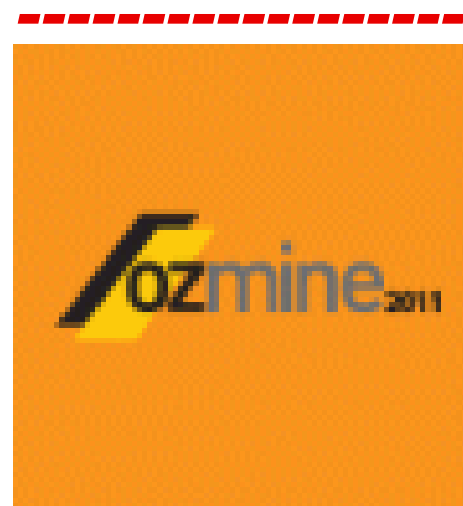




## ***“Next Generation Mining: Transforming Indonesia*”**



***Jakarta, 29-30 March 2011***



# ***Indonesia's Economic & Mineral Development - Outlook & Prospects***

- ***Prospects Today***
- ***The Economy – Macro, Trade, Investment, Infrastructure***
- ***Mining & Mining Prospects***
- ***Conclusions***



# **Indonesia Today** (1)

March 2011

- **Investment reached \$23 billion in 2010 according to BKPM, up from \$15 billion in 2009**
- **A 6.9% jump in Q4 GDP, the highest quarter since 2004, propelled 2010 GDP growth to 6.0%**
- **Exports grew 35% in 2010 and trade balance was a solid \$22.1**

Sources: Bank Danamon. CastleAsia

CA-071025  
CA-090337



# **Indonesia Today** (2)

March 2011

- **Moody's upgraded Indonesia's foreign currency and rupiah bonds to Ba2, just one level below investment grade, the country's highest level since 1997, citing "economic resilience" and steadily improving public debt position (Jan 2011)**
- **Fitch upgraded the country to "BB+ positive" from "BB+ stable", one notch below investment grade (Feb 2011)**

Sources: Bank Danamon. CastleAsia

CA-071025  
CA-090337



# ***Economic Prospects - Today***

***Mostly positive. Looming inflation the major worry.***

- ***With GDP growth over 6%, the Rupiah strengthening, FX reserves at historic highs, direct investment levels steadily increasing and commodity prices stable to strengthening, the Indonesian economy is very strong and the prospects for steady real growth for the next several years are very high.***
- ***This prognosis is also strengthened by the fact that badly needed infrastructure investment, stalled for years by government indecision and infighting, is now moving ahead, albeit at a rate that is far from optimal.***



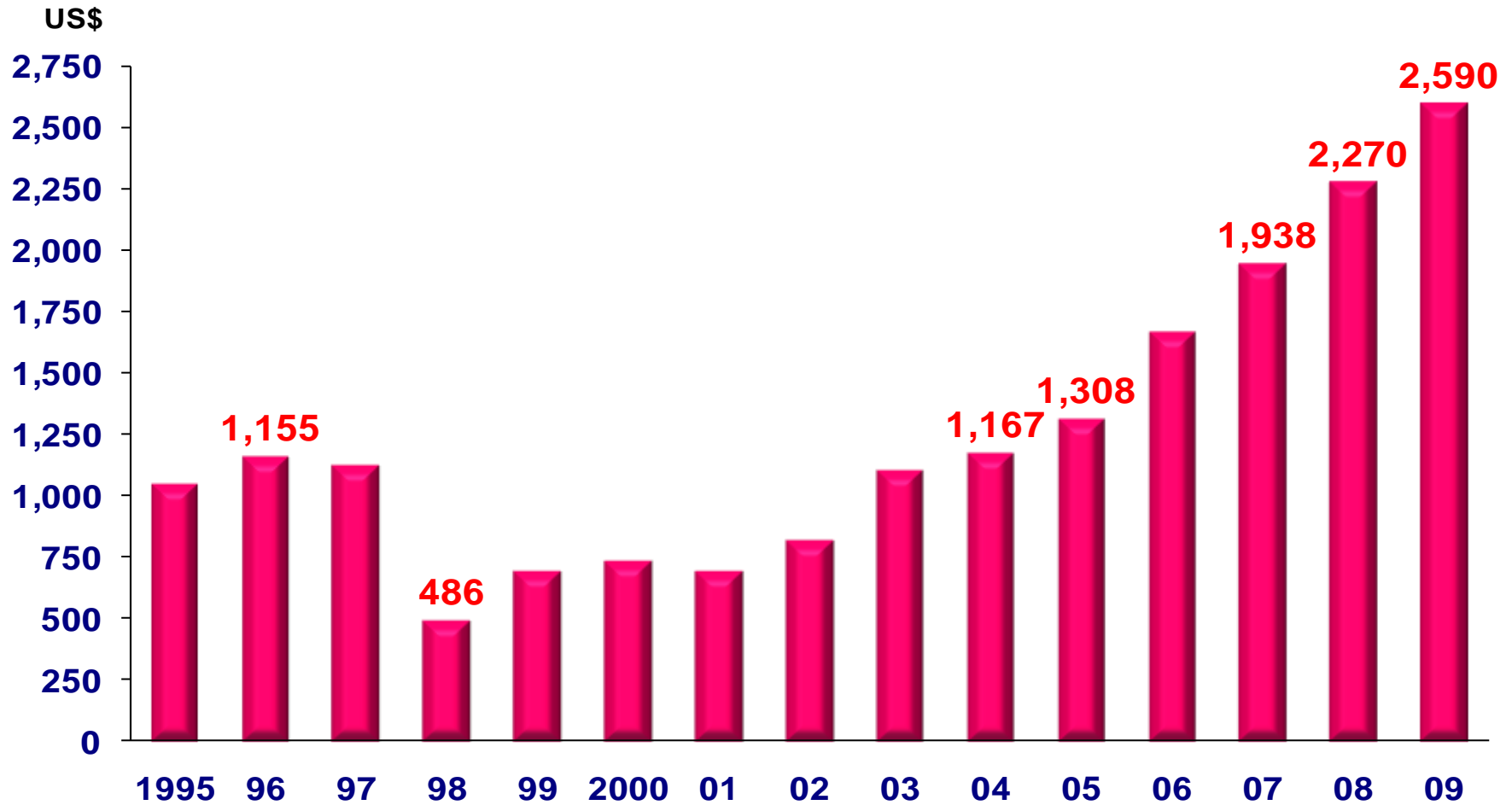
# ***Change You Can Believe In***

- ***Per capita income up***
- ***Numbers of unemployed & those living below the poverty line down***
- ***Consumer credit availability at highest levels ever***
- ***Income redistribution via regional autonomy***



# ***GDP Per Capita 1995 – 2009***

***(US\$)***



Source: CBS



# ***Mining in Indonesia***

- ***Mining has played a very important role in this growth. It is an extremely important sector, not only because of its absolute value but also because that value is often produced in areas that offer very few other opportunities.***
- ***Minerals account for more than 20% of Indonesia's total exports***
- ***Indonesia is the world's 2<sup>nd</sup> largest producer of tin and nickel and the 4<sup>th</sup> largest producer of copper. It also produces significant amounts of gold, phosphates and bauxite.***
- ***Weak infrastructure, illegal mining, legal uncertainty and unresolved regulatory contradictions have inhibited much greater investment in this vibrant sector***

Sources: PWC, CastleAsia

CA-071025  
CA-090337





# ***Benefits to Domestic Economy***

- ***Mining contributes \$20-25 billion to local economy , equal to about 4% of GDP***
- ***Mining companies employ about 40,000 Indonesians, and many more work for suppliers and contractors***
- ***Of the direct contribution to the economy, 55% goes to the govt; 29% to purchases from local suppliers; 8% dividends to local shareholders; 8% to employees***
- ***Payment to govt is about 15 times larger than dividend payments to foreign shareholders.***

Sources: PWC, CastleAsia

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CA-090337



# ***Some major areas of concern***

- ***Conflict between mining operations and forestry regulations***
- ***Contradictions between central and regional govt regulations***
- ***Uncertainty in status of existing Contracts of Work***
- ***Tax issues – e.g. incentives, VAT on gold and coal, effective corporate tax rate***
- ***Lack of coordination between new investment law and mining regulations.***
- ***Conflict with illegal mining***

Sources: PWC, CastleAsia

CA-071025  
CA-090337



# **Consequences of Uncertainty**

- **Successful operators struggle with understanding and adapting to the new legal and regulatory environment**
- **Low exploration expenditure due to legal/regulatory uncertainty. Prospectors are unable to commit significant risk capital without greater certainty that the right to develop discoveries is assured**
- **Outside of coal, confirmed reserves are shrinking, creating the risk of medium term production declines.**



# *The Economy*





# Indonesia has weathered global crisis well

COUNTRY	2009	2010* (Apr)	2010* (Aug)	2011*
China	8.7	9.6	9.8	9.4
South Korea	0.2	5.2	6.0	5.8
India	5.7	8.2	8.5	8.1
<b>INDONESIA</b>	<b>4.5</b>	<b>5.5</b>	<b>6.0</b>	<b>6.5</b>
Vietnam	5.3	6.5	6.1	6.5
Philippines	0.9	3.8	6.8	5.4
Malaysia	-1.7	5.3	6.4	5.1
Thailand	-2.3	4.0	6.7	5.0
Singapore	-2.0	6.3	14.0	5.0

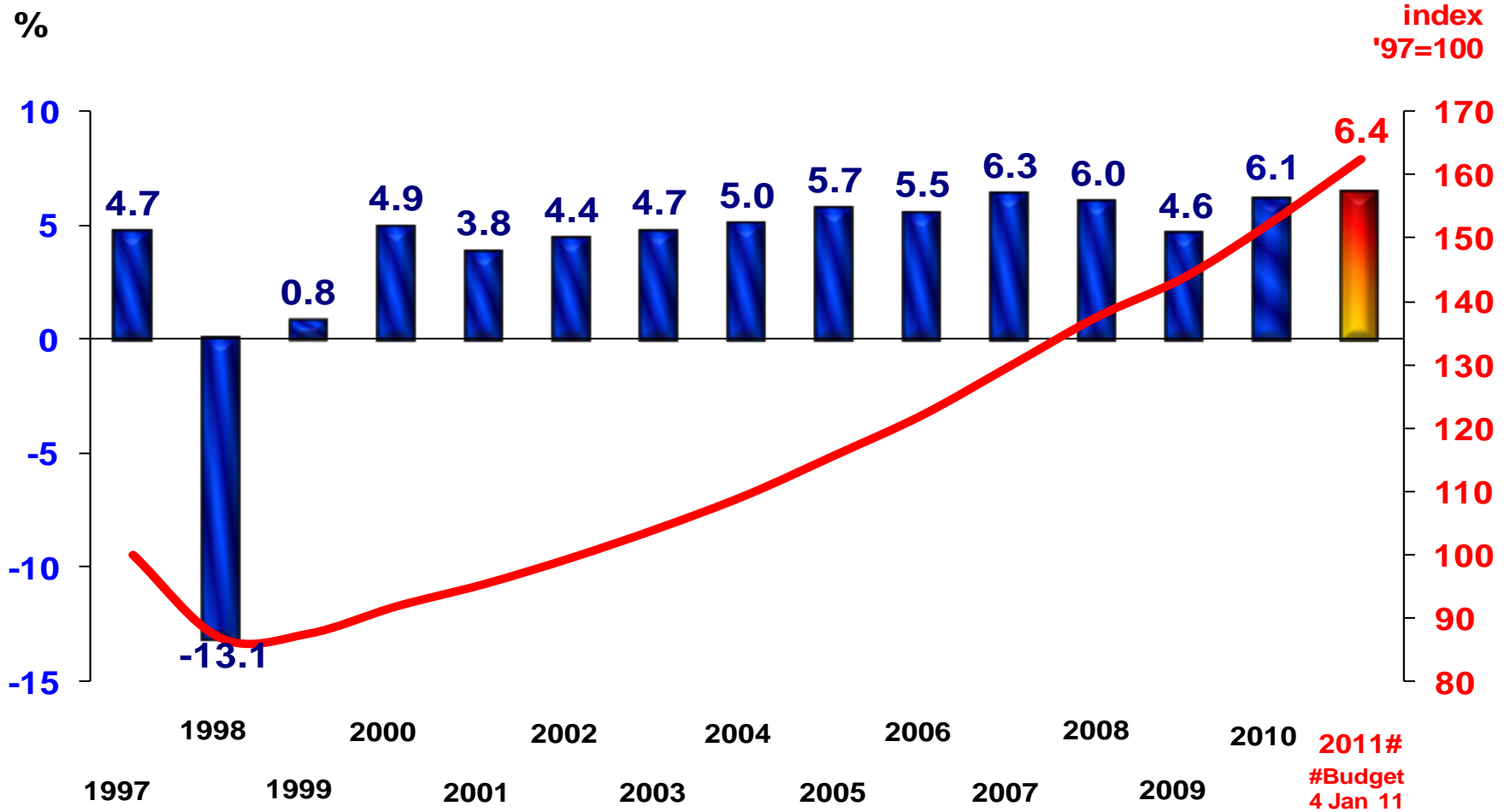
**Indonesia's 2011 Economic growth forecast is third with Vietnam, behind only India and China**

*\*estimate*

**Source: World Bank - December 2010**



# GDP Growth 1997 - 2011



Source: CBS, Budgetary Note



# **And Government expects 2011 to be slightly better**

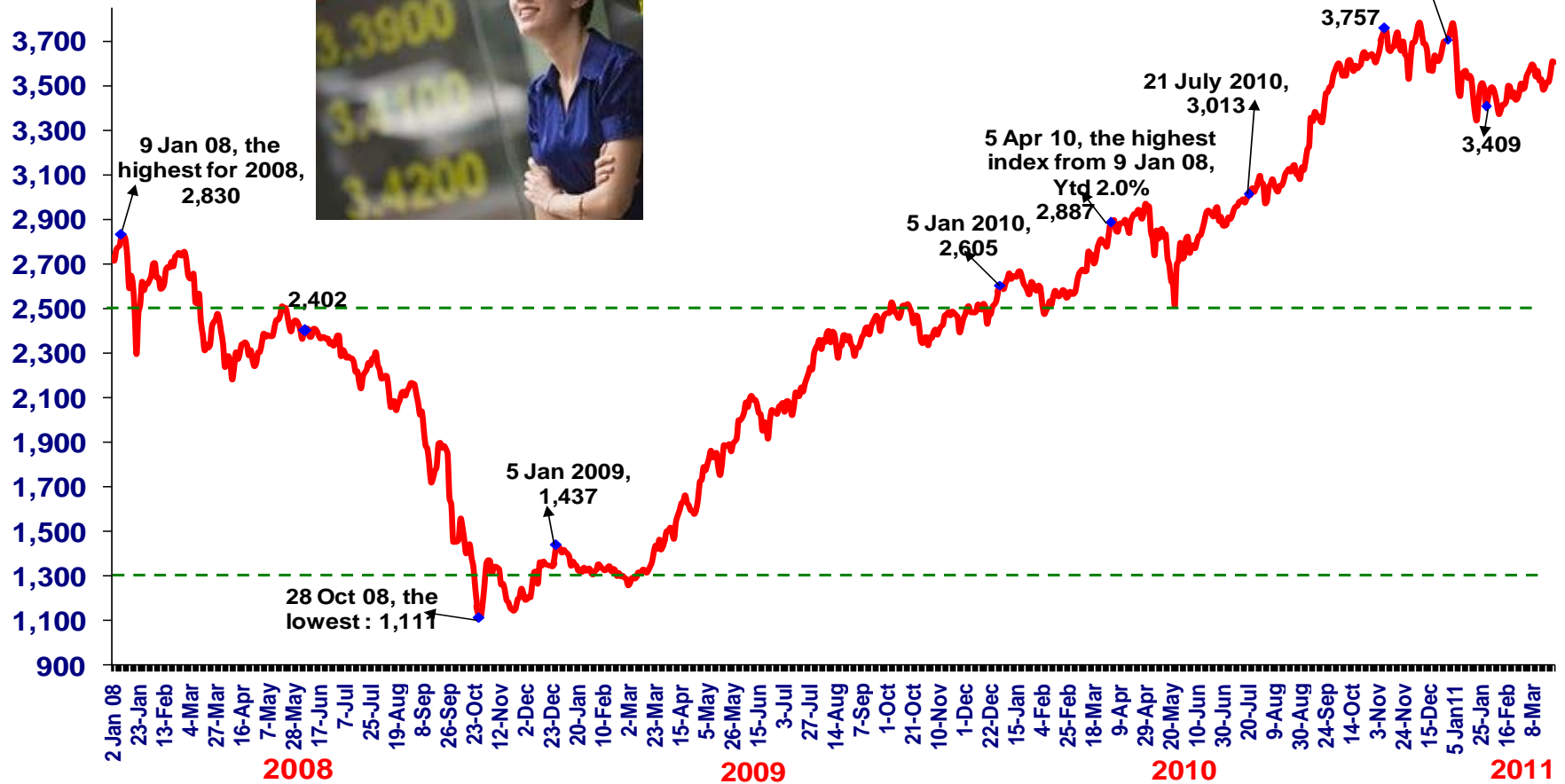
- **GDP growth 6.4%**
  - **Trans & Comm +12.6%;**
  - **Manufacturing +4.5%;**
  - **Agriculture +4.0%**
- **Budget Deficit Target 2010 2.1%; 2011 1.7%**
- **Rupiah US\$ - 9,250**
- **Inflation 5.3%**
- **BI reference rate 6.5%**
- **Oil \$80/bbl; Production 970,000/bbd**



# Indonesia Stock Index (IDX)

## January 2008 to 25 March 2011

IDX

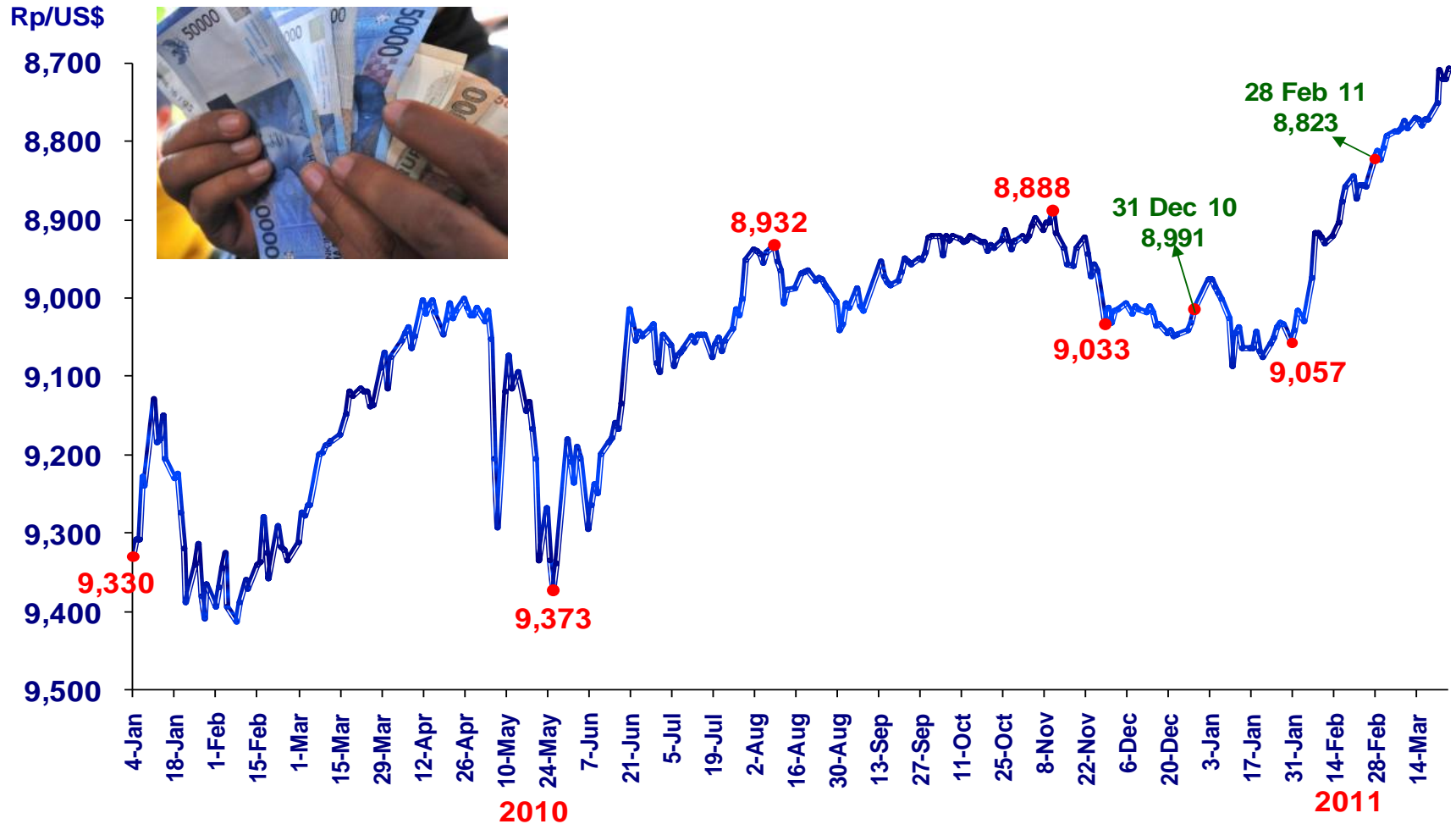






# Rupiah vs. US\$

## 4 January – 25 March 2011

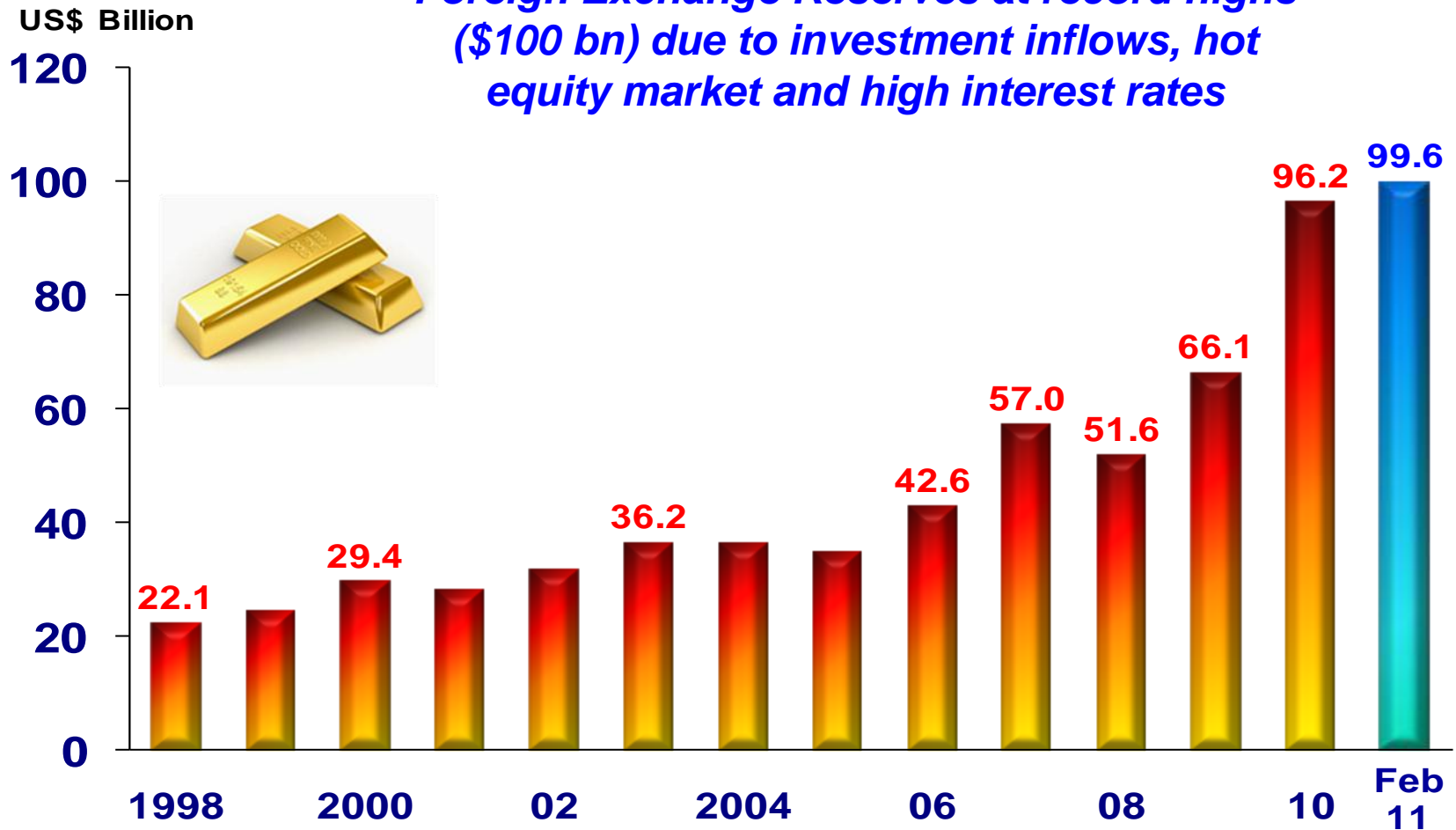


Source: Bank Indonesia



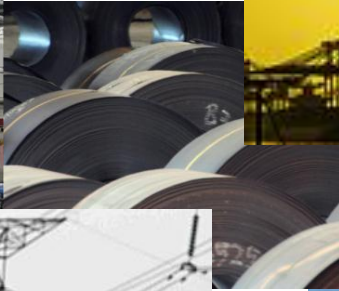
# Foreign Exchange Reserves

*Foreign Exchange Reserves at record highs (\$100 bn) due to investment inflows, hot equity market and high interest rates*





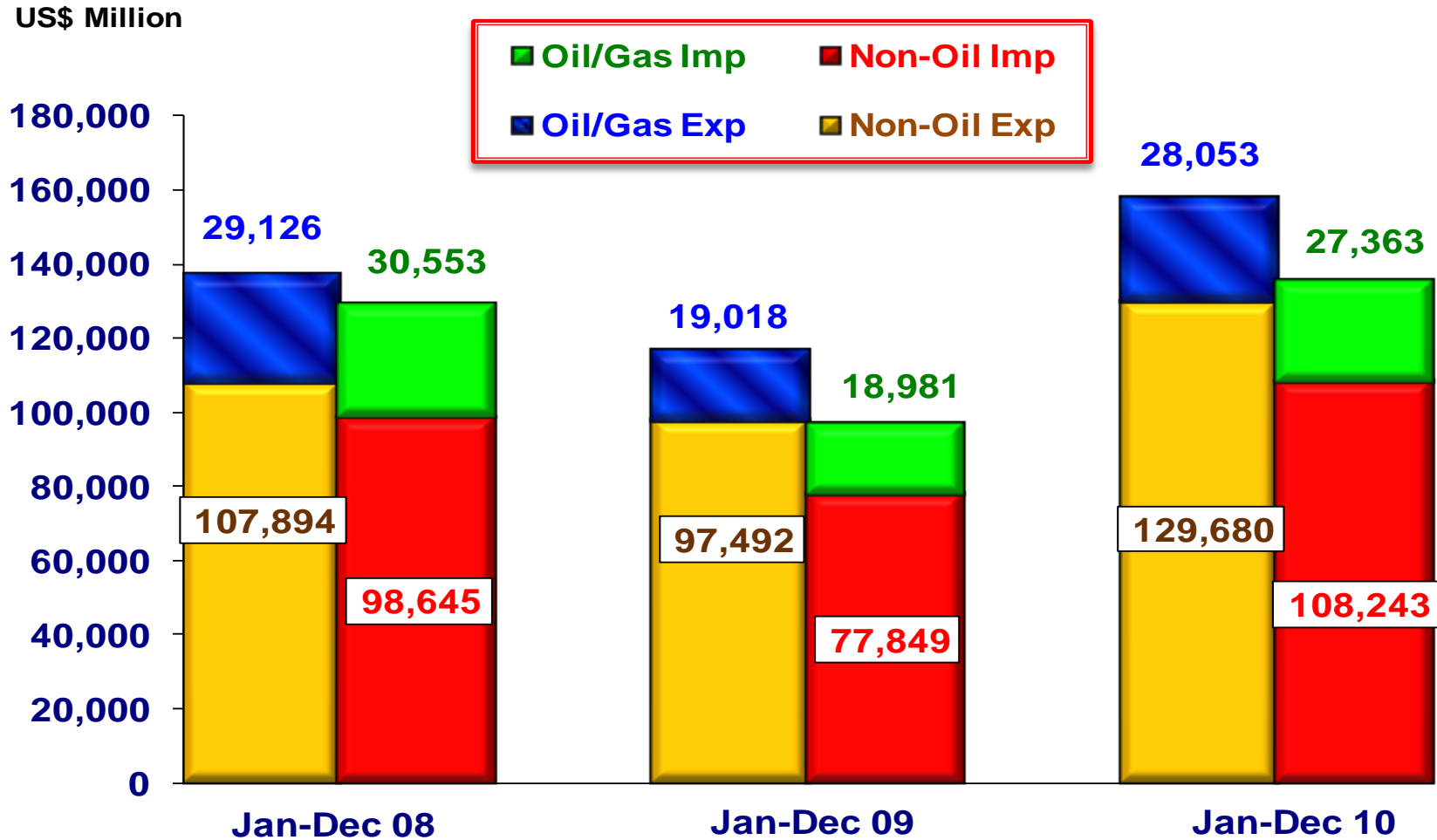
# Trade & Investment





# Exports & Imports 2008-2010

2010: Exports US\$157,773bn;  
Imports US\$135,605bn

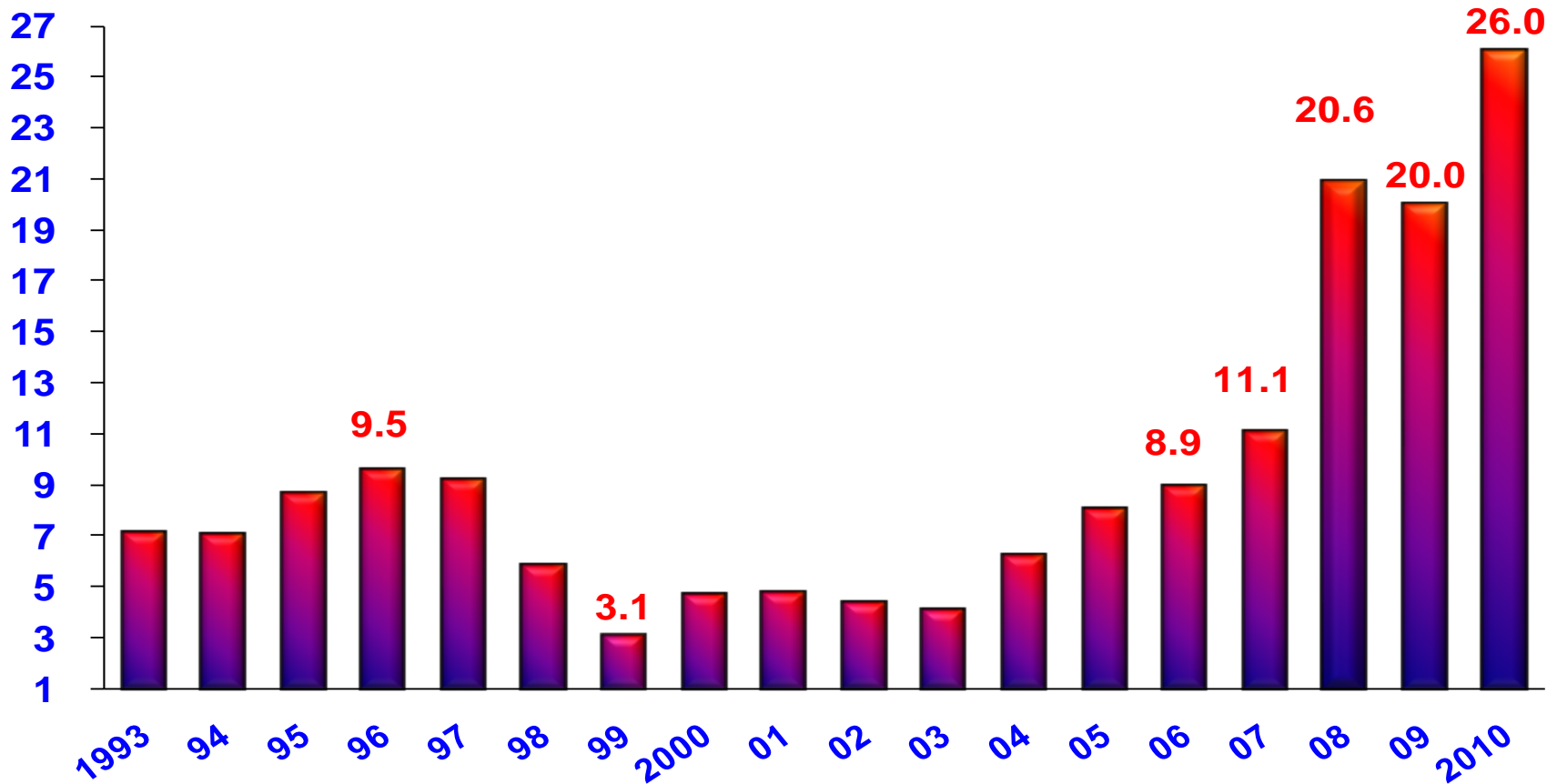




# Imports Of Capital Goods

## 1993 thru Dec 2010 (US\$ Bn)

US\$ Billion

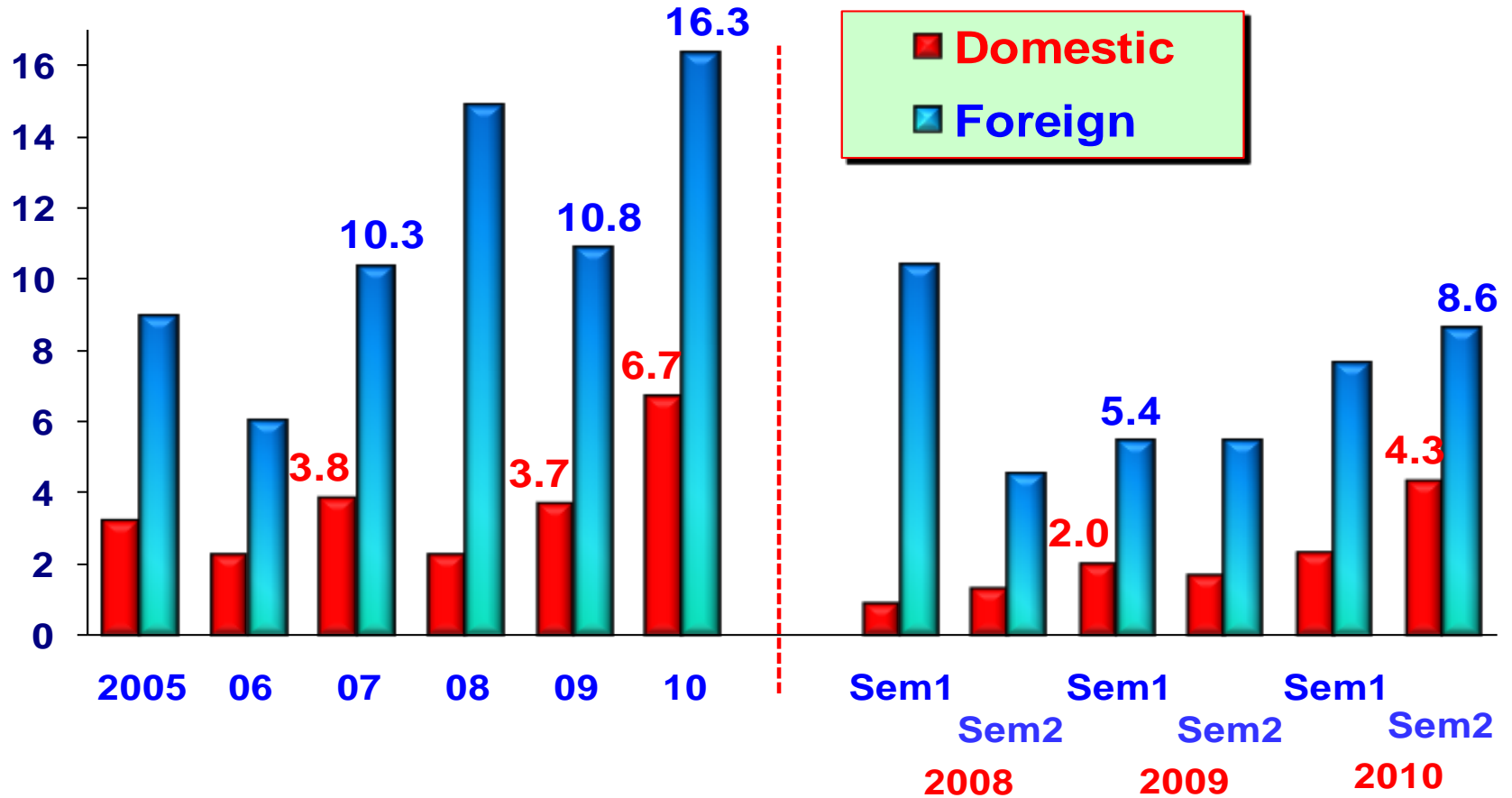


Source: BPS, Jakarta



# Direct Investment Realization

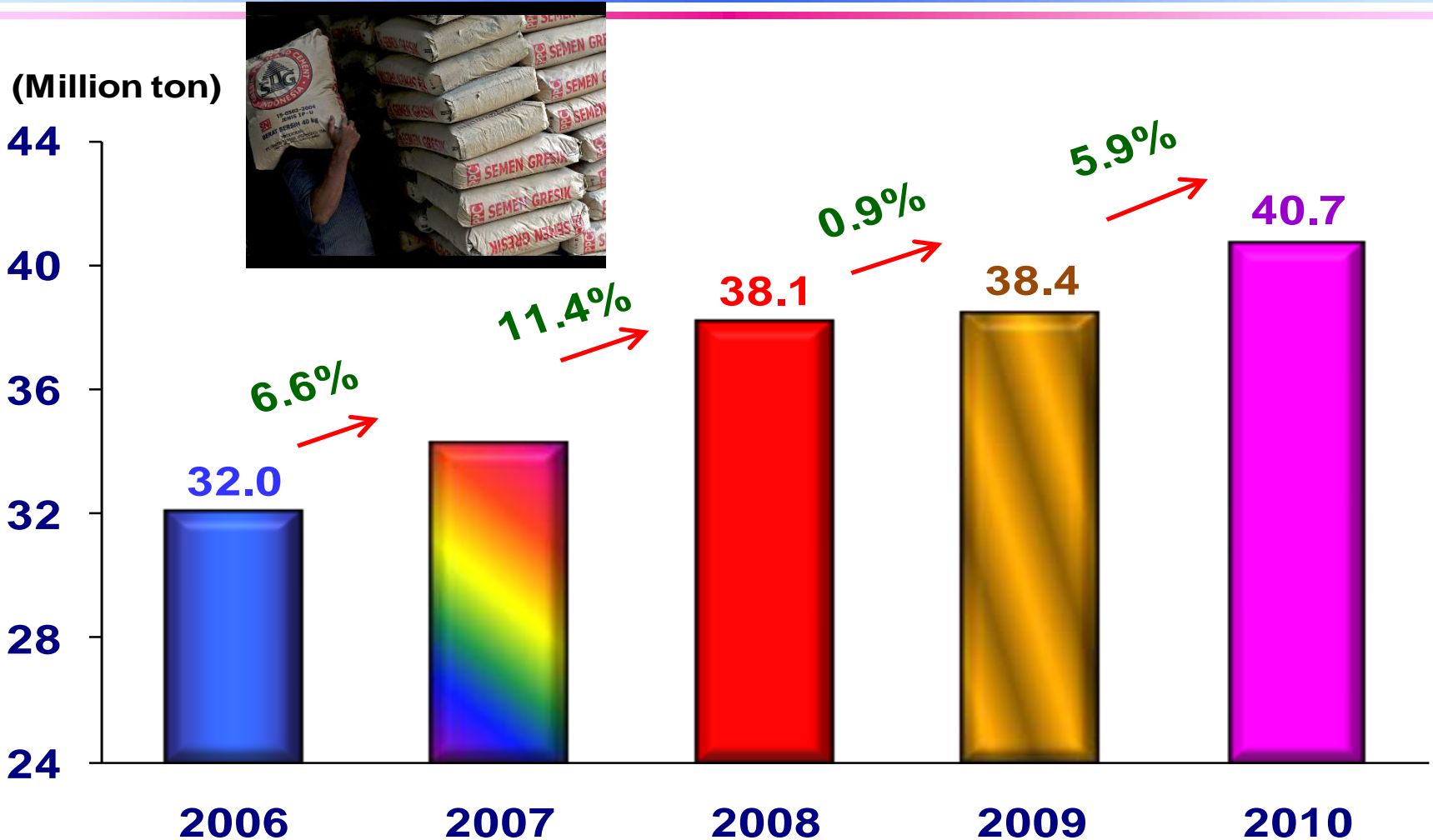
US\$ Billion





# Cement Consumption

## 2006-2010



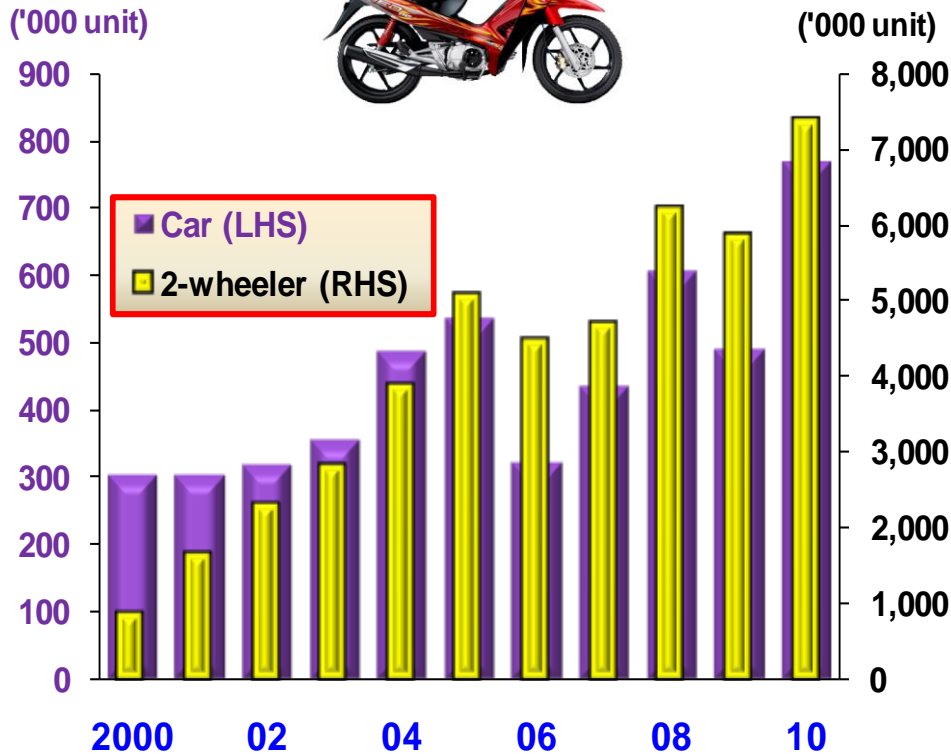
Source: ASI



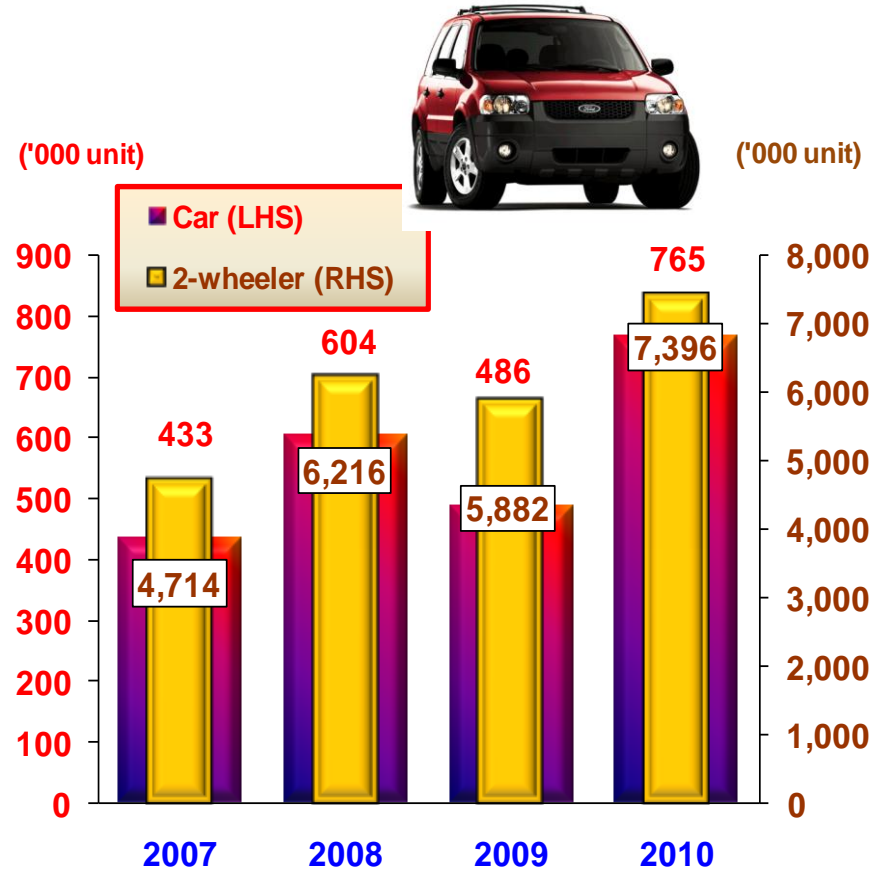


# Car and Motorcycle Sales

## 2000 – 2010



## 2007 - 2010



Sources: Gaikindo, AISI



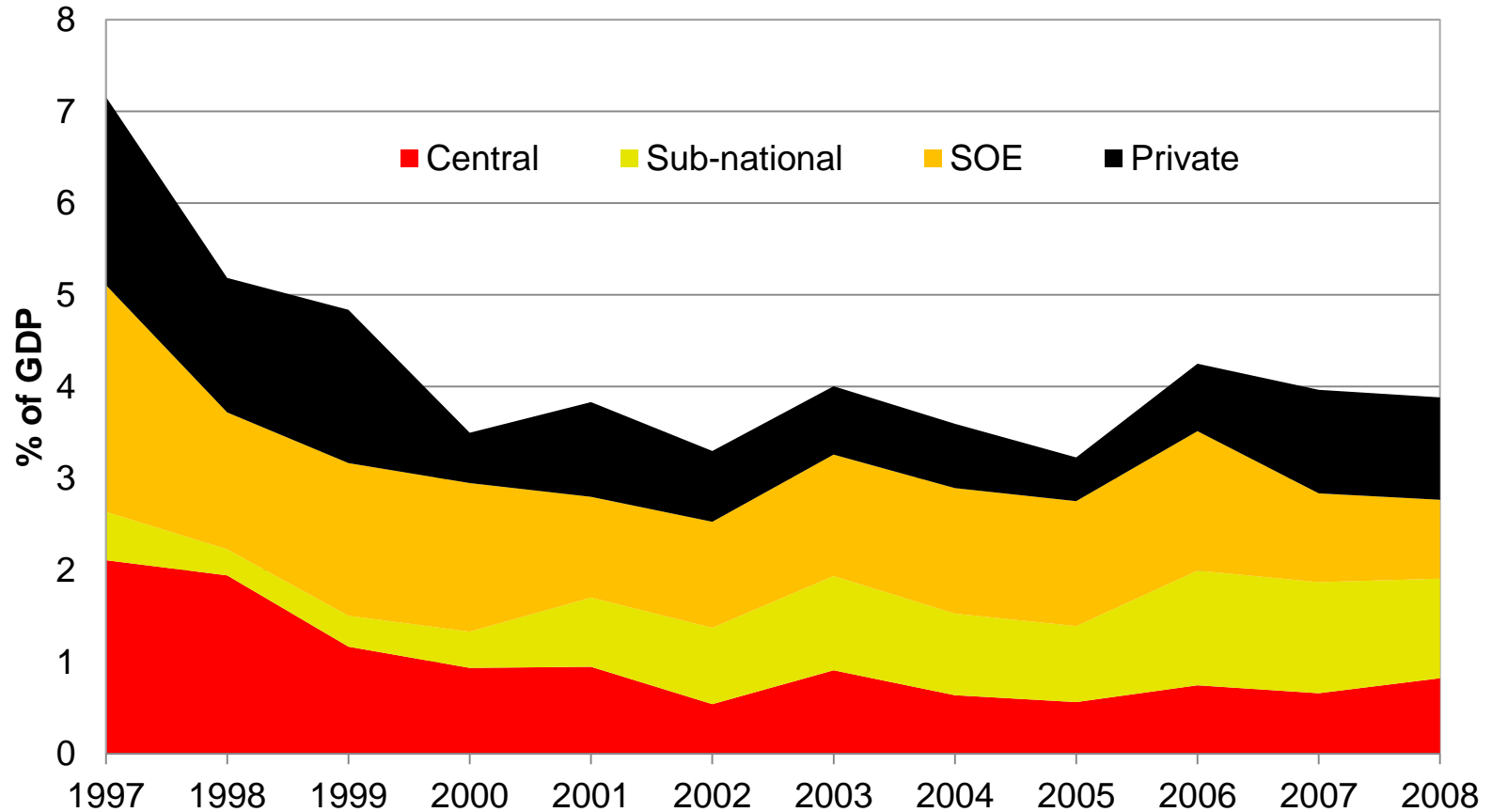


# *Infrastructure*



# But infrastructure remains a problem

► *Investment in infrastructure has been underperforming*

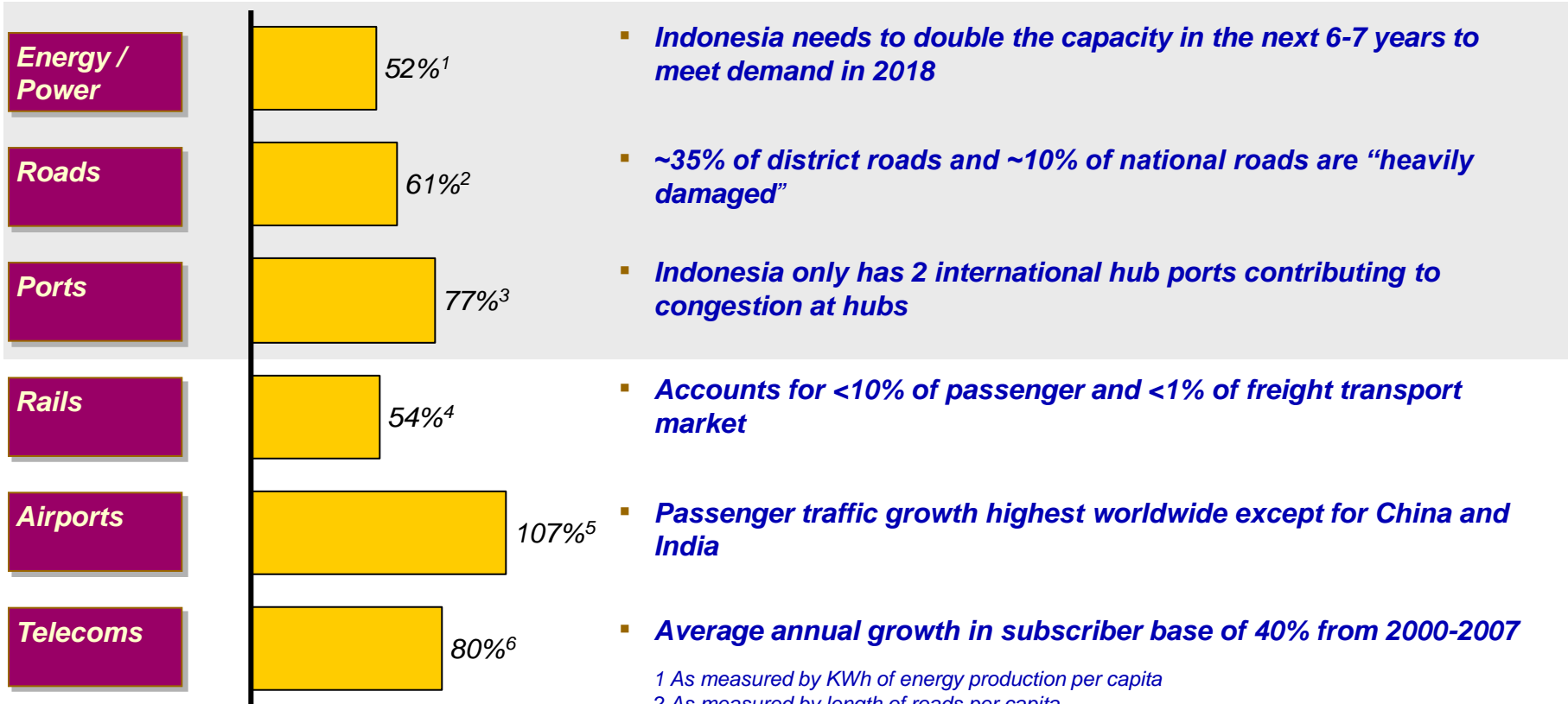




# Obstacle & Opportunity: Indonesia Lags Behind in Infrastructure – Power, Roads, and Ports are Priorities

**Indonesia's metrics relative to average of developing Southeast Asia**

**Examples of metrics / quotes**



1 As measured by KWh of energy production per capita

2 As measured by length of roads per capita

3 As measured by quality of port infrastructure

4 As measured by length of railway tracks per capita

5 As measured by number of airports per capita

6 As measured by number of cellular phones per capita

SOURCE: Global Competitiveness Report 2008; CIA World Fact book, BMI Infrastructure Report Q309; Morgan Stanley Research, Team Analysis McKinsey & Company

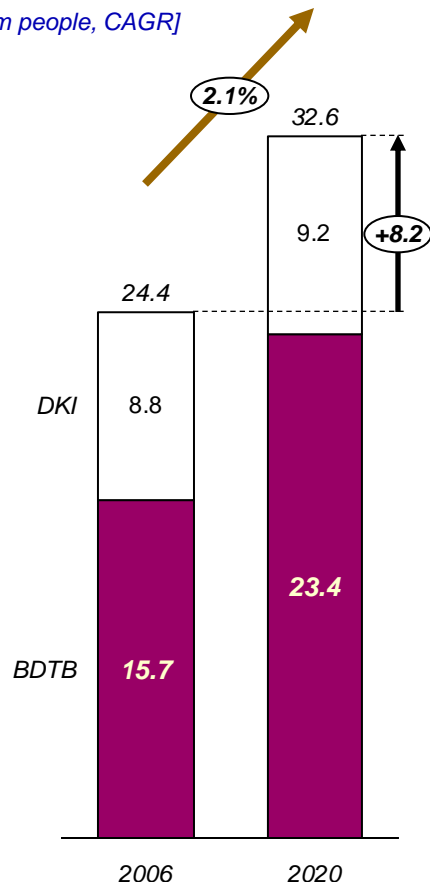




# Growth of Greater Jakarta Area (Jabodetabek) in the Next Decade Puts Immense Pressure on Existing Infrastructure

## Population projection by 2020

[m people, CAGR]



SOURCE: Jakarta Megacity Workshop 2008  
McKinsey & Company

## Macro view along triple bottom line

### Social

- 8.2m more people living in Jabodetabek urban agglomeration
- Urbanized area (>2,000 pers/km<sup>2</sup>) increasing by 29% to 3,523 km<sup>2</sup>
- Worsen public health due to increasing levels of air and water pollution

### Economics

- Real GDP increasing by 112% to 960 trillion IDR

### Environment

- Rivers and groundwater heavily polluted
- Moderate to heavy air pollution throughout the year

## Built environment

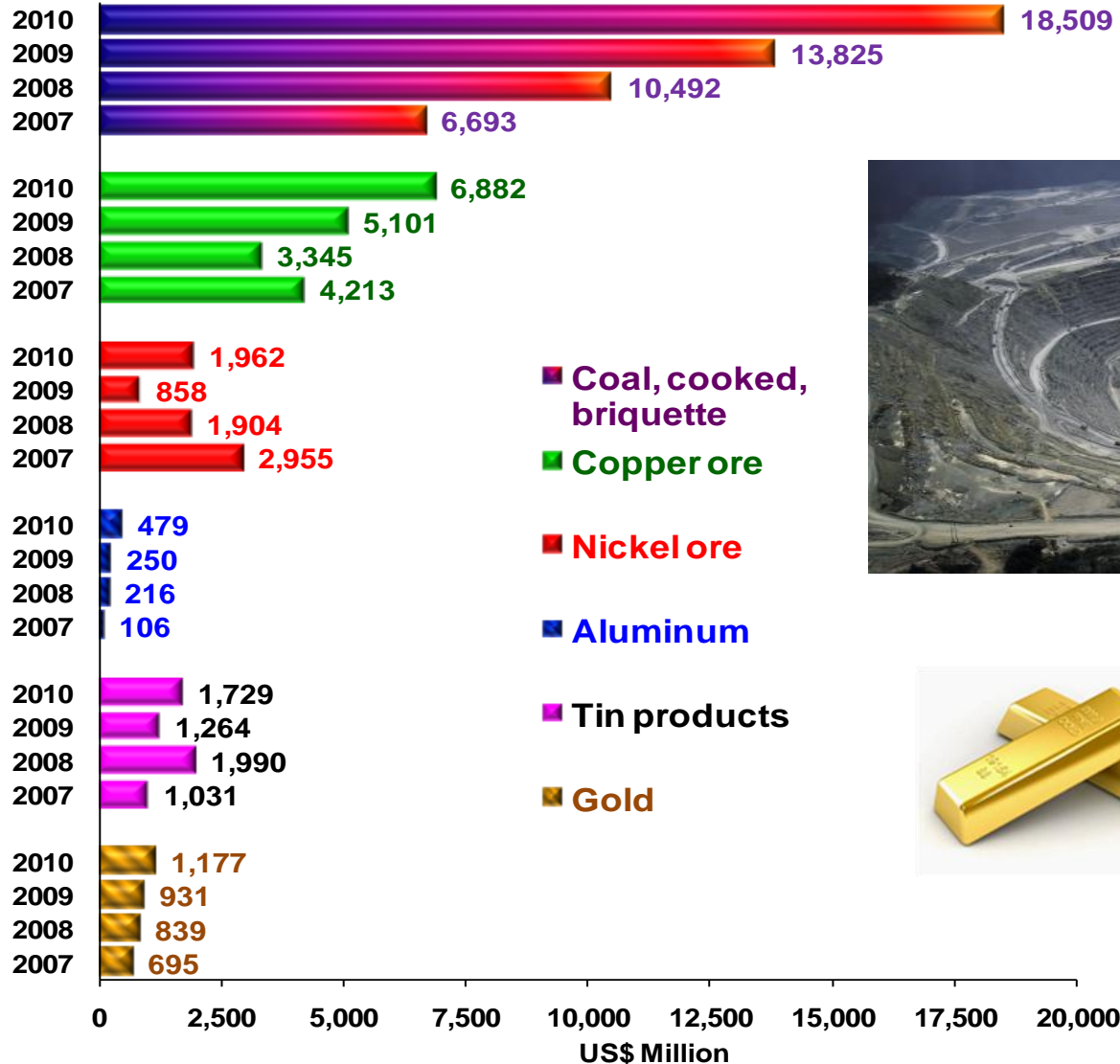
- 2.13m additional housing units required
- 47% more daily commuting trips
- 523m m<sup>3</sup>/a higher water consumption
- 377m m<sup>3</sup>/a more sewerage generated
- 16.8m m<sup>3</sup>/a more waste generated
- Increased exposure and likelihood of flooding
- Increasing gap between energy consumption and supply



# *Mining*



# Mineral Exports 2007 – 2010 (US\$ Million)



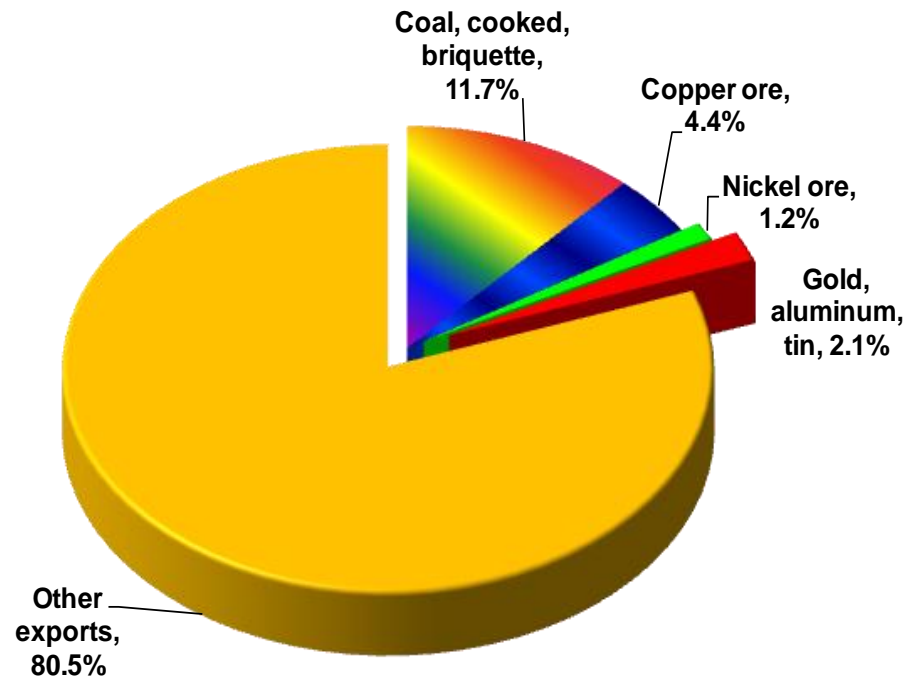
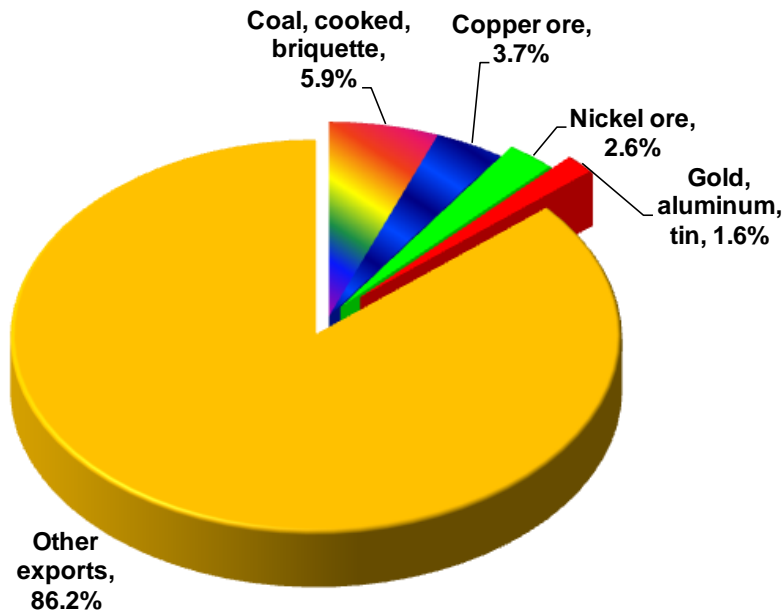


# Mineral Exports 2007 and 2010 (as % of Total)



2007 = US\$ 114.1 billion

2010 = US\$ 157.8 billion





# *Conclusions*





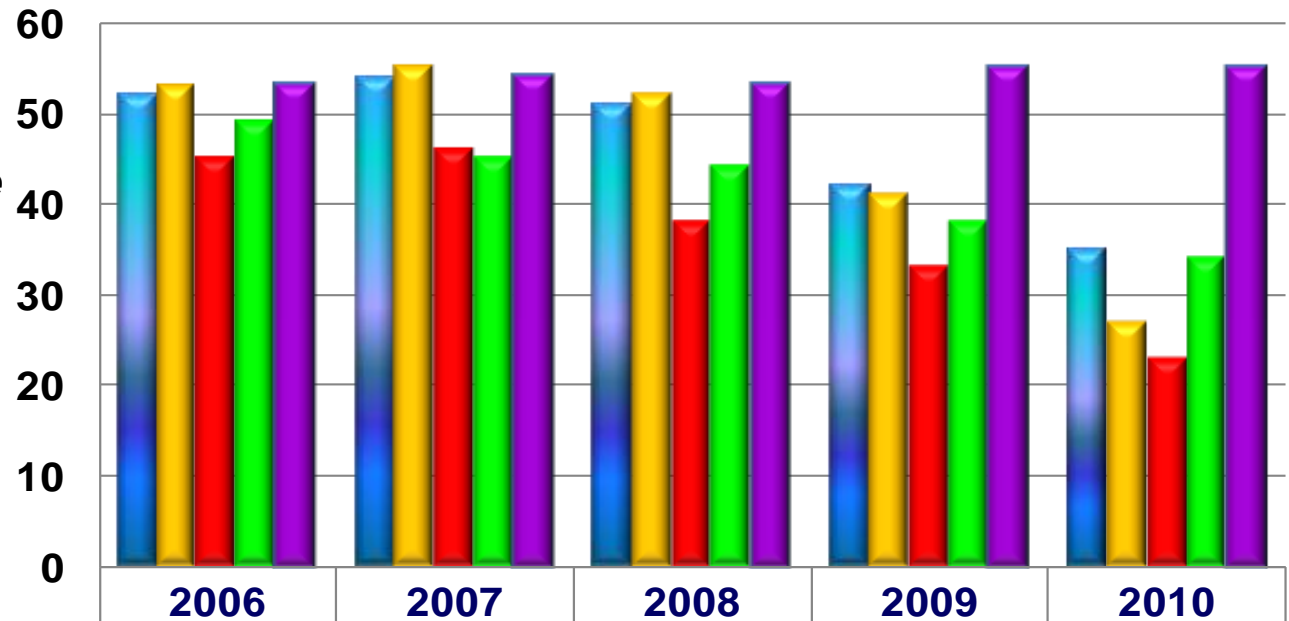
# ***Business Climate***

- ***High Growth***
- ***Much Improvement***
- ***Many problems***



# Indonesia-Overall Competitiveness

*Competitiveness has improved sharply over the past 5 years in all areas except infrastructure*



	2006	2007	2008	2009	2010
<b>Overall Competitiveness</b>	52	54	51	42	35
<b>Economic Performance</b>	53	55	52	41	27
<b>Government Efficiency</b>	45	46	38	33	23
<b>Business Efficiency</b>	49	45	44	38	34
<b>Infrastructure</b>	53	54	53	55	55



# ***With all this success, why so much uncertainty in the mining sector ?***

*Lack of national policy consensus on significant policy matters*

- ***Mineral exploration and development versus environmental protection***
- ***Desire for maximum local ownership and participation versus shortage of domestic capital and technical expertise***
- ***Role of public sector enterprises versus private investors, both foreign and domestic***
- ***Rights and obligations of the central government vis a vis regional governments***



# ***Business Obstacles: Summary Sep 2010 (N=123)***

1	<b>Government Regulation</b>	<b>495</b>
2	<b>Inconsistent application of regulations</b>	<b>476</b>
3	<b>Rigid employment regulations</b>	<b>424</b>
4	<b>Difficult to find good management staff</b>	<b>423</b>
5	<b>Domestic market conditions</b>	<b>393</b>
6	<b>Domestic political issues/uncertainty</b>	<b>391</b>
7	<b>Difficult to find good technical staff</b>	<b>389</b>
8	<b>High commodity prices</b>	<b>381</b>
9	<b>Rising nationalist sentiments/protectionism</b>	<b>366</b>
10	<b>Low commodity prices</b>	<b>357</b>
11	<b>Restrictions on expatriate work permits</b>	<b>355</b>
12	<b>International market conditions</b>	<b>347</b>
13	<b>ASEAN-China FTA</b>	<b>323</b>
14	<b>Negative image of Indonesia in Head Office</b>	<b>301</b>
15	<b>Inadequate international credit availability</b>	<b>264</b>
16	<b>Inadequate domestic credit availability</b>	<b>262</b>



# ***Mining in the years ahead***

## ***The challenges***

- ***Managing government expectations at both the national and the local level***
- ***Finding, developing and keeping the skilled manpower necessary to maintain high quality operations to ensure employee safety and minimize environmental disruption.***
- ***Assuring the supply and maintenance of equipment and supplies in the face of very high demand for heavy equipment and replacement parts***

Sources: Bank Danamon. CastleAsia



# ***Mining in the years ahead***

- ✓ ***These conditions will not change much until the 2014 elections at the earliest, so improvements in the next few years will depend greatly on the ability of investors to persuade the government adopt more investor friendly implementing regulations and sympathetic interpretations of rules where there are conflicting conditions.***

Sources: Bank Danamon. CastleAsia

CA-071025  
CA-090339



# ***Mining in the years ahead***

- ✓ ***In the meantime, high commodity prices will allow for solid , profitable development of existing operations and exploitation of proven reserves, assuring a growing number opportunities for suppliers, contractors and the employment of both skilled and unskilled works.***

Sources: Bank Danamon. CastleAsia

CA-071025  
CA-090337





**THANK YOU**