

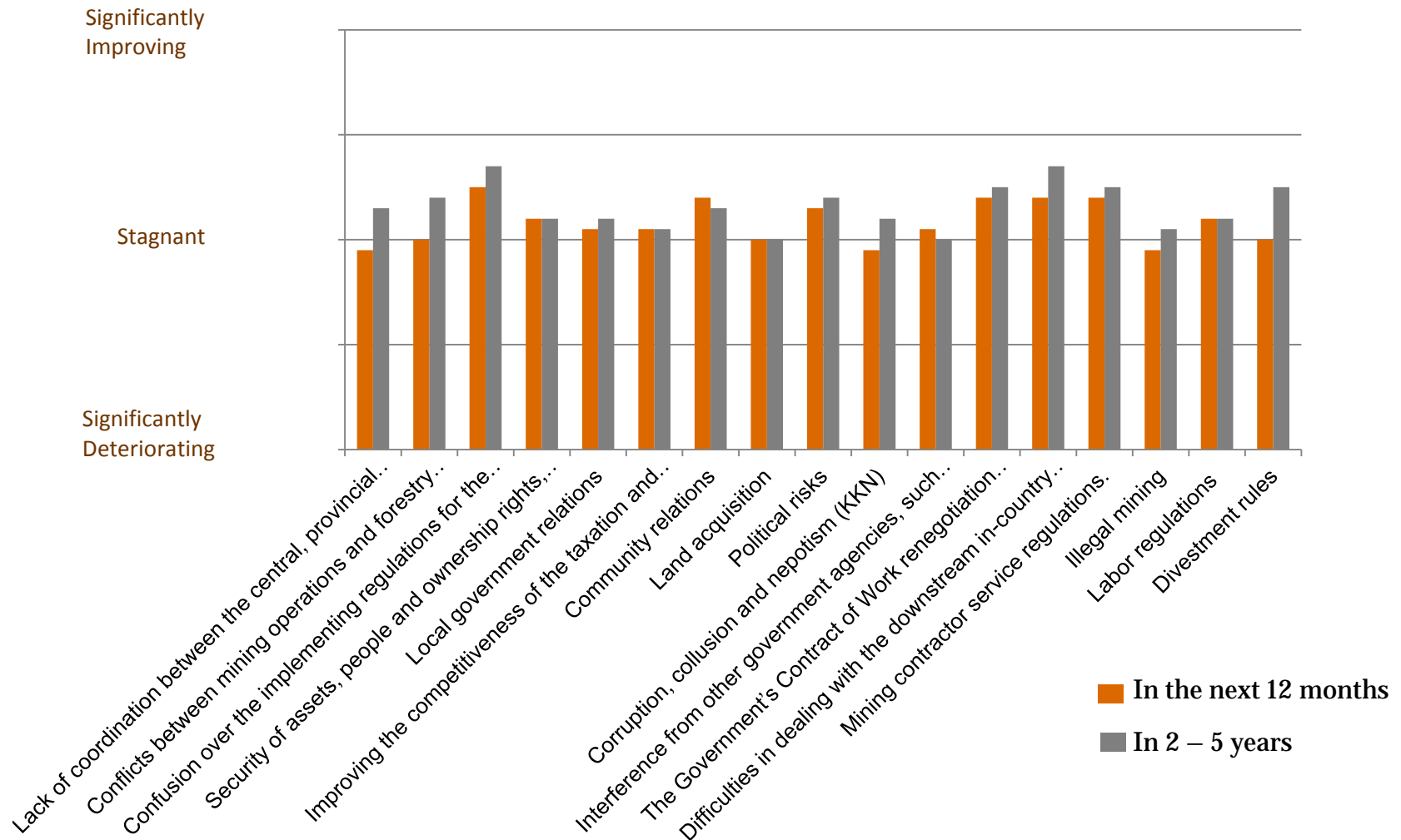
- 1 Lack of coordination between the central, provincial and regional governments
- 2 Conflicts between mining operations and forestry regulations
- 3 Confusion over the implementing regulations for the new Mining Law
- 4 Security of assets, people and ownership rights, including mining licences
- 5 Local government relations
- 6 Improving the competitiveness of the taxation and royalty system relative to other prospective countries
- 7 Community relations
- 8 Land acquisition
- 9 Political risks
- 10 The Government's Contract of Work renegotiation efforts

Uncertainty !!

Impact of issue on investment



Development of resolution of the issue



Changes in mining business model

- New coal and mineral projects are generally located in remote areas (e.g. Sumatera, Central Kalimantan and Sulawesi)
- Major infrastructure is required for these projects, e.g. railway, port, etc, at significant costs (over US\$1bn) – requires deep pockets
- The challenge is the best business structure, i.e. whether to include or exclude the infrastructure in the mining company (considering different investor objectives, regulatory restrictions, tax implications, etc.)
- The same issue exists in development of in-country metal processing facilities and value-added mining products (as required under the new Mining Law).

Some key challenges to investment in Indonesian mining



Regulatory challenges

Key changes under the new mining law

- New mining law effective January 2009 – foreigners and locals invest on a (relatively) level playing field
- Contract of Work system abolished – both foreigners and locals apply for mining licences. Existing CoWs will be honoured until their expiration dates
- Initially, increased interest from global players, due to more certainty of the regulatory regime in place:
 - Indian, Chinese and Korean utilities looking for security of coal supply
 - BHP Billiton entering into a partnership with a local player to develop large coking coal project
 - New players in Indonesia (Eramet, G-Resources, others)
 - Significant Private Equity activity

Regulatory challenges

Key challenges under the new mining law

- Unclear transitional provisions for Contracts of Work under the new mining law. Government negotiation team announced in January 2012 through Presidential Decree
- Domestic Market Obligation regulation (Ministerial Reg. 34/2009)
- Coal and Mineral Price Benchmarking Regulation (Ministerial Reg. 17/2010)
- Mine closure guarantee through time deposit at state-owned bank (Govt. Reg. 78/2010)
- Limitations on related party mining contractor services (Ministerial Reg. 28/2009)
- Forestry regulations
- Tax – lack of investment incentives; increased focus on transfer pricing, etc.

Regulatory challenges

Key challenges under the new mining law (continued)

New for 2012:

- Foreign equity divestment requirements for new mining concessions – staged divestment down to 49% by 10th year of production. Increase from 20% in initial regulations (Govt. Reg. 24/2012). Applicable to all IUPs (i.e. retrospective)
- Mandatory in-country processing for minerals and ban on export of unprocessed ore effective 6 May 2012 (Ministerial Reg. 7/2012)
- Subsequent regulations to apply a 20% export duty on export of mineral ores, effectively providing the opportunity for mines in the production stage to continue to export ore until January 2014, with a levy.
- Recent press indicating the Supreme Court may have struck-down the regulation banning exports of ore.

Uncertainty !!

Outlook



Outlook

- Constant changes in the industry, those who are most agile with a long-term view will likely prosper
- Regulators need to find a balance between securing state revenue and attracting investments (including greenfields exploration investment), and at the same time preserving sustainable mining practices
- Continuous dialogue between mining players, regulators and other stakeholders is crucial to attract new investments
- As global miners will continue to hunt for projects in new geographies and shift the focus to acquisition of exploration and development stage assets, developing countries, including those in Asia, are well placed to tap this opportunity. The question is how fast the regulators can establish an attractive/competitive investment framework.

Thank you

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