Indonesia
Mining

INDONESIAN MINING ASSOCIATION

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

mineIndonesia 2008*

10th annual review of trends in the Indonesian mining industry

December 2008

Contents

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 2006 and earlier years appearing in this report differ from the figures in previous reports.

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MINISTER OF ENERGY AND MINERAL RESOURCES
REPUBLIC OF INDONESIA

It is a great pleasure for me to welcome the tenth annual PricewaterhouseCoopers report on the trends of Indonesian mining industry, ***mineIndonesia 2008****. I extend my highest appreciation to PricewaterhouseCoopers, IMA and ICMA for the ten years of supporting the Government, business and investors in developing Indonesian mining industry.

The mining industry remains a significant contributor to the economic development and growth of Indonesia. The Government of Indonesia with the cooperation of other stakeholders in mining industry remains committed to improve the sector, encourages all investors, both foreign and domestic, to continue investing in the industry, take advantage of significant geological potential, and at the same time support the economic growth of Indonesia.

As we all have known that the new Law on Mineral and Coal Mining was passed early 2009 (Law no. 4/2009). The government is aware that there are concerns in the new Law which may not fully meet the expectations of investors in the mining industry. However, by having a continuous communication between stakeholders and the government, I believe we can overcome these concerns and improve the investment climate for the mining sector in Indonesia. The government is committed in issuing the regulations for implementing the new Law on a timely basis, in order to eliminate uncertainties in the operation of the Law. We need to work together as well to minimize the impacts of the current global economic crisis on the mining industry. I have an expectation that the mining industry will survive these economic problems and prove positive growth to become an increasing contributor to the economic development of Indonesia.

Again, I commend this publication to you and extend my great appreciation to PricewaterhouseCoopers, IMA, ICMA and participating mining companies on their valuable contributions.

Jakarta, 2 February 2009
Minister of Energy and Mineral Resources

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

Jakarta, 2 February 2009

We are honoured to present the tenth PricewaterhouseCoopers report on trends in the Indonesian mining industry, ***mineIndonesia 2008****. On behalf of IMA, 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. The industry is entering an important stage of its development with the passing of the new Law on Mineral and Coal Mining (Law No. 4/2009) and the threats posed by the global economic downturn. We hope that all stakeholders in the Indonesian mining industry can work together to meet these challenges, and continue to contribute to the growth of Indonesia.

IMA and ICMA continue to work with their members, the government and other parties towards achieving the best regulatory environment to promote further exploration and investment in mining. We believe that by having this cooperation, we can consistently improve the investment climate in the Indonesian mining industry.

Arif S Siregar
Chairman
Indonesian Mining Association

Jeffrey Mulyono
Chairman
Indonesian Coal Mining Association

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PRICEWATERHOUSECOOPERS

Foreword

Welcome to PricewaterhouseCoopers' tenth annual review of trends in the Indonesian mining industry, ***mineIndonesia 2008****, produced in conjunction with the Indonesian Mining Association and the Indonesian Coal Mining Association.

We are proud to have supported the Indonesian mining industry over the last ten years through the publication of this comprehensive analysis of the financial performance of the industry, and most importantly its significant contribution to the economic growth of Indonesia. We hope to continue this endeavour for many years to come.

The financial information for 2007 presented in this report is based on the results of a confidential, comprehensive survey questionnaire circulated to both producing and exploration companies that had activities during 2007. For the first time, we have augmented this information with the latest publicly available financial information for 2008, particularly for those companies listed on the Indonesia Stock Exchange, or whose results are included in the financial statements of parent companies listed on the Indonesian or overseas exchanges.

2007 and 2008 have seen contrasting results for the Indonesian mining industry. 2007 saw the commodities boom continue, with sustained demand from the emerging economies driving minerals prices ever higher. Investor confidence in the mining sector was strong in Indonesia, and around the world, as witnessed by a year of significant growth in the market capitalisation of mining companies on both international bourses and the Indonesian exchange. This confidence came to an abrupt end in 2008 with the onset of the global economic downturn. From mid-2008 commodity prices began to weaken, falling off dramatically in the third quarter when the full extent of the global economic difficulties became evident. This saw a massive sell-off of equities around the globe, across all sectors, with the mining sector heavily impacted.

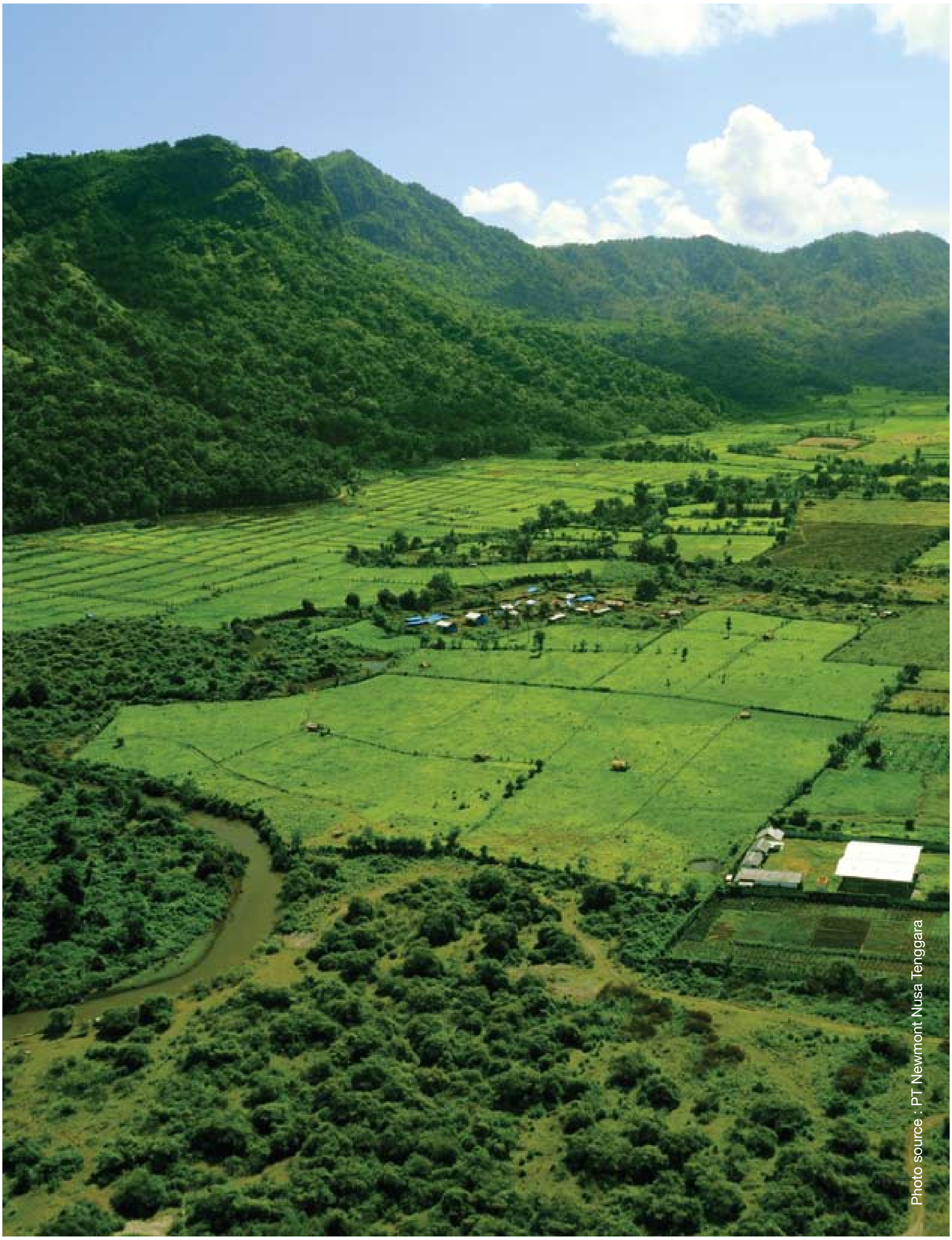
In Indonesia, this has been followed by the issuance of the new Law on Mineral and Coal Mining (Law No. 4/2009), which provides its own challenges for the industry.

Both the impacts of the economic downturn and the new Law are addressed in this report.

We trust that you will find this report informative, and we thank all those who took the time to contribute to this undertaking.

Sacha Winzenried
Technical Advisor, Mining Leader
PricewaterhouseCoopers Indonesia

Jakarta, 2 February 2009



Executive Summary

"It was the best of times, it was the worst of times…"
Charles Dickens, *A Tale of Two Cities*

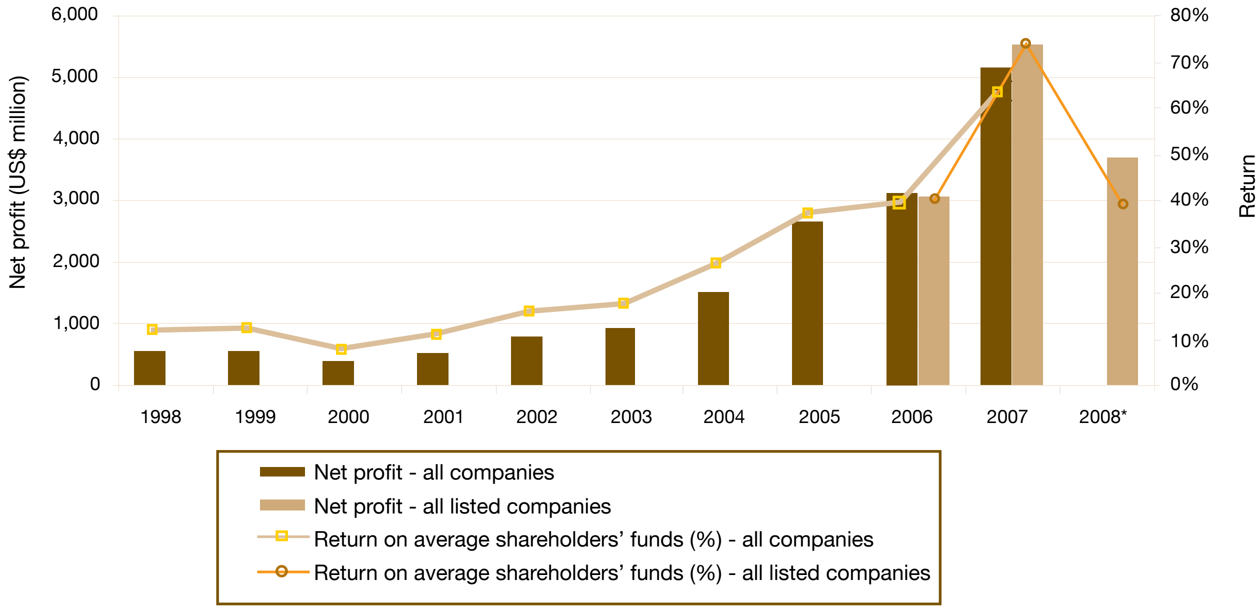
These words from Charles Dickens' classic story aptly describe the feelings that many in the mining industry may be experiencing. 2007 saw the commodities boom continue, with sustained demand from the emerging economies driving mineral prices ever higher. Investor confidence in the mining sector was strong in Indonesia, and around the world, as witnessed by a year of significant growth in the market capitalisation of mining companies on both international bourses and the Indonesian exchange. This confidence came to an abrupt end in 2008 with the onset of the global economic downturn. From mid-2008 commodity prices began to weaken, falling off dramatically in the third quarter when the full extent of the economic difficulties being faced by the United States became evident. This saw a massive sell-off of equities around the globe, across all sectors. The mining sector was particularly hard hit given its dependence on commodity prices – the market capitalisation of mining companies listed on the Indonesia Stock Exchange fell by 74% from 31 December 2007 to 30 November 2008.

Coming hot on the heels of these economic difficulties, was the passing of the new Law on Mineral and Coal Mining by the Indonesian Parliament on 16 December 2008, which received the assent of the President on 12 January 2009, becoming Law No. 4/2009. This Law, which had been under deliberation for more than three years, is the biggest change in the mining regulatory framework in more than 40 years. The jury is still out on whether the Law will provide the necessary impetus for increased investment in the Indonesian mining sector, particularly in these tough economic times, and given some uncertainty around its provisions for the transition of existing Contracts of Work, and other new requirements. The industry eagerly awaits the implementing regulations which will accompany the Law, hoping that these will provide the certainty necessary to encourage investment in the large-scale projects which are so vital to a strong mining sector.

Surge in commodity prices continues to drive profitability in 2007, but falls off in 2008

For the Indonesian companies analysed in this survey, revenue increased by 27% in 2007 over 2006 and net profits increased by a massive 65%. This is even more significant considering that 2006 net profits were already 17% above the prior year. 2008 is a stark contrast, with the results for listed mining companies showing a decrease in revenues from 2007 of 3% and a much greater decrease in profitability of 33%, as costs have fallen at a lower rate than commodity prices. This reversal of fortunes was particularly dramatic for the minerals companies with a fall off in prices across the board, but most notably for nickel and copper. The coal miners however managed to show profit growth in both 2007 and 2008, given their annually negotiated sales prices were agreed in late 2007 and early 2008 in the high price environment.

Net profit and rates of return



* Based on annualised figures for the nine months ended 30 September 2008 for listed mining companies

The results of Indonesian miners in 2007 are generally in line with the global average, based on results for the top 40 global mining companies by market capitalisation, as set out in PricewaterhouseCoopers' review of global trends in the mining industry[i]. However, the profitability of Indonesian mines was greater than the global 40 in most respects, due to the simpler cost structures, and relatively low shareholders' funds and capital employed. As such, Indonesia significantly outperformed the global 40 in 2007 on measures of return on shareholders' funds (64% versus 29%) and return on capital employed (41% versus 22%), however EBITDA margin was relatively consistent with the global 40 at 49% for Indonesia compared to 44%.

It is noteworthy that the sustained increase in profitability in the Indonesian sector from 2002 – 2007 stems largely from the commodities boom, rather than any significant expansion in activities. Likewise the decrease in global commodity prices has had an immediate and significant impact during 2008.

The improvements in profitability during the commodities boom masked substantial increases in operating costs which occurred due to supply side constraints. The industry now faces the challenge of significantly reducing operating costs built-up over this period, in order to lessen the effect of the downturn.

(see page 24)

Balance sheets are stable

There was a general improvement in balance sheet ratios in 2007, compared to 2006 given the increased profitability of mining companies. Indonesian mining companies took the opportunity, brought about by the continuation of strong profits and operating cash flows, to retire debt and pay dividends to shareholders. As such, the overall debt-to-equity ratio decreased to 24% at the end of 2007 compared to 46.5% at the end of the prior year.

This situation has reversed somewhat in 2008, with return on shareholders' funds and capital employed falling back to 2006 levels, based on the publicly available information for Indonesian listed mining companies. The debt-to-equity ratio has however remained stable.

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There are significant challenges to increased investment in Indonesia's mining sector

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 favourable.

Despite this fact, survey respondents reported increased investment spending in 2007 of approximately US$ 1.05 billion (up from US$ 927 million in 2006). Based on government figures, this increased to US$ 1.4 billion in 2008.

However, the survey data for Indonesia continues to show minimal investment in greenfields exploration, and that the other investment spending is mainly for replacement plant and equipment to maintain existing operations.

This is a concern, as it indicates that existing players in the Indonesian mining sector are willing to spend to maintain their current operations, but are not investing in new developments. Likewise the sector is not seeing significant investment from new participants.

This reluctance has now been exacerbated by the change in the regulatory environment in Indonesia with the passing of the new mining law. Unfortunately, Indonesia did not attract significant new investment during the global mining boom. Many projects slated for commencement in the last few years were delayed due to various regulatory hurdles. With the passing of the new mining law, the future of these projects may now be in doubt, as the contract of work system is no longer available. This is compounded by the onset of the global economic downturn, and the accompanying fall in commodity prices, which is forcing even the largest global mining companies to rethink their investment plans around the world.

Unless Indonesia can demonstrate a competitive advantage over other mineral rich countries, it will miss out on the allocation of the scarce investment funds available in this tight economic environment. It is not clear that the contents of the new mining law will provide the necessary stimulus.

Challenges from the new mining law – the industry's opinion

Given the reported concerns of many mining industry participants, we asked senior executives of mining companies in Indonesia to provide comments on the challenges arising from the new Law. The top issues noted, in order of importance as ranked by the survey respondents, are:

1. Contradictory transitional provisions for existing Contracts of Work and Coal Contracts of Work - to what extent will the terms of existing CoWs and CCoWs be grandfathered?
2. Requirement for existing producing CoWs to conduct onshore processing of ore within 5 years of enactment of the new Law.
3. Requirement for existing CoW/CCoW holders to submit a mining activity plan for the entire contract area, within one year of enactment of the new Law, or face relinquishment of parts of the contract area.
4. Lack of clarity in process for conversion of existing *Kuasa Pertambangan* (KPs or Mining Rights) to *Izin Usaha Pertambangan* (IUPs) under the new Law.
5. Potential delays in issuing implementing regulations to regulate provisions of the new Law.
6. Divestment requirement for foreign interests in IUPs within 5 years of production commencing.
7. In-country processing requirement for all IUP holders.
8. Restrictions on IUP holders using affiliates to provide mining support services.
9. Dealing with regional/local government officials to obtain IUPs.
10. Restricted size of exploration and exploitation IUPs, which may hamper large-scale projects.
11. Reduced legal certainty compared to provisions of existing CoWs/CCoWs.
12. Absence of a form of agreement/ contract for large projects above a certain investment threshold.

As illustrated above, the new Law may not have entirely eradicated the uncertainty that has been hanging over the mining industry in Indonesia for some time. The terms of the Law may be adequate to encourage some investors, both foreign and domestic, to take direct equity stakes in relatively small-scale projects. This will have a positive impact on investment. However, there is likely to be greater uncertainty around large-scale capital intensive projects, as the new Law does not offer the long-term protections of the contract of work system.

The mining industry in Indonesia is now eagerly awaiting the implementing regulations for the new Law, hoping that they will provide clear guidance for the future growth of the industry.

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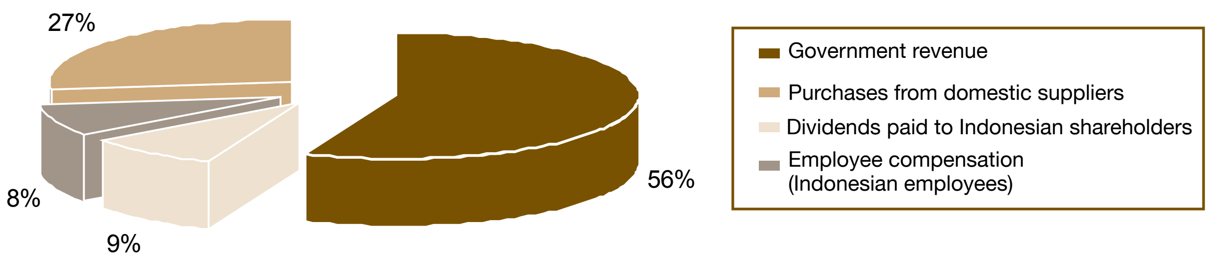
The mining industry is an important contributor to the Indonesian economy

The mining industry's contribution to the overall Indonesian economy continued to increase in 2007. Owing to the high commodity prices, mining products accounted for approximately 4% of total Indonesian GDP and more than 20% of export revenues (Source: Badan Pusat Statistik – Indonesia).

The industry also continues to make significant contributions to regional and community development – Rp 1.7 trillion in 2007 based on survey respondents, or an increase of 70% from the previous year, on top of a 26% increase in 2006. Total government revenues (taxes, royalties and other levies) from the survey respondents increased 40% to US$ 4.8 billion for 2007, a record for the last 10 years, on top of a 27% increase in 2006.

The total number of direct employees increased by 1% to approximately 38,500 in 2007. Employee compensation has however increased significantly (by approximately 12% overall, on top of a 49% increase in 2006) due to increased benefits received as a result of increased profits and production. Given the impact of the global economic downturn on the mining industry, there is a risk that employment and salaries in the sector may come under pressure in the coming years, in line with the likely decreases in production and profitability of the mining companies.

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 pages 56, 60 and 62)

Outlook

2007 was another spectacular year for the global mining industry, as illustrated by the record results for the sector as a whole in Indonesia. This growth has tapered off in 2008 with the impact of the global economic downturn beginning to take hold. Recent years saw unprecedented demand, primarily driven by Asia, and new supply coming on stream for many commodities. This bullishness has dissipated and the next few years are likely to see less investment in the sector from the global players.

This leaves the Indonesian mining industry in a precarious position, as it grapples with the terms of the new mining Law. It is unfortunate that the issuance of this Law has coincided with the global economic downturn and the accompanying fall in commodity prices. This undoubtedly impacts the appetite for investment in the mining sector, and it is not clear that the Law provides the necessary encouragement to investors to choose Indonesia over other geologically attractive locations when allocating investment funds.

While these are challenging times, Indonesia has a great opportunity to set itself up for the upturn in the sector, which many analysts expect to begin as early as 2010. Key to this is bedding down the implementation of the new mining Law, through swift issuance of comprehensive and unambiguous implementing regulations, which address the main areas of uncertainty for investors. Primary among these is confirmation that all terms and conditions of existing contracts of work will be fully respected until the expiry of the contracts. This is paramount to ensuring continued investment by the holders of these contracts, as well as bolstering the confidence of new investors.

Only time will tell whether investors will overcome their concerns and invest in the large projects which are the lifeblood of a strong mining sector. What is clear is that it would be best for all concerned if the implementing regulations for the new Law are issued as quickly as possible and cover all potential issues, as uncertainty is the enemy of increased investment.

Highlights for 2007 and 2008

Highlights for 2007 and 2008

- Increases in mineral prices continued into 2007 and part of 2008 driving significantly higher profitability. The impacts of the global economic downturn have seen prices fall from mid-2008, with a resultant fall in profits.
- 2007 revenue surged by 27% and net profit by 65%. In 2008, revenues for listed mining companies dropped by 3% and net profit by 33%.
- Return on shareholders' funds jumped to 64% in 2007, compared to 39% in 2006 and an average of 24% for the last 10 years. This trend has reversed in 2008.
- The bull run in market capitalization of listed mining companies on the Indonesian stock exchange continued during 2007 due to increased profitability. However, the bullish sentiment became bearish from the end of July 2008, reaching its lows in the last quarter of 2008 on the back of the global economic crisis.
- 2007 saw a slight decrease in coal, copper and tin production, but an increase in nickel and gold. 2008 saw a decrease in production of all minerals, other than coal.
- Government revenue from the mining sector in 2007 jumped by 40% to US$4.8 billion (of which income taxes and royalties represented 72%). Income tax expense for listed mining companies in 2008 dropped by 37% from 2007.
- There was a sustained increase in mining industry contribution to Gross Domestic Product in 2007 to IDR 160 trillion, an increase of 23% from IDR 131 trillion in 2006.
- Increase in contribution to Indonesian exports in 2007 from US$ 20 billion to US$ 24 billion, an increase of 18% compared to 2006.
- Community development expenditures spent during 2007 increased by 70% compared to 2006.
- Exploration expenditures exhibited a minor increase in 2007 with the majority related to coal exploration activities.
- Consistent with previous survey reports, investment conditions continue to receive poor reports from survey respondents. It is yet to be seen whether the passing of the new Law on Mineral and Coal Mining in December 2008 will have a positive impact on investor sentiment.

Financial highlights	2006 US$ million	2007 US$ million	Year-on-year Movement
Revenue	13,882	17,670	↑ 27%
EBITDA	5,720	8,583	↑ 50%
Net profit	3,122	5,154	↑ 65%
Government revenue	3,426	4,799	↑ 40%
Total assets at year end	16,483	16,112	↓ 2%
Borrowings at year end	3,526	2,003	↓ 43%
Shareholders' funds at year end	7,583	8,369	↑ 10%

Key profitability ratios

	2006	2007	2008*	Average 10 years
EBITDA Margin				
Indonesia	41.2%	48.6%	38.7%	40.3%
Top 40 companies - global [i]	44.0%	44.0%	na	na
Net profit margin				
Indonesia	22.5%	29.2%	22.8%	17.3%
Top 40 companies - global [i]	28.0%	26.0%	na	na
Return on capital employed				
Indonesia	26.0%	40.6%	24.1%	15.2%
Top 40 companies - global [i]	23.0%	22.0%	na	na
Return on shareholders' funds				
Indonesia	39.4%	63.7%	39.0%	24.4%
Top 40 companies - global [i]	33.0%	29.0%	na	na
Debt to equity ratio				
Indonesia	46.5%	23.9%	27.8%	96.4%
Top 40 companies - global [i]	36.2%	46.8%	na	na

*) 2008 figures represent listed mining companies

Note: As an indicator of 2008 performance in the mining sector, throughout this report we have used the results of mining companies listed on the Indonesia Stock Exchange, or whose results are included in the financial statements of companies listed on the Indonesia or overseas stock exchanges, where the performance of the mining companies are adequately segregated in the results of their listed parents. We have also included this information for 2006 and 2007 for comparative purposes (including companies who initially listed in 2007 or 2008). The listed company results shown include 11 companies for 2006, 2007 and 2008, respectively.



Photo source :
PT Freeport Indonesia, PT International Nickel Indonesia Tbk

New Mining Law - a perspective

On 16 December 2008 the Indonesian Parliament passed the Bill on Indonesia's new Law on Mineral and Coal Mining (the "Law") which received the assent of the President on 12 January 2009, becoming Law No. 4/2009. This Law, which has been under deliberation for well in excess of three years, represents another major regulatory development in Indonesia's investment landscape (along with the 2007 Investment Law, and the 2007 and 2008 Tax Laws), and the biggest change in the mining regulatory framework in Indonesia in more than 40 years.

Gaining political consensus on the framework for regulation of this highly strategic industry for Indonesia's economic development was not easy, as illustrated by the long deliberation process. Clearly the Law has many detractors, but the fact that it was the only framework to gain some form of consensus, means the mining industry now faces the challenge of coming to terms with its provisions.

It is unfortunate that the issuance of this Law has coincided with the global economic crisis and the accompanying fall in commodity prices. This undoubtedly impacts the appetite for investment in the mining sector, and it is not clear that the Law provides the necessary encouragement to investors to choose Indonesia over other geologically attractive locations, when allocating scarce investment funds.

Farewell to the Contract of Work

The jury is still out on whether this Law will achieve the stated aims of increasing investment in the mining sector, which has suffered from numerous perceived regulatory weaknesses for a number of years. As expected, the well-regarded Contract of Work system will no longer be available under the new Law. This is a disappointment to many investors. Instead, both domestic and foreign investors will be able to apply for a form of mining licence (referred to in Indonesian as an *Izin Usaha Pertambangan* or IUP).

The Contract of Work was well regarded as it provided the legal and fiscal certainty which is so important for the mining sector. Mining investment involves exploration risk, huge upfront capital investment and long payback periods. The start-up costs are compounded by the lack of infrastructure in the remote locations where mining activities are conducted, which often means that mining companies are the largest employers and providers of community development in the areas in which they operate.

The Contract of Work provided investors with the necessary approvals to conduct mining activities for the full life-of-mine from initial survey and exploration activities, through to construction and production. Under the Law, investors will need to apply for separate exploration and production licences. The added risks of the new licence and regulation based structure, as compared to the "one stop shop" Contract of Work, may deter investors from entering into the large-scale projects which are desperately need for the growth of the Indonesian mining sector.

Unfortunately, the hope of many investors that a form of contract would remain available for large projects above a certain investment threshold was not realised in the Law.

Investment

The Indonesian mining sector has suffered from lacklustre growth for a number of years, due to well-publicised regulatory and other issues. This was beginning to change in 2007 and 2008 on the back of the global mining boom, which saw commodity prices reaching record highs. PricewaterhouseCoopers' 2007 report on its annual survey of the Indonesian mining sector, mineIndonesia 2007*, indicated that investment in the Indonesian mining sector grew to over US$900 million in 2006, with data in this report showing that investment was above U$1 billion in 2007 and around US$1.4 billion in 2008, based on government information. The ongoing mining boom also saw major global players such as Rio Tinto and BHP Billiton, who reportedly had submitted applications for Contracts of Work to the government, once again looking at major multi-billion dollar investments in Indonesia. BHP Billiton has already announced that it will not proceed with its planned nickel joint venture with state-owned miner PT Antam. The removal of the Contract of Work system, and the added uncertainty of the new licensing system may mean that other large projects on the drawing board may also be cancelled, or delayed until there is more certainty on the operation of the Law.

The Law has attempted to remove the uncertainty surrounding the management of the mining sector. With the passing of the Law, whether or not they agree with the content, for the first time in more than three years stakeholders in the mining sector at least know what rules they will be playing under. This is a significant plus.

However, initial thoughts from mining industry observers are that the Law may not provide the level of certainty necessary to encourage the investment in large-scale mining projects, which is so vital to a strong mining sector. In particular, uncertainty around the transitional provisions for existing Contracts of Work is causing some concern.

There is also much concern among mining industry players that the Law does not adequately address the needs of investors in large-scale projects, and that it really only serves the interests of small and medium players. This is partly because of the restriction on exploration areas that can be granted (maximum of 100,000 hectares for metals and 50,000 hectares for coal) which are further reduced under the production licence (25,000 hectares for metals and 15,000 hectares for coal).


Photo source : PT Freeport Indonesia

The challenges

The Law also relies heavily on as yet unseen implementing regulations for its implementation, which are required to be issued within one year. History has shown that such regulations are not always issued on a timely basis (the key implementing regulation for the 2001 oil and gas law was not issued until 2004). This may cause further uncertainty for investors, as the devil will be in the detail for many of the provisions of the Law. It would be best for all concerned if these regulations could be issued as quickly as possible to cover all issues, as uncertainty is the enemy of increased investment.

Some of the key considerations for investors include:

- The IUP system replaces both the Contract of Work system, and the former Mining Right (or *Kuasa Pertambangan* – KP) system which was available only to Indonesian investors under the previous law. The Law allows IUPs to be held by Indonesian legal entities, which would appear to include both Indonesian companies owned by Indonesian nationals, as well as foreign-owned Indonesian companies, removing any distinction between Indonesian and foreign investors in the mining sector. This is consistent with the current Negative List, which allows for 100% foreign investment in the mining sector.

  The Law does however require some form of divestment of foreign interests within five years of production commencing – details of this divestment process are to be set out in a separate regulation. Foreign investors will be eager to understand the divestment requirements, including the percentage to be divested, given the potentially significant impact on project economics.

- The Law's transitional arrangements indicate that all existing Contracts of Work will be honoured until their expiration date. However, the very next clause of the Law indicates that the terms of these existing contracts must be amended within one year to conform with the provisions of the Law, other than terms related to State revenue (not defined, but presumably including royalties and taxes).

  Further, the Law requires that holders of existing Contracts of Work must, within five years of enactment of the Law, comply with the obligation under the Law to conduct onshore processing of their ore. Onshore processing is also required for new IUPs – although the details are left to the implementing regulation.

  In addition, Contract of Work holders which have already commenced some form of activity are required, within one year of enactment of the Law, to submit a mining activity plan for the entire contract area. If this plan is not fulfilled, the contract area may be reduced to that allowed for IUPs under the Law.

  The transitional provisions have probably been the most controversial aspects of the Law with debate in Parliament continuing on this point right up to the final passage of the Law. Unfortunately the outcome appears to be two possibly conflicting provisions meaning that, State revenue treatment aside, it is not clear how completely existing Contract of Work rights will be honored. Resolution of this will obviously be of major interest to those investors holding Contracts of Work, and is likely to be a continuing disincentive to additional investment by existing contractors, until the Government's interpretation of these transitional clauses is clearly understood.

- There are no provisions dealing with conversion of KPs. It is not clear whether these KPs will be allowed to run until the end of their current terms, or whether they should be converted into IUPs. If they automatically become IUPs, there may be an argument that foreign investors are able to take direct equity interests in these concessions. If this is the case, this could be a favourable outcome of the Law, allowing immediate direct investment into Indonesia for existing KPs. The latest comments from the Directorate General of Minerals, Coal and Geothermal seem to indicate that KPs automatically become IUPs – the question therefore remains what provisions of existing KPs will need to be harmonised with the Law.

Outlook

In summary, the Law may not have entirely eradicated the uncertainty that has been hanging over the mining industry in Indonesia. The terms of the Law may be adequate to encourage some investors, both foreign and domestic, to take direct equity stakes in IUPs for relatively small-scale projects. This should have an immediate positive impact on investment in the sector. However, there is likely to be greater uncertainty around proposed large-scale projects as the Law does not offer the long-term protections of the Contract of Work system for large, long-life projects which require significant investment. Investors will also be relying on the effective operation of the Indonesian legal system to protect their investments, without the specific terms provided in the Contract of Work.

Exacerbating these issues is the onset of the global economic crisis, which has heavily hit even the biggest global mining companies. This means that now, more than ever, investment dollars are scarce, and it is not clear that this new Law provides the necessary impetus for mining investors to choose Indonesia over other resource rich countries. Only time will tell whether investors will overcome these concerns and invest in these large projects, which are the lifeblood of a strong mining sector.

Impact of the Global Economic Downturn

Recent global economic developments impacting the mining industry

The global financial crisis which grew out of the difficulties of financial institutions, has begun to take a heavy toll on the mining industry. Falling demand and tumbling prices for commodities, have combined with high operating and capital costs to savage profits and share prices during the last quarter of 2008. Global experts are in agreement that the downturn will be universal and severe. Since October 2008, the International Monetary Fund has twice revised downwards its forecast world economic growth for 2009, from 3% to 2.25% and then 0.5%, down from about 5% in 2007.

The implications for companies in the mining sector are considerable. Capital expenditure projects have been cancelled or put on hold as access to investment capital tightens. Lay-offs seem inevitable in attempts to cut the cost of production. Even the largest mining companies are reconsidering new projects, and desperately looking at ways to reduce debt and operating costs, in an effort to see out the downturn. Those that are not successful will not survive, as cash rich companies look for bargain-priced acquisitions.

Mining companies need to demonstrate strong financial positions and the ability to service debt obligations, both immediate and longer term, to boost the confidence of investors.

In general, mining companies need to be aware of the following potential issues as an impact of the recent economic turmoil:

- Decreased commodity prices will result in decreased revenue, while the costs of production have not fallen at the same rate. Fixed costs which have built up during the boom times will start to weigh on companies. This may result in operating losses which indicate that assets may be impaired. Given the frenetic merger and acquisition activity occurring during the last few years of the commodities boom, large write-downs of acquisition costs are likely to be seen around the world.
- The fair value of investments in equity instruments will decrease as a result of the decrease in global stock exchange indices. As such, proper and careful analysis is critical to determine if impairment has occurred.
- Mining companies should carefully re-assess the feasibility of ongoing exploration and development projects as project feasibility may now be questionable.
- The assumptions used in provisions for employee benefit obligations, environmental rehabilitation and mine closure (i.e discount rate, inflation rate, etc) need to be re-assessed as they may not reflect the current economic conditions.
- Debt covenants may be breached requiring debt restructuring.
- Recoverability of accounts receivable will become questionable due to customer cash flow problems. Customers may also attempt to renegotiate pricing set in the higher price environment of 2006 and 2007.
- Debt to equity ratios are likely to increase. The cost of debt financing may outweigh the return from investment/business activities and become too much to handle, leaving shareholders with little return on their investment.
- Cost efficiency will become a priority. Mining companies will need to look at their full supply chain for both operating and capital expenditures, in order to reduce fixed costs to a minimum, while at the same time preparing for the next upturn in the commodity cycle.

The above are some examples of the challenges facing mining companies as a result of the global economic downturn. Clearly, while the mining industry is accustomed to the cyclical nature of the commodities markets, this is a particularly severe and sudden shock to the global economic psyche, and all participants in the economy are being heavily impacted.

Indonesian mining companies are not immune to these challenges. The overseas parent companies of many of the country's largest miners are suffering under heavy debt loads, and the need to reduce operating costs. This has seen announcements by some of the largest global mining companies of the need to divest assets around the world to reduce debt levels and provide cash. Indonesian assets may be among these divestments.

The Indonesian mining sector is also heavily reliant on exports. The profitability of Indonesian mining companies will be determined by global mineral prices driven by global demand, particularly from the emerging economies, and in particular China. China has begun to implement a significant stimulus package aimed at softening the landing from its high growth run of recent years, but it is clear that its demand for commodities has already tapered off.

Only time will tell how quickly China, and the other emerging markets, as well as the mature economies of the US, Japan and Europe, will begin to recover. Until that time, Indonesian miners will continue to struggle, and will be focused on reducing operating costs wherever possible.
This reduction in profitability and spending will obviously have a direct impact on royalties and tax revenues received by the government. It will also have an indirect impact on the overall Indonesian economy, as well as the communities in which the miners operate, due to the multiplier affect.

Financial Performance

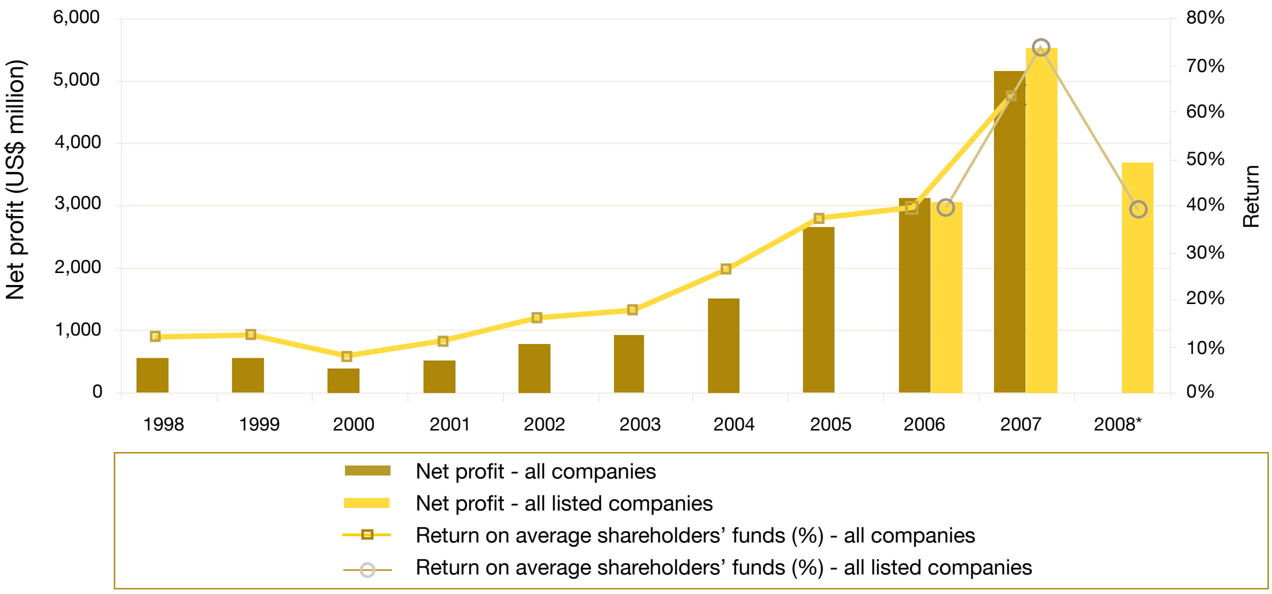
Surge in commodity prices continues to drive profitability in 2007, but falls off in 2008

Mining companies in Indonesia have consistently experienced increases in profitability over the last 7 years. 2007 exhibited a new record increase in profits for the Indonesian mining industry. The survey respondents reported a 65% increase in net profit in 2007, compared to a 17% increase in 2006. Mineral prices have predominantly driven the 2007 growth. Some increase in production levels (except copper and tin) also compounded the increase in 2007 profitability, in an attempt by mining companies to maximise gains from the commodities boom.

However, it is clear that these profitability levels will not be sustained in 2008 and 2009, and perhaps beyond, given the decrease in mineral prices and production levels due to lower demand as a result of the current global economic downturn. The performance of listed mining companies during 2008 illustrates this downward trend.

Net profit and rates of return

All companies



* Based on annualised figures for the nine months ended 30 September 2008 for listed mining companies

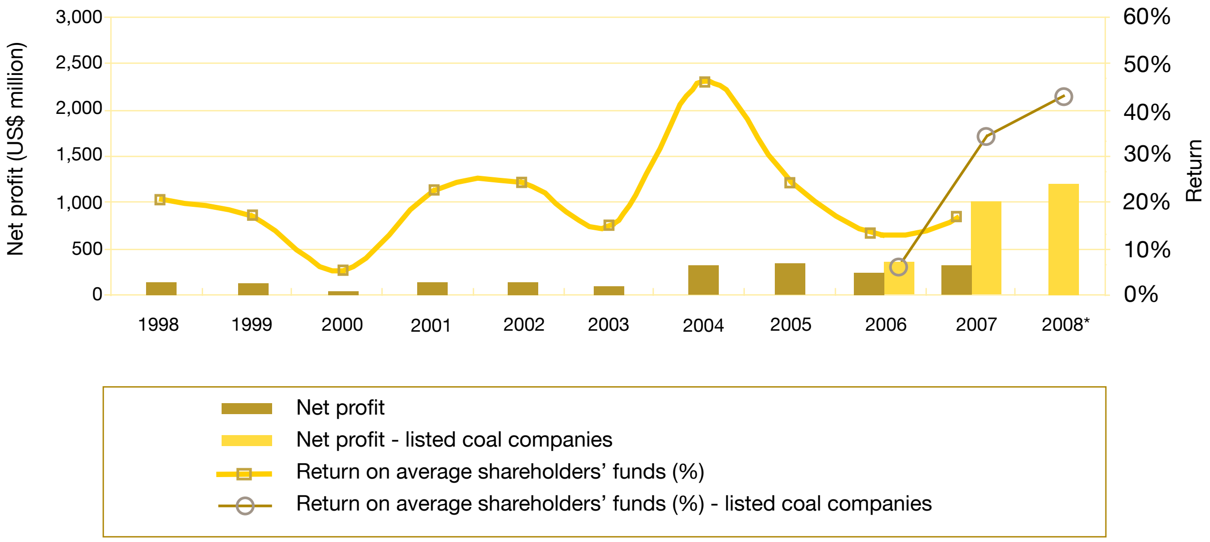
Consistent with previous years, during 2007, the minerals companies in Indonesia contributed higher profit rises compared to the coal mining companies. The primary reason for this being the surge in mineral prices in the range of 10% - 74% accompanied by an increase in production quantity across the board (other than a slight decrease in copper and tin production). Meanwhile, coal prices only increased by approximately 6% and production quantity was relatively flat, compared to 2006.

However, in 2008, based on the performance of listed mining companies for the nine months ended 30 September 2008, this trend was completely reversed. However, in contrast to listed minerals companies, listed coal companies still generated a significant increase in profit. The volatility of minerals prices during 2008 is the dominant factor for the swing in the trend.

Average coal prices continued to climb for the first half of 2008, although there was some decrease in the second half. On the other hand, minerals companies experienced a huge decrease in prices, with nickel hit the hardest, since the second quarter of 2008. Meanwhile cash operating costs continued to increase during 2008 for both coal and minerals companies, with the decrease in oil price not kicking in until late 2008.

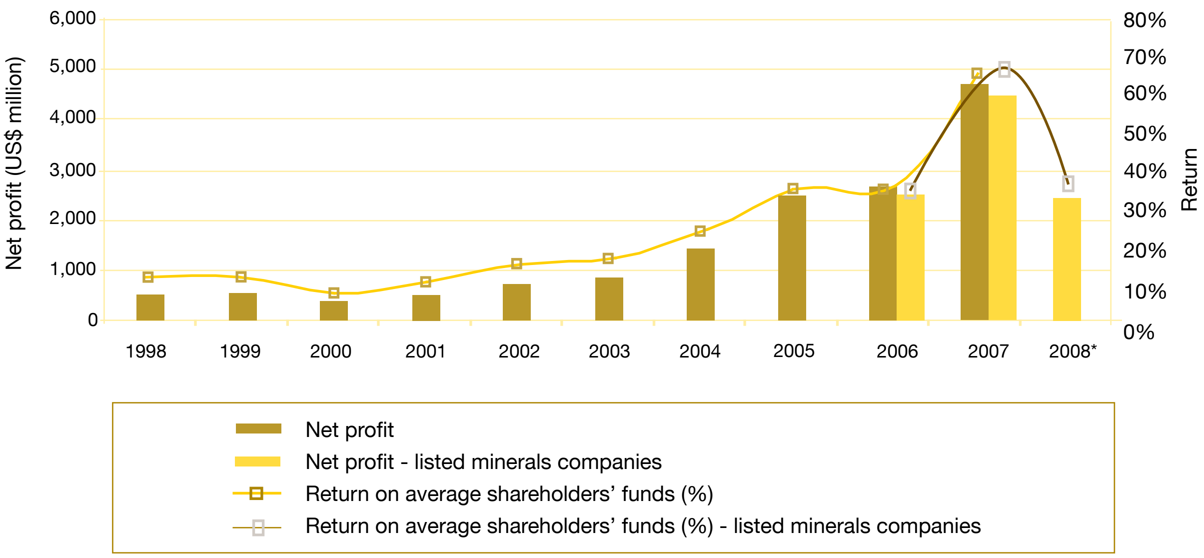
Another saving grace for coal miners is the fact that many of their annually negotiated sales prices were agreed in late 2007 and early 2008, which should see sales revenues and profits remaining strong well into 2009 (assuming customers honour their contracts). The mineral companies do not have the same level of comfort for the coming year.

Coal companies



* Based on annualised figures for the nine months ended 30 September 2008 for listed mining companies

Minerals companies



* Based on annualised figures for the nine months ended 30 September 2008 for listed mining companies

Aggregate profit & loss

All companies

	All companies			Listed companies				
	2006 US$ million	2007 US$ million	Year-on-year Movement	2006 US$ million	2007 US$ million	2008* US$ million	2006 vs. 2007 Movement	2007 vs. 2008 Movement
Net sales revenue	13,882	17,670	↑ 27%	12,694	16,847	16,304	↑ 33%	↓ 3%
Cash operating expenses	8,162	9,087	↑ 11%	7,165	7,937	10,000	↑ 11%	↑ 26%
EBITDA	5,720	8,583	↑ 50%	5,529	8,910	6,304	↑ 61%	↓ 29%
Amortisation and depreciation	637	675	↑ 6%	619	690	710	↑ 11%	↑ 3%
Profit before interest and tax	5,083	7,908	↑ 56%	4,910	8,220	5,594	↑ 67%	↓ 32%
Interest	288	132	↓ 54%	328	203	111	↓ 38%	↓ 45%
Profit before tax	4,795	7,776	↑ 62%	4,582	8,017	5,483	↑ 75%	↓ 32%
Income tax expense	1,673	2,622	↑ 57%	1,507	2,392	1,499	↑ 59%	↓ 37%
Minority interest	-	-	- -	21	74	271	↑ 252%	↑ 266%
Net profit	3,122	5,154	↑ 65%	3,054	5,551	3,713	↑ 82%	↓ 33%

* Based on annualised figures for the nine months ended 30 September 2008 for listed mining companies

Coal companies

	All coal companies			Listed coal companies				
	2006 US$ million	2007 US$ million	Year-on-year Movement	2006 US$ million	2007 US$ million	2008* US$ million	2006 vs. 2007 Movement	2007 vs. 2008 Movement
Net sales revenue	4,797	5,538	↑ 15%	4,489	5,391	7,718	↑ 20%	↑ 43%
Cash operating expenses	4,065	4,709	↑ 16%	3,589	3,747	5,567	↑ 4%	↑ 49%
EBITDA	732	829	↑ 13%	900	1,644	2,151	↑ 83%	↑ 31%
Amortisation and depreciation	148	150	↑ 1%	177	211	229	↑ 20%	↑ 8%
Profit before interest and tax	584	679	↑ 16%	723	1,433	1,922	↑ 98%	↑ 34%
Interest	182	89	↓ 51%	243	195	102	↓ 20%	↑ 47%
Profit before tax	402	590	↑ 47%	480	1,238	1,820	↑ 158%	↑ 47%
Income tax expense	179	255	↑ 42%	115	162	323	↑ 41%	↑ 99%
Minority interest	-	-		21	74	271	↑ 255%	↑ 265%
Net profit	223	335	↑ 50%	344	1,002	1,226	↑ 191%	↑ 22%

* Based on annualised figures for the nine months ended 30 September 2008 for listed mining companies

Minerals companies

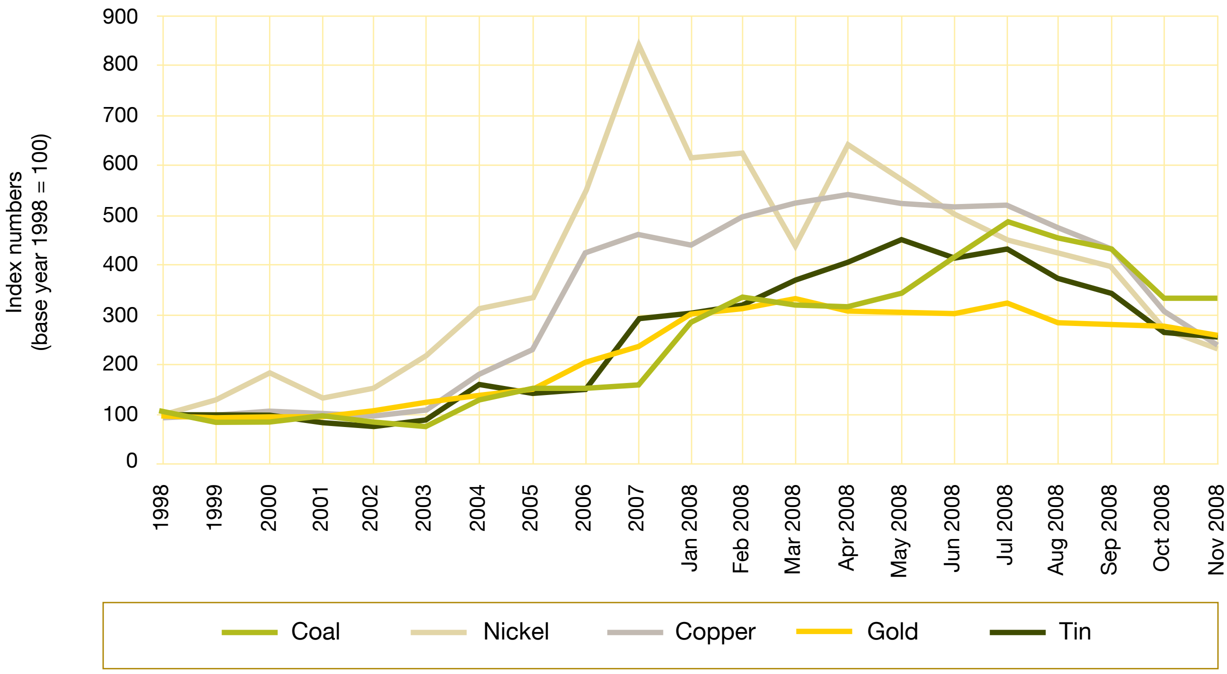
	All minerals companies			Listed minerals companies				
	2006 US$ million	**2007 US$ million**	**Year-on-year Movement**	**2006 US$ million**	**2007 US$ million**	**2008* US$ million**	**2006 vs. 2007 Movement**	**2007 vs. 2008 Movement**
Net sales revenue	9,085	12,132	↑ 34%	8,205	11,456	8,586	↑ 40%	↓ 25%
Cash operating expenses	4,097	4,378	↑ 7%	3,576	4,190	4,433	↑ 17%	↑ 6%
EBITDA	4,988	7,754	↑ 55%	4,629	7,266	4,153	↑ 57%	↓ 43%
Amortisation and depreciation	489	525	↑ 7%	442	479	481	↑ 8%	↑ 1%
Profit before interest and tax	4,499	7,229	↑ 61%	4,187	6,787	3,672	↑ 62%	↓ 46%
Interest	106	43	↓ 59%	85	8	9	↓ 91%	↑ 12%
Profit before tax	4,393	7,186	↑ 64%	4,102	6,779	3,663	↑ 65%	↓ 46%
Income tax expense	1,494	2,367	↑ 58%	1,392	2,230	1,176	↑ 60%	↓ 47%
Net profit	2,899	4,819	↑ 66%	2,710	4,549	2,487	↑ 68%	↓ 45%

* Based on annualised figures for the nine months ended 30 September 2008 for listed mining companies

Average mineral prices continued to climb during 2007, although at a slower pace compared to 2006. 2008 started with a sustained strong growth in mineral prices, which for many minerals (other than nickel) reached new all time highs, together with the ever climbing oil price, until July 2008. The spike in the nickel price had preceded this in 2007. However, as the global economic crisis began to take shape, especially after the failures of financial institutions in the United States in September 2008, the commodity markets retreated sharply in the last few months of the year. The rapid decline in commodity prices, as illustrated by the 60% drop in the Reuters/ Jefferies CRB index from its peak in July 2008, and the lower forecasts for world GDP growth in 2008 and 2009, do suggest that there is little reason to be bullish on commodities over the near term.

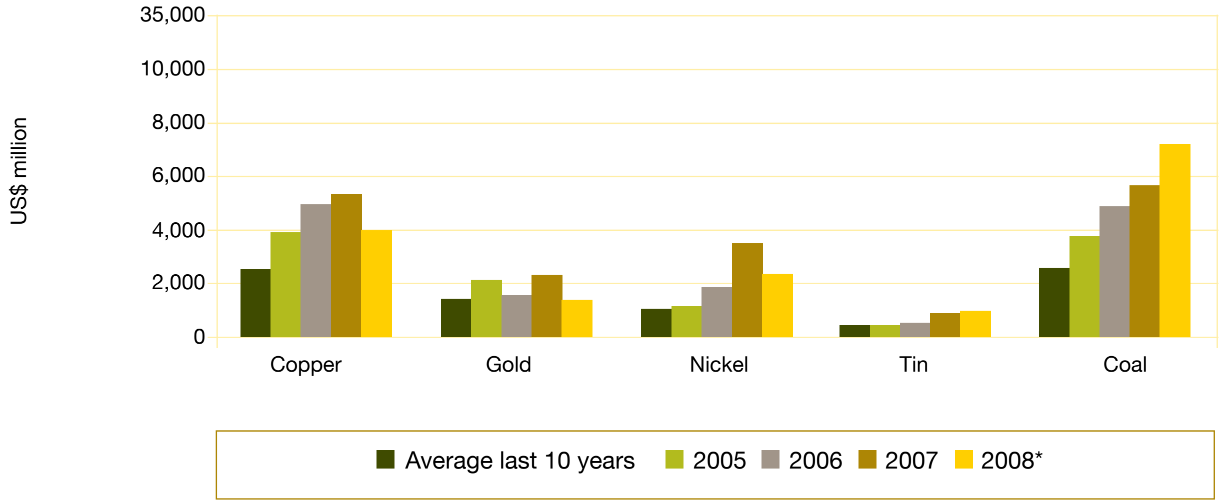
The nickel price exhibited the worst decline during 2008 from its 2007 peak. Tin and coal prices have shown a better performance in 2008, holding up until negative economic sentiment began to take hold in July. Coal has even remained stable post October 2008 as other minerals continued to plummet. This is mainly because prices for the vast majority of coal production had already been locked in under contracts with coal-fired power plants, which minimises the downward risks. On the other hand, Indonesia, as the second largest tin producer after China, limited its tin production in order to keep prices high. At the same time, a continued crackdown on illegal tin mining by Indonesian authorities, also limited the amount of tin entering the market. This resulted in the tin price remaining relatively stable despite the current global economic problems.

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



* 2008 is based on annualised figures for the nine months ended 30 September 2008 for major producers in Indonesia, mainly listed companies

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

Consistent with the last few years, despite the high price environment, no major new mines have commenced operations during 2007 or indeed in the last five years. The slight decrease in coal production was due to the rainy season in early 2007 which resulted in a major coal producer failing to meet its production target. However, total sales volume during 2007 increased compared to 2006 as this major coal producer had significant stock on hand from the previous year's production.

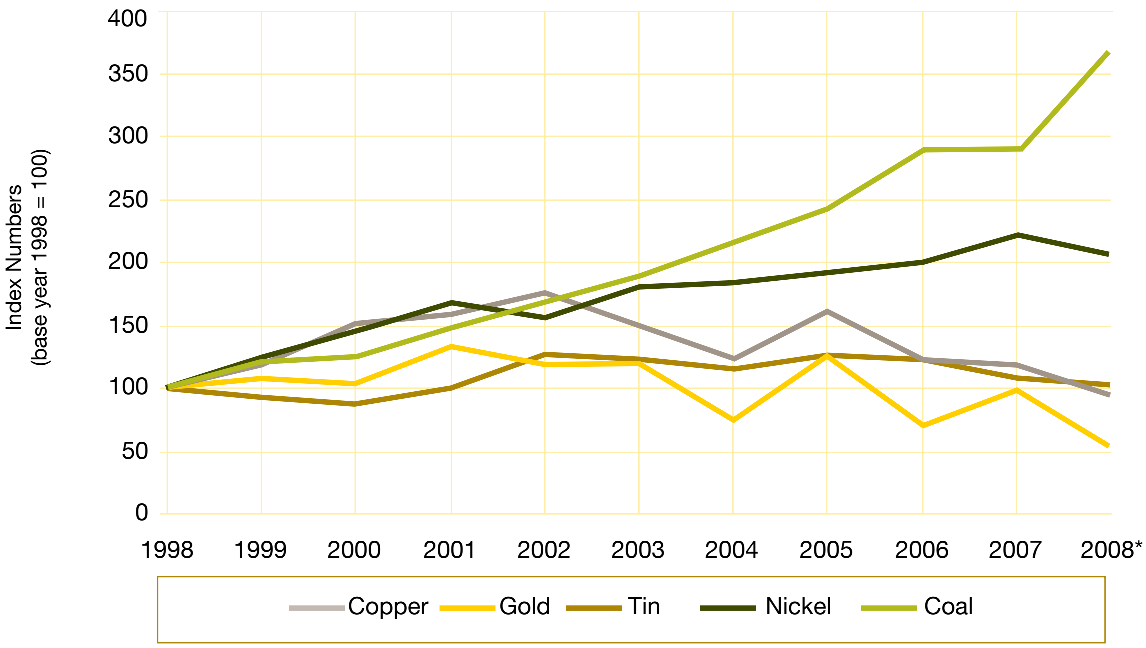
In line with the tremendous price increases during 2007, nickel and gold production increased during the year. Nickel production, as reported by the two largest producers, Inco and Antam, reached a new record production level. This is mainly due to the significant demand from China during 2007. Increase in gold production was mainly due to the nature of the mining areas of the main gold and copper producers in Indonesia with varying ore grades causing fluctuations in the timing of production, resulting in varying quarterly and annual sales of gold and copper.

The 2007 gold sales volumes were impacted by higher ore grades compared with grades mined in 2006. The reverse was true for copper, resulting in slightly lower production during 2007.

2007 saw slightly lower tin production due to a significant production decrease at one producer due to a production stoppage of several months in 2007. This was offset by the significant increase in production by PT Timah Tbk as a result of its additional tin smelter capacity. However, this increase was not enough to match the total 2006 Indonesian production.

In 2008, the downward trend in production, except for coal, is obvious. The lower global demand, especially the slow down in demand from China, has resulted in lower production across the various minerals in 2008. However, coal production has shown a better performance during 2008, despite the global economic difficulties. This is mainly due to the increase in demand from coal-fired power plants around the world, including a number of new power plants coming on-line in 2008.

Production



* 2008 is based on annualised figures for listed companies, except for coal which represents total Indonesia

Profitability of Indonesian mines is higher than the global average for 2007, but falling in 2008

The average profitability of Indonesian mines was higher than the average for the 40 largest mining companies globally. This may be because Indonesian mines enjoyed more upside from the booming mineral prices due to lower cost of operations on average. However, it should be noted that the Indonesian figures are heavily impacted by a few very large operators. The Top 5 companies made up 64% and 75% of total revenue and net profit, respectively, reported by the survey respondents. The increase in profitability during 2007 of these Top 5 companies is higher than companies outside the Top 5. This is mainly due to the fact that the operating costs of the Top 5 companies were relatively stable compared to 2006 although there was a significant increase in mineral prices. In contrast, companies outside the Top 5 experienced a significant increase in operating costs, although this increase is, in general, below the increase in revenue. This may be explained by the fact that the cost structures of the Top 5 companies have more fixed costs, including in some cases excess capacity, than smaller companies and as such they benefit more from increases in mineral prices.

Key profitability ratios

	2006	2007	2008*	Average 10 years
EBITDA Margin				
Indonesia	41.2%	48.6%	38.7%	40.3%
Top 40 companies - global [i]	44.0%	44.0%	na	na
Net profit margin				
Indonesia	22.5%	29.2%	22.8%	17.3%
Top 40 companies - global [i]	28.0%	26.0%	na	na
Return on capital employed				
Indonesia	26.0%	40.6%	24.1%	15.2%
Top 40 companies - global [i]	23.0%	22.0%	na	na
Return on shareholders' funds				
Indonesia	39.4%	63.7%	39.0%	24.4%
Top 40 companies - global [i]	33.0%	29.0%	na	na
Debt to equity ratio				
Indonesia	46.5%	23.9%	27.8%	96.4%
Top 40 companies - global [i]	36.2%	46.8%	na	na

*) 2008 figures represent listed mining companies based on figures as of 30 September 2008

Top 5 companies*

Key ratios	Indonesia 2006	Indonesia 2007
EBITDA Margin	48.5%	57.1%
Net profit margin	27.0%	34.5%
Return on capital employed	29.2%	42.8%
Return on shareholders' funds	47.2%	68.4%
Debt to equity ratio	40.5%	20.5%

* Top 5 respondents based on revenue

Other companies

Key Ratios	Indonesia 2006	Indonesia 2007
EBITDA Margin	25.6%	35.9%
Net profit margin	12.7%	21.1%
Return on capital employed	17.2%	34.8%
Return on shareholders' funds	22.4%	52.5%
Debt to equity ratio	64.2%	33.8%

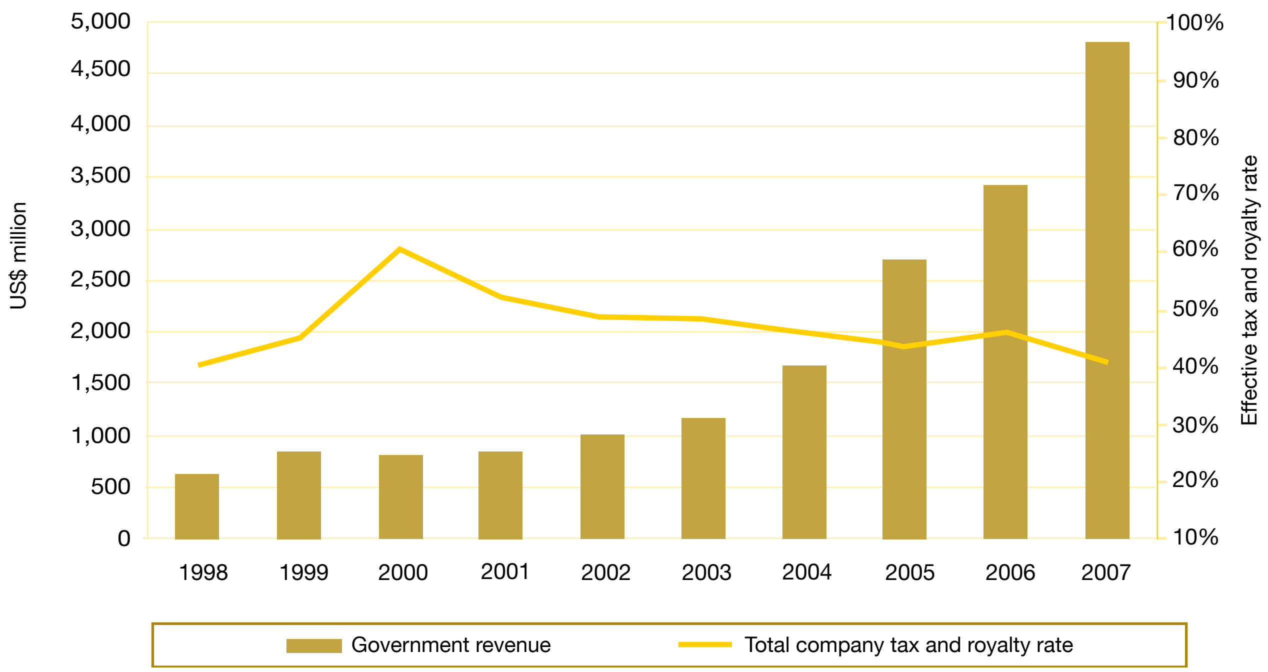
Government revenues from the mining industry continue to increase

In 2007, in line with the significant increase in profitability of Indonesian mines, another new record for Government revenues from the mining industry was reached with a total of approximately US$ 4.8 billion, an increase of US$ 1.4 billion or 40% from 2006. This figure refers to total government revenues reported by survey respondents (including local government levies). Income taxes and royalties together contributed approximately 72% of this amount. Income tax expense increased significantly due to higher profit margins.

The above is consistent with the total revenues reported as received by the central government. This excludes non-direct taxes and local taxes and levies. The central government reported an increase of 25% in taxes and royalties received from 2006.

As discussed earlier, the Indonesian miners suffered a decrease in profitability during 2008, which is likely to continue into the medium term, due to the significant decrease in mineral prices and the bearish outlook for the commodities market over the next few years. As such, the increase in government revenue exhibited in 2007 will not be sustainable over the medium term. 2008 government revenue, however, as reported by the central government, still shows an increase of 13%. This increase was mainly due to the high commodity price environment that prevailed until mid 2008. However, in US Dollar terms, the total government revenue in 2008 only increased by 6% due to the significant depreciation in the Rupiah against the US Dollar during the last quarter of 2008.

Government share of gross mining returns



Government revenue - based on survey respondents

US$ millions	2006	2007	Year-on-year Movement
Income tax expense	1,673	2,622	↑ 57%
Mineral and coal royalties	772	851	↑ 10%
Total direct taxes	2,445	3,473	↑ 42%
Total indirect taxes, levies and local taxes	981	1,326	↑ 35%
Total Government revenue			
- **US$ millions**	3,426	4,799	↑ 40%
- **Rp billions**	31,404	43,847	↑ 40%

Total government revenue – based on central government data

Rp billions	2006	2007	2008 (estimated)	2006 – 2007 Movement	2007 – 2008 Movement
Tax revenue from mining	23,155	28,637	30,080	↑ 24%	↑ 5%
Royalties, dead rent and others	6,665	8,703	12,041	↑ 31%	↑ 38%
Total government revenue (Rp billions)	29,820	37,340	42,121	↑ 25%	↑ 13%
Total government revenue (US$ millions)	3,253	4,087	4,317	↑ 25%	↑ 6%
Exchange rate (Rp/US$)	9,167	9,136	9,757		

Source: Directorate General of Minerals, Coal and Geothermal

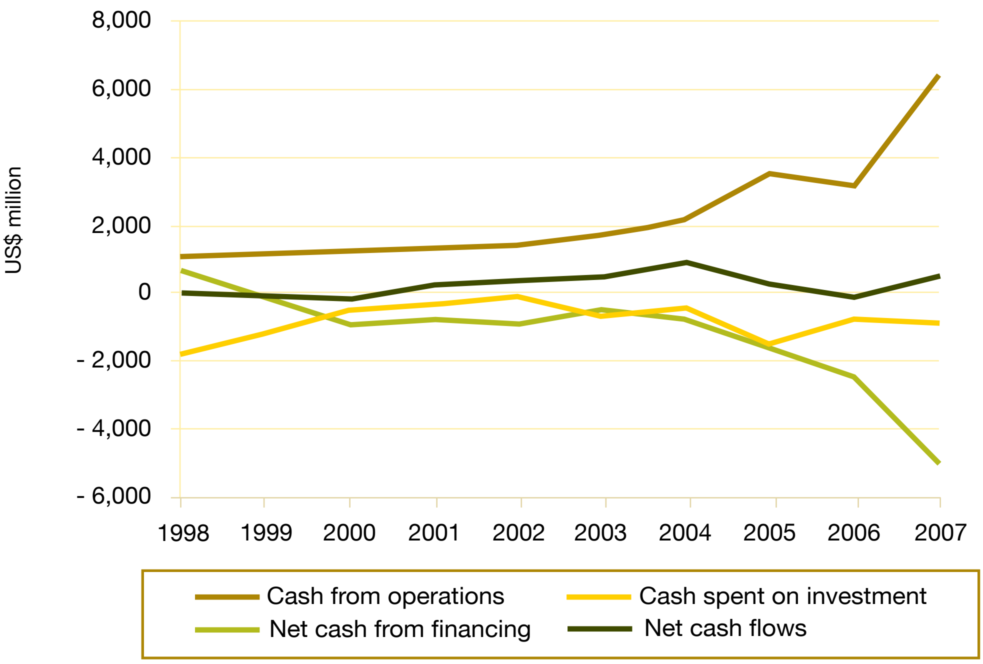
Cash flows

Cash flows from operations saw an increase of approximately 103% due to higher profit margins during 2007, in line with the increase in minerals prices.

A significant increase in payments of dividends during 2007 contributed to the increase in net cash outflows from financing activities. The overall outflow of approximately US$ 5 billion includes total payments of dividends of approximately US$ 4.4 billion. The remaining cash outflows from financing activities represent the net repayment of debts.

Cash flows from investment did not indicate any significant investment in new mines during 2007, despite the high mineral price environment. Total cash spent on investment of US$ 0.9 billion in 2007 was slightly higher than the 2006 amount of US$ 0.8 billion. Encouragingly, total cash spent for investment by exploration companies increased from US$22 million in 2006 to US$ 50 million in 2007. This however indicates that there was no significant increase in exploration activities and investment in new mines during 2007 by survey respondents.

Aggregate cash flows



Aggregate cash flows

US$ millions	2006	2007	Year-on-year Movement
Cash from operations	3,146	6,383	↑ 103%
Net cash spent on financing	(2,441)	(5,005)	↑ 105%
Cash spent on investment	(779)	(875)	↑ 12%
Net cash flows	(74)	503	

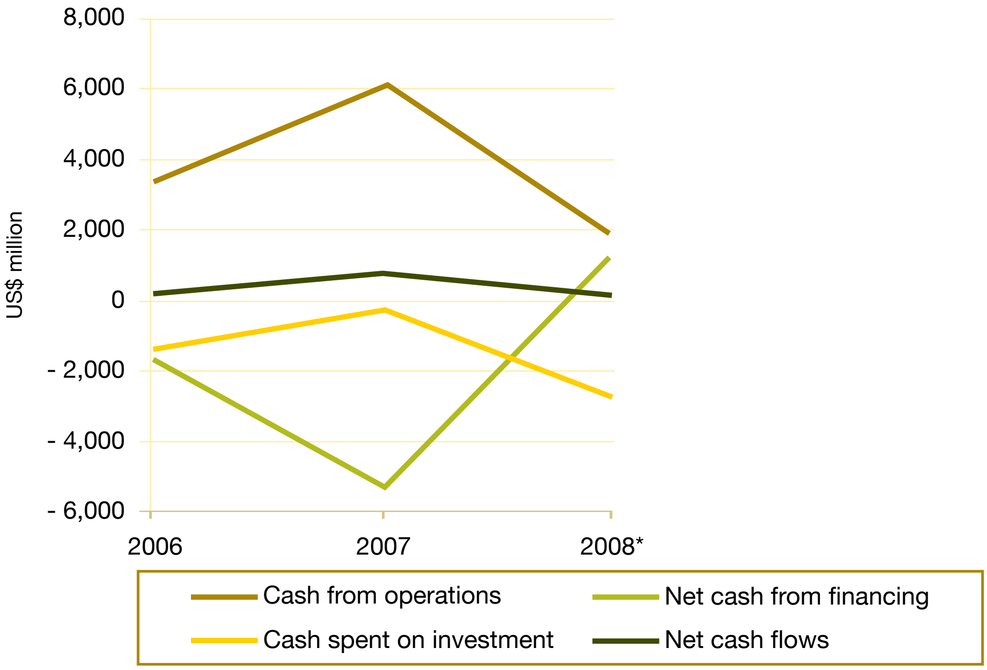
Reviewing cash flows for 2008 of the listed mining companies (based on financial information for the nine months ended 30 September 2008) indicates that the trend has reversed during 2008.

Cash flows from operations decreased by approximately 68% due to decrease in profits during 2008, in line with the decrease in mineral prices.

Cash flows from financing activities exhibited an about-turn with a net inflow of US$ 1.3 billion in 2008 compared to an outflow of US$ 5.3 billion for 2007. This mainly represents funds received from initial public offerings ("IPO") of coal companies (including PT Adaro Energy Tbk and PT Bayan Resources Tbk).

Total cash spent on investment in 2008 was higher than 2007. The total 2008 net investment spent was US$ 3 billion due to the acquisition of two big coal companies in 2008 and the addition of fixed assets to increase production capacity. This, again, indicated that there was no significant increase in investment in exploration activities during 2008. This is likely to continue in the medium term as there is likely to be a further pull-back in spending on exploration activities by the large multinational players due to the current global economic crisis, in addition to the perceived existing problems in the investment climate in the Indonesian mining industry (discussed in a separate section of this publication).

Aggregate cash flows - listed mining companies



* Based on figures for listed mining companies for the nine months ended 30 September 2008

US$ millions	2006	2007	2008*	2006-2007 Movement	2007-2008* Movement
Cash from operations	3,182	6,088	1,921	↑ 91%	↓ 68%
Net cash spent on financing	(1,692)	(5,283)	1,280	↑ 212%	↓ 124%
Cash spent on investment	(1,418)	(242)	(3,048)	↓ 83%	↑ 1,156%
Net cash flows	72	563	153	↑ 682%	↓ 73%

* Based on figures for listed mining companies for the nine months ended 30 September 2008

Market Capitalisation

Strong commodity prices in 2007, followed by the impacts of the global economic crisis in 2008, have driven dramatic volatility in the market values of the mining companies listed on the Indonesia Stock Exchange during 2007 and 2008

The main listed mining companies continued their strong performance in 2007 and until early July 2008 which was reflected in dramatic increases in market capitalisation.
The aggregate market capitalisation of mining companies on the Indonesia Stock Exchange increased from US$ 8.2 billion (or Rp 73.9 trillion) at 31 December 2006 to US$ 33.5 billion (or Rp 315.9 trillion) at 31 December 2007, an increase of 309%. This increase was predominantly due to the run-up in commodity prices, but also due to the listing of PT Indo Tambangraya Megah on 18 December 2007, with an implied market capitalisation of US$ 1.6 billion.

This trend however only continued until the second quarter of 2008. By 30 November 2008, the total market capitalisation of the main listed companies had been slashed to US$ 8.8 billion (or Rp 106.9 trillion), a huge decrease of 74% compared to a decrease of 73% in the total Indonesian stock exchange market capitalisation (in US Dollar terms) compared to 31 December 2007. The booming commodities market during 2007 and early 2008 resulted in the mining index handsomely outperforming the overall Indonesian composite index during the period from the end of October 2007 until mid-September 2008.

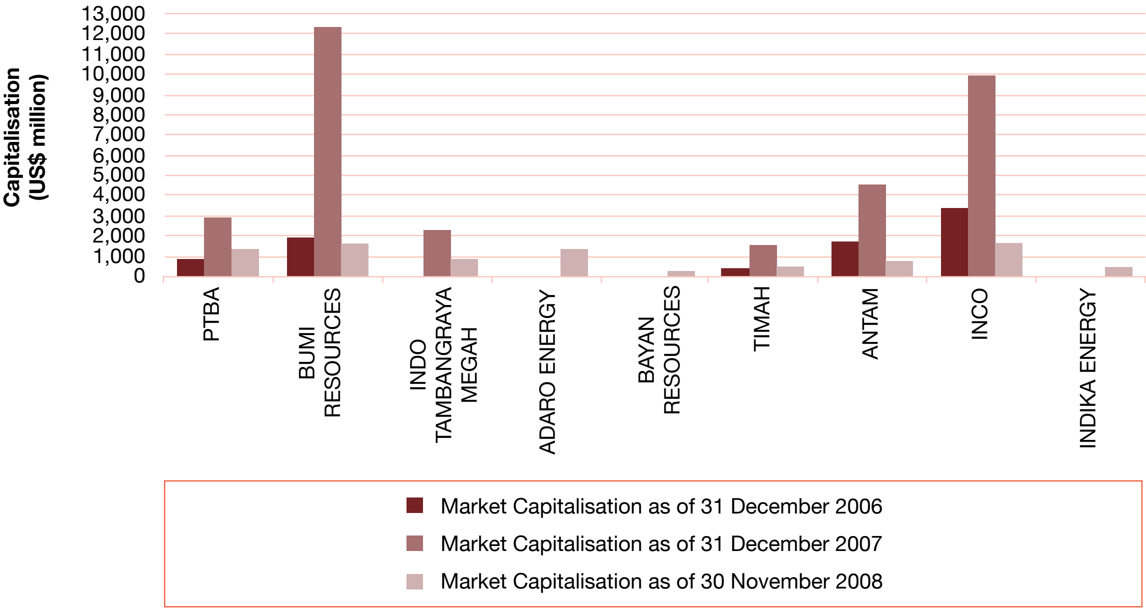
Weakened commodity prices as well as the impacts of the global economic crisis in 2008 have driven the market values of the main listed mining companies on the Indonesia Stock Exchange to new lows and underperformance compared to the overall trend in market capitalisation of Indonesian stocks since mid-September 2008.

During the third quarter of 2008, two new players entered this group of Indonesian listed mining companies with PT Adaro Energy Tbk and PT Bayan Resources Tbk debuting on the Indonesia Stock Exchange on 16 July 2008 and 12 August 2008, respectively, with implied market capitalisations of approximately US$ 3.9 billion and US$ 2.1 billion, respectively. This followed the listing of PT Indika Energy Tbk on 11 June 2008. All three have interests in coal mining entities, illustrating the heightened interest in the sector given the high coal price environment. Given the current global economic conditions, the appetite for further initial public offerings of Indonesian mining companies in 2009 is likely to be low. The following charts describe the trend in market capitalisation of the main listed mining companies compared with the market capitalisation of all companies listed on the Indonesia Stock Exchange.

Photo source :
PT Aneka Tambang Tbk, PT International Nickel Indonesia

Market capitalisation

Market capitalisation of Indonesian mining companies



Source: Bloomberg

Note : Represents implied market capitalisation based on total number of shares on issue

Indonesia Stock Exchange market capitalisation vs. mining market capitalisation

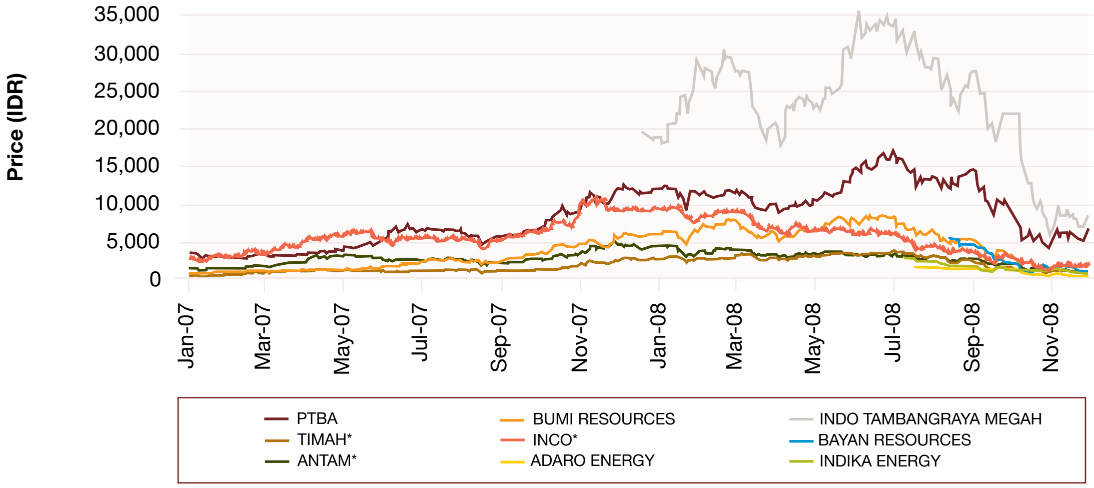
Source: Bloomberg

Note : Represents implied market capitalisation based on total number of shares on issue

Share prices

The following charts portray the magnitude of the share price improvements during 2007 and until July 2008. Since July 2008, the share prices of mining companies have fallen off considerably. This led to shares of mining companies underperforming the Indonesian composite index since early October 2008.

Share prices of listed mining companies



Source: Bloomberg
* after stock split

Comparison between Indonesia Stock Exchange Index and Indonesia Mining Index

Source: Bloomberg


Photo source : PT Newmont Nusa Tenggara

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 2007, especially in the area of greenfields exploration spending.

The industry has seen some new investments made during 2007 and 2008. 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 on new large-scale projects to date due to uncertainties, such as forestry permits and outstanding Contract of Work (“CoW”) applications.

The slight increase in total investment during 2007 was mainly due to capital expenditure for fixed assets and development of areas by existing mining companies.

Investment spending in Indonesia

US$ millions	2006*	2007	Year-on-year Movement
Greenfields exploration spending	48	59	↑ 23 %
Other exploration and feasibility	72	67	↓ 7 %
Total exploration	120	126	↑ 5 %
Development	77	120	↑ 56 %
Fixed assets	730	799	↑ 9 %
Total investment	927	1,045	↑ 13 %

* Revised figures due to additional responses received for 2007

US$ millions	2006	2007	2008
Total investment in Indonesian mining industry, as reported by government	1,126	1,180	1,435

Source : Directorate General of Minerals, Coal and Geothermal

Summarised above is the total investment in the Indonesian mining industry during the last three years based on government data. The trend for 2006 – 2007 is similar with the results from respondents. The increase in 2008 investment spending is consistent with the continuity of the commodities boom from the end of 2007 and into early 2008.

The Indonesian mining industry faces a major test if it intends to remain a significant player in the global mining arena. Unfortunately, Indonesia did not attract significant new investment as a result of the global mining boom. Many projects slated for commencement in the last few years were delayed due to various regulatory hurdles. With the passing of the new mining law, the future of these projects may now be in doubt, as the CoW system is no longer available. This is compounded by the impact of the global economic downturn, and the accompanying fall in commodity prices, which is causing even the largest mining companies to reconsider their investment plans. Unless Indonesia can demonstrate a competitive advantage over other geologically prospective countries, it will miss out on the allocation of the scarce investment funds available in this tight economic environment. It is not clear that the contents of the new mining law will provide the necessary stimulus.

The new law may not have entirely eradicated the uncertainty that has been hanging over the mining industry in Indonesia. Industry players believe that the terms of the law may be adequate to encourage some investors, both foreign and domestic, to take direct equity stakes in *Izin Usaha Pertambangan* for relatively small-scale projects. This will have a positive impact on investment in the sector. However, there is likely to be greater uncertainty around proposed large-scale projects as the new law does not offer the long-term protections of the CoW system for large, long-life projects which require significant investment. Investors will also be relying on the effective operation of the Indonesian legal system to protect their investments, without the specific terms provided in the CoW. As such, only time will tell whether the terms of the new law will spur an increase in investment in the Indonesian mining industry.

Exploration

Survey respondents reported a noteable increase in greenfields exploration spending in 2007 to US$59 million (average for 2001-2006 was US$14 million). Approximately 73% of this spending was for coal exploration, indicating that non-coal exploration spending remained at a low level.

Exploration expenditure in Indonesia

US$ millions	Greenfields	Other	Total
Average 1996-2000	30	79	109
Average 2001-2006	14	54	68
2007	59	67	126

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 23% increase in greenfields exploration reported for 2007, 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 survey [ii], the global non-ferrous exploration budget is at its highest point since 1997. The 2006 and 2007 budgets were approximately US$7.5 billion and US$10.5 billion, respectively. 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 1.2% of the global exploration budget in 2007, which is a decrease on the 1.8% for the average of the previous six years. With respect to greenfields spending, Indonesia's share represents only 0.6% which is a very low percentage compared to its mineral potential.

Exploration expenditure

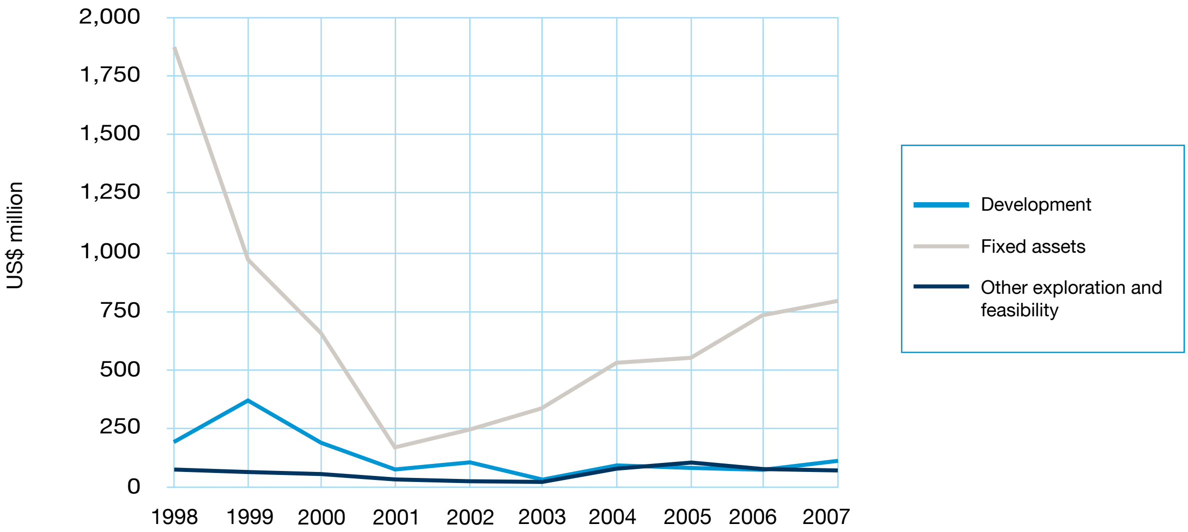
	Average 2001-2006	2007	Movement %
In Indonesia (US$ millions)	68	126	85 %
Globally [ii] (US$ millions)	3,782	10,500	78 %
Indonesia's share	1.8 %	1.2 %	

Given the high commodity prices and increased merger and acquisition activity, 2008 was shaping up to be a good year for investment in the Indonesian mining sector. Several potential significant projects requiring sizeable exploration budgets for greenfields and later stage activities were on the cards. These projects included the La Samphala nickel project of Rio Tinto, the Antam/BHP Billiton joint development of the Buli and Gag nickel deposits, the Dairi zinc project of Herald and the Jogjakarta iron sands project of Indo Mines. It was expected that subject to the necessary investment approvals being received, these projects would see a surge in investment in the sector over the next few years.

However, the onset of the global economic downturn and the change in the Indonesian regulatory environment have combined to dampen such optimism. Only Indo Mines was able to obtain a CoW prior to the removal of the system under the newly enacted mining law. BHP Billiton has announced its intention not to proceed with the Buli and Gag projects. Doubts hang over the Rio Tinto and Herald projects due to competing interests, and the tighter economic environment. This does not bode well for investment spending in 2009.

The current low level of greenfields exploration activity 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. The new mining law does not appear to have allayed these concerns. 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 is unlikely to be significant mine development in Indonesia for a number of years, other than existing known undeveloped deposits.

Investments in mine development and fixed assets



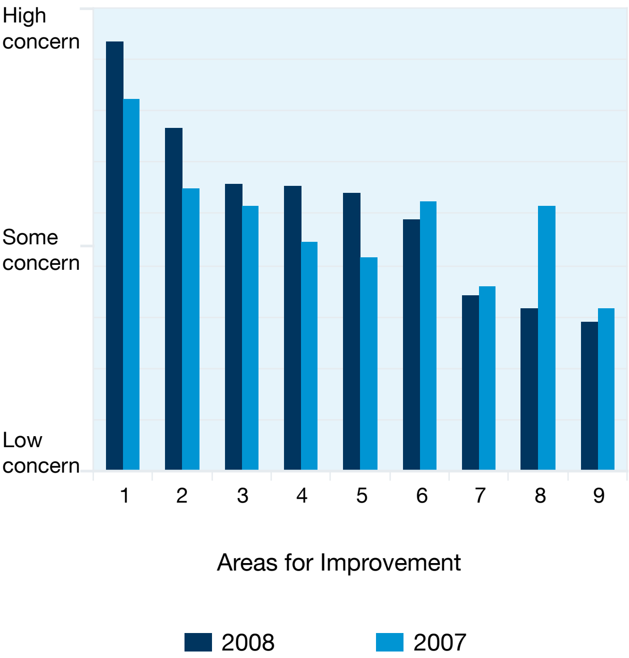
Investments in fixed assets in 2007 were mainly made by existing mining companies. Indonesia's three largest mines represented 66% of the total spending on fixed assets, which was almost entirely spent on development of mine infrastructure and acquisition of heavy equipment necessary to increase the production capacity of current mine sites.

During 2007 and 2008, the industry did not see any major development of big individual mining projects, and as noted above, the outlook for 2009 is not promising.

Issues holding up investment in the Indonesian mining industry

We asked respondents to list the key issues deterring investment in the Indonesian mining sector. The chart below summarises the "Top 9" priorities[vii] based on responses from 17 mining and exploration companies.

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. Need for inclusion in the new mining law of a mining agreement system similar to a contract of work system
4. Lack of fairness in divestment of foreign interests and mine closures
5. Uncertainty in CoW system and other mining regulations
6. Taxation issues (tax incentives, VAT on gold and coal, corporate tax rate)
7. Illegal mining
8. Delay in finalisation of the new mining law
9. Lack of coordination between new investment law and mining regulations

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

Photo source :
PT Freeport Indonesia, PT Newmont Nusa Tenggara

Survey respondents were also asked to rank progress against the following key priorities reported in mineIndonesia 2007*. The survey respondents' rating of progress is summarised below:

mineIndonesia 2007* – priorities to improving investment conditions	Progress to date	Survey respondents' rating of progress*
Resolving conflicts between mining operations and forestry regulations, without imposing additional financial or other burdens on mining companies.	No significant progress noted after the issuance of Forestry Minister Regulation No. P.14/2006 in March 2006. The issuance of Regulation No. 2/2008 has caused some additional uncertainty.	B - C
Reduce regulatory duplication and contradictions in regulations between central and regional governments.	No progress noted during 2007 and 2008. Regional governments continued to issue some regulations that require companies to pay additional levies.	C
Inclusion in the new mining law of a mining agreement system similar to a Contract of Work system.	The Contract of Work scheme is not available under the new mining law. No similar agreement system for large projects has been included in the new law. All investors will fall within the licensing system.	C
Ensure fairness in divestment of foreign interests and mine closures.	More robust rules on divestment are still required. The new mining law includes a divestment requirement, but details are to be provided in an implementing regulation.	C
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.	The new mining law eliminates the CoW system for new projects, which may negatively impact on industry attractiveness for foreign investors.	C

mineIndonesia 2007* – priorities to improving investment conditions	Progress to date	Survey respondents' rating of progress*
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.	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 new income tax laws the corporate tax rate reduces to 25% by 2010. No progress on plans to make most mining products subject to VAT again (particularly important for coal and gold bars). The taxation of oil and gas companies and mining companies will be set by separate government regulations, which are yet to be issued.	B - C
Reduce illegal mining	It appears that the Government's actions to clean up illegal activities have had some success to date, particularly in the tin sector.	B
Finalisation of the new mining law	The new mining law has been passed. The Contract of Work system has been removed, and all investors will be subject to a licensing system. Some concerns on transitional provisions for existing CoWs.	B
Coordination between new investment law and mining regulations	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 this survey, there is still significant room for improvement in industry policies and practices.

Challenges from the new mining law

Of course since the initial survey responses were received, on 16 December 2008, the Indonesian Parliament passed Indonesia's new Law on Mineral and Coal Mining. This Law was then approved by the President of the Republic of Indonesia on 12 January 2009. The new Law was an opportunity to address many of the issues noted above, which have hampered investment in the Indonesian mining sector for a number of years. Unfortunately, initial reactions to the new Law have not been overly positive, and there is a risk that, particularly in the current global economic climate, it will not provide the necessary impetus for investments in the large-scale long life projects, which are needed to strengthen Indonesia's mining industry.

Given the reported concerns of many mining industry participants, we asked various senior executives of major mining companies in Indonesia to provide comments on the challenges arising from the Law. Listed below are the Top 12 issues and challenges from this new Law in order of importance as ranked by the survey respondents:

1. Contradictory transitional provisions for existing Contracts of Work and Coal Contracts of Work - to what extent will the terms of existing CoWs and CCoWs be grandfathered?
2. Requirement for existing producing CoWs to conduct onshore processing of ore within 5 years of enactment of the new Law.
3. Requirement for existing CoW/CCoW holders to submit a mining activity plan for the entire contract area, within one year of enactment of the new Law, or face relinquishment of parts of the contract area.
4. Lack of clarity in process for conversion of existing *Kuasa Pertambangan* (KPs or Mining Rights) to *Izin Usaha Pertambangan* (IUPs) under the new Law.
5. Potential delays in issuing implementing regulations to regulate provisions of the new Law.
6. Divestment requirement for foreign interests in IUPs within 5 years of production commencing.
7. In-country processing requirement for all IUP holders.
8. Restrictions on IUP holders using affiliates to provide mining support services.
9. Dealing with regional/local government officials to obtain IUPs.
10. Restricted size of exploration and exploitation IUPs, which may hamper large-scale projects.
11. Reduced legal certainty compared to provisions of existing CoWs/CCoWs.
12. Absence of a form of agreement/ contract for large projects above a certain investment threshold.

Photo source : PT Freeport Indonesia

These, and other matters remain to be clarified in implementing regulations, which are required to be issued within one year. History has shown, however, that such regulations are not always issued on a timely basis (the key implementing regulation for the 2001 oil and gas law was not issued until 2004).

As the devil will be in the detail for many of the provisions of the Law, it is important that these regulations are issued as quickly as possible to cover all potential issues, as uncertainty on the operation of the Law will only add to the reluctance to invest in the sector.

As illustrated by the above, this new Law may not have entirely eradicated the uncertainty that has been hanging over the mining industry in Indonesia for some time. The terms of the Law may be adequate to encourage some investors, both foreign and domestic, to take direct equity stakes in relatively small-scale projects, particularly in the coal sector. This will have a positive impact on investment. However, there is likely to be greater uncertainty around large-scale capital intensive projects, as the new Law does not offer the long-term protections of the CoW system.

The mining industry in Indonesia is now eagerly awaiting the implementing regulations for the new Law, hoping that they will provide clear guidance for the future growth of the industry.

Photo source : PT Freeport Indonesia

Financial Position

The industry's aggregate balance sheets have decreased slightly mainly as a result of significant debt settlement in 2007.

As can be seen from the table below, there has been a general improvement in balance sheet ratios in 2007, compared to 2006. This is particularly the case for the debt-to-equity ratio which has dropped significantly with the retirement of debt in 2007. The level of investment in fixed assets has slightly increased over the past four year average. The balance of deferred exploration and development costs exhibited a net increase in 2007 mainly due to the increase of exploration activities at several mining companies.

This situation has reversed somewhat in 2008, with return on shareholders' funds and capital employed falling back to 2006 levels, based on the publicly available information for listed companies. This is as a result of the overall lower profitability of mining companies in 2008 after the onset of the global economic downturn, reflected in a weaker financial position at the end of the year. The debt-to-equity ratio has however remained stable.

Key ratios

	2006	2007	2008*	Average 10 years
EBITDA Margin				
Indonesia	41.2%	48.6%	38.7%	40.3%
Top 40 companies - global [i]	44.0%	44.0%	na	na
Net profit margin				
Indonesia	22.5%	29.2%	22.8%	17.3%
Top 40 companies - global [i]	28.0%	26.0%	na	na
Return on capital employed				
Indonesia	26.0%	40.6%	24.1%	15.2%
Top 40 companies - global [i]	23.0%	22.0%	na	na
Return on shareholders' funds				
Indonesia	39.4%	63.7%	39.0%	24.4%
Top 40 companies - global [i]	33.0%	29.0%	na	na
Debt to equity ratio				
Indonesia	46.5%	23.9%	27.8%	96.4%
Top 40 companies - global [i]	36.2%	46.8%	na	na

*) 2008 figures represent listed mining companies as of 30 September 2008.

Aggregate balance sheet

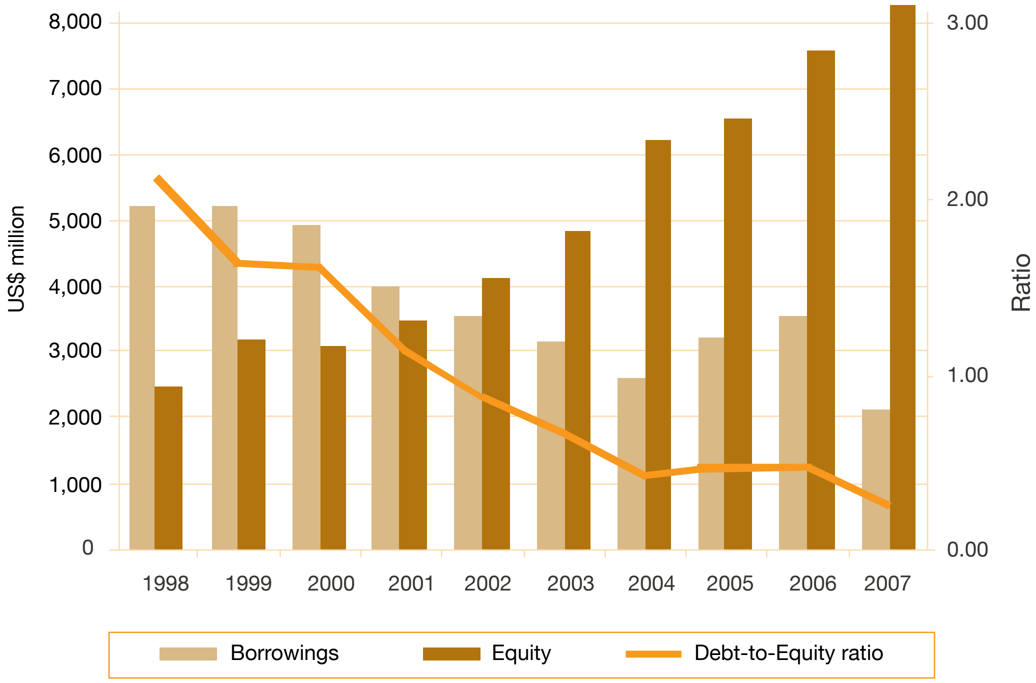
US$ millions	2006	2007	Year-on-year Movement
Current assets	5,642	5,622	-
Fixed assets	6,561	6,611	↑ 1%
Exploration and development	1,042	1,273	↑ 22%
Other assets	3,238	2,606	↓ 20%
Total assets	**16,483**	16,112	↓ **2%**
Current liabilities	3,631	3,556	↓ 2%
Provision/reserve for restoration and mine closure	311	336	↑ 8%
Other liabilities	1,432	1,848	↑ 29%
Total liabilities (excl. borrowings)	**5,374**	5,740	↑ **7%**
Shareholders' funds	7,583	8,369	↑ 10%
Borrowings	3,526	2,003	↓ 43%
Total funds employed	**11,109**	10,372	↓ **7%**
Total equity and liabilities	**16,483**	16,112	↓ **2%**

Significant decrease in borrowings

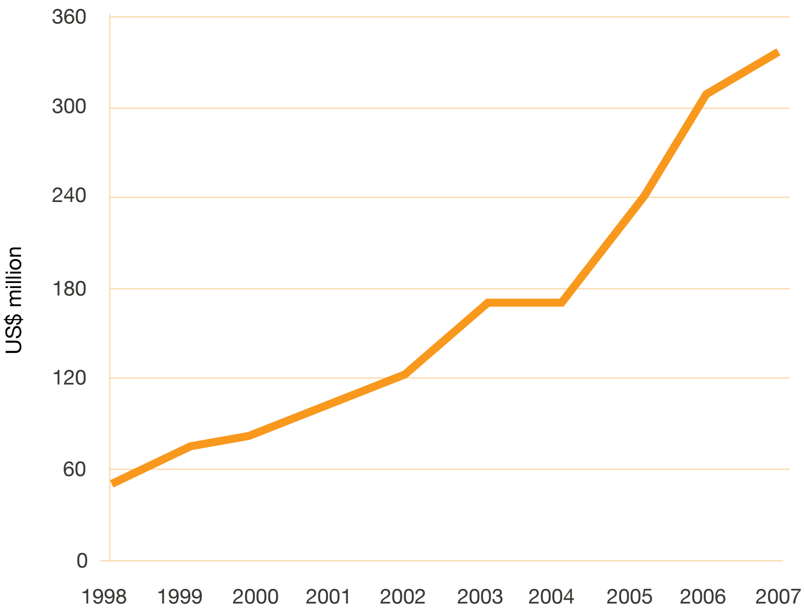
The decrease in aggregate debt levels in 2007 was mainly driven by the settlement of debt by large coal and copper operating mines due to the availability of large reserves of cash resulting from high commodity prices. In addition the low level of new investment in the past few years has continued in 2007, freeing up cash for retirement of debt and payment of dividends. The overall decrease was off-set by significant new borrowings obtained by one large coal mining operation. Due to the above factors, the average debt to equity ratio improved significantly in 2007 to 24%, compared to 47% at the end of 2006.

The debt-to-equity ratio has remained steady for 2008 at 27.8%, based on the publicly available information for listed companies, given the continuing low levels of new investment which have reduced the need to take on new debt.

Equity & borrowings



Environment and closure provision



Mine closure provision has increased by 8% in 2007 from the previous year's figure.

This increase is primarily due to an increase in the provision for restoration and mine closure for two large coal mining companies, which was offset by the decrease in the provisions of one large copper 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.

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[iii] 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 20.9 times the direct employment, respectively.

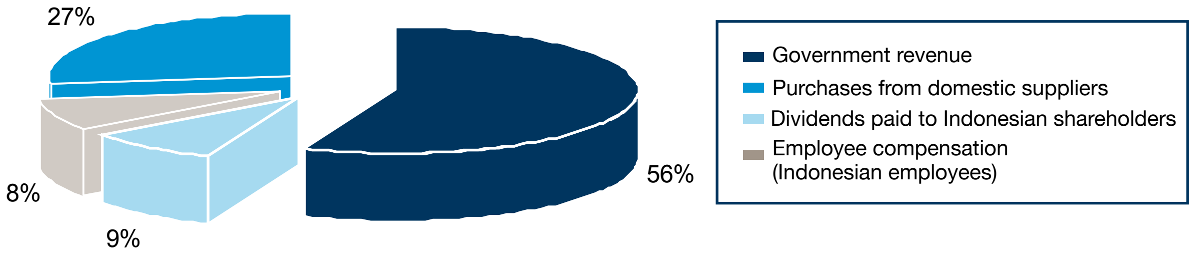
The measured impacts on the Indonesian economy which are covered by this report include salaries and benefits received by Indonesian employees, purchases from domestic suppliers, taxes and other revenues of the central, provincial and regional governments, dividends received by Indonesian shareholders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

Respondents to this year's survey reported a massive 50% 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

	2006	2007	Year-on-year Movement
Rp billion			
Employee compensation (Indonesian employees)	5,476	6,167	↑ 13%
Purchases from domestic suppliers	11,850	20,469	↑ 73%
Government revenue	31,404	43,847	↑ 40%
Dividends paid to Indonesian shareholders	2,650	6,746	↑ 155%
Interest paid to Indonesian companies/banks	228	232	↑ 2%
Total contribution	**51,608**	**77,461**	↑ **50%**
Mining industry contribution to GDP [iv]	**130,701**	**160,459**	↑ **23%**
Percentage of mining industry contribution to total GDP [iv]	**4%**	**4%**	-
US$ million			
Mining industry's contribution to Indonesian exports [v]	**20,028**	**23,578**	↑ **18%**
Export revenues of survey respondents	**11,053**	**13,537**	↑ **22%**

Direct contribution by type (2007)



In 2007, the total Indonesian mining industry contribution to GDP has increased 23% on last year to Rp 160 trillion. The Indonesian mining industry contributed approximately 4% to the total Indonesian GDP in 2007, 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.

The significant increase in purchases from domestic suppliers reflected the combination of increased activities and higher commodity prices such as oil, rubber and steel. Higher government revenue and dividends paid were in line with the increased sales previously discussed.

It is expected however that the above items declined in 2008 and will be further reduced in 2009 due to the global financial crisis and the tight market impacting the demand for minerals and therefore the prices and profits achieved. As a result of this, government revenue and dividends would be expected to decrease significantly. Certain mining projects and expansion plans have been delayed due to higher cost of funding, reducing construction activities and general spending.



Photo source :
PT International Nickel Indonesia Tbk, PT Aneka Tambang Tbk, PT Newmont Nusa Tenggara

Photo source : PT International Nickel Indonesia Tbk

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 44% from last year. Regional and community development spending reported for 2007 was Rp 1.7 trillion, a 70% increase. Additional provision/reserve for reclamation and mine closure was down in 2007 due to realisation of reclamation and mine closure activities, as well as the significant increase in the prior year, bringing the provisions to the required levels.

Over the last five years respondents have spent more than Rp 6.2 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

	2006	2007	Year-on-year Movement
Rp billions			
Employee training	255	296	↑ 16%
Regional and community development	991	1,683	↑ 70%
Charitable donations and contributions to not-for-profit foundations	113	162	↑ 44%
US$ thousands			
Research and development	4,678	8,240	↑ 76%
Net increase in accumulated provision/reserve for reclamation and mine closure	78,259	25,681	↓ 67%

Total community development spending – as reported by government

	2007		2008 (budgeted)	
	Rp billion	US$ million	Rp billion	US$ million
State-owned enterprises	30	-	36	-
Contract of Work companies	22	111	34	108
Coal Contract of Work companies	32	10	36	11
Total	84	121	106	119

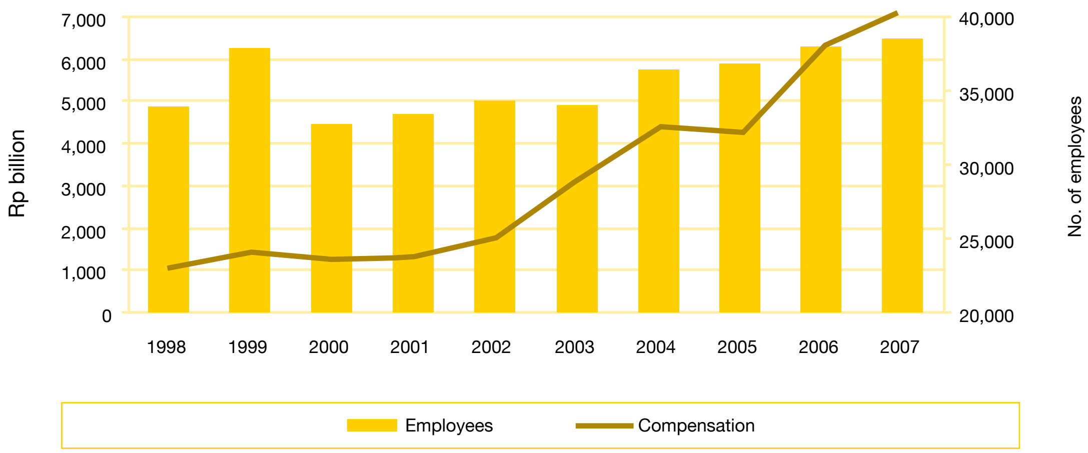
Source : Directorate General of Minerals, Coal and Geothermal

Photo source : PT Aneka Tambang

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 11% in US$ terms. This followed a 61% increase in 2006, which illustrates the benefits that have derived to employees, and their communities, from the mining boom. This was mainly due to additional benefits received as a result of increased production and/or sales quantity and price. Overall, the gross workforce compensation increased by 12%.



	2006	2007	Year-on-year Movement
Total direct employees	38,030	38,560	↑ 1%
Gross workforce compensation (Rp billions)	6,314	7,083	↑ 12%

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.

Due to project delays and the economic slow down resulting from the global crisis, there is the risk that certain Indonesian mining companies, like their global counterparts, will be forced to lay-off some of their employees in 2009. This will result in a decrease in employee compensation in 2009.

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 tenth 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 73 producing companies and over 86 exploration companies that were involved with exploration projects in Indonesia during the period 1999 to 2007. 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. 2008 information has been based on publicly available data for listed mining companies (see page 11 for explanation).

Coverage

The survey results for this year cover the activities of 21 (23 in 2006) producing companies and 15 (18 in 2006) 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 2007 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.

Survey Participants

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

Survey Participants

Producing companies	Generation	Principal materials	Location	2001	2002	2003	2004	2005	2006	2007	2008
Adaro Indonesia	1^{st}	Coal	South Kalimantan	•	•	•	•	•	•	•	•
Allied indo coal	1^{st}	Coal	West Sumatra	•							
Aneka Tambang	n/a	Bauxite, gold & nickel	Sulawesi, Halmahera, java, Bintan Is.	•	•	•	•	•	•	•	•
Arutim Indonesia	1^{st}	Coal	South Kalimantan	•	•	•	•	•	•	•	•
Avocet Bolaang Mangondow	6^{th}	Gold & silver	North Sulawesi						•	•	
Bahari Cakrawala Sebuku	2^{nd}	Coal	South Kalimantan		•	•				•	•
Berau Coal	1^{st}	Coal	East Kalimantan	•	•	•		•		•	•
Kendilo Coal Indonesia	1^{st}	Coal	South Kalimantan	•		•	•	•			
Bukit Baiduri Enterprise	n/a	Coal	East Kalimantan		•						
Freeport Indonesia company	5^{th}	Copper & gold	Papua	•	•	•	•	•	•	•	•
Indominco mandiri	1^{st}	Coal	East Kalimantan	•	•	•	•	•	•	•	•
International Nickel Indonesia	2^{nd}	Nickel	Sulawesi	•	•	•	•	•	•	•	•
Interrex Sacra Raya	3^{rd}	Coal	South & East Kalimantan						•	•	•
Jorong Barutama greston	n/a	Coal	East Kalimantan							•	•
Jembayan Muara Bara	n/a	Coal	East Kalimantan								•
Kaltim Prima Coal	1^{st}	Coal	East Kalimantan	•	•	•	•	•	•	•	•
Kelian Equatorial Mining	4^{th}	Gold	East Kalimantan	•	•	•	•	•	•	•	•
Kideco Jaya Agung	1^{st}	Coal	South Kalimantan	•				•	•	•	•
Kitadin	n/a	Coal	East Kalimantan					•	•	•	•
Koba Tin	2^{rd}	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 Barubata Bukit Asam	n/a	Coal	Sumatera	•	•	•	•	•	•	•	•
Timah	n/a	Tin	Bangka	•	•	•	•	•	•	•	•
Trubaindo	n/a	Coal	East Kalimantan						•	•	•

Survey Participants

Exploration companies	Generation	Target minerals	Location	2001	2002	2003	2004	2005	2006	2007	2008
Asmin Koalindo Tuhup	3rd	coal	Central Kalimantan							•	
Bharinto Ekatama	n/a	coal	East Kalimantan							•	•
Bukit Tiang Minerals	6th	gold	West Kalimantan	•	•						
Citra Palu Minerals	6th	gold	Central Sulawesi	•	•						
Cyprus Amax Indonesia	n/a	gold	Papua		•	•	•	•	•	•	
Dairi Prima Minerals	3rd	zinc and lead	North Sumatera						•	•	•
Danum Bukit Minerals	6th	gold	Kalimantan	•	•						
Danum Kelian Minerals	6th	gold	Kalimantan	•	•						
Gag Nickel	7th	nickel	Gag Island, Papua		•				•	•	•
Gorontalo Minerals	7th	copper, gold & silver	North Sulawesi	•	•						
Harita Persada Jaya Tambang	n/a	coal	Sumatera	•	•						
Horas Nauli	6th	copper & gold	North Sumatera	•	•						
Ingold Group	5th & 7th	base metals	Papua, Central Maluku & Jambi	•	•			•	•	•	
Irja Eastern Mineral	5th	copper, gold & silver	Papua					•	•	•	•
Juloi coal	3rd	coal	Central Kalimantan						•	•	•
Kalimantan Surya Kencana	6th	gold & base metals	Central Kalimantan	•					•	•	•
Kalsika Indonesia	7th	gold	Kalimantan	•							
Kalteng Coal	3rd	coal	Central Kalimantan						•	•	•
Kutaraja Tembaga Raya	6th	copper & gold	Nangro Aceh Darussalam	•	•	•	•	•			
Lahai Coal	3rd	coal	Central & East Kalimantan						•	•	•
Mandar Uli Minerals	7th	gold	South & Southeast Sulawesi	•	•						
Maruwai Coal	3rd	coal	Central & East Kalimantan						•	•	•
Meratus Sumber Mas	4th	gold	South Kalimantan				•				
Mitra Sumbawa Minerals	6th	gold	West Nusa Tenggara	•	•						
Normandy	6th & 7th	gold	North Sumatera & Papua	•							
Ocean Resources	6th	diamond, gold & mineral sand	Kalimantan, Sulawesi & Papua	•	•						
Pari Coal	3rd	coal	Central & East Kalimantan						•	•	•
Placer Dome	6th	gold	Kalimantan, East Java & Sulawesi	•	•		•				
Puncak Baru Jayatama	5th & 6th	gold	Central Sulawesi, Nangro Aceh Darussalam & Bengkulu	•							
Ratah Coal	3rd	coal	Central & East Kalimantan						•	•	•
Rakit Alas Minerals	6th	gold	Nangro Aceh Darussalam	•	•						
Rio Tinto IRJA	5th	copper & gold	Papua	•	•	•	•	•	•	•	•
Santan Batubata	3rd	coal	East Kalimantan		•						
Sorikmas Mining	7th	gold, copper, lead molybdenum & zinc gold cooper	North Sumatera	•	•	•	•	•	•	•	•
Scorpion Sampanahan Miring	7th	gold	South Kalimantan			•	•	•			
Sumbawa Timur Mining	7th	copper & gold	West Nusa Tenggara		•	•	•	•	•	•	•
Sumber Barito Coal	3rd	coal	Central & East Kalimantan					•	•	•	•
Weda Bay Nickel	7th	nickel	East Kalimantan	•							

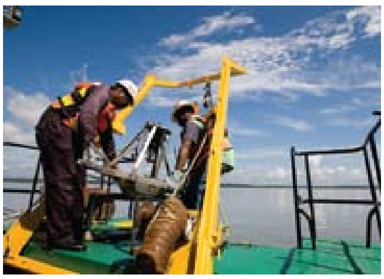


Photo source :
PT Freeport Indonesia, PT Newmont Nusa Tenggara

10 Year Summary

Financial performance

Major mineral prices

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Coal	US$/t	34.50	29.95	28.75	34.50	28.85	26.75	44.00	53.00	52.50	55.65	125.00
Copper	US$/lb	0.71	0.68	0.78	0.72	0.71	0.81	1.30	1.67	3.05	3.24	3.58
Gold	US$/oz	294.00	278.60	279.10	271.00	309.80	363.30	409.72	444.74	603.46	695.39	871.96
Nickel	US$/lb	2.00	2.59	3.69	2.70	3.07	4.37	6.28	6.68	11.02	17.28	9.66
Tin	US$/lb	2.39	2.33	2.33	2.03	1.84	2.14	3.84	3.44	3.62	7.26	8.26

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

Mineral production

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Coal [vi]	'000 t	61,931	73,777	77,040	92,540	103,372	114,491	132,255	151,594	180,753	180,003
Copper	M lb	1,427	1,690	2,157	2,258	2,497	2,165	1,819	2,285	1,753	1,696
Gold	'000 oz	3,641	3,929	3,802	4,856	4,326	4,389	2,719	4,550	2,621	3,604
Nickel	M lb	96	120	141	161	151	174	177	185	190	211
Tin	'000 t	54	50	47	54	67	65	63	68	66	58

Aggregate profit and loss

US$ millions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net sales revenue	**3,540**	**3,841**	**4,811**	**5,318**	**5,374**	**6,333**	**8,067**	**11,411**	**13,882**	**17,670**
Cash operating expenses	2,105	2,167	2,953	3,531	3,310	3,911	4,966	6,510	8,162	9,087
EBITDA	1,435	1,674	1,858	1,787	2,064	2,422	3,101	4,901	5,720	8,583
Amortisation and depreciation	455	517	805	602	653	767	587	564	637	675
Profit before interest and tax	980	1,157	1,053	1,185	1,411	1,655	2,514	4,337	5,083	7,908
Interest	129	251	371	273	225	184	148	226	288	132
Profit before tax	851	906	682	912	1,186	1,471	2,366	4,111	4,795	7,776
Tax	291	326	282	362	402	535	840	1,449	1,673	2,622
Net profit	560	580	400	550	784	936	1,526	2,662	3,122	5,154

Profitability – Return on average shareholders' funds (%)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Indonesia	12 %	12 %	8 %	11 %	16 %	18 %	26 %	37 %	39 %	64 %

Aggregate cash flows

US$ millions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Cash from operations	1,108	1,179	1,255	1,367	1,420	1,735	2,177	3,491	3,146	6,383
Net cash from financing	634	(118)	(942)	(797)	(876)	(538)	(798)	(1,656)	(2,441)	(5,005)
Cash spent on investment	(1,739)	(1,174)	(515)	(346)	(161)	(671)	(473)	(1,526)	(779)	(875)
Net cash flows	3	(113)	(202)	224	383	526	906	309	(74)	503

Taxes and government revenue

US$ millions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Income tax expense	291	326	282	362	402	535	840	1,450	1,673	2,622
Mineral and coal royalties	65	117	144	176	279	314	431	572	772	851
Total direct taxes	356	443	426	538	681	849	1,271	2,022	2,445	3,473
Total indirect taxes, levies and local taxes	288	406	406	305	322	328	420	669	981	1,326
Total Government revenue										
- **US$ millions**	644	849	832	843	1,003	1,177	1,691	2,691	3,426	4,799
- **Rp billions**	6,482	6,684	6,989	8,635	9,349	10,088	14,177	26,134	31,404	43,847

Investment

US$ millions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Greenfields exploration spending	27	18	11	7	7	7	7	9	48	59
Other exploration and feasibility	69	60	56	31	19	22	77	101	72	67
Development	192	367	191	73	107	31	94	81	77	120
Fixed assets	1,879	963	657	167	240	330	525	550	730	799
Total investment	2,167	1,408	915	278	373	390	703	741	927	1,045
World exploration and feasibility	3,500	2,700	2,340	2,200	1,900	2,190	3,800	5,100	7,500	10,500

Financial position

US$ millions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Current assets	1,495	1,644	1,822	1,649	2,237	2,624	3,645	4,984	5,642	5,622
Fixed assets	6,754	7,144	7,067	6,614	6,376	6,241	6,627	6,311	6,561	6,611
Exploration and development	1,116	1,230	969	678	866	797	798	1,158	1,042	1,273
Other assets	307	347	310	623	788	1,337	1,518	2,492	3,238	2,606
Total Assets	**9,672**	**10,365**	**10,168**	**9,564**	**10,267**	**10,999**	**12,588**	**14,945**	**16,483**	**16,112**
Current liabilities	953	1,136	1,626	1,419	1,713	2,268	2,248	3,740	3,631	3,556
Provision/reserve for restoration and mine closure	52	73	86	107	125	170	168	232	311	336
Other liabilities	983	778	454	619	788	658	1,406	1,212	1,432	1,848
Total liabilities (excl borrowings)	**1,988**	**1,987**	**2,166**	**2,145**	**2,626**	**3,096**	**3,822**	**5,184**	**5,374**	**5,740**
Equity	2,463	3,173	3,067	3,463	4,095	4,784	6,214	6,547	7,583	8,369
Borrowings	5,221	5,205	4,935	3,956	3,546	3,119	2,552	3,214	3,526	2,003
Total funds employed	**7,684**	**8,378**	**8,002**	**7,419**	**7,641**	**7,903**	**8,766**	**9,761**	**11,109**	**10,372**
Total equity and liabilities	**9,672**	**10,365**	**10,168**	**9,564**	**10,267**	**10,999**	**12,588**	**14,945**	**16,483**	**16,112**

Contribution to the Indonesian economy

Rp billions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employee compensation (excl. expatriates)	545	846	1,080	1,074	1,360	2,475	3,386	3,489	5,476	6,167
Purchases from domestic suppliers	3,253	3,688	4,790	4,304	6,198	6,145	6,923	16,025	11,850	20,469
Government revenue	6,482	6,684	6,989	8,635	9,349	10,088	14,177	26,134	31,404	43,847
Dividends paid to Indonesian shareholders	203	298	647	338	373	275	1,027	3,228	2,650	6,746
Interest paid to Indonesian companies/ bank	875	294	259	264	430	236	196	243	228	232
Total contribution	**11,358**	**11,810**	**13,765**	**14,615**	**17,710**	**19,219**	**25,709**	**49,119**	**51,608**	**77,461**

Expenditures of public interest

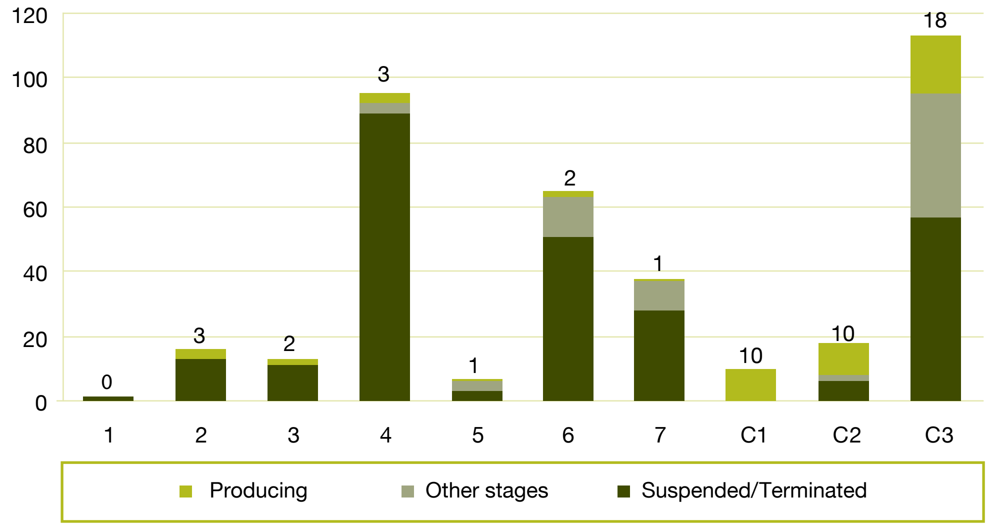
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Rp billions										
Employee training	113	119	135	108	100	164	186	273	255	296
Regional and community development	238	211	270	279	466	606	468	784	991	1,683
Charitable donations and contributions to non-for-profit foundations	41	44	80	40	68	59	85	76	113	162
US$ thousand										
Research and development	1,330	1,336	749	252	271	1,148	1,951	2,995	4,678	8,240
Net increase in accumulated provision/ reserve for reclamation an mine closure	9,863	21,503	12,260	21,240	17,971	44,592	(1,109)	63,885	78,259	25,681

Employment

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total direct employees	33,931	37,877	32,787	33,441	33,603	33,559	36,382	36,817	38,030	38,560
Gross workforce compensation (Rp billions)	1,058	1,409	1,246	1,287	1,759	3,183	4,364	4,251	6,314	7,083

Contracts of Work, Coal Agreements and *Kuasa Pertambangan*

Mining Contracts of Work and Coal Agreements by generation and status (No. of producing contracts shown)



Source: Directorate General of Minerals, Coal and Geothermal

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	-	-	-	4	3	13	9	29
Suspended/Terminated	1	13	11	88	3	50	28	194
Total	**1**	**16**	**13**	**95**	**7**	**65**	**38**	**235**

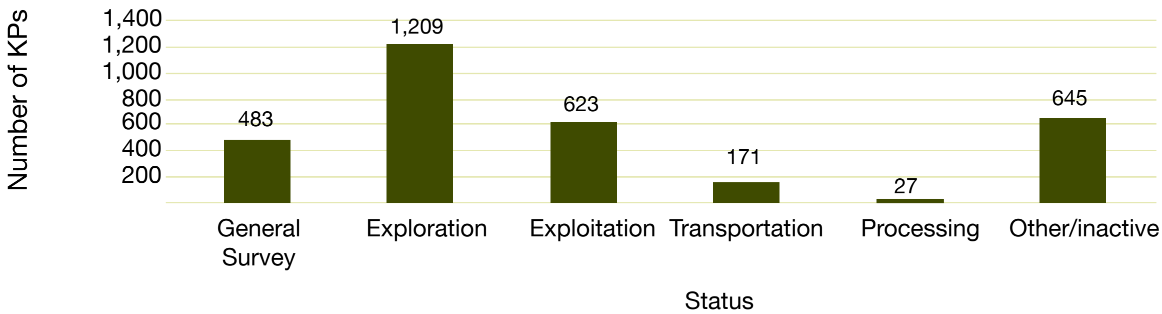
Source: Directorate General of Minerals, Coal and Geothermal

Coal contracts by generation and status

	C1	C2	C3	Total
Producing	9	10	21	40
Other stages	-	2	34	36
Suspended/Terminated	1	6	58	65
Total	**10**	**18**	**113**	**141**

Source: Directorate General of Minerals, Coal and Geothermal

Kuasa Pertambangan - by status



Source: Directorate General of Minerals, Coal and Geothermal

Glossary

CCoW	Coal Contract of Work
CoW	Contract of Work
Current ratio	Current assets / Current liabilities
Debt to equity ratio	Borrowings at year end / Shareholders' funds at year end
EBITDA	Earnings before interest, tax depreciation and amortisation. A measure of financial performance that is close to the underlying cash earning stream of the company before servicing the asset base.
EBITDA margin	EBITDA / Total revenues
Effective tax rate	Income tax / Profit before tax
IUP	*Izin Usaha Pertambangan*
KP	*Kuasa Pertambangan* (mining rights)
Net profit margin	Net profit / 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	Net profit / Property plant and equipment plus current assets minus current liabilities
Return on shareholders' funds	Net profit / Shareholders' equity and shareholders' borrowings
Exchange rates used (Rp/US$)	2006: Rp 9,167/US$ 2007: Rp 9,136/US$ 2008: Rp 9,757/US$
Unit measures t/Mt/Wmt	Metric tonnes/million tonnes/wet metric tonnes
lb/Mlb	Pounds/million pounds
oz	Troy ounces

Endnotes

i. From “mine* as good as it gets? - review of global trends in the mining industry - 2008” June 2008 and/or “mine* riding the wave – review of global trends in the mining industry” June 2007 undertaken by PricewaterhouseCoopers.

ii. From research undertaken by Metals Economics Group “World Exploration Trends” (www.metalseconomics.com), 2008

iii. Economic Impact Analysis of Kaltim Prima Coal (2002), Freeport Indonesia (2007 update), and International Nickel Indonesia (2007 update) undertaken by Institute for Economic and Social Research, Faculty of Economics – University of Indonesia

iv. From Badan Pusat Statistik - Indonesia

v. From Bank Indonesia (www.bi.go.id)

vi. The coal production figures represent total Indonesian production and were obtained from the Directorate of Business Development for Mineral and Coal (www.dpmb.esdm.go.id).

vii. The top nine issues above are determined based on the top nine highest average scores of all responses. To calculate the weight of each priority against the other top nine, the priorities of each survey respondent for the average top nine priorities are then “re-ordered” (based on a 100% weight for total of top nine priorities).

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Photograph Contributors

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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 not-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 of 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 organisations all over the world in promoting mining business and technology.

The association has 102 company members.

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

Indonesian Coal Mining Association

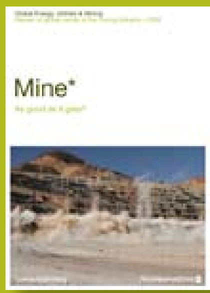
APBI-ICMA is a non-political and non-profit oriented organization for companies in the coal business sector. APBI-ICMA was established on 20 September 1989 and was registered as a member of the Indonesian Chamber of Commerce on 16 October 2004.

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 50 companies registered as members.

Other PricewaterhouseCoopers Mining Publications

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



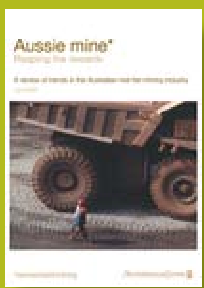
Mine*
As good as it gets?
This annual report provides a comprehensive analysis of the financial performance and position of the global mining industry and also discusses current trends in the global mining industry.

Financial reporting in the mining industry*
International Financial Reporting Standards
This handbook describes the financial reporting implications of IFRS across a number of areas selected for their particular relevance to the mining industry

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

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.

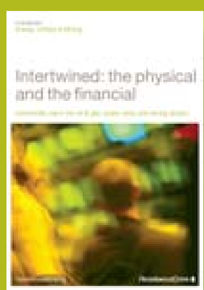
Junior mine*
review of trends in the AIM mining industry
Junior mine provides an insight into the aggregated performance of the junior mining industry, as represented by 50 of the largest mining companies on the Alternative Investment Market ("AIM").



Aussie mine*
This report focuses on the results of the largest 50 mining companies listed on the Australian Stock Exchange with a market capitalisation of less than $5 billion at 31 December 2007 (the "Mid-tier 50").

Mining Deals
Mergers and acquisitions activity in the mining industry
Mining Deals 2007 reviews deal activity in the mining industry. We examine both the rationale behind the overall trends and look at the key individual deals.
Drawing on our global experience as an adviser to mining industry M&A players, our commentary addresses all key markets in the sector.

Effective Tax Rate Comparison of the Global Mining Industry 2006: May 2007 Analysis
This edition includes 51 companies operating throughout the world which are mining precious metals, base metals, industrial minerals (including cement) and coal. The companies presented are headquartered in a variety of countries from every continent.



Intertwined: the physical and the financial
looks at the new commodity risk challenges facing companies in the oil and gas, power utility and mining industries. It also looks at the specific challenges that arise within each of the industry sectors.

These publications can be obtained at www.pwc.com or by contacting your usual PwC contact.

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