INDONESIAN COAL INDUSTRY OUTLOOK

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PRESENTATION OUTLINE

• INTRODUCTION
• How much Coal Reserves can be found in Indonesian?
• What is Indonesian Coal Quality?
• What is production, export and domestic sales levels?
• What is Government of Indonesian plan for coal?
• What is long run prediction for production, export and domestic utilization of coal?
• Indonesian new mineral and coal low, is it favorable or unfavorable for investment?
• Closing Remarks
INTRODUCTION

- Up to mid 2008, the mining industry both in Indonesia and globally experienced significantly high performance.
- For Indonesia, PricewaterhouseCoopers reported that in the last three year EBITDA Margin, Net Profit Margin, Return on Capital Employed, Return on Shareholders fund, and Net Debt to Equity Ratio were above the sector global average.
- The mining industry continues to be an important contributor to the Indonesian economic.
- The industry also continue to make significant contributions to the Indonesian GDP and Export, as well as to Regional and Community Development.
- Since September 2008, the price of all mining products has been decreasing significantly and reduced the profitability of mining companies for the year 2008.
- The year of 2009, will be very hard for mining companies.
HOW MUCH COAL RESERVES CAN BE FOUND IN INDONESIAN?
The biggest reserves are located in 3 provinces, in South Sumatra (39 %), East Kalimantan (34%), and South Kalimantan (16%).

Source: Center for Geology, Geology Agency 2006
INDONESIAN COAL MAP RESOURCES AND RESERVES (BILLION TONS)

Resources: 93.40 billion tons

SUMATRA: 52.53 b.t
RESOURCES: 11.55 b.t

KALIMANTAN: 7.15 b.t

SULAWESI: 40.47 b.t

MALUKU: 0.002 b.t

PAPUA: 0.15 b.t

NEPAL: 0.01 b.t

Indonesia Map with Resources and Reserves

Reserves: 18.70 billion tons

Source: Geological Resources Centre (+ Joint Study with NEDO) – 2007
March 2009, it was reported become 104.7 Billion ton Resources
WHAT IS INDONESIAN COAL QUALITY?
INDONESIA COAL QUALITY BASED ON THE SPECIFIC ENERGY (KCAL/KG)

- High Quality (6100-7100 kcal/kg): 13%
- Medium Quality (5100-6100 kcal/kg): 62%
- Very High Quality (>7100 kcal/kg): 1%
- Low Quality (<5100 kcal/kg): 24%
How many coal mining in Indonesian today?

What is production, Export and domestic sales levels?
COAL MINING PLAYERS GROUP (2007)

* 1 Company in Production
** 36 Companies in Production
  44 Companies in Exploration, Feasibility Study and Construction
*** 129 Companies in Production
PRODUCTION, EXPORT AND DOMESTIC SALES (HISTORICAL DATA, 1996 - 2008) (Million Tons)

Government Version

- APBI-ICMA
WHAT IS GOVERNMENT OF INDONESIA PLAN FOR COAL?
Increased usage of low rank coals for domestic use, coal liquefaction and upgrading brown coal (‘UBC’) will be key factors in increasing domestic coal usage.
WHAT IS LONG RUN PREDICTION FOR PRODUCTION, EXPORT AND DOMESTIC UTILIZATION OF COAL?
PRODUCTION, EXPORT AND DOMESTIC SALES (FUTURE ESTIMATION, 2005 – 2025) (Million Tons)

APBI-ICMA Version

Source: APBI-ICMA 2009.
Have you heard of Indonesian new mineral and coal law?

Is it favorable or Unfavorable for investment?
There are still many question marks for the new law?

The answers are still to be waited. The new law will rely heavily on many still to be issued government regulations for its implementations.
The Essence Of The New Law

- The law replaces the mineral and coal mining law No. 11/1967. However, the mineral and coal mining law will rely heavily on many still to issued government regulation for its implementations.

- New Contract of Work (CoW) and Coal Contract of Work (CCoW) systems will no longer be available. But all existing contracts will be respected.

- All investor (both foreign and local) will be treated equally. Both investors will be able to apply for a form of mining license (IUP or IUPK).
  - An IUP is requires for exploration, development and production stage.
  - An IUPK is applicable for State Reserves Areas (SRA)

- Existing Mining Companies should process raw minerals in domestic processing and smelting facilities within five years after the law entry into force.
The Essence of the new law (continued)

- All investment (both foreign and Indonesia) must now be carried out pursuant to an “IUP” or “IUP Khusus”/IUPK”.
- An IUP is applicable for general mining.
- An IUPK is applicable for any mineral or coal in The State Resources Areas (SRA)
- State Reserves Areas (SRA’s) are to be determined by the Central Government with approval from parliament.
- Stated Owned Companies are to be prioritized for the development of SRA’s.
## MINING AREAS

<table>
<thead>
<tr>
<th>Type</th>
<th>Exploration Stage</th>
<th>Production Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metallic – Mineral</td>
<td>Maximum 100.000 Ha</td>
<td>Maximum 25.000 Ha</td>
</tr>
<tr>
<td>Non Metallic Mineral</td>
<td>Maximum 25.000 Ha</td>
<td>Maximum 5.000 Ha</td>
</tr>
<tr>
<td>Sand &amp; Stone Aggregates</td>
<td>Maximum 5.000 Ha</td>
<td>Maximum 1.000 Ha</td>
</tr>
<tr>
<td>Coal</td>
<td>Maximum 50.000 Ha</td>
<td>Maximum 15.000 Ha</td>
</tr>
</tbody>
</table>

**IPR**
- Individuals: 1 Ha
- Group: 5 Ha
- Cooperation: 10 Ha
MINING TERMS

IUP:

EXPLORATION STAGE:
Coal and Gemstone → 7 years
Metallic Mineral → 8 years
Non Metallic Mineral → 3 years
Stone Aggregate → 3 years

EXPLOITATION STAGE:
Coal, Metallic Minerals → 20 years (can be prolonged 2 x @10 years)
Non Metallic Minerals → 10 years (can be prolonged 2 x @ 5 years)
Stone Aggregate → 5 years (can be prolonged 2 x @ 5 years)
### MINING TERMS (CONTINUED)

**IUPK:**

**EXPLORATION STAGE:**
- Coal → 7 years
- Metallic Minerals → 8 years

**PRODUCTION STAGE:**
- Coal, Metallic Minerals → 20 years
can be prolonged
  2 terms @10 years
WILL NEW MINING LAW BE FRIENDLY TO NEW INVESTORS?

- The answer will be left to the implementing Derivatives Regulations (Government Regulation).

- No more of CoW/CCoW in the future will be the main factor in declining of grass root investment.

- Well regarded Lex specialist concept embedded in some CoW’s/CCoW’s will be no more used in the IUP Concept, accordingly the new law may provide only low level of certainty.

- The idea to re-sizing of the mining become another disincentives factor.

- The obligation to invest in domestic infrastructure of mineral processing and smelting makes mining sector less attractive for low and middle class investors, but give more economic Impact to the country.
WHAT IS GOOD IN THE NEW MINING LAW COMPARE TO THE OLD ONE?

- The new law treats both foreign and local investors equally (no more discrimination in government treatments). Both foreign and domestic investors will be able to apply for a form of mining license.

- Exploration Licensing (IUP) must be issued through a tender process, rather than direct appointment, so it’s means more transparent system compared to the old one.

- Hard Sanction for:
  - Illegal miner
  - Government official whom did misconduct and mismanage in giving licensing.
GOVERNMENT REGULATIONS
Which are still in the kitchen

- Domestic market obligation
- Coal pricing index (basset indexes)
- Mining zone
- Mineral and coal enterprises activity
- Supervising and controlling mining activity
- Mining Reclamation, mine closing and Post Mining Activity
- Added value of mineral processing obligation
DOMESTIC MARKET OBLIGATION

- By having DMO on place, How Foreign Country can rely on Indonesian Coal for their Full Supply.
- We are now discussing with Government to treat upgrading entity as Industrial entity, so it means Raw Coal Supply to this entity is calculate as DMO and consequently the output is free to be traded
- By then it is attractive enough for Investor to invest. This kind of investment to market the product elsewhere
CLOSED REMARKS

- Coal production growth in Indonesian will continue through the year 2009. Slowing demand from the international market may be offset by the increasing demand from the domestic market.
- The natural production level could be much more greater. Only if the bottle neck in the infrastructure (specially in land transportation system) can be eradicated.
- The government of Indonesian, is committed to encourage private sectors to invest in coal mining industry especially in introducing new clean coal technology such as : coal liquefaction and coal gasification.
- The government of Indonesian is committed to promote the application upgrading brown coal technology by coal industry in order to utilize abundant low rank coal in Indonesia.
THANK YOU

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