

# Corporate Profile

Perusahaan Perseroan (Persero) PT Aneka Tambang Tbk (Aneka Tambang or the "Company"), is a leading Indonesian mining and minerals processing company. Aneka Tambang's core businesses are vertically integrated from exploration and mining through to processing, marketing, and trading of nickel and gold. Other products include bauxite and iron sand. The Company also enjoys significant competencies in providing geological and exploration services to third parties. Aneka Tambang was established on July 5th, 1968 following the merger of 7 state owned companies. Aneka Tambang was partially privatized in 1997 and its shares are listed on the Jakarta Stock Exchange (JSX) and Surabaya Stock Exchange (SSX). The partial privatization raised capital needed for expansion of production facilities. Privatization is further proof of Aneka Tambang's commitment to become a world class company.

## **Significan events 1997**

### **April 28**

The Contract of Work (COW) of Gosowong Gold Project, Halmahera Island was signed by the Government. The project is a joint venture between Aneka Tambang and Newcrest Singapore Holdings Pte., Ltd.

### **June 25**

Dwadown of the Gold Project Facility by Aneka Tambang of 135,764.5 oz from the 160,000 oz facility. This facility represented the first gold loan ever extended to an Indonesian mining company.

### **July 24**

Technical consultancy agreement relating to the installation of a chlorination process in Logam Mulia Smelting and Refinery was signed with Western Australia Mint Company.

### **July 30**

Aneka Tambang acquired a 82 per cent., interest in the issued share capital of ERI Ventures Inc., ("ERI"), an exploration mining co., listed on the Vancouver Stock Exchange in Canada.

### **August 7**

The signing of a memorandum of understanding with Japanese Smelting companies, Pacific Metal Co., Ltd., Sumitomo Metal Mining Co., Ltd., and Nippon Yakin Kogyo Co., Ltd., to increase high grade nickel ore export from Gebe from 600,000 wmt to 850,000 wmt over a period of eight years.

### **September 1**

Completion of a full environmental audit of the Company's operation and implementation of a new environmental plan by Aneka Tambang.

### **September 3**

IMC Mackay & Schnellmann, independent consultant, completed the review of the Companys major operations and key project, especially its mineral reserves.

### **November 27**

Partial privatisation of the company through the sale of 430,769,000 new shares to the public representing approximately thirty five percent of the enlarged issued share capital of the company and listing on Jakarta Stock Exchange and Surabaya Stock Exchange.

### **November 30**

Completion of the development of Pongkor Plant II increasing annual gold production at Pongkor from 2 tonnes to 5 tonnes (4 tonnes in 1998).

### **December 31**

Completion of the reevaluation reserves at Gag Island Nickel Project, Iran Jaya. The CoW approval is in process. The project is a joint venture between Aneka Tambang and BHP Asia Pacific Nickel Pty., Ltd.

### **December 31**

Completion of the basic design of FeNi III. The constuction tender of the project will be conducted in 1998.

### **December 31**

Completion of the improvement program in securing gold product in Pongkor Gold Plant and Logam Mulia Smelting and Refinery by modifying standard operating procedures and rearrangement of the plant layout.

## Company's Vision

- To be a world-class company and the leader in the Indonesian Mining Industry
- To be an efficient producer delivering value added products and services

## Company's Mission

- To provide superior products in core commodities nickel and gold.
- To achieve competitive advantage within the global market place, through capitalization on core competency.
- To be a profit oriented company contributing to maximisation of value for all stockholders.
- To enhance the quality and productivity of human resources.
- To uphold the corporate social responsibilities for the welfare of the community.

## **Message From the Board of Commissioners**

During 1997 Aneka Tambang moved closer to realising its goal of becoming a world-class company and the leader of the Indonesian mining industry. This was demonstrated by strong performance of the Company during the year.

Despite the economic turbulence of 1997, which caused the depreciation of the Rupiah against US dollar, Aneka Tambang was able not only to achieve its production and sales targets for the year, but also to accomplish its business plan. The acquisition of the Gold Project Facility and the oversubscription of Aneka Tambang's IPO shares, indicate the Company's prominence within international capital markets.

As the mining industry around the world experienced a general decrease in metals and commodities prices; Aneka Tambang responded effectively by positioning itself to limit the impact of this price decrease through focusing on improving productivity and efficiency.

The Board of Commissioners is confident that Aneka Tambang can compete successfully in an era of increasing globalised competition. With low cost of production, significant high quality reserves, appropriate social and environmental concerns and a wealth of experience in the industry, the Company will be able to successfully compete with its international peers and continue to grow its business.

The Company's achievements are the result of the efforts and hard work of the directors, employees, and other stakeholders. Therefore, we would like to convey our gratitude and thanks. We are confident that Aneka Tambang can maintain and improve its performance in the years to come.

Jakarta March 30, 1998.

The year 1997 was a turning point in the 29 year history of Aneka Tambang as Indonesia's leading mining company completed the necessary steps leading to its conversion to a publicly listed company.

The public offering process of Aneka Tambang was successfully completed amidst the economic turmoil besieging Indonesia in mid 1997. Undertaken during a period when market forces were adversely inclined to any major stock offerings, the oversubscription and aher market performance of the Company's shares on the exchanges underscored the trust and confidence of the Indonesian and international investing public in Aneka Tambang.

### **Operational Performance:**

During 1997, the Company's production and sales volumes showed satisfying results, where almost all production targets were accomplished. Moreover, exploration and development programs conducted by the Company either independently or in joint ventures with its partners, show further promising prospects.

Completion of a gold loan facility from the syndication of Eve international banks, further proved the Company's strong fundamentals.

### **Financial Performance**

Through increase profitability, Aneka Tambang fortified its financial performance in the Indonesian mining industry, in an environment of increased domestic and international competition.

With gross profits of Rp 197.27 billion in 1997, the Company's net income of Rp 69.52 billion more than doubled over the previous year's level of Rp 32.62 billion. Mineral exports accounted for 79 per cent. and domestic sales comprised 21 per cent. Of the total sales.

As of year-end 1997, the total assets of Aneka Tambang, including its subsidiaries, amounted to Rp 1,600.79 billion, an increase of some Rp 877.55 billion Including Rp 561.70 billion from the IPO) compared to the previous year of Rp 723.24 billion.

### **Growth and Development**

Basic design of FeNi lit plant has completed. Wherein, the construction tender of the plant will be conducted in the 1998. FeNi lit will increase production of nickel in ferronickel from 11,000 tonnes Ni to 24,000 tonnes Ni per annum.

Another project which will further add growth is the Pongkor Plant II expansion. This project will allow an increase in gold production up to 5 tonnes per annum compared to the current level of 2 tonnes.

A joint venture with Newcrest Singapore Holdings Pte. Ltd. in connection with the development of the gold project at Gosowong, is another potential source of Company's future growth.

The Company's involvement with the oint venture projects with major international and Indonesian mining companies will help the Company improve its skills and enable it to explore more effectively mineral deposits in Indonesia.

### **Privatisation**

In November 1997, the Company :completed its Initial Public Offering (IPO) with par value of Rp 500/share, sold at market share price of Rp 1,400. The Company floated 430,769,000 B class shares representing 35 per cent. of the enlarged capital. The capital raising generated net proceeds of Rp 561:70 billion, strengthening the Company's financial health, and partially financing the company's future growth plan.

### **Strategy**

Aneka Tambang has continually expanded the scope of its operations to strive to become a world class miner. The Company has set its strategy by maintaining focus on nickel and gold production.

To support its growth, the Company has also undertaken a strategy to increase the exploration activities on 73 properties including 1 Contract of Work, covering an area of 5.3 million ha.

Furthermore, to improve its competitive advantages, the Company has undertaken a strategy to capitalise on joint venture arrangements with leading international mining companies such as BHP, QNI, Aberfoyle, Ashton, and Newcrest.

To help meet the competitive challenges of the future, the Company will restructure its business into four primary divisions to enhance transparency, increase divisional accountability and assist Aneka Tambang to meet future challenges.

### **Environmental Concerns**

Aneka Tambang's environmental concerns during the year have been exhibited through adopting a new comprehensive environmental policy for implementation.

### **Business Prospects and Risks**

The outlook for gold and nickel in 1998 will depend on three factors: the price elasticity of mine supply, the role of the official sector, and the prospects for physical demand. Nickel and gold prices face a relatively weak position in the near term, despite good demand. This situation is caused by an oversupply, weakening Asian jewelry demand and competition from stainless steel industry.

Because of the sharp depreciation of the Rupiah against the US dollar, Company Sales have increased since its core products of nickel and gold are sold in US dollars. This increase was partially offset by lower prices for nickel and gold. In addition, a large portion of operational expenses are incurred in Rupiah. These advantages enhanced the Company's profitability in 1997.

In 1997, EastAsian Economies represented over one third of demand for Aneka Tambang's products. Although conceptually the structural weakening of these economies may represent added demand risk for the company's products, management is confident that any such added risk can be mitigated. This is primarily due to ferronickel's positioning and segmentation that it has achieved within the overall nickel market, where the product is in high demand by all of its customers; enabling the company to ship supply quickly, should the need arise.

closing, the Board of Directors wishes to express its thanks to all shareholders, business partners and the Board of Commissioners for their continued support, and also to all employees for their dedication, hard work and commitment which has made this year, 1997, such an important one for the company.

Jakarta, March 30, 1998

## **OPERATIONAL REVIEW**

Aneka Tambang's main operations are vertically integrated from exploration and mining through to processing, marketing and trading of nickel and gold deposits in Indonesia. Besides those core commodities, bauxites and iron sand are also mined. Aneka Tambang also has a number of significant exploration and development projects either wholly-owned or in joint ventures with major international mining companies such as BHP, QNI, Aberfoyle, Newcrest and Ashton.

### **CORE PRODUCTS**

#### **Nickel Ore**

##### **Background**

The Company has three active Lateritic Nickel mines, at Pomalaa, Gebe and Gee Islands. Pomalaa mined is divided into three areas, northern, middle and southern, covering an area of about 7,589 ha. Pomalaa is the centre of the Company's nickel operations and the location of its ferronickel smelter.

Discovery of nickel in Pomalaa, South East Sulawesi, was reported first in 1909. Nickel exploration commenced in 1934 and production started in 1939, reaching significant level in 1962.

The mine in Gebe Island, covering an area of about 1,225 ha., was established by Aneka Tambang in 1978. Production was commenced in 1979. Aneka Tambang is in the process of developing a new loading facility at Gebe which will be completed at the end of 1998.

The mine at Gee Island commenced its operation in November 1997, and the first production was sent to Pomalaa smelter in December 1997. Mining is carried out through outsourcing, using PT Minerina Bakti, as the contractor. The afore-mentioned nickel mines reserve a huge amount of Saprolitic ore and Limonitic ore.

##### **Production**

At Pomalaa, nickel ore is mined using an open pit mining technique. Pomalaa produced 706,509 wmt of Saprolitic ore in 1997. Approximately 330,975 wmt of this ore was processed at the ferronickel plant, while the remaining ore, 375,534 wmt was exported to Japan. For 1998, Aneka Tambang expects production to be around 555,000 wmt, of which 300,000 wmt is for exports and 225,000 wmt is for feedstock of the ferronickel smelter.

Gebe produced 2,124,877 wmt of nickel ore during 1997, of which 1,223,663 wmt was Saprolitic ore and 1,011,214 wmt was Limonitic ore. In 1997, export of Saprolitic ore to Japan was 866,713 wmt, while export of Limonitic ore to Queensland Nickel (QNI) in Australia was 1,207,681 wmt. The remaining 281,776 wmt of Saprolitic ore in 1997, was used as feedstock for the smelter. In 1998, the Company expects production at this mine to reach 2,000,000 wmt of Saprolitic and Limonitic ore. Of this production, the Company will export 880,000 wmt of ore to Japan, 1,000,000 wmt of ore to Australia, and 120,000 wmt of ore will be supplied to Pomalaa smelter.

In its first month of operation in December 1997, the mine at Gee Island produced 9,133 wmt of nickel ore. The mine is expected to produce about 400,000 wmt of nickel ore annually for the next 10 years, starting in 1998.

As ore reserves decline at Pomalaa, Gee and Halmahera Island will replace the ore supply from Pomalaa to the smelter.

#### **Ferronickel**

## **Background**

The construction of Pomalaa smelter commenced in 1973, commissioning in 1975. Commercial operation started in 1976, producing ferronickel from Pomalaa and Gebe ore. The smelter produced high and low carbon ferronickel, in the form of shot or ingot.

FeNi I smelter line has an annual capacity of 5,500 tonnes nickel in ferroickel. To increas the production, Aneka Tambang expanded FeNi II smelter line in 1995, doubling the production capacity of ferronickel.

The Company plans to build a third ferronickel smelter line, FeNi III, which will produce 13,000 tonnes nickel in ferronickel and increase the Company's annual ferronickel production capacity to 24,000 tonnes nickel in ferronickel. Basic design was completed in December 1997, and the construction tender will be conducted in 1998. FeNi III is expected to start commercial operation by 2001 and will primarily utilise ore from Halmahera Island.

As part of the expansion, the Company proposes to change from oil-fired power generation to a 2 x 55 MW coal-fired power plant, pursuant to a memorandum of Understanding between Aneka Tambang and PT Suvarna Bumi Persada, signed on July 2<sup>nd</sup>, 1997. The agreement stipulate a 13-year power supply agreement at a total cost not to exceed US\$ 0.055 per kwh. Resulted to lower cash cost of ferronickel in 1997 amounting to US\$ 1.79 per pound.

The Company's Pomalaa ferronickel smelter facilities includes a power plant, a laboratory for analysing nickel ore and ferronickel samples, workshops for the maintenance of mining and plant equipment, and dockyard for ship maintenance and repairs.

The Pomalaa ferronikel smelter attained ISO 9002 certificate on April 3<sup>rd</sup>, 1996 attesting to the quality and management of the smelter. The quality certification includes the processing and distribution of ferronickel, laboratory, equipment maintenance, material purchase, health and safety, recruitment of new employees, and training programs. The certificate will be audited every six months, the next audit will be in April 1998. Audit results for 1997 (April and October) were satisfactory. This certification represented part of the Company's attempt to create a niche within the overall nickel market.

## **Production**

In 1997, Pomalaa smelter produced 9,999 tonnes of ferronickel (9,553 tonne in 1996). Nickel ore supply came from Pomalaa and Gebe. However, the 1998 projection shows that the ferronickel production will be approximately 8,350 tonnes. Production will decline because of the smelter replacement and modernisation (FeNi I), which will commence in August 1998. By February 1999, Aneka Tambang plans to switch on the replaced and modernised FeNi I. Production is projected to reach its full capacity by April 1999.

## **Development Program**

Aneka Tambang has a strong development progra for its nickel operations mines which includes the potential future development of nickel resources of Gag Island (joint venture with BHP), Weda Bay (joint venture with Strand), and at Halmahera Island (letter of intent with QNI).

The relationship between Aneka Tambang and BHP Asia Pacific Pty.Ltd. was formalised into a mining joint venture connection with the nickel deposits at Gag Island, Irian Jaya. The Gag Nickel project is 25 percent owned by Aneka Tambang and 75 percent owned by BHP. Completion of project fesibility study will depend on the approval of the Contract of Work and the establishment demonstration plant. Currently, the project is in the drilling program, ore preparation test and sample collection, and environmentally analysis stages. The first phase of the production is expected to commence around 2003, producing 30,000 tonnes of nickel and 2,700 tonnes of cobalt per annum. The development project at Gag includes a nickel refining plan as well as mining.

In August 1997, the Company commenced exploration of nickel deposits at Weda Bay, Halmahera Island which covers an area of approximately 120,500 ha. This program is a joint venture between Aneka Tambang (10 %) and Strand Management Ltd. (90 %), wherein, Aneka Tambang has an option to increase its holding to a 25 percent interest. At the end of December 1997, an inferred resource of 50 million dry tonnes of ore at a grade of 1.51 percent nickel had been identified.

Aneka Tambang signed a letter of intent with Queensland Nickel (QNI) in June 1996 regarding Limonitic nickel ore deposits at Halmahera Island (Tanjung Buli and Pakal Island), and Obi Island. In April 1997, the first phase of a scoping study for the project was completed by Fluor Daniel SA Pty.Ltd. The second phase is expected to be completed by April 1998, The nickel deposits amounting to 30,000,000 wmt of ore will be used as Saprolitic feed for the Pomalaa FeNi III smelter expansion.

## **Gold and Silver**

### **Background**

Aneka Tambang operates a gold and silver mine at Pongkor, West Java, covering an area of 4,058 ha. Aneka Tambang discovered the Pongkor gold deposits in 1988, the plant was constructed in 1993 and commercial production commenced in May 1994. In November 1997, the construction of the expansion at Pongkor was completed to 5 tonnes capacity.

### **Reserves**

As of June 30<sup>th</sup>, 1997, based on evaluation from IMC Mackay & Schnellmann, an independent consultant, the proven and probable reserves at Pongkor, West Java were estimated to be 6,304,600 wmt with average recoverable grades of 11.6 g/t gold and 124.1 g/t of silver.

### **Production**

A conventional cut and fill stopping mining technique is used to mine veins of gold at Pongkor. In 1997, Pongkor mine produced 2,004 kg of gold (1,827 kg in 1996) with the average of grade of 11.6 g/t and 15,530 kg of silver (14,732 kg in 1996) with the average ore grade of 180.40 g/t. Completion of Pongkor Plant II will result in the production of 4,044 kg of gold and 22,702 kg of silver in 1998.

### **Development Program**

Exploration funding for gold and silver is undertaken by Aneka Tambang either independently or in joint ventures with domestic or international partners.

The company has a number of joint venture arrangements with international partners in respect of its gold exploration. There are 17 applications of the Seventh Generation of Contract of work, which will be granted in 1998.

On March 17<sup>th</sup>, 1997, the President of the Republic of Indonesia approved the Sixth Generation of Contract of Work between the Indonesian Government and PT Nusa Halmahera Minerals, a company incorporated in Indonesia and owned by Aneka Tambang (10 %) and Newcrest Singapore Holdings Pte.Ltd. (90 %), regarding the gold project in Gosowong. Aneka Tambang has an option to increase its holding to a 17.5 percent interest, after the completion of the feasibility study. Current status indicates that the Gosowong site work will commence in early 1999, producing approximately 160,000 oz of gold per annum.

On July 23<sup>rd</sup>, 1997, a joint venture agreement was signed between Aneka Tambang (25 %) and Aberfoyle Pungkut Investments (75 %), for gold prospect at Kotanopan and Pagar Gunung, North Sumatera. Aneka Tambang has an option to increase its interest to 40 percent. At the end of 1997, the project is at a regional stream sediments sampling to define new drill targets over areas with anomalous copper and gold.

Aneka Tambang also has a joint venture with Aberfoyle Indonesia Investments Pte.Ltd. for the gold prospect at Nusa Tenggara Timur and Nusa Tenggara Barat. Aneka Tambang owns a 20 percent interest, while Aberfoyle Indonesia holds 80 percent interest. At the end of 1997, project priorities are to follow up a large number of gold geochemical anomalies in Western Flores to identify prospects with potential for epithermal style gold mineralisation. Detailed exploration will be set based on the evaluation results from regional aeromagnetic surveys.

Another joint venture of Aneka Tambang is with Western Mining Corporation in connection with the gold prospect in Solok, West Sumatera. Aneka Tambang holds 20 percent with the option to increase its interest to 30 percent, while Western Mining holds the balance. At the end of 1997, the project was still at general survey stage.

Aneka Tambang also has an interest in Antam Resource International Limited (ARI), an exploration company listed on the Vancouver Stock Exchange, which focuses on gold exploration in 11 KP's such as in Cikidang, Cibaliung and Trenggalek block C,D and E.

One of Aneka Tambang's promising gold deposits is at Cibugis, west of Bogor, with indicated resources of high grade gold ore of about 552,541 tonnes with a gold content of 6,23 g/t (cut of grade 4 g/t gold) or inferred resources of low grade gold or of about 10,000,000 tonnes with a gold content of 2.61 g/t (cut of grade 0.5 g/t). The current status of the project is at feasibility study and environmental analysis stages.

At Trenggalek, East Java, block A and B, Aneka Tambang has a joint venture with PT Fajar Mineralalami International. The joint venture has identified 7 blocks of gold prospects, containing 0.2 to 9.91 g/t of gold. Aneka Tambang owns a 50 percent interest with an option to increase its holding by 10 percent. The current status of the project is detailed mapping, trenching, geophysics, rock and grid soil sampling, topography surveying, drilling and sample analysis.

### **Logam Mulia Smelting and Refinery**

Aneka Tambang owns and operates Logam Mulia Smelting and Refinery at Pulo Gadung, eastern Jakarta, which was constructed in 1979. Logam Mulia Smelting and Refinery is the only precious metal refinery in Indonesia and therefore, all non-copper based bullion produced in Indonesia, as well as recycled scrap gold, silver and platinum is refined in Logam Mulia.

In 1997, Logam Mulia refined 30,772 kg of gold and 170,913 kg of silver produced by Aneka Tambang and other mining companies.

In order to increase the efficiency of Logam Mulia refinery, the Company is conducting studies to improve the refining process. To complement Logam Mulia's strong local brand positioning on the international scene, the company is also pursuing London Bullion Market Association (LBMA) accreditation.

## **NON CORE PRODUCTS**

### **Bauxite**

#### **Background**

The Company has a bauxite mine in Kijang, Bintan Island, province of Riau, covering an area of 8,002.4 ha. Discovery of bauxite was first reported in 1924 on Bintan Island, from which bauxite has been mined and exported since 1935.

#### **Reserves**

Based on the evaluation from IMC Mackay & Schnellmann, an independent consultant, the remaining reserves as of June 30<sup>th</sup>, 1997, were 964,900 wmt. Aneka Tambang has identified an area of probable bauxite reserves at Wacopek with indicated resources of about 2,773,600 wmt.

### **Production**

In 1997, stated production of 808,749 wmt was produced from two areas: Pari and Galang. The production of bauxite in 1998 is projected to be 850,000 wmt. The Wacopek mine is expected to start producing in May 1998, replacing bauxite production from Galang and Pari.

### **Development Program**

The Kijang mine is forecast to reach the end of its reserves in 2001. Aneka Tambang is reviewing the possibility of developing in joint venture its other mining development at Tayan, West Kalimantan, which covers area of 21,120 ha and at Munggu Pasir, which covers area of 15,280 ha. Mineral resources were estimated to be 66 million tonnes of bauxite at Tayan and 46 million tonnes at Munggu Pasir based on temporary evaluation. The project still on the feasibility study stage which will be completed in 1998.

### **Iron Sand**

#### **Background**

The Company has two iron sand mining operations in central Java, one at Cilacap and the other at Kutoarjo. The Cilacap iron sand operation commenced in 1971, while Kutoarjo in 1989.

#### **Reserves**

Based on the evaluation from IMC Mackay & Schnellmann, an independent consultant, the proven and probable reserves as of June 30<sup>th</sup>, 1997 at Cilacap mine were 2,655,236 wmt and at Kutoarjo 2,971,175 wmt. Aneka Tambang has also identified iron sand reserves in Cipatujah, Tasikmalaya, amounting to 1,479,932 wmt and in Lumajang, amounting to 1,410,008 wmt.

#### **Production**

Iron sand production in 1997 from Cilacap mine was 249,024 wmt and from Kutoarjo mine was 238,354 wmt. For 1998, iron sand production is targeted to be 480,000 wmt from Cilacap and Kutoarjo and 178,000 wmt from Cipatujah and Lumajang.

#### **Development Program**

Aneka Tambang is undertaking new iron sand explorations at Cipatujah, West Java, covering an area of 1,490 ha and Lumajang, East Java, covering an area of 814 ha. The feasibility study and an environmental analysis of Cipatujah and Lumajang will be completed in 1998.

### **Diamonds**

The company has a joint venture with Ashton-Malaysian Mining Company in connection with the exploration of alluvial diamond deposits in Martapura, cempaka and Danau Seran in South Kalimantan. Aneka Tambang holds a 20 percent interest with the option to increase its holding to a 30 percent after the completion of the feasibility study. The channels are estimated to contain some 260 million cubic meters of diamond – bearing dredgeable gravel – resources, with high quality gem diamonds.

A trial mining project has been designed to confirm diamonds grades and recover diamonds for valuation and sale. In 1997, the construction of dredging equipment which has a capacity of 2.5 million cubic meters per annum was completed. The dredge is expected to be ready for commissioning at the end of 1998. If

the results of the first stage of the commercial production are favorable, the production capacity will increase to 5 million cubic meters per annum.

## **Copper**

Aneka Tambang has a joint venture with Ingold Holdings Indonesia Inc., a wholly owned subsidiary of Inco Limited, to develop copper resources in Maluku (on the islands of Haruku, Ambin, Nusa Laut and Saparua). The Company owns a 15 percent interest. Work conducted in late 1997 identified the work site as one with material occurrences that tend to be copper rich with high copper values in stream sediment samples.

## **Geology Unit**

The Geology Unit provides exploration services (geological exploration, geophysical investigation, surveying, drilling, chemical analysis and electronic data processing) to Aneka Tambang as well as other third parties.

In 1998, the Geology Unit will focus on exploration of new areas and existing KP's, especially for the core commodities, nickel and gold.

## **MARKETING REVIEW**

All of Aneka Tambang's sales are conducted independently, through representative office in Japan, or the selling agent in Switzerland which is responsible for ferronickel sales in Europe and South Africa.

Aneka Tambang bases the prices of its commodities on international metal prices, as quoted by the London Metals Exchange (LME) and London Metal Bullion Association (LBMA).

The economic crises affecting Asia as of mid 1997 has decreased demand for stainless steel, while entry of new capacity has increased supply. Thus, nickel prices have been on a downward trend.

Total sales in 1997 amounted to Rp 449.56 billion. Exports contributed 79 percent of total sales and 21 percent were generated from domestic customers, while pricing of over 95 percent of sales was US dollar driven.

## **CORE PRODUCTS**

### **Nickel Ore**

Nickel ore revenues increased to Rp 111.26 billion, a 33 percent addition over 1996 level. The two contributing factors were increased sales volume and depreciation of rupiah. Sales volume of high grade nickel ore increase from 1,102,601 wmt in 1996 to 1,242,247 wmt in 1997 due to higher Japanese demand. The sales volume for low grade nickel ore also increased from 995,334 wmt in 1996 to 1,207,681 wmt in 1997.

Aneka Tambang has established a strategic presence in Asia, Europe and Australia. Japan is considered the traditional market for the Company's Saprolitic ore due to high quality standards. Pacific Metal Co.Ltd., Sumitomo Metal Mining Co.Ltd, and Nippon Yakin Kogyo Co.Ltd. are the major buyers of Saprolitic ore while the buyer of Limonitic ore is Queensland Nickel Pty.Ltd., from Australia.

The Company's marketing strategy is to substantially increase nickel ore sales through long term contracts, currently ranging from one year to three years. As a result, on August 7<sup>th</sup>, 1997, a memorandum

of understanding for a longer term sales contract was signed with the Japanese Smelters, Sumitomo Metal Mining Co.Ltd., Nippon Yakin Kogyo Co.Ltd., and Pacific Metal Co.Ltd.

### **Ferronickel**

Ferronickel which is used to manufacture stainless steel, contributed Rp 210.41 billion to sales in 1997 compared to Rp 171.21 billion in 1996, an increase of Rp 39.20 billion. The downward average dollar price of ferronickel at LME, was more than offset by Rupiah depreciation.

The Company's production of ferronickel is exported to stainless steel manufacturers in Europe, South Korea, Taiwan and Japan. Major customers of FeNi include Krupp Thyssen nirosta GmbH – Germany, Pohang Iron and Steel Co. – South Korea, Yieh United Steel Corp. – Taiwan, Nikkinko Trading Co.Ltd. and Nippon Yakin Kogyo Co.Ltd – Japan.

### **Gold and Silver**

In 1997, gold prices reached their lowest levels in a decade, aggravated by a market perception of large gold sales by central banks.

Aneka Tambang's gold sales rose by Rp 8.55 billion from Rp 53.25 billion in 1996 to Rp 61.79 billion in 1997 due to higher volume, from 1,805 kg in 1996 to 2,002 kg in 1997. As local gold sales are quoted at the current exchange rate at the time of transaction, Rupiah depreciation was the other contributing factor to increase sales in 1997.

Sales of silver have also increased from Rp 14.82 billion in 1996 to Rp 15.22 billion in 1997 due mainly to the depreciation of the Rupiah, partially offset by a decrease in sales price from US\$ 4.83/oz in 1997.

Logam Mulia's income increased from Rp 5.75 billion in 1996 to Rp 8.13 billion in 1997. This increase was derived from an increase in refining services to third parties.

On July 24<sup>th</sup>, 1997, the Company signed a technical consultancy agreement with Western Australia Mint Company to review ways of enhancing the operating performance of refining services.

## **NON-CORE PRODUCTS**

### **Bauxite**

The major customers for the Company's bauxite include Sumitomo Chemicals Co.Ltd., Nippon Light metal Co.Ltd., Showa denko K.K. of Japan and Shandong Aluminum Corporation of China.

Bauxite sales increased from Rp 18.77 billion in 1996 to Rp 28.50 billion in 1997, due to an increase in quantity sold from 750,911 wmt to 793,056 wmt, and an increase in average selling price from US\$ 10.74/wmt in 1997. Increased sales other contributing factor was the depreciation of rupiah to US dollar.

### **Iron Sand**

The continuous growth of Indonesia's infrastructure projects resulted in increased sales from Rp 10.59 billion in 1996 to Rp 14.03 billion in 1997. Sales volume increased from 391,185 tonnes in 1996 to 391,185 tonnes in 1997. The price of iron sand per ton in Rupiah also increased from Rp 27,080/tonnes in 1996 to Rp 29,856/tonnes in 1997.

Aneka Tambang's buyers of iron sand include PT Indocement Tunggal Prakarsa, PT Semen Padang and PT Semen Gresik.

### **Marketing Plan**

The Company's plan for nickel ore is to increase sales volume to Japanese Smelters, Australian QNI and other foreign buyers. For ferronickel, Aneka Tambang will maintain in sales with the present buyers, at the reduced scale since the relining of FeNi I was result in reduced production in 1998 compared to 1997.

The Company sold gold domestically at prevailing current exchange rates of Rupiah/US dollar. The downward movement of the Rupiah from July to December of 1997 has benefited the Company in terms of increased revenues. However, the economic slump affecting Indonesia has affected the domestic demand for the year 1998. In response, the Company plans to diversity its market base and to sell gold internationally, particularly to Singapore.

Bauxite will be sold to Sumitomo Chemicals Co.Ltd., Nippon Light Metal Co.Ltd., Showa Denko K.K. of Japan. While the contract with Shandong Aluminum Corporation of China will be renewed by April or May 1998.

The Company foresees a slowdown in domestic demand for iron sand as a result of the monetary crisis. Since Aneka Tambang only sell its iron sand domestically, the Company is exploring opportunities of diversifying its market.

## **FINANCIAL REVIEW**

### **CURRENT YEAR ACHIEVEMENTS**

#### **Sales**

In 1997, approximately 95 percent of Aneka Tambang's KP sales was denominated in US dollars, consisting of 79 percent export sales and 16 percent local sales denominated local sales in US dollars. Sales for the year totalled Rp 449.56 billion, 25 percent higher than sales of Rp 358.56 billion in 1996. Total rupiah sales increased primarily as a result of the currency depreciation, and a slight volume increase. This was partially offset by a decrease of in average selling prices of core products.

#### **Cost of Goods Sold and Gross Profit**

The cost of goods sold aggregated Rp 252.28 billion in 1997, reflecting an increase of 8 percent from Rp 234,02 billion in 1996. This increase was principally due to the increased cost of production, owing the employees's bonus and the replacement of power plant fuel in Pomalaa, from Marine Fuel Oil (MFO) to Industrial Diesel Oil (IDO). The Comparative Cost of Goods Sold to sales decrease by 10 percent from 66 percent in 1997. Aneka Tambang's gross profit of Rp 197.27 billion in 1997 was 58 percent higher than the comparative amount of Rp 124.54 billion in 1996.

#### **Operating Expenses and Operating Income**

Operating income for 1997 amounted to Rp 146.17 billion, 66 percent higher than the previous year. The company's operating expenses increased by 39 percent from Rp 36.72 percent in 1996 to Rp 51.10 billion in 1997. The increase is attributed to increased exploration cost, and higher selling expenses which are in US dollars.

#### **Other Income / Charges**

The net of other charges for the year totalled Rp 65.22 billion, an increase of Rp 13.94 billion over the previous year of Rp 51.28 billion. The increase was caused primarily by the loss of foreign exchange amounting to Rp 35.20 billion, resulting from the Company's bank loans denominated in US dollar. Partially offsetting this, was a decrease in interest expense, from Rp 50.54 billion to Rp 30.39 billion.

#### **Profit before Provision for Income Tax, Provision for Income Tax and Net Income**

Profit before tax amounting to Rp 80.95 billion in 1997, was up by 122 percent from Rp 36.54 billion 1996. Provision for income tax for 1997 amounted to Rp 11.31 billion due to the negative fiscal corrections for depreciation and share issuance cost. Net income for 1997, amounting to Rp 69.52 billion, doubled by 113 percent from the previous year.

### **Privatisation**

The Company was partially privatised in 1997 with the sale of 35 percent of the Company to new investors and listing on the Jakarta Stock exchange (JSX) and Surabaya Stock Exchanger (SSX). The privatisation involved the issue of new shares, in which Aneka Tambang raised net proceeds Rp 561.70 billion.

### **Dividend Policy**

The Company's dividend policy stipulates that payment of each financial years dibursement shall be paid in the second quarter of the following year. In addition, yearly dividends payable will be a minimum of 30 percent of the Company's net income after tax is decided at the Annual General Meeting of Shareholders.

### **Acquisition of ERI Ventures Inc.**

On 30<sup>th</sup> July, 1997, the Company completed a reverse takeover of ERI Ventures Inc. (ERI), a listed Canadian mineral exploration company. As a result of the acquisition, Aneka Tambang has an interest of 82 percent of the 97 million outstanding shares of ERI.

After the takeover, ERI's corporate name was changed to Antam Resources International Ltd. (ARI). ERI's interests in minerals properties in Indonesia are held through its Indonesian opertaing subsidiary, PT Antam Resourcindo.

### **Financing**

Cash and cost equivalents increased from Rp 5.56 billion as of December 31<sup>st</sup>, 1996, to Rp 536.04 billion as of December 31<sup>st</sup>, 1997, due to net proceeds received from the Public Offering.

The short-term dolar denominated loans provided by ABN Amro Bank N.V. and PT Bank Dagang negara were used for fiancing working capital requirements. Total short-term loans amounted to Rp 54.45 billion and Rp 139.52 billion as of year-end 1996 and 1997, respectively The increase in obligation was caused by the depreciation of the Rupiah against US dollar.

The Company's long term loans include current maturing obligations amounting to Rp 306.95 bullion and Rp 244.44 bullion as of December 31<sup>st</sup>, 1 996 and 1997 respectively. Payments were made by Aneka Tambang to PT Bank Dagang Negara, PT Peregrine Sewu Securities and to Deutsche Bank AG. In Addition, the Company obtained the Gold Project Facility amounting to Rp 182.57 billion (relating to 135,764.5 oz of gold), to finance the expansion of Pongkor gold mine.

### **Monetary Crisis Impact**

Of Aneka Tambang's Initial Public Offering (IPO), the Company received total net proceeds of Rp 561.70 billion, of which US\$ 32 million was denominated in US dollars and the balance in Rupiah. Aneka Tambang intends to use the IPO proceeds mainly for the expansion of production facilities of Ferronickel III estimated to cost US\$ 239 million.

Furthermore, the currency turmoil besieging Indonesia has left Aneka Tmabng operations largely unscathed, since most of its products are sold abroad in US dollars. The Company's core products nickel and gold are both commodities whose global prices are set in US dollars while most of the Company's costs are in Rupiah. Therefore, the weakening of the Rupiah against the US dollars is expected to result in improved profit margins.

## ENVIRONMENTAL CONCERNS

Aneka Tambang's environmental policy not only complies with government regulations, but operates on the philosophy that " the use of the land by Aneka Tambang, for economic recovery of its mineral wealth, is of a temporary nature after which, the land should retain its original functionality ".

With his philosophy, Aneka Tambang has completed rehabilitation of 208.31 ha in 1997. The rehabilitation program consists of leveling the mined area where top soil is replaced with quality soil, complemented by tree planting. Among the rehabilitated areas were 132 ha in Kijang Bauxite Mine which is nearing its depletion.

Aneka Tambang's strong sense of environmental concern has been exhibited through its engagement of an independent international consultancy group, to conduct a full environmental audit in 1997.

Aneka Tambang's environmental Policy stipulate that Aneka Tambang is :

- to minimise any long term degradation of land
- to allow for a beneficial post mining land use
- not to have any significant off site effects during mining
- to minimise effect on the local community during and after mining
- not to create a liability for future generations

The management and employees of Aneka Tambang and all contractors employed by PT Aneka Tambang agree to comply with the PT Aneka Tambang Environmental Policy.

Aneka Tambang has also implemented an Environmental Action Plan. The action plan was designed to address the identified issues at each operating unit, stating the progress of the action taken from the issues. A separate plan task force, consisting of key personnel from the various operating units is responsible for the implementation of the required actions and for achieving the action plan schedule.

Some of the action plans from the issues completed during the year 1997 by various operating units are :

### **Kijang**

Kijang tailings dams are rehabilitated with the total taoling storage space of 106,000 cubic meters to limit the spillways and discharge of tailings

### **Pomalaa**

Improvement of waste handling was completed with the construction of a new scrapyard and the individual sheltered pits for disposal of asbestos and incinerated hospital waste.

### **Pongkor**

Construction of the settling ponds to deposit the mud from the mine site, so that the water will flow to the river is clear. Waste rock location disposal is also constructed to discharge rock from the mine.

### **Gebe**

Construction of 4 sediment control structures to retain the flow of mud from the mine to the sea.

### **Cilacap**

Former mine site was transformed to rice fields of 2.3 ha.

## SOCIAL RESPONSIBILITIES

### **Social Activities**

Aneka Tambang has continuous socially conscious programs such as, employing the people living close to the mining areas, granting elementary education scholarships for employees children and introducing family planning programs. In addition, Dharma Wanita provides literacy programs for the local community.

In line with the government regulations regarding assistance for small-size entrepreneurs and cooperatives, during 1997, the Company spent a total of Rp 1.23 billion of its profits for these programs. Of this amount, Rp 0.9 billion was allocated to assist 61 small-size entrepreneurs and Rp 0.33 billion was allocated for the cooperatives development. The fund was distributed in the form of working capital loans and donations for promotional activities and other training activities to teach entrepreneurial, managerial and technical production skills.

### **Employee's Welfare**

The Company recognises that employee's welfare is a strong contribution factor to meet the Company mission, thus, efforts have been made to improve the welfare of all employees.

Besides paying sufficient salaries for employees to support their families, the Company also grants benefits such as transportation allowances, social insurance, healthcare benefits, work uniform, housing allowances, sports and religious facilities.

In addition, subsidies to all units cooperatives are made for the benefit of the employees. The Company also provides pension plans, organised by Dana Pensiun Aneka Tambang, based on UU No.12, 1992. On July 15<sup>th</sup>, 1997, the Indonesian Ministry of Finance adopted UU No.12, 1992 as a constitutional law, concerning the implementation of pension programs. The Indonesian Labor regulations, as stipulated by the Indonesian Ministry of Labor dated March 24<sup>th</sup>, 1997, has been adopted by the Company.

In 1997, the Company established a voluntary early retirement program for 175 employees from 47 to 54 years old, allocating Rp 2.02 billion for this program. Those early retired employees are still eligible for monthly pension and healthcare benefits. In addition, during 1997 Haj season, the Company granted Haj allowances to 10 employees (below head division level) who have worked for the Company at least 10 years.

Training programs are provided in order to develop employees skills for their current work and future careers. Training programs are categorised into four groups : General Management, Vision Upgrade, Capability Upgrade and Special Programs to prepare candidates for leadership succession.

### **Safety Program**

A vigorous safety campaign was pursued throughout the year, resulting in a decrease in the frequency rate of accidents per million man-hours from 1.25 in 1996 to 1.07 in 1997.

In line with the safety program, the Company appointed London Mining and Mineral Consultants Ltd. in association with Steffen Robertson Kristen (UK) Ltd. to conduct an initial audit of the Pongkor Mine Safety Program. The purpose of the audit was to improve Pongkor's safety program in terms of its occupational and safety training, use of resources (correct tools/equipment) and maintenance of plant and machinery) and strategic safety plan.

Aside from the intensive Safety Program, Aneka Tambang has a comprehensive Company Policy on Safety Program which include :

- Safety patrol, done on weekly basis
- Safety Committee meetings done on a monthly basis to address the issue of the employees' safety while at work
- Setting up Standard operating procedures
- Safety programs and training courses are conducted on a regular basis
- Inspection by the government agency performed on a quarterly basis

For the year 1997, the Company showed a remarkable record, to the extent that Kijang extend a Zero Accident Award from the Government of the Republic of Indonesia. Despite greater efforts and safety programs, it is with great regret that because of of landslides, two people working for contractors died at Pongkor operations during the year – Tholib and Badrudin – and one Aneka Tambang employee drowned in Cilacap – Kodiarto. The management of Aneka Tambang extends its sympathy and condolences to the families, friends and colleagues of those who died.

## **COMPANY FUTURE PLANS**

Aneka Tambang has determined that in order to become a world class miner, it is required to improve its efficiency and maintain its growth level. Therefore, the Company sets its Corporate Strategy as follows :

### **Focus on Core Products**

The Company has extensive experience in mining nickel and gold. However, since the price of these metals is determined by market mechanism in which the Company has no control, the Company focus becomes productivity and efficiency.

By expanding Pongkor, replacing and modifying FeNi I, developing FeNi III, adding a chlorinating process in Logam Mulia smelting and refinery and modifying gold mining techniques, the Company intends to increase its production capacity, which should decrease production costs. Hence, Aneka Tambang gains the necessary competitive advantages to compete with its international peers.

### **Increase of Exploration activities**

Mines are unrenewable resources. Thus, the Company needs to conduct continuous exploration activities in new areas with potential deposits. The company realises that exploration activities are important for supporting the Company's existence in the future. In line with this, Aneka Tambang has significantly increased its exploration budget to 5 percent of annual sales. The Company's 73 KP's cover mining area for 5.3 million ha., promising additional large finds.

Aneka Tambang is conducting exploration activities either independently, through its subsidiaries or in joint ventures with partners.

### **Strategic Alliances**

In making joint ventures with strategic partners, the Company benefits from capital inflows, technology transfer and management expertise. Currently, Aneka Tambang has joint ventures with international mining companies such as BHP, QNI, Aberfoyle, Newcrest and Ashton.

Although most of the joint ventures are still at the exploration stage, some have reached feasibility study stage, such as the Gag Island Project with BHP, the Gosowong gold project with Newcrest and the alluvial diamond deposits in South Kalimantan with Ashton – MMC. In the future, Aneka Tambang will continue to seek strategic alliance to explore potential mineral deposits on existing areas.

### **Corporate Reorganisation**

To improve the Company's performance, the Company recognises that it must meet efficiency and professionalism needs in line with modern business practises. The Company restructuring plan of dividing its businesses into four primary operating divisions of nickel, gold, industrial minerals and geological division entails profit accountability for its division resulting in improved efficiencies.