

Batu Hijau Mining Project

Financial Model

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Context

- Operated by JV company (PT NNT) through contract of work (4th gen)
- Mainly produce copper, but also gold & silver
- 2nd biggest copper producer in Indonesia
- Substantial (over 90%) of export; 50% of local budget and 12% of GDP in West Nusa Tenggara Province
- Contract renegotiation has been on the table since 2009 (royalty rate, smelting, divestment)

Project Features & Assumptions

Economics

- Life of Mine copper production of 12.7 billion lb, remaining (2015) reserves of 5.4 billion lb.
- Life of Mine gold production of 12.6 million ounces, remaining (2015) reserves of 5.6 million ounces.
- Copper price forecast: \$2.50 per lb constant (IMF WEO Copper).
- Gold price forecast: \$1,476 per ounce (calculated using the product of the benchmark of copper price and the ratio of gold price to copper price).
- Exploration cost \$87 million; Development costs \$2.48 billion; Sustaining capital \$1.59 billion; decommissioning cost \$286 million; life of mine operating costs \$10.58 billion. Thus, total cost is \$15.02 billion (Newmont Annual Report)

Project Features & Assumptions

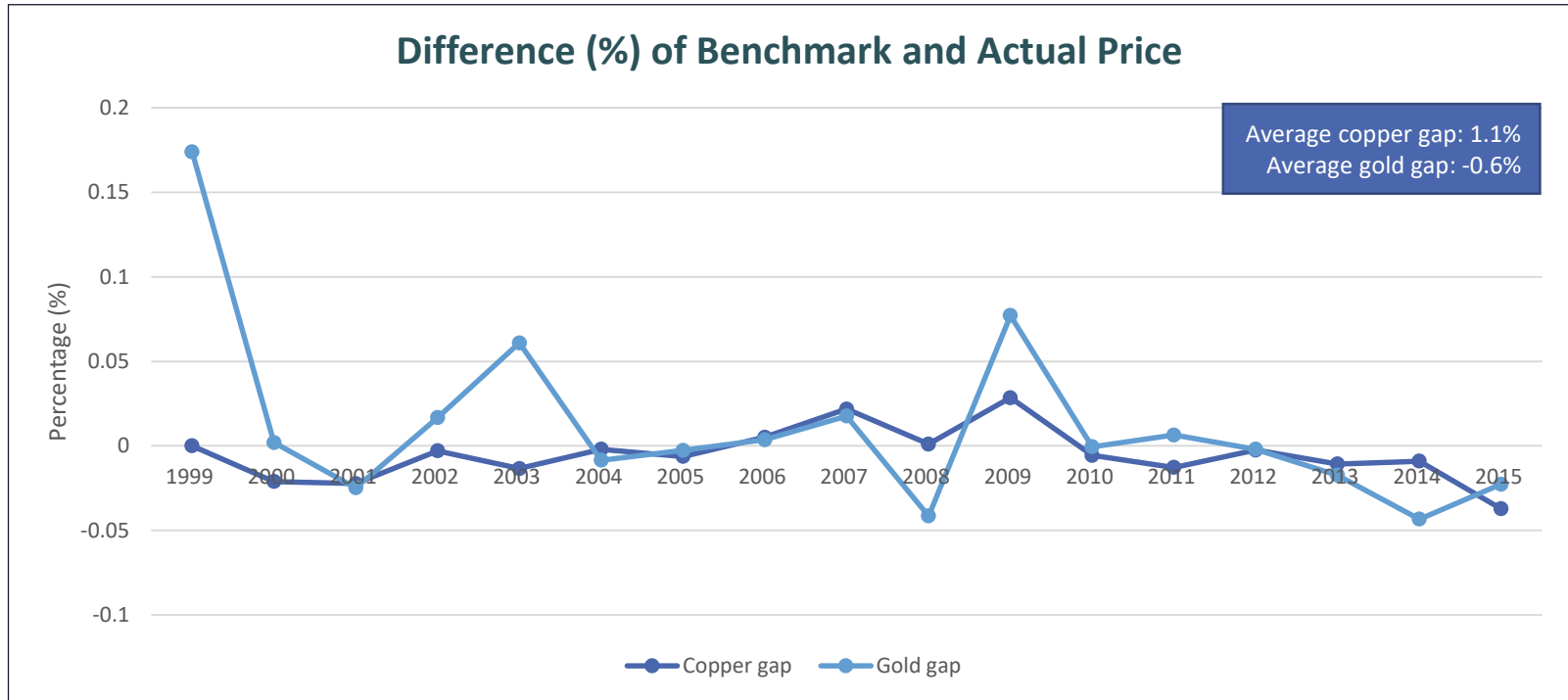
Fiscal Regime

- Copper royalty rate up to 2014 is 1.7% and 2015 onwards is 4%.
- Gold royalty rate up to 2014 is varied, from 1 to 2%, depending on the price. From 2015, it increased to 3.75% flat.
- Double royalty applied for the copper exported.
- Life of mine royalties : \$1.70 billion
- Export duty applied since 2014, from 0 to 7.5% depending on the progress of refining industry.
- Income tax rate is 35%.
- Dividend withholding tax is 15% (domestic) & 10% (foreign), double tax treaty applied.
- Asset depreciation is 25% declining balance

Key Findings

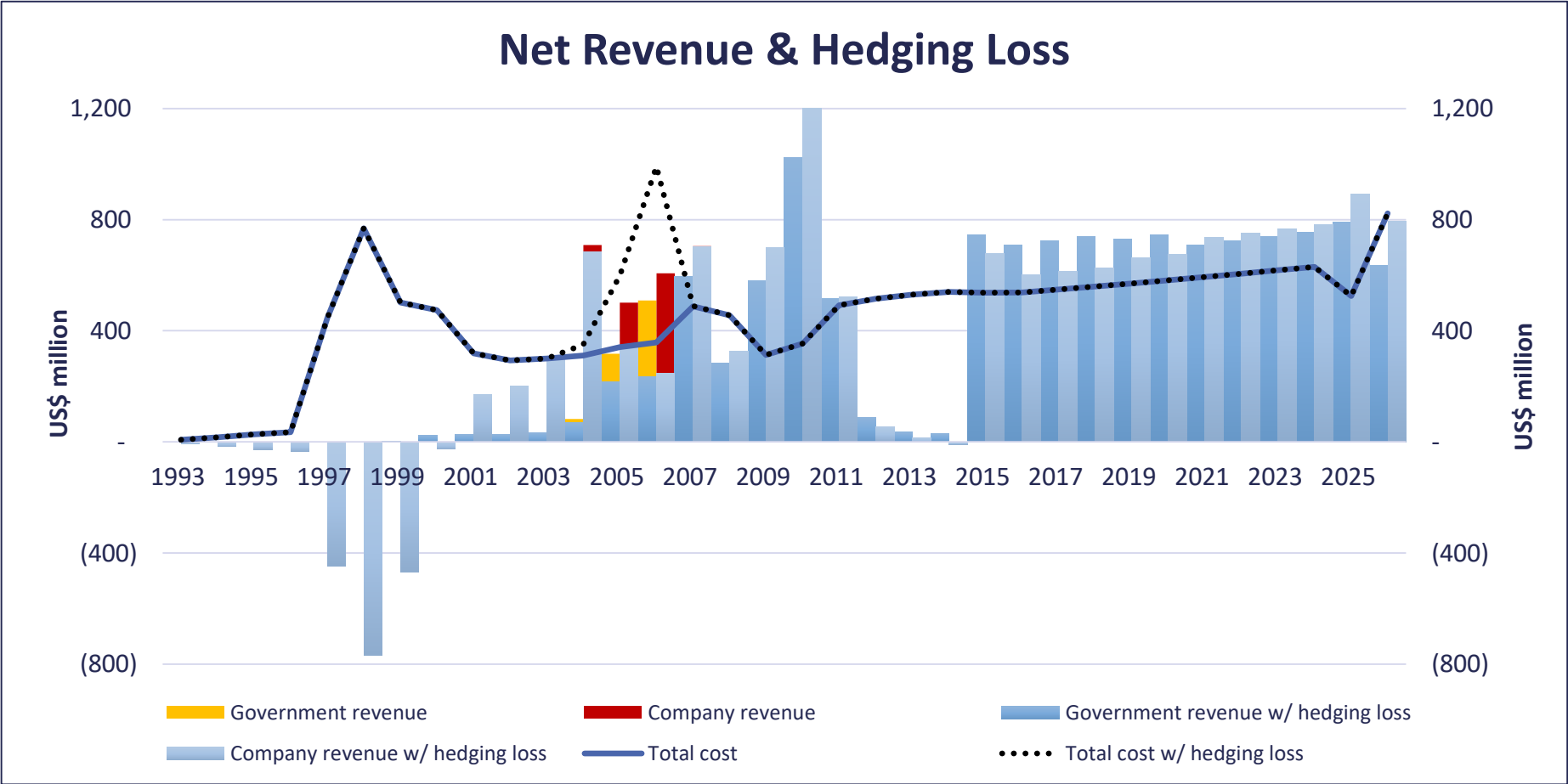
- Gap between benchmark and actual prices is low (1.1% for copper and 0.6% for gold)
- Government gain 48% from the net cash flow, while the company gain 52%.
- Hedging losses of \$931 million (2004-6) reduce Newmont's IRR from 17.5% to 16.5%
- The government will lose \$388 million if the hedging loss is deducted from the taxable income
- Royalty rate changes in 2015 triple the forecast royalty, despite shorter LOM
- Double tax treaty reduced government revenue by \$912 million

Graphic



Low gap between benchmark & actual price, **BUT**

Graphic



Information Gap Analysis

- Future production profile
- History of exports (export agreements have not been published)
- The history of the hedging loss
- Has the 2015 additional royalty for exports been applied? Is it applied together with export duties?