

# mineIndonesia 2006\*

review of trends in the Indonesian mining industry

December 2006



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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.

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 2004 and earlier years appearing in this report differ from the figures in previous reports.

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**Cover:** These pictures illustrate the contribution of the mining industry to the wider Indonesian community.



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

I commend to you with pleasure the eighth PricewaterhouseCoopers report on trends in the Indonesian mining industry. PricewaterhouseCoopers, IMA and ICMA are well known to government, business and investors for their continued commitment and support to the Indonesian mining industry.

The Indonesian mining industry is a significant contributor to economic development and growth in Indonesia. In addition to the substantial direct impact on economic development and growth, there is an even larger indirect flow of benefits seen through the development of remote areas of Indonesia. The Government of Indonesia remains committed to the growth of the mining sector and encourages all private investors, both foreign and domestic, to take advantage of the significant geological potential of Indonesia, and at the same time support the development of the country.

The government is aware that there are still some uncertainties affecting the level of new investment in the industry. It is hoped that the new mining law currently before parliament will address some of these concerns. I have an expectation that with the passing of the new mining law and the continued strong demand for mining products, the Indonesian mining industry will attract new investment and become an increasing contributor to the economic development of Indonesia.

Again, I commend this publication to you and hope that it is of use to all stakeholders in the Indonesian mining industry. I congratulate PricewaterhouseCoopers, IMA and ICMA and the participating mining companies on their valuable contributions.

Jakarta, 22 January 2007  
Minister of Energy and Mineral Resources

A handwritten signature in black ink, appearing to read 'Purnomo Yusgiantoro'.

**Purnomo Yusgiantoro**





Jakarta, 22 January 2007

It is a great pleasure to present to you the eighth PricewaterhouseCoopers report on trends in the Indonesian mining industry. 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.

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.

A handwritten signature in black ink, appearing to read "Arif Siregar".

**Arif Siregar**  
*Chairman*  
*Indonesian Mining Association*

A handwritten signature in black ink, appearing to read "Jeffrey Mulyono".

**Jeffrey Mulyono**  
*Chairman*  
*Indonesian Coal Mining Association*



# Executive Summary



The mining industry again had a spectacular year in 2005, both in Indonesia and globally. Globally investor confidence in the sector and its prospects has continued to rise, fuelled by a sustained rise in commodity prices, and as witnessed by a year of significant growth in market capitalisation. In Indonesia profits in the sector have continued to increase in line with the rise in commodity prices, however the country continues to lag behind the global trend of new investments. While the industry in Indonesia continues to be very profitable, new investment is needed to sustain it into the long term.

## Another booming year for commodities

For the companies analysed in Indonesia, revenue has increased by 37% over 2004 and net profits increased by a substantial 71%. This is consistent with the global trends. Based on a survey of 40 of the world's largest mining companies (referred to as the global 40<sup>i</sup>) revenues increased by 25% and profits increased by 59% in 2005.

Other profit measures also show that, both in Indonesia and globally, 2005 was a year of increasing returns.

Key Ratios	Top 40 Companies-Global <sup>i)</sup>		Indonesia	
	2004	2005	2004	2005
<b>EBITDA Margin</b>	29.7%	36.3%	38.4%	43.1%
<b>Net profit margin</b>	15.2%	20.1%	19.1%	23.9%
<b>Effective tax rate</b>	25.0%	27.0%	46.4%	44.1%
<b>Return on capital employed</b>	13.7%	18.4%	13.3%	19.8%
<b>Return on equity</b>	18.9%	25.0%	27.4%	38.6%
<b>Net debt to equity ratio</b>	25.4%	36.0%	42.9%	50.9%

i) Aggregated results of 40 of the largest mining companies as per PwC mine\*

Indonesian miners compare favourably with the global 40 on these measures. However, it needs to be noted that this sustained increase in profitability since 2002 stems largely from the continuing commodities boom.

Commodity prices, particularly for copper, nickel, gold and coal, continued their upswing in 2005, primarily on the back of increased demand worldwide, especially from emerging giants such as China and India.

However, these improvements in profitability mask substantial increases in operating costs which have accompanied the surge in commodity prices, particularly over 2004 and 2005. The industry will face a challenge to sustain margins should commodity prices fall.

(see page 14)

## Balance sheet strength across the industry has provided “war chests” for investment

The continuation of strong profits and operating cash flows has led to an increasingly strong industry balance sheet. This is particularly so for the global industry, with debt to equity ratios having decreased significantly over the last few years. Cash and cash equivalents of the global 40 stood at nearly US\$32 billion at the end of 2005. Current assets of the Indonesian miners surveyed have also increased by 34% from 2004 to US\$4.9 billion.

Global companies are re-investing a significant portion of their operating cash flows in capital projects and acquisitions. Key decisions about the destination of the next generation of minerals development are now being made. Unless attractive new developments or acquisitions present themselves, shareholders will demand additional distributions through dividends and share buy-backs.

The question remains whether Indonesia’s potential projects, no matter how geologically prospective they may be, are attractive enough commercially to reap the rewards of the next wave of global spending.

(see page 36)

## Global mining companies still rate Indonesia’s investment conditions poorly relative to other countries

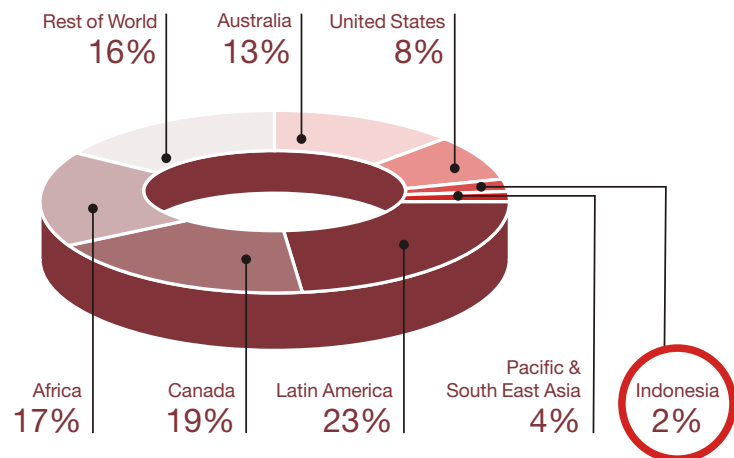
The real indication of whether Indonesia is viewed as an attractive investment destination, despite its very good mineral prospectivity, is the level of exploration spending undertaken in Indonesia.

Exploration activity in Indonesia remains at low levels despite an increase in 2005. In contrast, the level of global exploration expenditure has continued to increase in 2005 (up 34%<sup>iii</sup> from 2004).

According to Canada’s Metals Economics Group (MEG), budgeted worldwide exploration in 2005 is US\$5.1 billion (up US\$1.3 billion from 2004). The current exploration spend in Indonesia is approximately 2% of the global total. However, this is an improvement on the 2004 level of less than 1.5% of global exploration spending.



### Worldwide exploration spending 2005



Source: Metals Economics Group

The survey data for Indonesia continues to show that inconsequential investment in greenfields exploration is occurring. While there has been some expansion of production at existing mines in 2005, particularly in coal, most other investment spending is primarily for replacement plant and equipment to maintain existing operations.

This would indicate that there is not significant re-investment of the large profits and operating cash flows being generated as a result of continued high commodity prices. This is despite the fact that there is no doubt that Indonesia is a very mineral prospective country (rated in the top 7 according to the Fraser Institute). Whilst there has been some activity on the part of local investors and junior mining companies, the low level of exploration expenditure by large global mining companies will continue until they are satisfied that investment conditions have improved.

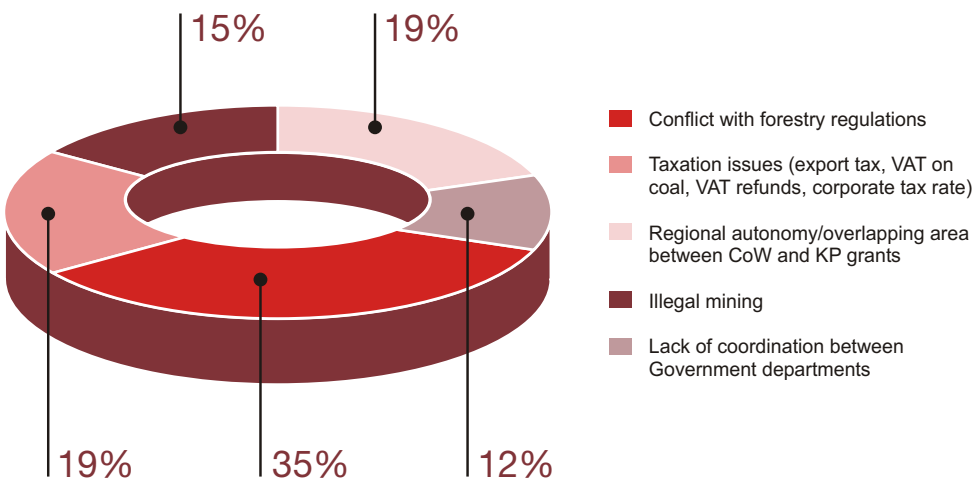
While it is understood that several existing producers are looking to expand operations, these investments were not yet reflected in the survey results for 2005. Time will tell whether these projects will ultimately come to fruition.

(see page 26)

# The industry’s opinion – What issues are holding up investment in the Indonesian mining industry?

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

## Top five issues for the Indonesian mining industry



The “Top 5” issues are consistent with the seven priorities to improve investment conditions highlighted by the mining industry, as detailed in mineIndonesia 2005\*. These are listed in the following page with a comment on progress to date as well as the survey respondents’ rating of progress since December 2005.

mineIndonesia 2005* - seven priorities to improving investment conditions	Progress to date	Survey respondents' rating of progress**
<ul style="list-style-type: none"> <li>Restoring long-term certainty in the Contract of Work (CoW) system, including tax stability (locking in tax conditions for the CoW term).</li> </ul>	<ul style="list-style-type: none"> <li>The draft mining law has been before parliament for some time, but it is unclear when it will be passed. The current draft indicates that the CoW system will cease to exist for new projects, which is not favoured by foreign investors.</li> </ul>	C
<ul style="list-style-type: none"> <li>Improving the competitiveness of the taxation and royalty system relative to other prospective countries, including restoring VAT refunds for gold and coal producers.</li> </ul>	<ul style="list-style-type: none"> <li>Tax reforms appear to be heading in the right direction. Under the proposed new tax laws the corporate tax rate may reduce to 25% by 2010 and most mining products are to be VATable again (coal will be a VATable product but the reforms do not appear to extend to gold bars). The taxation of oil and gas companies and mining companies will be set by government regulation.</li> <li>A negative factor was the attempt in 2006 to impose a 5% duty on the value of coal exported, which was subsequently withdrawn.</li> </ul>	B - C
<ul style="list-style-type: none"> <li>Resolving conflicts between CoW terms and forestry regulations, without imposing additional financial or other burdens on mining companies.</li> </ul>	<ul style="list-style-type: none"> <li>In August 2005 the Constitutional Court confirmed the status of Law No.19/2000 allowing mining in protected forests. However it permits only 13 existing concessions to mine in such forests.</li> <li>In March 2006, the Forestry Ministry issued Regulation No.14/2006 which imposes additional requirements on mining companies, including potential for additional royalties.</li> </ul>	B - C
<ul style="list-style-type: none"> <li>Reduce illegal mining.</li> </ul>	<ul style="list-style-type: none"> <li>The government has acknowledged the need to clean up illegal activities, and there appears to have been some success to date.</li> </ul>	B
<ul style="list-style-type: none"> <li>Minimise potential for 'over regulation' in proposed changes to regulations affecting mining, including regulatory duplication between central and regional governments.</li> </ul>	<ul style="list-style-type: none"> <li>No significant progress noted. The industry still notes a lack of coordination between government departments and between the central and regional governments. A recent trend of regional governments issuing <i>Kuasa Pertambangan</i> (KP), or mining rights, on areas already covered by a CoW, is of some concern.</li> </ul>	B - C
<ul style="list-style-type: none"> <li>Ensure fairness in divestment of foreign interest and mine closures.</li> </ul>	<ul style="list-style-type: none"> <li>No significant progress noted.</li> </ul>	C
<ul style="list-style-type: none"> <li>Improving certainty of legal interpretation of CoWs and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>No significant progress noted. It is hoped that the passing of a new mining law will assist in improving legal certainty.</li> </ul>	B - 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.

(see page 32)

## The mining industry is an important contributor to the Indonesian economy

The mining industry contribution to the overall Indonesian economy increased significantly in 2005 in comparison with previous years. Owing to the high prices of 12 major commodities, mining products accounted for approximately 2% of the total Indonesian GDP (Source: Badan Pusat Statistik/BPS-Statistics Indonesia).

The industry also continues to make significant contributions to regional and community development – Rp771 billion in 2005 based on survey respondents, or an increase of 65% from the previous year. Total government revenues (taxes and royalties) from the survey respondents increased 62% to US\$2.7 billion, a record for the last 10 years.

The total number of Indonesian national direct employees has remained relatively stable at 35,801 in 2004 and 35,517 in 2005, with the slight decrease due mainly to cessation of Kelian's mining operations in 2005.

Given the continuing global mining boom and the potential for new projects or expansions in coming years, the job market in the mining industry continues to look favourable.

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 40 and 44)**

# Outlook

2005 was another spectacular year for the global mining industry. The global mining boom has continued into 2006 and looks certain to continue for some time yet. Whilst the Indonesian mining industry's financial results are robust and are likely to continue to be so because of continued high minerals prices and global demand, the concern is the longevity of a lucrative mining industry if significant new investment is not made in Indonesia.

Indonesia continues to be recognised by mining companies as being highly prospective and mining companies would be willing to increase their exploration activities if the investment conditions are improved. These improvements need to be significant and swift, if Indonesia is not to miss out on the investment dollars being generated in the current boom. However, the comments of survey respondents as well as anecdotal evidence, unfortunately indicates that there continues to be impediments to a rapid change in investors' opinions.

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

Coordination between government institutions, as well as between the central and regional governments, continues to be a key concern of investors, who often suffer the impact of contradictory and inconsistent rulings. Several examples of this have arisen in the last year, including the issuance of the decree of the Ministry of Forestry No. 14/2006, and the attempted imposition by the Ministry of Finance of a 5% export levy on coal sales. This lack of coordination within the government may in part be due to the absence of a comprehensive blue print or road map for the development of the mining industry, as has been prepared for some other sectors of the Indonesian economy. The Indonesian Mining Association, among others, has begun a process of dialogue to redress this situation. The success of such a project will of course need the buy-in of all stakeholders, including the mining companies, as well as the government and the parliament. Time will tell whether this is achievable in the short term, so that investment in the sector can meet its full potential.

Whilst some improvement in investment conditions has been noted and there is more confidence that the Government is committed to continue improving the investment conditions, the concern is whether this is occurring quickly enough, and addressing investors' specific concerns, to ensure Indonesia benefits from the current wave of global exploration spending.



# Highlights for 2005



## Highlights for 2005

- Continuing increases in mineral prices have driven profitability higher.
  - Revenue increased by 37% and aggregate net profit by 71%.
  - The return on shareholders' funds was 38.6%, compared to 27.4% in 2004 and 17% on average for the last 10 years.
  - The profitability of Indonesian mines compares favourably with other countries.
- 
- Mine production for most commodities increased, in particular coal, nickel, copper and gold.
- 
- The government revenue from mining increased to US\$2.7 billion.
  - The total effective tax and royalty rate was 44.1%.
- 
- Despite high prospectivity greenfields exploration activity remains at critically low levels.
  - Indonesia's share of global exploration spending is only 2% of the global total.
  - Investment on new mines and production capacity increases remains low.
  - Investment conditions are still perceived as being poor although there has been some progress noted. Delays in finalizing the draft new mining law, and a perceived lack of coordination between government institutions, do not improve investment conditions.
- 

Financial highlights	2004 US\$ million	2005 US\$ million	Year-on-year Movement
Revenue	8,067	11,070	↑ 37%
EBITDA	3,101	4,770	↑ 54%
Net profit	1,542	2,642	↑ 71%
Government revenue	1,674	2,706	↑ 62%
Total assets at year end	12,321	14,387	↑ 17%
Borrowings at year end	2,552	3,134	↑ 23%

Top Ratios	2004	2005	Average 10 years
<b>EBITDA Margin</b>			
Indonesia	38.4%	43.1%	38.3%
Top 40 companies - global <sup>i</sup>	29.7%	36.3%	n/a
Australia <sup>ii</sup>	33.7%	40.1%	n/a
<b>Net profit margin</b>			
Indonesia	19.1%	23.9%	14.9%
Top 40 companies - global <sup>i</sup>	15.2%	20.1%	n/a
Australia <sup>ii</sup>	12.8%	19.9%	9.3%
<b>Return on capital employed</b>			
Indonesia	13.3%	19.8%	8.5%
Top 40 companies - global <sup>i</sup>	13.7%	18.4%	n/a
Australia <sup>ii</sup>	5.2%	8.8%	3.7%
<b>Return on shareholders' funds</b>			
Indonesia	27.4%	38.6%	17.0%
Top 40 companies - global <sup>i</sup>	18.9%	25.0%	n/a
Australia <sup>ii</sup>	14.0%	24.1%	9.4%
<b>Debt to equity ratio</b>			
Indonesia	42.9%	50.9%	137.1%
Top 40 companies - global <sup>i</sup>	25.4%	36.0%	n/a
Australia <sup>ii</sup>	28.9%	24.1%	37.3%

(n/a=not available)





# Financial Performance





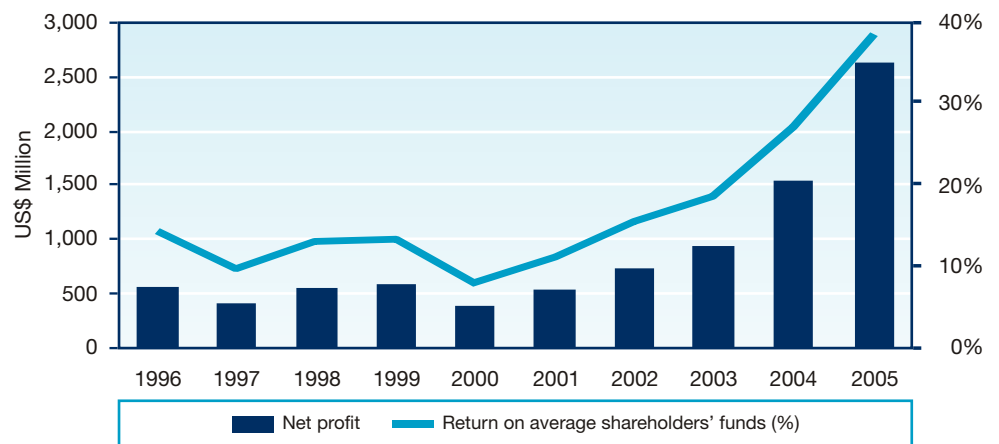
## Profitability continues to increase on the back of strong minerals prices

The significant increase in profitability over the last three years is mainly the result of increases in mineral prices, a decrease in amortisation and depreciation (partly due to Kelian and Minahasa gold mine closures) and a general aging of assets. Lower interest and financing costs have also contributed, due to substantial debt repayments over the last three years, for mining companies in general.

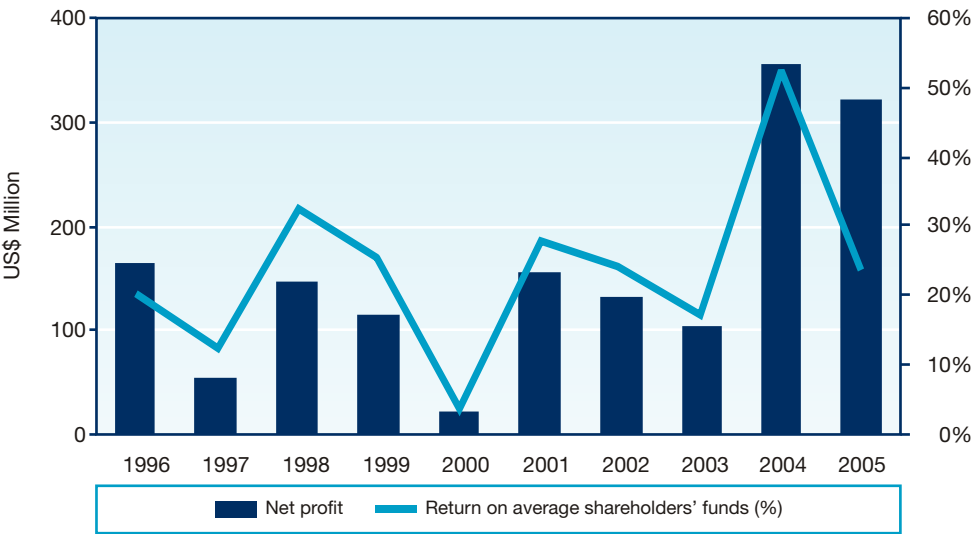
The increase in profits in 2005 did not, however, extend across the whole mining industry. While hard rock mining companies showed a marked increase in profitability, and therefore return on shareholder funds, coal companies in total showed a decrease in profits. This appears to be due to increased debt levels at some of the larger coal miners.

### Net profit and rates of return

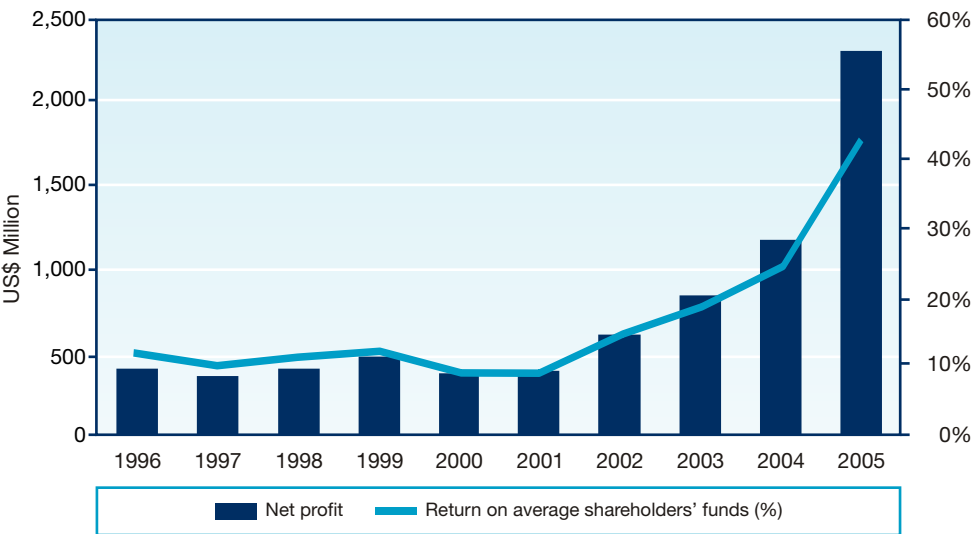
#### *All companies*



Coal companies



Hard rock companies



## Aggregate profit & loss

### All companies

	2004 US\$ million	2005 US\$ million	Year-on-year Movement
<b>Net sales revenue</b>	8,067	11,070	↑ 37%
Cash operating expenses	4,966	6,301	↑ 27%
<b>EBITDA</b>	3,101	4,770	↑ 54%
Amortisation and depreciation	586	555	↓ 5%
<b>Profit before interest and tax</b>	2,515	4,215	↑ 68%
Interest	149	136	↓ 8%
<b>Profit before tax</b>	2,366	4,079	↑ 72%
Income tax	824	1,436	↑ 74%
<b>Net profit</b>	1,542	2,643	↑ 71%

### Coal companies

	2004 US\$ million	2005 US\$ million	Year-on-year Movement
<b>Net sales revenue</b>	2,972	3,385	↑ 14%
Cash operating expenses	2,226	2,665	↑ 20%
<b>EBITDA</b>	746	720	↓ 3%
Amortisation and depreciation	122	74	↓ 39%
<b>Profit before interest and tax</b>	624	646	↑ 4%
Interest	63	110	↑ 74%
<b>Profit before tax</b>	561	536	↓ 4%
Income tax	202	212	↑ 5%
<b>Net profit</b>	359	324	↓ 10%

### Hard rock companies

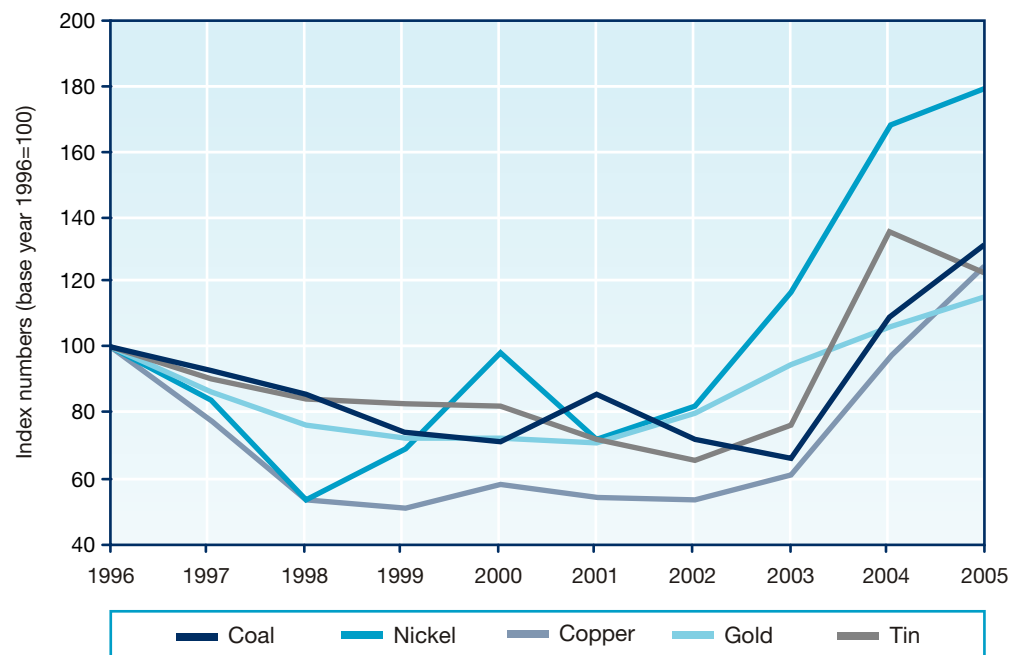
	2004 US\$ million	2005 US\$ million	Year-on-year Movement
<b>Net sales revenue</b>	5,095	7,685	↑ 51%
Cash operating expenses	2,740	3,636	↑ 33%
<b>EBITDA</b>	2,355	4,049	↑ 72%
Amortisation and depreciation	464	481	↑ 4%
<b>Profit before interest and tax</b>	1,891	3,569	↑ 89%
Interest	86	26	↓ 69%
<b>Profit before tax</b>	1,805	3,543	↑ 96%
Income tax	622	1,224	↑ 97%
<b>Net profit</b>	1,183	2,319	↑ 96%

The average prices of all major minerals except tin have continued increasing in 2005 and above the highest levels for the past five years. The decrease in tin price has been reported as being predominantly due to over supply from black market tin traded with a low price.

Continuing the 2003 and 2004 trend, thermal coal prices have increased substantially in 2005, with the benefit of this being expected to continue into 2006 and perhaps 2007. Profitability of coal miners in the survey has however been impacted by increased debt levels in some of the major coal mining companies, which has been used for expansion of production, as well as corporate activity. As such, interest expense for the coal miners included in the survey increased by 74% to US\$110 million, which together with increases in operating costs, resulted in a decrease in net profits of 10% from 2004. This is despite an increase in revenues of 14%.

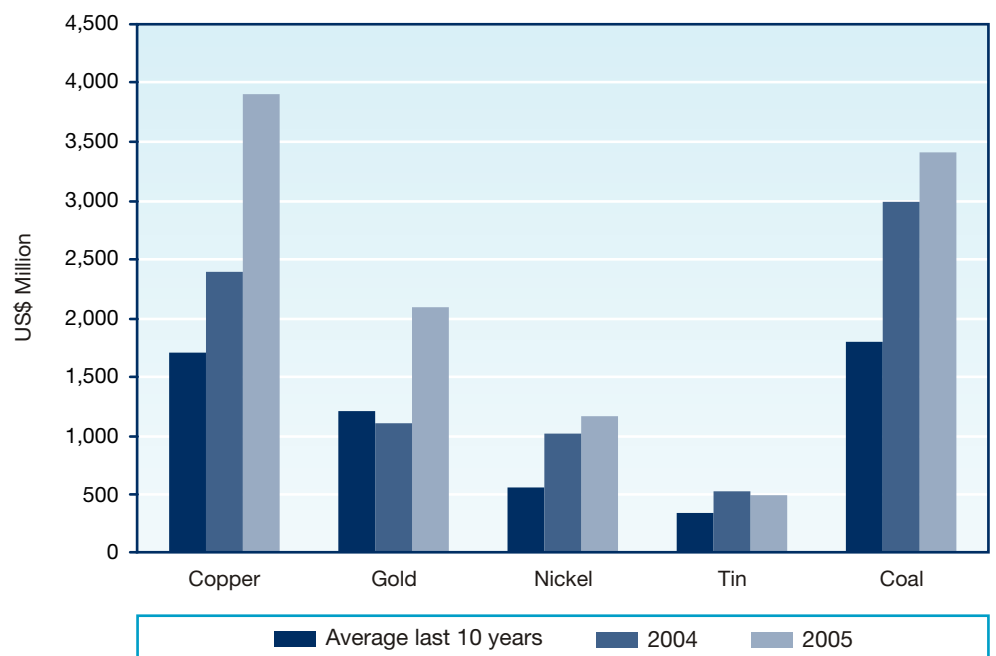
High prices for most minerals have continued in to 2006 and will underpin strong financial performance in 2006 and 2007.

## Mineral prices



Source: LME average annual prices and Japan-Australia benchmark coal price

## Sales revenue for major minerals





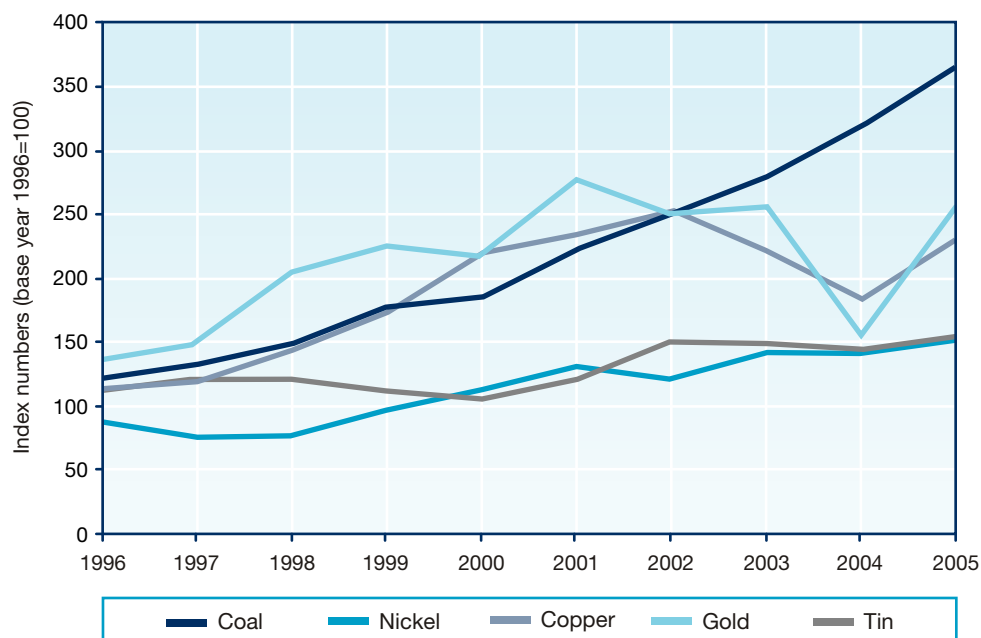
## Production continues on an upward trend, but not from new mines

Consistent with recent years, and the general perception of the investment climate, production increases have come from existing, rather than new mines. Very strong coal prices in 2005 have driven considerable activity by most producers to rapidly expand production, including KPC's Bengalon and Bendili mines in early 2005.

The copper and gold production has been progressively returning to the 2003 production level despite certain security issues encountered by Freeport in 2005. The commencement of gold production in one junior gold mining company also contributes to this gold production increase.

Given the high nickel prices, PT Inco has announced plans to increase production from the 2005 level of 168 million pounds, to above 200 million pounds. Additional expansions, however, are dependent on completion of the company's Karebbe Dam project to provide additional hydroelectric power capacity, which is reportedly being delayed by forestry permitting issues. Likewise, Rio Tinto has reportedly been negotiating to develop a billion dollar nickel project at Lasamphala on the island of Sulawesi. However, press reports have indicated that this project is also being held up due to regulatory uncertainties.

### Production



## Profitability of Indonesian mines continues to compare favourably with the global average

The average profitability of Indonesian mines continues to be relatively high compared to other countries. However this profitability is extremely variable and is distorted by a few large (and profitable) mines and companies with relatively low shareholders' funds. The top 5 companies by revenue made up 71 % of total revenue reported by survey respondents. The net profit of individual companies ranged from less than US\$1 million to almost US\$1.4 billion. The return on shareholders' funds for individual companies ranged from -2% to over 77%.

### Key profitability ratios

	2004	2005	Average 10 years
<b>EBITDA Margin</b>			
Indonesia	38.4%	43.1%	38.3%
Top 40 companies - global <sup>i</sup>	29.7%	36.3%	n/a
Australia <sup>ii</sup>	33.7%	40.1%	n/a
<b>Net profit margin</b>			
Indonesia	19.1%	23.9%	14.9%
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Top 40 companies - global <sup>i</sup>	18.9%	25.0%	n/a
Australia <sup>ii</sup>	14.0%	24.1%	9.4%
<b>Debt to equity ratio</b>			
Indonesia	42.9%	50.9%	137.1%
Top 40 companies - global <sup>i</sup>	25.4%	36.0%	n/a
Australia <sup>ii</sup>	28.9%	24.1%	37.3%

(n/a=not available)

### Top 5 companies – by revenue

Key ratios	Indonesia	
	2004	2005
EBITDA Margin	44.5%	50.6%
Net profit margin	21.3%	28.7%
Return on capital employed	12.9%	22.7%
Return on shareholders' funds	25.0%	45.5%
Debt to equity ratio	43.0%	32.1%

### Other companies - by revenue

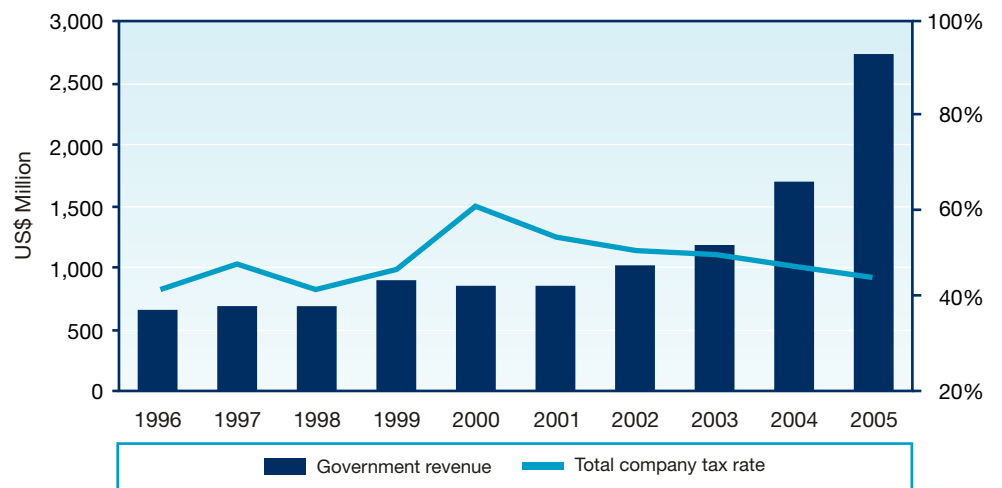
Key ratios	Indonesia	
	2004	2005
EBITDA Margin	27.2%	24.8%
Net profit margin	15.0%	12.5%
Return on capital employed	13.5%	10.8%
Return on shareholders' funds	32.1%	18.8%
Debt to equity ratio	39.9%	124.0%

## The Government enjoys record levels of revenue from the improved profitability of the industry

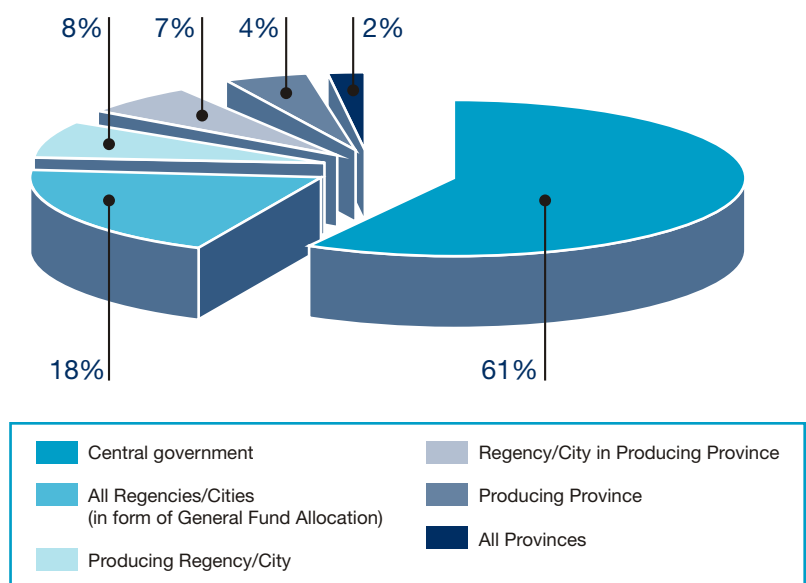
The increase in total government revenue in 2005 was approximately US\$1 billion or 62% to US\$2.7 billion, a record for the last 10 years.

The 2005 total company tax and royalty rate was 44.1%, down slightly from 46.4% in 2004.

### Government share of gross mining returns



### Government share allocation



## Government revenue

	2004 US\$ million	2005 US\$ million	Year-on-year Movement
Income tax expense	824	1,436	↑ 74%
Mineral and coal royalties	431	552	↑ 28%
<b>Total direct taxes</b>	<b>1,255</b>	<b>1,989</b>	<b>↑ 58%</b>
<b>Total indirect taxes</b>	<b>82</b>	<b>93</b>	<b>↑ 13%</b>
<b>Total tax expense on companies</b>	<b>1,337</b>	<b>2,081</b>	<b>↑ 56%</b>
<b>Total taxes levied to others</b>	<b>221</b>	<b>452</b>	<b>↑104%</b>
<b>Total taxes</b>	<b>1,558</b>	<b>2,533</b>	<b>↑ 63%</b>
Input VAT	116	172	↑ 48%
<b>Total Government revenue</b>			
- US\$ millions	1,674	2,706	↑ 62%
- Rp billions	14,042	26,273	↑ 87%



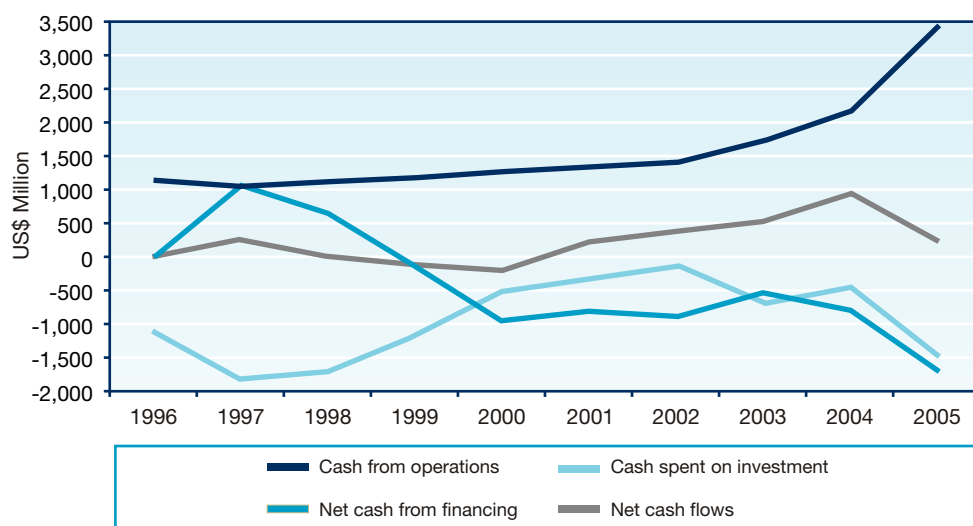
## Cash flows

Cash flow from operations increased mainly due to sustained increases in mineral prices.

Net cash from financing continues the recent trend reflecting substantial repayments of debt. There has been an overall outflow of approximately US\$1.7 billion, net of one major coal mining company's new debt of US\$1 billion.

Cash spent on investment is approaching the levels that prevailed in 1997. However, it is noteworthy that this investment spending is not on new mines, but rather for short term expansions to take advantage of increased minerals prices, and replacement or sustaining capital.

### Aggregate cash flows



### Aggregate cash flows

	2004 US\$ million	2005 US\$ million	Year-on-year Movement
Cash from operations	2,177	3,442	↑ 58%
Net cash from financing	(787)	(1,712)	↑ 118%
Cash spent on investment	(459)	(1,495)	↑ 225%
Net cash flows	931	235	↓ 75%

# Investment



The Indonesian mining industry faces a major test if it intends to remain a significant player in the global mining arena. Global investment in the mining industry is at its highest point since 1997, but Indonesia is not capturing its fair share of this increased activity given its geological potential. International surveys of mining companies continue to rank Indonesia highly in terms of mineral prospectivity, however the country continues to receive poor report cards for its mineral policies and investment climate. Urgent and meaningful action is required if Indonesia is to benefit from the continuing upturn in the global mining industry, as a result of high commodity prices.

The only measure of whether Indonesia is successful in facing this test will be a significant increase in greenfields exploration or production expansion in the coming years.

## Exploration

Exploration activity in Indonesia has seen some increase in 2005, although it remains at relatively low levels given the perceived mineral prospectivity of the country. Spending on exploration over the past few years has been on a downward spiral, however 2005 has seen close to the level achieved in 1995-1997 but is still only about 2% of the total global exploration spend.

It is noteworthy that expenditure on greenfields exploration remains critically low, and way below 1995-1997 levels. The 2005 exploration has been carried out in existing contract areas, as part of the short-term production increases aimed at taking advantage of the current high mineral prices.

### Exploration expenditure in Indonesia

	Greenfields US\$ million	Other US\$ million
<b>Average 1995 - 1997</b>	40	94
<b>Average 1998 - 2000</b>	19	61
<b>Average 2001 - 2004</b>	7	26
<b>2005</b>	7	102

It should also 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 even lower. However, the reported totals exclude the spending of a few explorers with advanced projects which did not participate in the survey.

The 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. 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 (at least 10 years), means that there will be no significant mine development in Indonesia for a number of years, other than existing known undeveloped deposits.

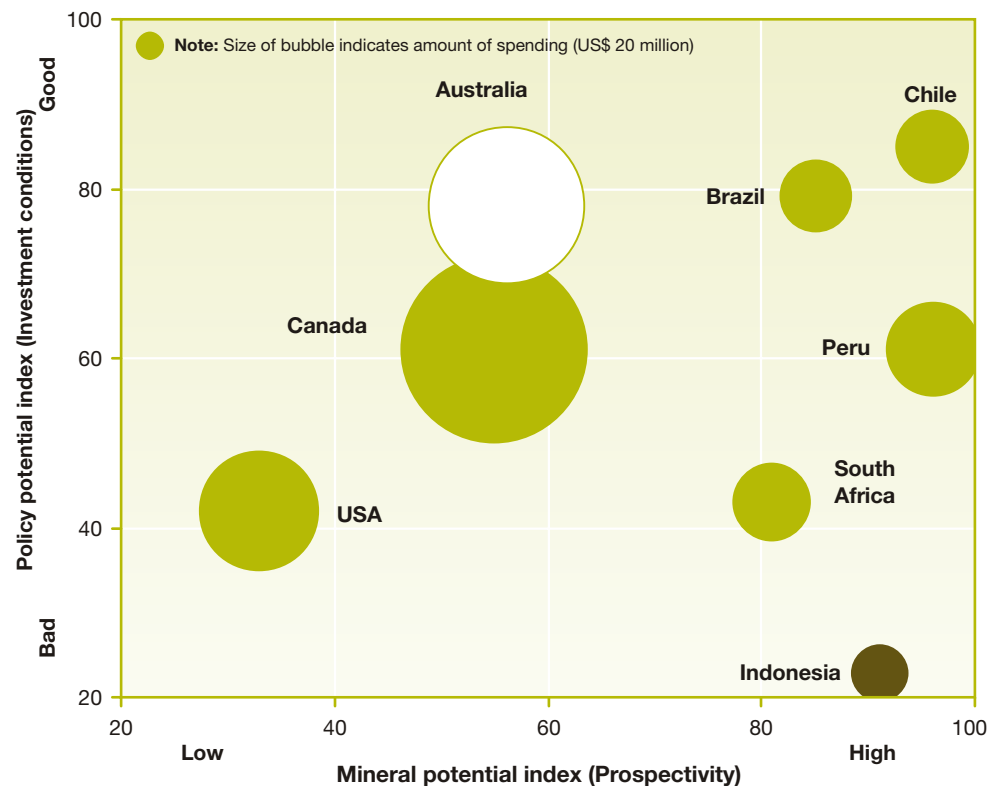
As indicated in the table below, there has been a significant upswing in the global level of exploration expenditures, as global mining companies begin to use the “war chests” they have accumulated off the back of high commodity prices. This, combined with an increased appetite for exploration due to historical under-investments, creates a very favourable investment environment for highly mineral prospective countries such as Indonesia. However, it is clear that Indonesia is yet to capture a significant portion of the global exploration spend. This is primarily because mining companies perceive Indonesia’s investment conditions to be poor relative to other countries.

#### Total exploration spending

US\$ million	Average 2001 - 2004	2005	Movement
In Indonesia	33	102	209%
Globally <sup>iii</sup>	2,560	5,100	99%
Indonesia’s share	<1.5%	2%	

Indonesia’s mineral prospectivity (or exploration potential) remains a positive aspect and mining companies rate Indonesia as one of the top six countries in the world for its mineral potential, if best practices were applied<sup>v</sup>. However, this does not guarantee exploration activity as can be seen from the relatively low spending in recent years, and indicates that there is significant room for improvement. It is noted that the levels of expenditure in Indonesia are beginning to compare more favourably to some other regions of the world, such as South America. This may however be partly due to some of the new regulatory uncertainties occurring in some of these countries. Exploration expenditure will not increase markedly until mining companies are satisfied that the investment conditions in Indonesia have improved sufficiently.

### Exploration conditions and spending by country



Source: Fraser Institute<sup>iv</sup> and MEG<sup>iii</sup>

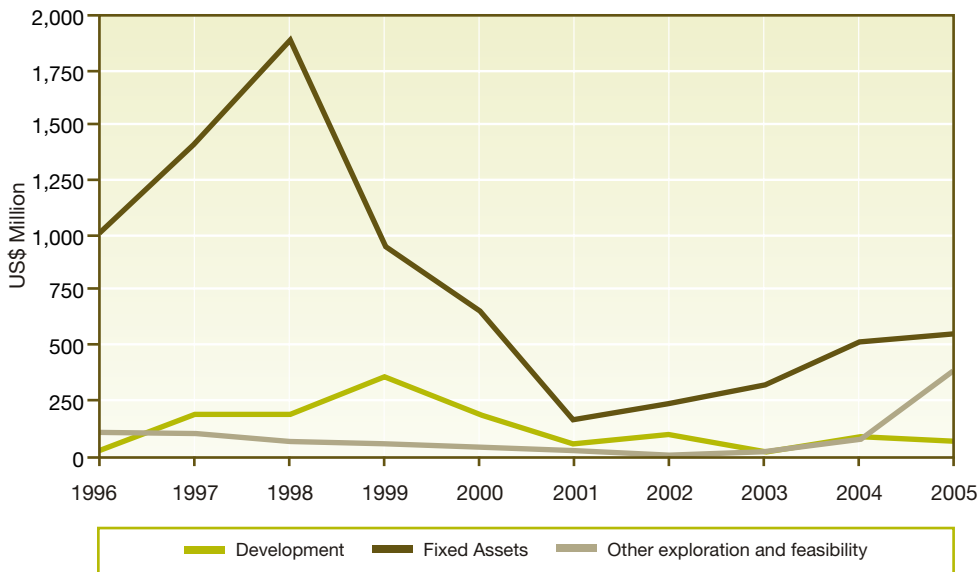
Indonesia's three largest mines represented 77% of the total spending on fixed assets in 2005. This was almost entirely spent on replacement capital expenditure to ensure continuity of mine production, rather than expansions.

There was some expansion in coal production in 2005, although it did not involve significant capital expenditures.

There are several junior mining companies developing gold mines however at this stage their reserves will not be able to replace production of two larger operations which ceased production during 2004 and 2005.

Expansion of Inco's nickel production has been reportedly delayed due to forestry permitting issues, and Rio Tinto's reported billion-dollar nickel project has also been slow to commence due to regulatory uncertainties. As such, 2006 and 2007 are also unlikely to see a significant increase in expenditures on new developments.

## Investment



## Investment conditions

Survey respondents continue to indicate that there is significant room for improvement in Indonesia's mineral policies. Despite the fact Indonesia is ranked highly on geological prospectivity, Indonesia receives a poor report card for its mineral policies, based on the 2005/2006 survey undertaken by the Fraser Institute (the Fraser Survey<sup>iv</sup>).

The Fraser Survey was drawn from the views of 322 mining and exploration companies worldwide. It measures the mineral potential (prospectivity) and policy potential (investment conditions) of significant mining regions.

Indonesia scores very positively for its prospectivity, with a score of 97 (out of a maximum of 100) and is ranked 7<sup>th</sup> out of 64 regions. Only Russia, Peru, Mali, Ghana, Democratic Republic of Congo, and Papua New Guinea ranked higher in the mineral potential index (assuming no land use restriction in place and assuming industry 'best practices').

However, Indonesia continues to be ranked relatively lowly for its investment conditions – scoring 22 (out of a maximum of 100) on the policy potential index<sup>v</sup>, which is a slight improvement from last year's Fraser Survey score of 12/100 (and consistent with the 2003 survey). Indonesia is ranked sixth last, marginally ahead of Zimbabwe, Papua New Guinea, the Democratic Republic of the Congo, Venezuela, and the Philippines.



## Deterrents to investment

The four main individual factors contributing to Indonesia's poor policy potential rating were:

Factor	% of respondents who consider factor to be a strong deterrent to investment in Indonesia	Comments
Political stability	63%	5 <sup>th</sup> lowest rank
Security	56%	4 <sup>th</sup> lowest rank
Uncertainty concerning which areas will be protected as wilderness or parks	48%	5 <sup>th</sup> lowest rank
Geological database	44%	4 <sup>th</sup> lowest rank

Source: Fraser Institute<sup>iv</sup>

There were several other areas where Indonesia ranked in the lowest quartile of countries covered by the survey, including:

Factor	% of respondents who consider factor to be a strong deterrent to investment in Indonesia	Comments
Uncertainty concerning the administration, interpretation and enforcement of existing regulations	53%	10 <sup>th</sup> lowest rank
Infrastructure	34%	8 <sup>th</sup> lowest rank

Source: Fraser Institute<sup>iv</sup>

Interestingly, the taxation regime, which was a strongly negative factor for Indonesia in last year's Fraser Survey, has not been considered in the top five issues impacting investment in Indonesia. This is not in line with the respondents to this survey who continue to see a need for improving the competitiveness of the taxation system (see following pages).



**Significant exploration potential, provided investment conditions are improved**

Respondents to the Fraser Survey also rated each region’s mineral potential in two ways:

- based on existing regulations and land use restrictions; and
- assuming no regulations or land restrictions, and industry ‘best practice’ standards.

The difference in results for Indonesia was significant:

	Based on existing regulations and land use restrictions	Assuming no regulations or land restrictions and industry ‘best practice’ standards
Indonesia’s country rating for mineral policy	45%	100%
Country ranking	42 <sup>nd</sup> (out of 64)	7 <sup>th</sup> highest rank

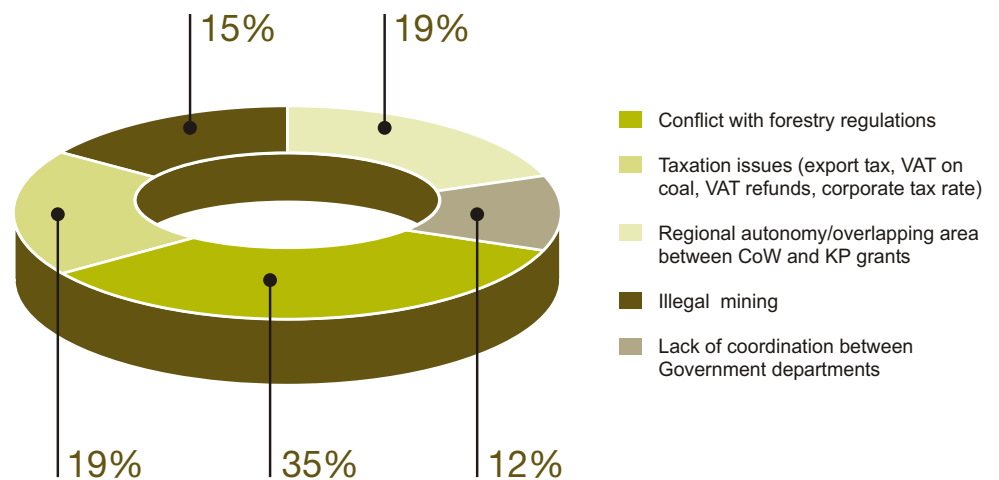
The Fraser Survey notes that countries with a large difference in these two measures have significant room to improve, which highlights the potential for a significant increase in exploration activity in Indonesia under the right investment conditions. As the table above illustrates, if a best practice regime was implemented, Indonesia would be ranked 7<sup>th</sup> best in the world.

**Priorities to improving investment conditions**

As illustrated above, substantial increases in exploration and development of new mines can only be expected to be achieved with a significant improvement in the mineral policy regime and the investment climate in general. While mining companies continue to rate Indonesia’s policy framework negatively, exploration and investment dollars will continue to be drawn away to other countries with relatively less geological prospectivity.

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

The general criticisms in the Fraser Survey are borne out by the respondents of this survey, on the areas where significant improvement is needed in the Indonesian mining investment climate. The “Top 5” areas for improvement are:



These “Top 5” issues are consistent with the seven priorities highlighted by the mining industry as detailed in *mineIndonesia 2005\**. These are listed in the following page with a comment on progress to date as well as the survey respondents’ rating of progress since December 2005.

mineIndonesia 2005* - seven priorities to improving investment conditions	Progress to date	Survey respondents' rating of progress**
<ul style="list-style-type: none"> <li>Restoring long-term certainty in the Contract of Work (CoW) system, including tax stability (locking in tax conditions for the CoW term).</li> </ul>	<ul style="list-style-type: none"> <li>The draft mining law has been before parliament for some time, but it is unclear when it will be passed. The current draft indicates that the CoW system will cease to exist for new projects, which is not favoured by foreign investors.</li> </ul>	C
<ul style="list-style-type: none"> <li>Improving the competitiveness of the taxation and royalty system relative to other prospective countries, including restoring VAT refunds for gold and coal producers.</li> </ul>	<ul style="list-style-type: none"> <li>Tax reforms appear to be heading in the right direction. Under the proposed new tax laws the corporate tax rate may reduce to 25% by 2010 and most mining products are to be VATable again (coal will be a VATable product but the reforms do not appear to extend to gold bars). The taxation of oil and gas companies and mining companies will be set by government regulation.</li> <li>A negative factor is the attempt in 2006 to impose a 5% duty on the value of coal exported, which was subsequently withdrawn.</li> </ul>	B - C
<ul style="list-style-type: none"> <li>Resolving conflicts between CoW terms and forestry regulations, without imposing additional financial or other burdens on mining companies.</li> </ul>	<ul style="list-style-type: none"> <li>In August 2005 the Constitutional Court confirmed the status of Law No. 19/2000 allowing mining in protected forests. However it permits only 13 existing concessions to mine in such forests.</li> <li>In March 2006, the Forestry Ministry issued Regulation No. 14/2006 which imposes additional requirements on mining companies, including potential for additional royalties.</li> </ul>	B - C
<ul style="list-style-type: none"> <li>Reduce illegal mining.</li> </ul>	<ul style="list-style-type: none"> <li>The government has acknowledged the need to clean up illegal activities, and there appears to have been some success to date.</li> </ul>	B
<ul style="list-style-type: none"> <li>Minimise potential for 'over regulation' in proposed changes to regulations affecting mining, including regulatory duplication between central and regional governments.</li> </ul>	<ul style="list-style-type: none"> <li>No significant progress noted. The industry still notes a lack of coordination between government departments and between the central and regional governments. A recent trend of regional governments issuing <i>Kuasa Pertambangan</i> (KP), or mining rights, on areas already covered by a CoW, is of some concern.</li> </ul>	B - C
<ul style="list-style-type: none"> <li>Ensure fairness in divestment of foreign interest and mine closures.</li> </ul>	<ul style="list-style-type: none"> <li>No significant progress noted.</li> </ul>	C
<ul style="list-style-type: none"> <li>Improving certainty of legal interpretation of CoWs and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>No significant progress noted. It is hoped that the passing of a new mining law will assist in improving legal certainty.</li> </ul>	B - 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.



# Financial Position





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

Key balance sheet ratios generally improved in 2005. The total funds employed reached its highest level within the past decade. The level of investment in fixed assets has significantly increased from the past four years average, although it is still significantly below the average 1996-1999 level. The increase in fixed asset additions is offset by increasing depreciation. The balance of deferred exploration and development costs has also increased in 2005.

### Aggregate balance sheet

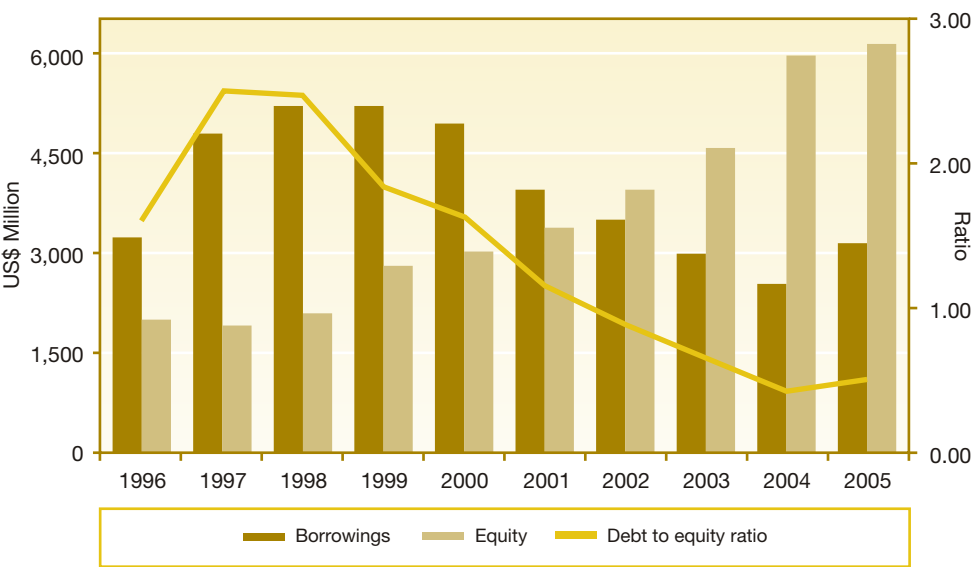
	2004 US\$ million	2005 US\$ million	Year-on-year Movement
Current assets	3,645	4,882	↑ 34%
Fixed assets	6,627	6,287	↓ 5%
Exploration and development	798	899	↑ 13%
Other assets	1,252	2,320	↑ 85%
<b>Total assets</b>	<b>12,321</b>	<b>14,387</b>	<b>↑ 17%</b>
Current liabilities	2,248	3,655	↑ 63%
Provision/reserve for restoration and mine closure	168	208	↑ 24%
Other liabilities	1,406	1,235	↓ 12%
<b>Total liabilities (excl. borrowings)</b>	<b>3,822</b>	<b>5,098</b>	<b>↑ 33%</b>
Shareholders' funds	5,946	6,155	↑ 4%
Borrowings	2,552	3,134	↑ 23%
<b>Total funds employed</b>	<b>8,498</b>	<b>9,289</b>	<b>↑ 9%</b>
<b>Total equity and liabilities</b>	<b>12,321</b>	<b>14,387</b>	<b>↑ 17%</b>

### Aggregate debt levels show some increase

The increase in borrowings is predominantly driven by one of the major coal groups which obtained new debt of approximately US\$1 billion during 2005. This was offset by the general trend of debt repayment by operating mines (profitability and cash flows of which, in general, are improving) and the low level of new investment in the Indonesian mining industry in the past few years.

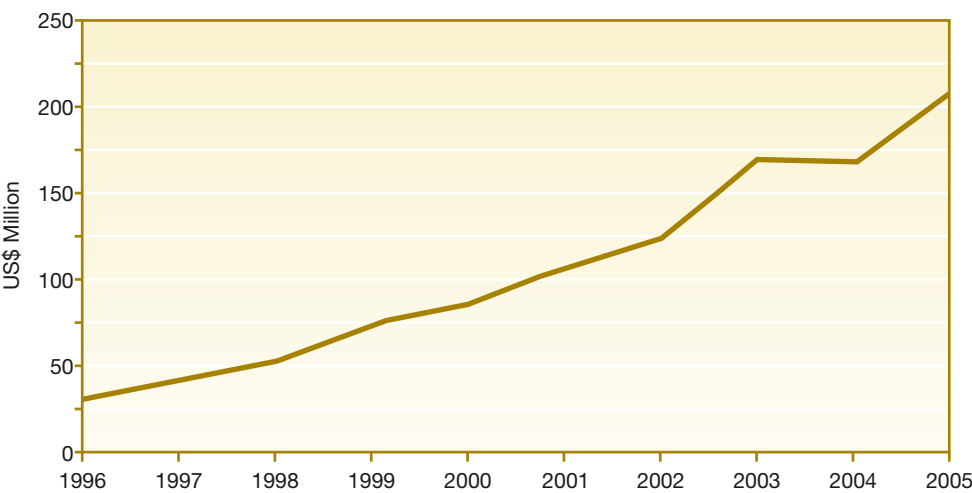
Two major coal and mineral companies make up nearly 77% of the total related party-foreign debt.

Equity & borrowings



The aggregate mine closure provision has increased by 24% in 2005 from the prior year's balance.

Restoration and closure provision



This increase is primarily due to an increase in the provision for restoration and mine closure of a large gold mining company. It is expected that these provisions will continue to increase in coming years as mines age and reserves are gradually depleted.





# Contribution To Indonesian Economy



The mining industry benefits Indonesia in many ways. One of the most significant benefits has been the development of many remote regions of Indonesia, which otherwise may not have occurred. Mining companies are often the only significant employer in some of these remote areas. This report attempts to capture the direct monetary impact on the Indonesian economy, however, it must be recognised that this measured impact does not include the indirect multiplier effect that the mining industry contribution has on other economic activity. This multiplier effect is significant.

Two studies by the University of Indonesia<sup>vi</sup> on the economic impact of two of Indonesia's larger mining operations (Kaltim Prima Coal and Freeport Indonesia) demonstrate this multiplier effect on employment and economic activity. The studies indicate that, Kaltim Prima Coal and Freeport Indonesia, have output multipliers of 1.9 times and 1.6 times revenue from mineral sales in those areas, respectively, while the number of indirect jobs created as a result of mining activity was around 12 times and 37 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.

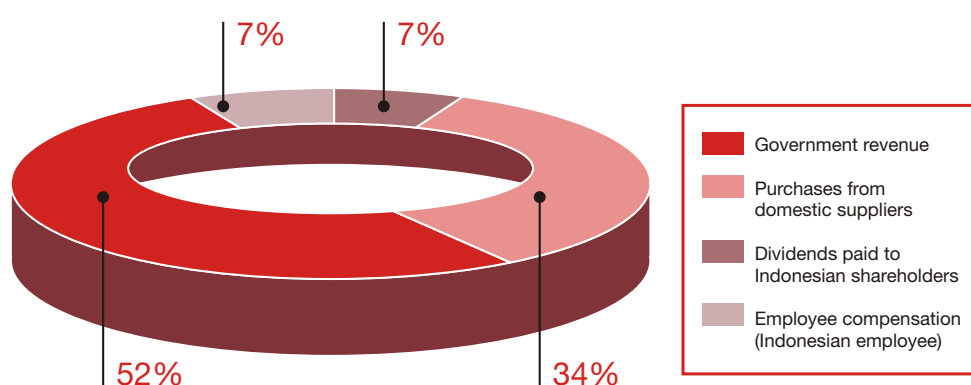
Respondents to this year's survey reported an 84% increase in total contribution to the Indonesian economy. The figures reported do not include the indirect multiplier effect that this contribution has on other economic activity in Indonesia.

In 2005, total Indonesian mining industry contribution to GDP has increased 7% on last year to Rp51 trillion. The Indonesian mining industry contributed approximately 2% to the total Indonesian GDP in 2005, 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.

## Direct contribution to the Indonesian economy

	2004	2005	Year-on-year Movement
<b>Rp billion</b>			
Employee compensation (Indonesian employees)	3,360	3,424	↑ 2%
Purchases from domestic suppliers	8,454	16,901	↑ 100%
Government revenue	14,042	26,273	↑ 87%
Dividends paid to Indonesian shareholders	1,255	3,404	↑ 171%
Interest paid to Indonesian companies/banks	196	195	-
<b>Total contribution</b>	<b>27,307</b>	<b>50,197</b>	<b>↑ 84%</b>
<b>Mining industry contribution to GDP<sup>viii</sup></b>			
	<b>47,326</b>	<b>50,589</b>	<b>↑ 7%</b>
<b>US\$ million</b>			
<b>Total contribution to Indonesian exports<sup>ix</sup></b>	<b>10,250</b>	<b>14,272</b>	<b>↑ 39%</b>
<b>Export revenues of survey respondents</b>	<b>6,151</b>	<b>8,832</b>	<b>↑ 44%</b>

## Direct contribution by type (2005)







# Expenditures of Public Interest

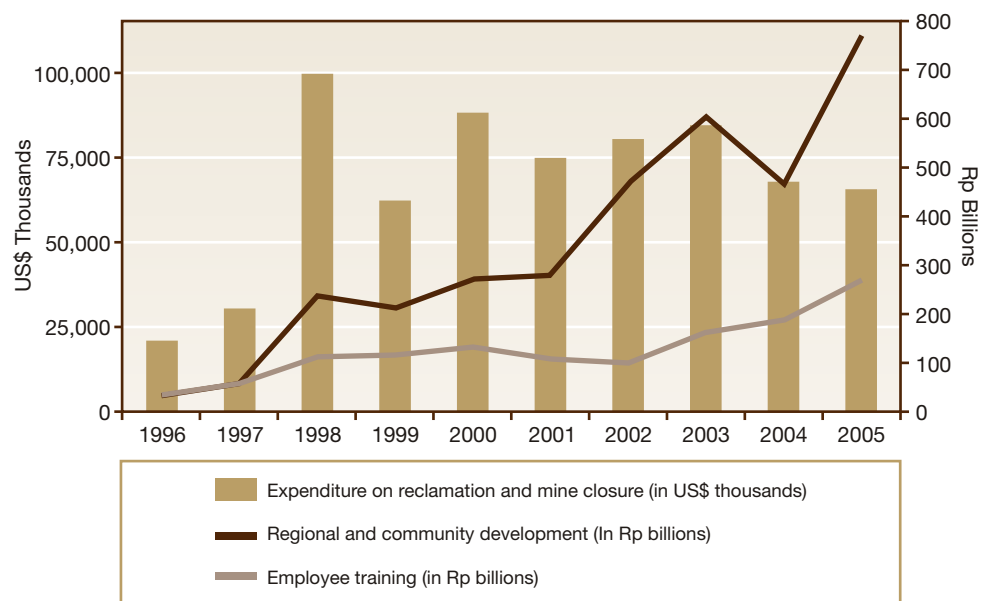




Total spending on employee training, and regional and community development has continued to increase significantly as has been the general trend within the past decade. Regional and community development recorded the highest increase of 65% from last year to Rp771 billion in spending.

Over the last five years respondents have spent more than Rp3.7 trillion on these activities. This increase has generally been in line with the increased profits reported by the industry. As the industry prospers, so too does the surrounding community.

### Expenditures of public interest



### Expenditures of public interest

	2004	2005	Year-on-year Movement	
<b>Rp billions</b>				
Employee training	186	271	↑	46%
Regional and community development	468	771	↑	65%
Charitable donations and contributions to not-for-profit foundations	85	74	↓	13%
<b>US\$ thousands</b>				
Research and development	1,951	2,995	↑	54%
Expenditure on reclamation, mine closure and environmental control	67,458	65,749	↓	3%
Net increase in accumulated provision/reserve for reclamation and mine closure	(1,109)	39,509	↑	3,663%

# Employment

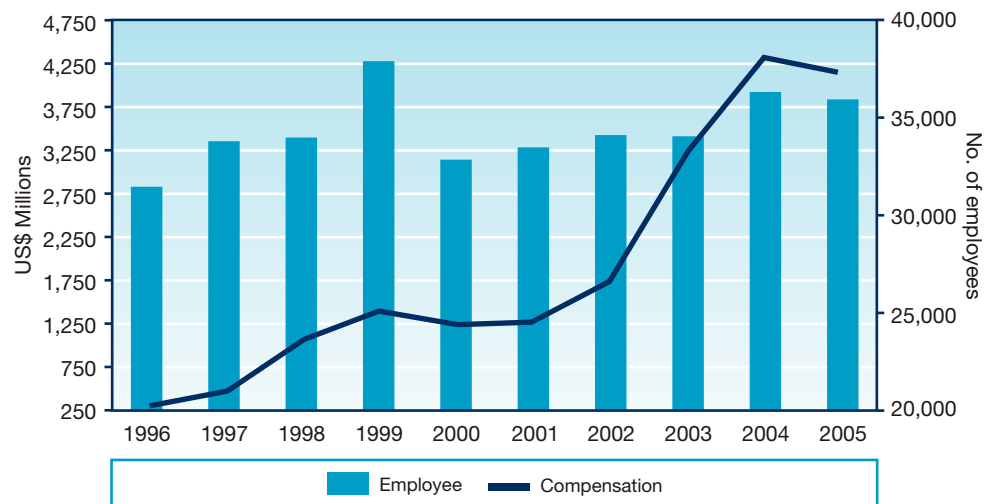


The number of individuals directly employed by survey respondents remains relatively stable compared to that of the previous year. The number of expatriate employees has reduced from the average over the last 5 years. This indicates that the process of knowledge transfer from the expatriate employees to local employees has been progressing in the right direction.

Gross workforce compensation slightly decreased by 4% to Rp4,175 billion in 2005 mainly due to the cessation of the Kelian gold mine in 2005.

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.

### Employee numbers & compensation



### Employees and compensation

	2000-2004 Average	2004	2005	Year-on-year Movement
Indonesian employees	33,423	35,801	35,517	↓ 1%
Expatriate employees	500	423	434	↑ 3%
<b>Total direct employees</b>	<b>33,923</b>	<b>36,224</b>	<b>35,951</b>	<b>↓ 1%</b>
Gross workforce compensation (Rp billions)	2,363	4,337	4,175	↓ 4%



# 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 eighth 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

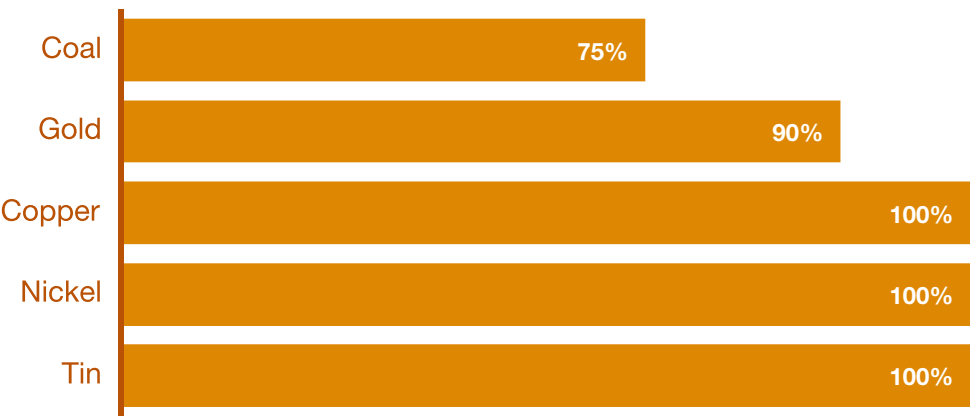
The report is based on the results of a confidential, comprehensive survey questionnaire circulated by PricewaterhouseCoopers to 51 producing companies and over 36 exploration companies that were involved with exploration projects in Indonesia during the period 1999 to 2005. Several exploration companies no longer contribute to the survey because they are now inactive. Survey responses have been reviewed, to the extent possible, for reasonableness and consistency, however, they have not been verified. This information was occasionally supplemented by publicly available reports.



# Coverage

The survey results for this year cover the activities of 20 (17 in 2004) producing companies and 16 (15 in 2004) 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 mineral production. The survey coverage of Indonesia’s 2005 production of major minerals is shown in the chart below:



Although the data in this report is representative of the industry, not all exploration and producing companies participated in the survey, in particular 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. The survey coverage of Indonesia's 2005 production of major minerals is shown below:

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

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



# 10 Year Summary



## Financial performance

### Major mineral prices

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Coal	US\$/t	40.30	37.65	34.50	29.95	28.75	34.50	28.85	26.75	44.00	53.00
Copper	US\$/lb	1.33	1.03	0.71	0.68	0.78	0.72	0.71	0.81	1.30	1.67
Gold	US\$/oz	384.40	331.30	294.00	278.60	279.10	271.00	309.80	363.30	409.72	444.74
Nickel	US\$/lb	3.73	3.14	2.00	2.59	3.69	2.70	3.07	4.37	6.28	6.68
Tin	US\$/lb	2.82	2.56	2.39	2.33	2.33	2.03	1.84	2.14	3.84	3.44

(Yearly average price). Source: AME Mineral Economics, Kitco.com (for gold price), minerals.usgs.gov

### Mineral production

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Coal	'000 t	50,346	54,822	61,931	73,777	77,040	92,540	103,372	114,491	132,255	151,594
Copper	Mlb	1,119	1,167	1,427	1,690	2,157	2,258	2,497	2,165	1,819	2,285
Gold	'000 oz	2,326	2,559	3,641	3,929	3,802	4,856	4,326	4,389	2,719	4,550
Nickel	Mlb	108	93	96	120	141	161	151	174	177	185
Tin	'000 t	49	53	54	50	47	54	67	65	63	68

### Aggregate profit and loss

US\$ millions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Net sales revenue</b>	<b>3,582</b>	<b>3,665</b>	<b>3,540</b>	<b>3,841</b>	<b>4,811</b>	<b>5,010</b>	<b>5,374</b>	<b>6,333</b>	<b>8,067</b>	<b>11,070</b>
Cash operating expenses	2,281	2,524	2,096	2,148	2,978	3,241	3,373	3,911	4,966	6,300
<b>EBITDA</b>	<b>1,301</b>	<b>1,140</b>	<b>1,444</b>	<b>1,693</b>	<b>1,834</b>	<b>1,768</b>	<b>2,001</b>	<b>2,422</b>	<b>3,101</b>	<b>4,770</b>
Amortisation and depreciation	322	358	455	517	805	602	653	767	586	555
<b>Profit before interest and tax</b>	<b>979</b>	<b>782</b>	<b>989</b>	<b>1,176</b>	<b>1,029</b>	<b>1,167</b>	<b>1,349</b>	<b>1,655</b>	<b>2,515</b>	<b>4,215</b>
Interest	97	109	129	251	371	273	225	184	149	136
<b>Profit before tax</b>	<b>882</b>	<b>673</b>	<b>860</b>	<b>925</b>	<b>658</b>	<b>893</b>	<b>1,124</b>	<b>1,471</b>	<b>2,366</b>	<b>4,079</b>
Tax	310	257	302	340	267	356	381	526	824	1,436
<b>Net profit</b>	<b>571</b>	<b>417</b>	<b>559</b>	<b>585</b>	<b>391</b>	<b>538</b>	<b>742</b>	<b>945</b>	<b>1,542</b>	<b>2,642</b>

## Profitability – Return on average shareholders' funds (%)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Indonesia	14.4%	9.8%	13.1%	13.3%	8.1%	11.1%	15.5%	18.6%	27.4%	38.6%
Australia <sup>ii</sup>	2.9%	1.8%	3.7%	4.0%	13.9%	12.9%	7.9%	7.4%	14.0%	24.1%

## Aggregate cash flows

US\$ millions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Cash from operations	1,151	1,057	1,108	1,179	1,255	1,367	1,424	1,735	2,177	3,442
Net cash from financing	(41)	1,059	634	(118)	(942)	(797)	(881)	(538)	(787)	(1,712)
Cash spent on investment	(1,103)	(1,861)	(1,739)	(1,174)	(515)	(346)	(160)	(671)	(459)	(1,495)
Net cash flows	7	255	3	(113)	(202)	224	383	525	931	235

## Taxes and government revenue

US\$ millions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Income tax expense	310	257	302	340	267	356	381	526	824	1,436
Mineral and coal royalties	57	78	65	117	144	176	279	314	431	552
<b>Total direct taxes</b>	<b>368</b>	<b>334</b>	<b>367</b>	<b>457</b>	<b>411</b>	<b>532</b>	<b>660</b>	<b>841</b>	<b>1,255</b>	<b>1,989</b>
<b>Total indirect taxes</b>	<b>33</b>	<b>35</b>	<b>24</b>	<b>40</b>	<b>173</b>	<b>68</b>	<b>98</b>	<b>58</b>	<b>82</b>	<b>93</b>
<b>Total tax expense on companies</b>	<b>401</b>	<b>369</b>	<b>391</b>	<b>497</b>	<b>584</b>	<b>601</b>	<b>758</b>	<b>899</b>	<b>1,337</b>	<b>2,081</b>
<b>Total taxes levied to others</b>	<b>125</b>	<b>162</b>	<b>132</b>	<b>182</b>	<b>135</b>	<b>163</b>	<b>179</b>	<b>172</b>	<b>221</b>	<b>452</b>
<b>Total taxes</b>	<b>526</b>	<b>532</b>	<b>523</b>	<b>679</b>	<b>719</b>	<b>764</b>	<b>938</b>	<b>1,070</b>	<b>1,558</b>	<b>2,533</b>
Input VAT	103	127	131	184	98	73	44	98	116	172
<b>Total Government revenue</b>										
- US\$ millions	629	659	655	864	817	837	982	1,169	1,674	2,706
- Rp billions	1,473	1,900	6,588	6,798	6,863	8,569	9,147	10,019	14,042	26,273



## Investment

US\$ millions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Greenfields exploration spending	54	51	27	18	11	7	7	7	7	7
Other exploration and feasibility	107	104	69	60	56	31	12	22	77	101
Development	40	197	192	367	191	73	107	31	94	70
Fixed assets	1,006	1,410	1,879	963	657	167	240	330	525	552
Total investment	1,206	1,762	2,168	1,408	915	278	366	391	702	729
World exploration and feasibility	4,600	5,100	3,500	2,700	2,340	2,200	1,900	2,190	3,800	5,100

## Financial position

US\$ millions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Current assets	1,452	1,516	1,495	1,644	1,822	1,649	2,229	2,624	3,645	4,882
Fixed assets	4,440	5,867	6,754	7,144	7,067	6,614	6,375	6,241	6,627	6,287
Exploration and development	817	1,008	1,116	1,230	969	678	807	797	798	899
Other assets	238	277	253	313	252	546	648	1,149	1,252	2,320
<b>Total assets</b>	<b>6,947</b>	<b>8,667</b>	<b>9,619</b>	<b>10,331</b>	<b>10,110</b>	<b>9,487</b>	<b>10,060</b>	<b>10,811</b>	<b>12,321</b>	<b>14,387</b>
Current liabilities	1,218	1,070	953	1,136	1,626	1,419	1,703	2,268	2,248	3,655
Provision/reserve for restoration and mine closure	31	42	52	73	86	107	125	170	168	208
Other liabilities	443	835	1,286	1,093	446	613	767	786	1,406	1,235
Total liabilities (excl. borrowings)	1,692	1,947	2,291	2,302	2,157	2,139	2,595	3,223	3,822	5,098
Equity	2,016	1,920	2,107	2,824	3,017	3,392	3,954	4,597	5,946	6,155
Borrowings	3,239	4,800	5,221	5,205	4,935	3,956	3,511	2,992	2,552	3,134
<b>Total funds employed</b>	<b>5,255</b>	<b>6,720</b>	<b>7,328</b>	<b>8,029</b>	<b>7,952</b>	<b>7,348</b>	<b>7,465</b>	<b>7,588</b>	<b>8,498</b>	<b>9,289</b>
<b>Total equity and liabilities</b>	<b>6,947</b>	<b>8,667</b>	<b>9,619</b>	<b>10,331</b>	<b>10,110</b>	<b>9,487</b>	<b>10,060</b>	<b>10,811</b>	<b>12,321</b>	<b>14,387</b>

## Contribution to Indonesian economy

Rp billions	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Employee compensation (excl. expatriates)	248	290	545	846	1,080	1,074	1,489	2,475	3,360	3,424
Purchases from domestic suppliers	1,321	1,523	3,253	3,688	4,790	4,304	6,813	7,341	8,454	16,901
Government revenue	1,473	1,900	6,588	6,798	6,863	8,569	9,147	10,019	14,042	26,273
Dividends paid to Indonesian shareholders	141	177	203	298	647	338	411	329	1,255	3,404
Interest paid to Indonesian companies/banks	140	266	875	294	259	264	473	281	196	195
<b>Total contribution</b>	<b>3,324</b>	<b>4,157</b>	<b>11,463</b>	<b>11,924</b>	<b>13,641</b>	<b>14,549</b>	<b>18,332</b>	<b>19,545</b>	<b>27,307</b>	<b>50,197</b>

## Expenditures of public interest

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Rp billions</b>										
Employee training	39	60	113	119	135	108	100	164	186	271
Regional and community development	35	60	238	211	270	279	466	606	468	771
Charitable donations and contributions to not-for-profit foundations	9	10	41	44	80	40	68	59	85	74
<b>US\$ thousand</b>										
Research and development	1,428	1,705	1,330	1,336	749	252	271	1,148	1,951	2,995
Expenditure on reclamation, mine closure and environmental control	21,189	30,050	99,688	62,426	87,950	74,766	80,388	84,239	67,458	65,749
Net increase in accumulated provision/ reserve for reclamation and mine closure	7,402	10,719	9,863	21,503	12,260	21,240	17,971	44,592	(1,109)	39,509

## Employment

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Indonesian employees	30,859	33,063	33,215	36,887	32,189	32,909	33,102	33,112	35,801	35,517
Expatriate employees	630	673	716	990	598	532	501	447	423	434
<b>Total direct employees</b>	<b>31,489</b>	<b>33,736</b>	<b>33,931</b>	<b>37,877</b>	<b>32,787</b>	<b>33,441</b>	<b>33,603</b>	<b>33,559</b>	<b>36,224</b>	<b>35,951</b>
Gross workforce compensation (Rp billions)	n/m	n/m	1,058	1,409	1,246	1,287	1,759	3,183	4,337	4,175

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

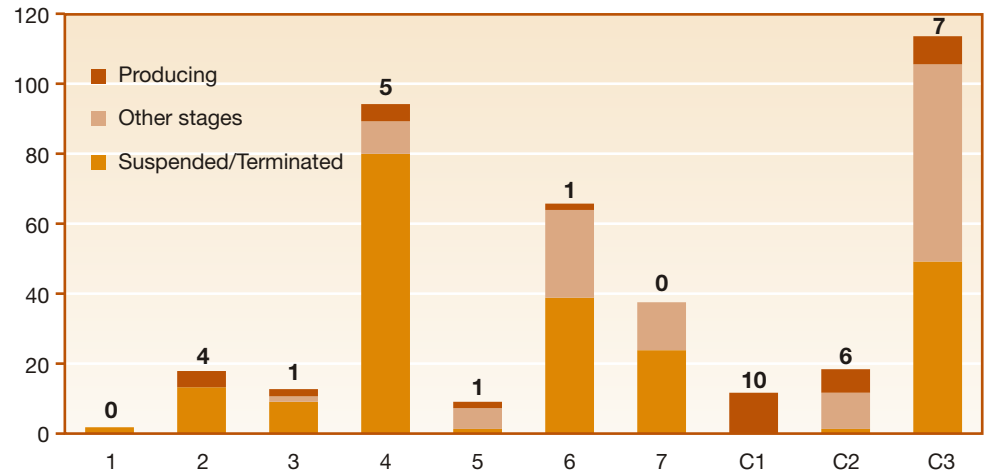


# Contracts of Work and Coal Agreements



## Mining Contracts of Work and Coal Agreements by generation and status

(No. of producing contracts shown)



Source: Directorate of Minerals and Coal Enterprise

## Contracts of Work by generation and status

	1st	2nd	3rd	4th	5th	6th	7th	Total
Producing	-	4	1	5	1	1	-	12
Other stages	-	-	1	9	5	25	14	54
Suspended/Terminated	1	13	10	80	2	39	24	169
<b>Total</b>	<b>1</b>	<b>17</b>	<b>12</b>	<b>94</b>	<b>8</b>	<b>65</b>	<b>38</b>	<b>235</b>

Source: Directorate of Minerals and Coal Enterprise

## Coal Agreements by generation and status

	C1	C2	C3	Total
Producing	10	6	7	23
Other stages	-	10	57	67
Suspended/Terminated	1	2	49	52
<b>Total</b>	<b>11</b>	<b>18</b>	<b>113</b>	<b>142</b>

Source: Directorate of Minerals and Coal Enterprise

# Glossary

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



# Endnotes

- i. From “mine\* let the good times roll, review of global trends in the mining industry in 2005” June 2006 and/or “mine\* enter the dragon, review of global trends in the mining industry” June 2005 undertaken by PricewaterhouseCoopers.
- ii. From “Minerals Industry Survey Report 2006” undertaken by PricewaterhouseCoopers for the Minerals Council of Australia.
- iii. From research undertaken by Metals Economics Group ([www.metalseconomics.com](http://www.metalseconomics.com)), 2006.
- iv. From Fraser Institute’s Annual Survey of Mining Companies 2005/2006 ([www.fraserinstitute.ca](http://www.fraserinstitute.ca)), 2005 and 2006.
- v. The policy potential index measures “the effects on exploration of government policies including uncertainty concerning the administration, interpretation, and enforcement of existing regulations, environmental regulations, regulatory duplication and inconsistencies, taxation, uncertainty concerning native land claims and protected areas, infrastructure, socioeconomic agreements, political stability, labor issues, and geological database”.
- vi. Economic Impact Analysis of Kaltim Prima Coal (2002) and Freeport Indonesia (2003) undertaken by Institute for Economic and Social Research Faculty of Economics – University of Indonesia.
- vii. Government revenue allocation 2004 (before Special Funds Allocation) (Based on Law 33/2004).
- viii. From Badan Pusat Statistik/BPS-Statistics Indonesia.
- ix. From Data Statistik Bank Indonesia ([www.bi.go.id](http://www.bi.go.id)).
- x. The coal production figures represent total Indonesian production and were obtained from the Directorate General of Minerals, Coal and Geothermal.

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# Indonesian Mining Association



IMA is a non-governmental, non-political, and not-for-profit national mining organization, established in Jakarta on 29 May 1975.

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

The association serves as a link between Government and the mining industry; organizing lectures, seminars and training activities for the members; organizing 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 organization all over the world in promoting mining business and technology.

The association has 102 company members.

# 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.





