



**PT KALTIM PRIMA COAL**

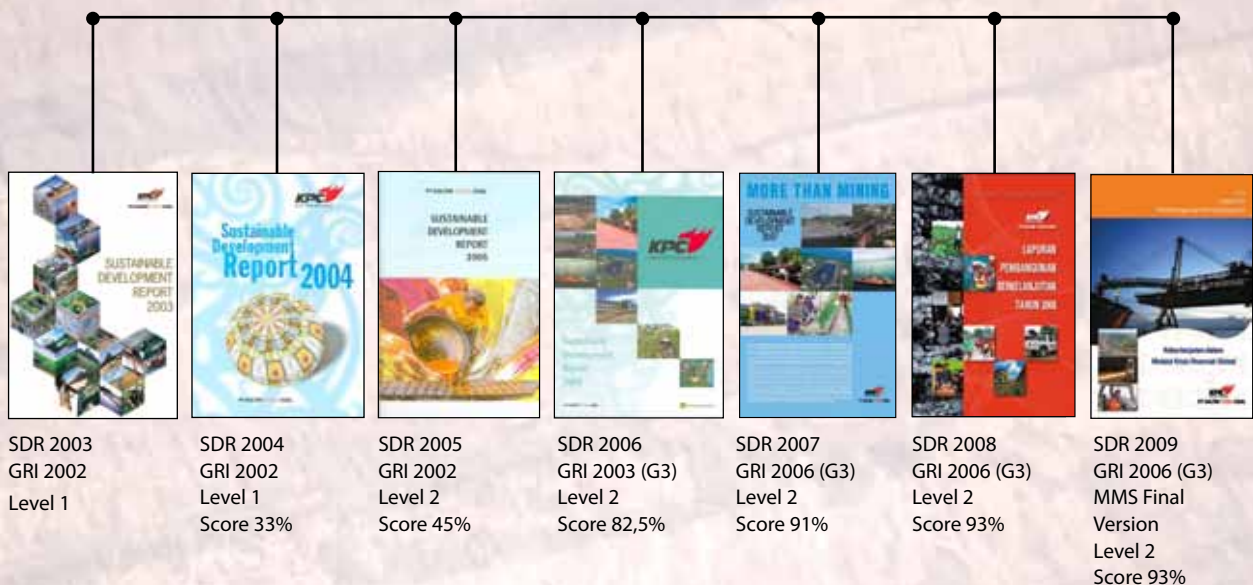
**Sustainability Report 2010**

**Expansion  
for Sustainability**



# Sustainability Report Milestones

## The Course of KPC Sustainability Report (3.2)



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## Sustainable Development Performance Summary

Fields	Run Program	Achieved
Economics	<ol style="list-style-type: none"> <li>1. Oriented investment, operational efficiency.</li> <li>2. Implementation of Contract &amp; Contractor Management Supply, Supplier Community Meeting and Contract Performance Evaluation.</li> <li>3. Mining activity increase.</li> <li>4. Quality control and responsible marketing communication</li> </ol>	<ol style="list-style-type: none"> <li>1. Increase of income, profit, and contribution to the country.</li> <li>2. Increase of work relationship quality and increase of local supplier.</li> <li>3. Increase of contribution to the regional economy.</li> <li>4. Customers' satisfaction, sale contract extension and no customers' privacy violation</li> </ol>
Environment	<ol style="list-style-type: none"> <li>1. Fulfillment and assessment of accredited environmental management standard</li> <li>2. Increase and management of resettlement activities</li> <li>3. Good post-mining land management</li> <li>4. Periodic environmental indicator monitoring</li> </ol>	<ol style="list-style-type: none"> <li>1. Extension of environmental management certificate ISO 14001: 2004</li> <li>2. Smooth relocation and good mining land increment for product increase</li> <li>3. Biodiversity conservation</li> <li>4. Gas emission under BML and waste</li> </ol>
Human Resource Development	<ol style="list-style-type: none"> <li>1. Quality and balanced recruitment</li> <li>2. Continual human resources training, remuneration according to performance</li> <li>3. Benefit program for employee</li> </ol>	<ol style="list-style-type: none"> <li>1. Competent and dedicated HR in a balanced composition</li> <li>2. Increase of HR competence, motivation, and performance</li> <li>3. Low turn-over, conducive work atmosphere</li> </ol>
Occupational Health and Safety	<ol style="list-style-type: none"> <li>1. Fulfillment and assessment of OHS management standard</li> <li>2. Training and OHS implementation monitoring</li> <li>3. Health check for employees and their families</li> </ol>	<ol style="list-style-type: none"> <li>1. Extension of OHS management standard certificate OHSAS 18001:2007.</li> <li>2. Reducing the level of lost time injury frequency rates (LTIFR)</li> <li>3. Reducing the level of employees' absence due to sickness</li> </ol>
Community Development	<ol style="list-style-type: none"> <li>1. Program planning involving stakeholders</li> <li>2. Program covers economic, social, and environmental aspects</li> <li>3. Sufficient fund provisioning</li> <li>4. External communication program</li> </ol>	<ol style="list-style-type: none"> <li>1. Implementation of community development program runs well</li> <li>2. Increase of community welfare due to development of regional economic potential</li> <li>3. Implementation of program is in accordance with the plan</li> <li>4. Relationship with surrounding community becomes harmonious</li> </ol>



**KPC**  
COAL FROM INDONESIA  
KALTIM PRIMA COAL

## Chief Executive Officer's Statement

"We deliver this Sustainability Report to provide a deep, transparent, and balanced description on our efforts that we undertake and the performance that we achieve in giving economic and social contributions to the country and the surrounding community, including the company's participation in overcoming the impact of global warming through responsible environmental management."

Respected stakeholders,

Up until 2010, PT. Kaltim Prima Coal (KPC) has made the Sustainability Report for the eighth time. We make this report by referring to the international standard reporting system, i.e. Sustainability Reporting Guidelines & Mining and Metal Sector Supplement RG Version 3.0/MMSS Final Version **(1.1)**

Through this international standard report, we want to provide a deep, transparent, and balanced description on our efforts that we undertake and the performance that we achieve in giving an economic and social contribution to the country and the surrounding community, including the company's participation in overcoming the impact of global warming through responsible environmental management. Through this report, we want to give a real picture of our seriousness and commitment to participate in making efforts for solving the impacts of global warming which affect the social life around the globe.

We run a business of mining and trading one of the non-renewable fossil fuels, i.e. coal. Like a mining company in general, our mining operations include removing the top soil and then the overburden, taking the coal seam and then returning the overburden and top soil followed by revegetation. Our operations are done in a planned way and pay attention to activities of good mining practice. In addition, we are very concerned with environmental management efforts before and after the mine to minimize the impact of our operations.

The global warming impact that nowadays commonly take place is the extreme weather change on a global scale. For Indonesia, including our mining area, the extreme weather change which has a major impact is the continual rainfall during the year 2010, with unforecasted intensity. As for subtropic regions, the extreme weather causes snow storms, winter time change, and thunderstorms with high rates of rainfall.



### **Main Risk, Challenge, and Business Opportunity (1.2)**

Climatic conditions indirectly affect rainfall in excess of our plans thus affecting the achievement of our production in that year because the performance of production equipment was not optimal. Although not significantly affecting the Company's financial condition, it is a challenge both in terms of operational aspects of production and safety aspects. To answer the challenges of these conditions, we improved and optimized the operational aspects and implemented drainage systems that supported the mining operations.

The direct impact of the climate change that we felt and the increase of the world community inconvenience had made us more determined to show our commitment and participation in reducing the negative impact of the climate change. As a means of showing our concern on the wider impact of global warming, we had launched *Program Hemat Energi* (Energy Saving Program) through electricity saving on 8<sup>th</sup> September 2010.

The program was a form of our concern and real support to the program of reducing global warming impact and climate change. Besides aiming at reducing the use of electricity for irrelevant use, the electricity saving program also aimed at reducing the use of fossil fuel for generating electricity. **(EC2)** Besides electricity saving, we designed and implemented the initiative for integrated operational system improvement, human resource competence development and business expansion which cared for environmental conservation.

### **Expanding business, Conserving the Environment**

In the reporting year, we had mined 39.3 million tons of coal, slightly less than the previous year's production. Such product volume achievement was caused by continuous rain as a form of climate change impact, affecting the productivity of production equipment. We had endeavoured to overcome the production obstacles and started to prepare for the following year's production plan.

We keep trying to operate efficiently, so that our sales and profits increase. Hence we are still able to contribute to the country, in the form of the increase of royalties and taxes which we pay and also help improve the livelihoods of the surrounding community. To anticipate the increase of coal demand from the international market post-crisis, we plan to increase the capacity of production to 70 million tons per year in the next years.

In line with our business expansion, we have improved the main infrastructure as well as supporting facilities, including the addition of equipment. We have processed the required permits, including presenting AMDAL (*Analisis Mengenai Dampak Lingkungan*, Analysis of the Environmental Impacts) revision to the authorized stakeholders. As a form of our commitment to keep expanding the business and keep paying attention to conservation, we have endeavoured to increase the operational ability of all our staff.

We implement the management of human resources well, implement the program of improving the human resource competence directionally and instill awareness on the importance of environmental conservation. To ensure quality environmental management, we facilitate internationally applied environmental management system auditing that we run. We have succeeded in maintaining the environmental management system certificate ISO 14001: 2004 until 2013, which we aim at increasing the effectivity of the environmental management activities.

We have prepared the mining plan and post-mining land maintenance carefully, prepared revegetation plants, conserved endemic biota, and maintained revegetation areas well in cooperation with independent parties. We are also consistently preserving the facilities of orangutan conservation which we sometimes find on the mining area to be then returned to their natural habitat.

We monitor and manage emission and waste levels on the whole mining area and affected area regularly. We maintain all parameters of environment indicators in order to keep them within the established quality standard limits. The monitoring and managing involves competent independent parties. As a result, we always fulfill the requirements of the water processing standard, emission as well as effluent and B3 waste processing.

We did all those efforts to conserve the ecosystem biodiversity as much as possible as the condition prior to the mining. We targeted to achieve the level of more positive PROPER, on regional, provincial, and national levels.

### **Realizing Competent Human Resources with Occupational Health and Safety Awareness**

To support the plan for business expansion, we prepared human resources (HR) carefully. We supplied planned training to improve our HR competence, and gave remuneration relevant to performed performance. As HR is a partner and the backbone of the company's growth, we pay great attention to the health and safety of the work place. To support the implementation of OHS, we have provided sufficient work safety kits and conducted special training on OHS, followed by company employees as well as contractors.

To support the implementation of the program and increase the OHS standard, we implement the accredited OHS system from OHSAS 18001: 2007 as well as facilitate its implementation evaluation by independent parties. We have gained again an extension of the certificate until 2013. We are also thankful for the increase of the employees' awareness regarding the importance of implementing OHS procedures which resulted in the decrease of the frequency of incidents leading to LTIFR. We are targeting zero accidents in all our operational activities. To reach that target, we involve all components of employees and contractors in implementing OHS through the OHS Committee which runs effectively.

### **Developing Community Life**

We showed our commitment to develop community life around the operational activities through the implementation of a directed community development program. In order that the program gains optimum impact, we involved local stakeholders, such as the community leaders and the regional government in designing, determining and carrying out the community development program. Thus we expect the community's awareness that the program belong to them also; hence, they are also responsible for its successful implementation.

We formulated the community development program into various specific programs according to the level of the local community needs, including programs in the fields of: education, public facility development, economic activity, religious and moral activities, health, natural disaster aids and nature conservation. To support the implementation of the programs, we allocated some substantial funds from our earnings.

All such programs of community development show our support for the Millenium Development Goals and Global Compact program. For such support, we were awarded MDGs' Award by the United Nation for MDGs Asia Pacific and from the Coordinating Minister of People Welfare Sectors of the Republic of Indonesia (*Menko Kesra Republik Indonesia*). Besides that, we also received the KSN Award 2010 for the category of Economic and Partnership Empowerment Sector as well as the Mutual Business Group Sector.

### **Improvement of the Implementation of Sustainable Business Management Principles**

To support sustainable business growth in this reporting year, we commenced the process of reviewing the company vision and mission statement. We undertake this review because the company organization keeps growing significantly while the business environment has also changed greatly during the last few years. The establishment and statement of the new Company Vision and Mission reflects a reformation and improvement spirit that we continuously maintain in order to persistently succeed in facing the challenge of the global business environment which keeps changing dynamically.

The restatement of the Company Vision and Mission also marks our determination to keep improving the quality of the implementation of good management which we believe will increasingly ensure a long term growth along with the fulfillment of all stakeholders' interests.

### **Closing**

Finally, allow us to express our gratefulness to the stakeholders for the support the sustainability of our business. We also invite suggestions and constructive criticism for the betterment of the Sustainability Development Report which we will constantly improve.

Thank you.



Endang Ruchijat  
Chief Executive Officer





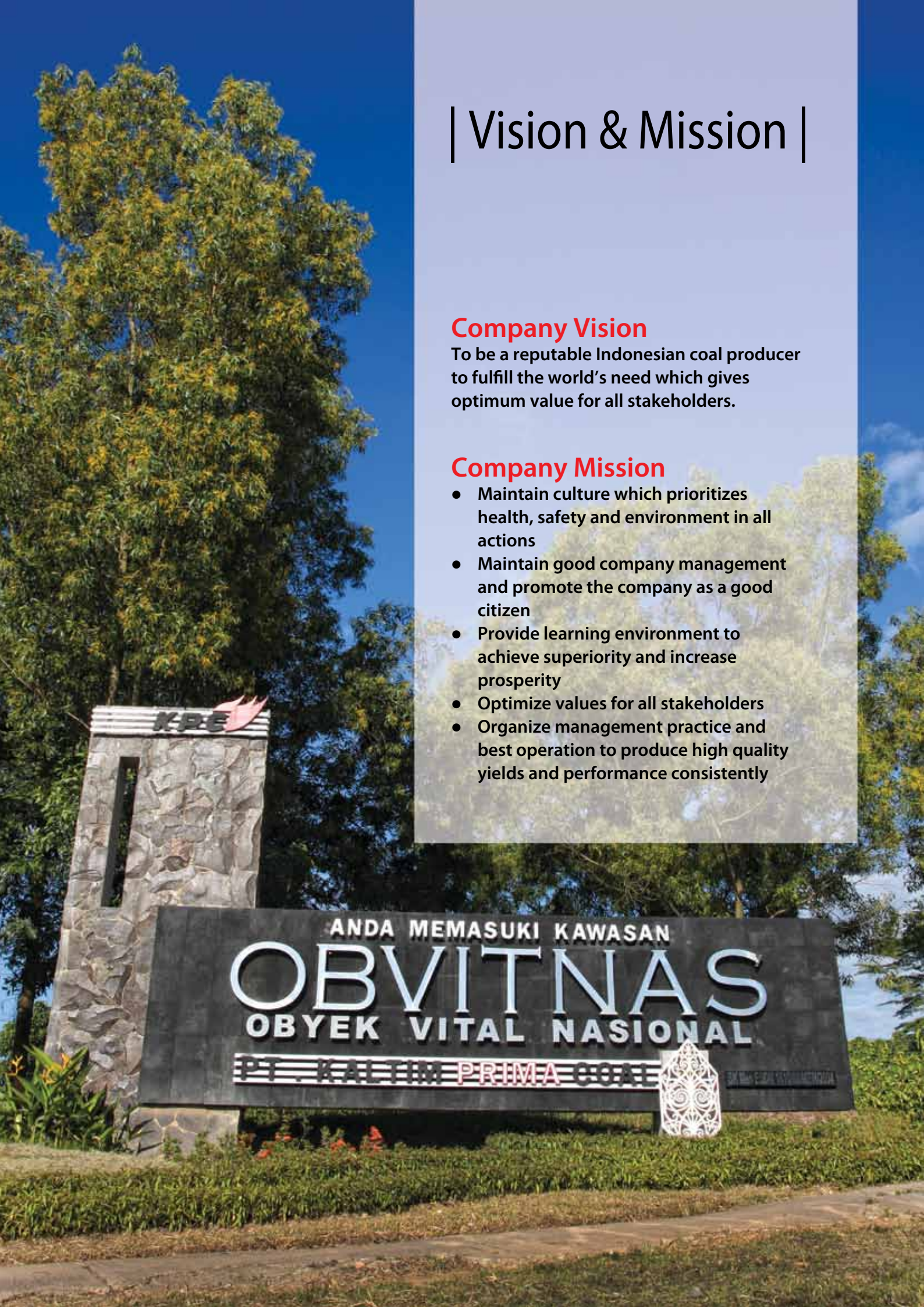
# | Vision & Mission |

## Company Vision

To be a reputable Indonesian coal producer to fulfill the world's need which gives optimum value for all stakeholders.

## Company Mission

- Maintain culture which prioritizes health, safety and environment in all actions
- Maintain good company management and promote the company as a good citizen
- Provide learning environment to achieve superiority and increase prosperity
- Optimize values for all stakeholders
- Organize management practice and best operation to produce high quality yields and performance consistently





# | About This Report |

The goal of this report is to transparently communicate our economic, environmental, and social commitment and performance to the stakeholders and the community. Through this report, we hope that the stakeholders can gain a clearer and more transparent description about all the sustainable development activities that we undertake.

- 08 Goal of the Report
- 08 Scope and Limit of the Report Contents
- 08 Approach and Contents of the Report
- 09 Data Measurement Techniques
- 09 Period and Guidelines of the Report
- 09 Significant Changes
- 09 GRI Index
- 09 Assurance
- 09 Contact Person



We adopt the principles of Accuracy, Completeness, and Reliability to present information in this report. Through internal and external auditing process that we have carried out, we guarantee that the three principles have been applied in this report.

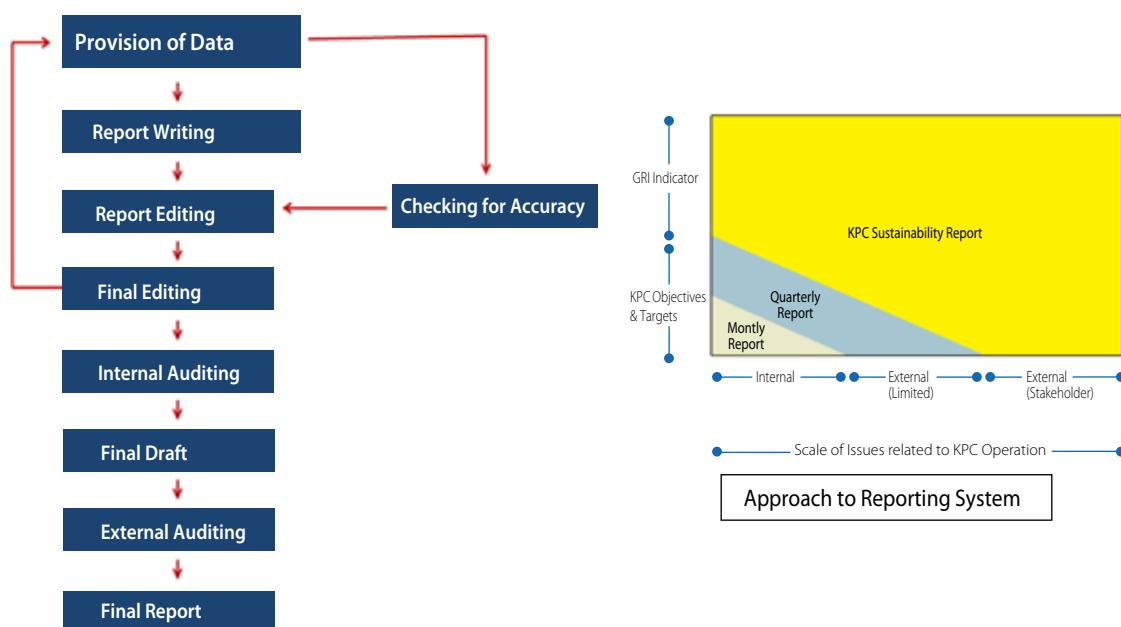
To improve the quality of this report, we have 11 contributors who have obtained the certificate of CSRS (Certified Sustainability Reporting Specialist) and 1 contributor who has both CSRS and CSRA (Certified Sustainability Reporting Assessor) certificates. We intend to send several staff to obtain such certificates by participating in relevant training.

### Scope and Limits of the Report Contents (3.7)

This report reports all aspects of the operational performances within the KPC mining areas and the changes that took place during the year 2010, covering sustainable development, the financial condition and the products. However, the environmental performance of the company contractors is not reported yet in this report.

### Approach and Contents of the Report (3.11.3.5)

This sustainability report still emphasizes on reporting the program performance in achieving sustainable development and the participation of the stakeholders in the development. The process of the making and approach to the reporting system that we undertake are described in the following two diagrams:





**Meanwhile, the contents of the report include: (3.11; 3.6):**

- The economic, social, and environmental performances as required in GRI indicators. The report of this year presents all indicators in the GRI standard.
- The changes taking place during the period of 1<sup>st</sup> January – 31<sup>st</sup> December, 2010.
- Operational activities as required in the GRI standard.
- Operational activities which are in accordance with legal regulations or other legal stipulations.
- Additional indicators in the GRI standard.

#### **Data Measurement Techniques (3.9)**

We applied data measurement relevant to the fields that we are reporting and relevant to the general norms. We present the information in the report according to the principles of materiality, i.e. presenting information which can affect the decision making for the stakeholders, as well as the information having important impact on the company's economic, social, and environmental performances.

#### **Period and guidelines of the report**

This report is the eighth sustainable report made by the company since 2003. The report covers the period from 1<sup>st</sup> January – 31<sup>st</sup> December, 2010 and made in reference to the Sustainability Reporting Guidelines & Mining and Metal Sector Supplement RG Version 3.0/MMSS Final Version (3.1, 3.2, 3.3).

#### **Significant Changes (3.10, 3.11)**

There is no significant change regarding the structure, accounting principles and data measurement methods compared to the previous year's report. Likewise, there is no significant change regarding the business structure, ownership structure, and organizational structure during the reporting period. (2.9) This makes the reporting basis undergo no changes and does not affect the comparability principles. (3.8)

#### **GRI Index (3.12)**

To facilitate the readers in understanding the fulfilled and reported observance by the company, we enlist the GRI G3 index established in this report in red numbers in brackets on every relevant page. The compilation of the fulfillment of all required provisions in the relevant GRI index is presented on page 84-86 of this Report.

#### **Assurance (3.13)**

To ensure the accuracy of data that we present in this report, the company has conducted assurance done by a competent third party. According to the checking by the independent third party, i.e. Mazars, this report has fulfilled the implementation standard of GRI with the level of A+.

#### **Contact Person (3.4)**

Any request, suggestion, or comment for this report can be addressed to:

#### **External Affairs & Sustainable Development**

PT.Kaltim Prima Coal  
M2 Building, Mine Site  
Sangatta, Kutai Timur, Kalimantan Timur  
Indonesia  
Telp. 62 549 52 1451  
Fax. 62 549 52 1701







# | Company Profile |

"We operate in Kutai, East Kalimantan, exploiting an area of more than 90,000 ha, producing three types of quality coal with the total resources of more than 4.5 billion tons which we market in both foreign and domestic markets."

- 
- 12 PT Kaltim Prima Coal (KPC) at a glance
    - Share Ownership
    - Company Address
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  - 15 Awards and Certificates

## Kaltim Prima Coal (KPC) at a glance

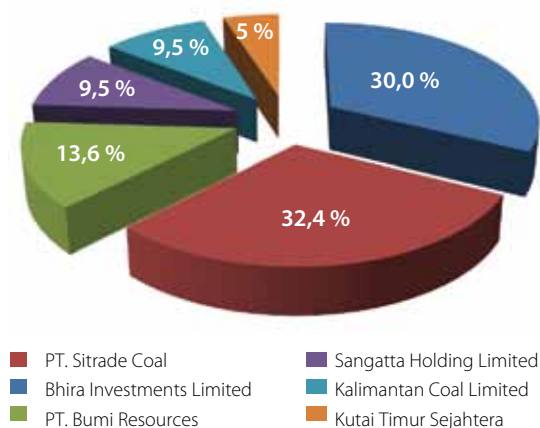
KPC, hereinafter referred to as the Company, was previously owned by British Petroleum International Ltd (BP) and Conzinc Rio Tinto of Australia Ltd (Rio Tinto). Through an acquisition process on 70% of shares according to the Notary Deed No 3 dated 18<sup>th</sup> October, 2005, the company is currently under the ownership of PT. Bumi Resources Tbk as the major owner. Besides that, according to the Notary Deed No. 34 dated 4<sup>th</sup> May 2007, 30% of the share is owned by Tata Mauritius Ltd.

The Company was established in 1982, according to the Notary Deed No 28 dated 9<sup>th</sup> March, 1982, and obtained legalization by the Minister of Justice of the Republic of Indonesia as per Decree No. Y.A.5/208/25 dated 16<sup>th</sup> March, 1982. The legalization was announced in the Official Gazette of the Republic of Indonesia dated 30<sup>th</sup> July 1982 No. 61 Addendum No 967. (2.6)

According to Work Contract of Coal Mining Exploitation (PKP2B, *Perjanjian Kontrak Karya Pengusahaan Pertambangan Batubara*) signed on 8<sup>th</sup> April, 1982, the Government gave permission to the Company to undertake exploration, production, and marketing of coal from the area of agreement until 2021. The area of agreement covers an area of 90,938 ha in the Regency of Kutai Timur, Province of Kalimantan Timur.

### Share Ownership (2.6)

Share Ownership of the Company per 31<sup>st</sup> December 2010.



### Company Address (2.4),(3.4),(2.1)

PT.Kaltim Prima Coal  
Mine Site Gedung M1, Sangatta 75611  
Kabupaten Kutai Timur, Kalimantan Timur,  
INDONESIA

### Business Field and Product Summary

The Company's business field is mining and distributing coal to the industrial consumers within as well as outside of the country. All operational activities are done in Indonesia. (2.5, 2.7), (2.2)

The Company's coal production is classified into several classes according to their quality, namely Prima, Pinang, and Melawan. Prima coal is the highest class with high quality. The next is Pinang, which is also of several specifications according to their heat value. And the third type is Melawan coal whose heat value is below Pinang and Prima.

Prima coal is one of the high quality coals traded in the international market. This coal is bitumen coal which easily vapourizes (volatile) with high heat, very low content of ash, moderate content of sulphur, and relatively low total moisture. Prima coal is also one of glowing coals with high content of vitrinite.

### The Following is an Overview of the Coal Qualification Produced by the Company. (PR3)

	Prima	Pinang	Melawan
Calorific Value (kcal/kg)			
Gross Air Dried Basis (gad)	7,000	5850-6550	5650
Gross As Rec'd (gar)	6,650	5500-6150	5200
Total Moisture % as received	11.0	15.0-21.0	23.0
Moisture % adb	6.0	9.5-16.0	16.5
Volatile Matter % adb	41.0	38.0-40.0	38.5
Ash % adb	6.0	6.0	5.0
Total Sulphur % adb	0.60	0.60	0.20-0.40
Handgrove Grindability Index	46	45	42



Company are: Pit Bendili, Pit J, Big AB, and Inul KWest. As for the pits operated by mining contractors these are: Pit A Bengalon Area by PT.Darma Henwa; Pit Pelikan, Kangguru, Pit Kancil and Pit Pelikan South Small by PT.Pama Persada; Pit Melawan, Belut, Beruang, Mustahil, Khayal and Pit Peri by PT.Thiess. The Company has never cooperated with artisanal and small scale mining (ASM).

**(MM8)**

According to the Mining Exploration Work Contract (PKP2B, Perjanjian Karya Pengusahaan Pertambangan) No. J2/Ji.D4/16/82 signed on 8<sup>th</sup> April, 1982, the Company is allowed to explore, produce, and market coal in an area of 90,938 ha (D4KW 96PB0363) until 2021 in the Regency of Kutai Timur, Province of Kalimantan Timur, Indonesia, with the maps of operational regions as follows. **(MM1)**

The Following is an Overview of the Company's Economic Scale: (2.8)

	2010	2009
Number of employees	5.206	4.973
Total net sales (US million)	3.009,4	2.158,8
Quantity of sold product (tons)	40.005.839	38.758.082

The Company's activity phase is production operation based on the Decree on Production Contraction No. 940.K/20.01/DJP/1999 dated 24<sup>th</sup> December 1989. The Company runs mining operational activities independently. Among the operational pits run by the

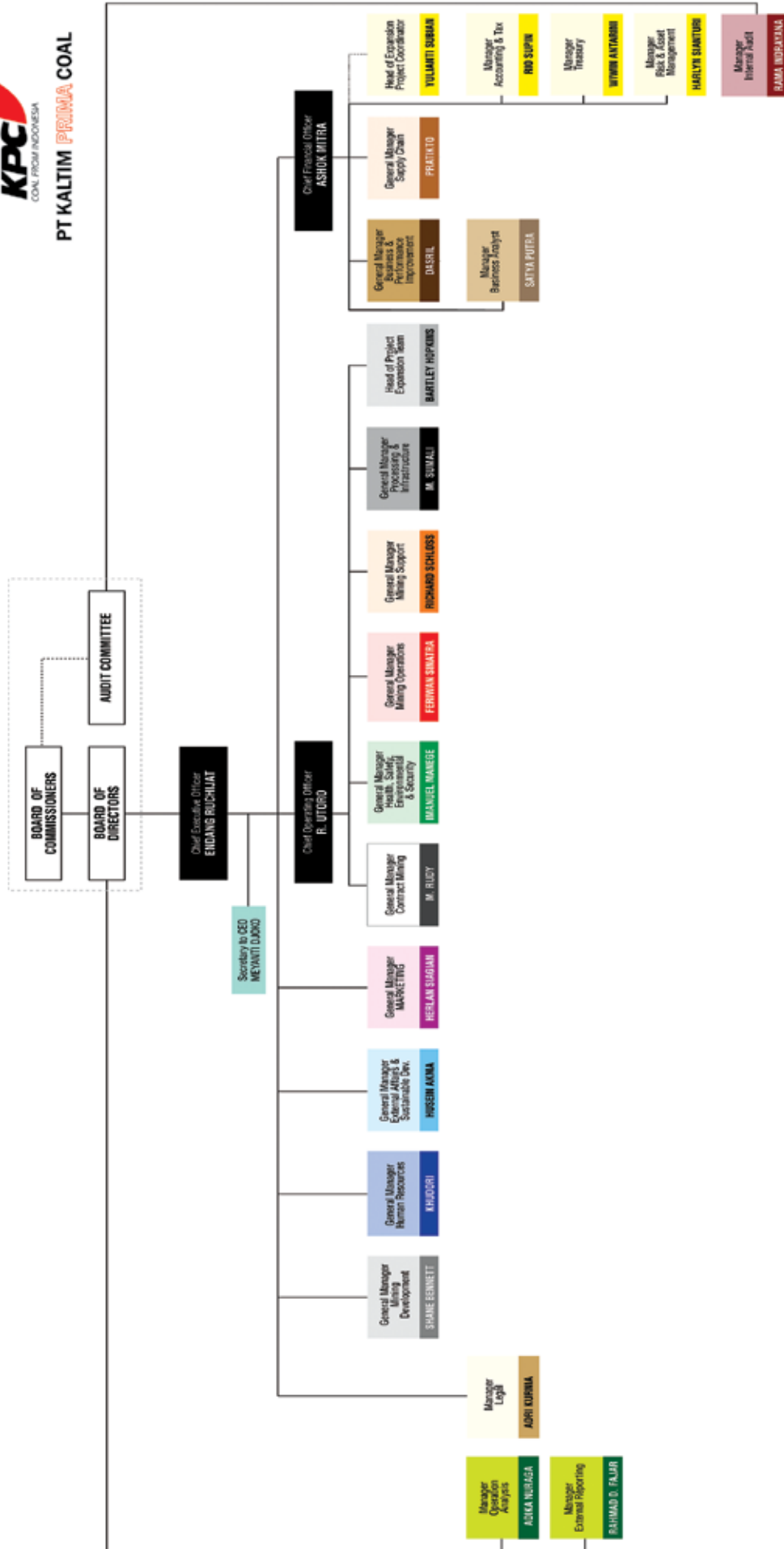
## Company's Operational Area



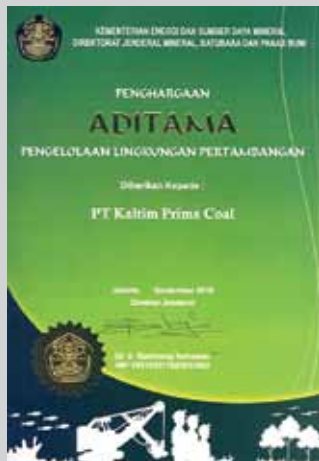


# Organization Structure (2.3)

## PT Kaltim Prima Coal







## Awards and Certification 2010 (2.10)

### Field of Environment

- The First Runner Up of the 2nd Tambang Award for the category of Best Mining Company in Environmental Compliance – May 2010
- Provincial PROPER *Hijau* for PT. KPC Site Sangatta – June 2010
- Aditama Award for Mining Environment Management from the Ministry of Energy and Mineral Resources Directorate General of Mineral, Coal, and Biothermal – September 2010

### Field of Work Health and Safety

- Pratama Award of Keselamatan Tambang (Mine Safety) 2010 from the Ministry of Energy and Mineral Resources Directorate General of Mineral, Coal, and Biothermal
- Award of P2-HIV and AIDS at Workplace Program from the Ministry of Manpower and Transmigration of the Republic of Indonesia – November 2010
- Award for aids and active participation in handling the tsunami disaster in Mentawai and Gunung Merapi 2010 from the Ministry of Energy and Mineral Resources – December 2010
- Award from the Governor of Kalimantan Timur for the participation in sending KPC rescue team in evacuating the victims of natural disaster in Padang. The award was received in 2010.

### Field of Community Development

- KSN Award Silver 2010 for the Category of Mutual Business Group, Sub-category of Handcraft Program "Haviera Group" from the Social Minister of the Republic of Indonesia - September 2010
- KSN Award Silver 2010 for the Category of Economic Empowerment and Partnership of the Excellent Product Program of UKM, Sub-category of Plus-value "Handcrafts of Reusable Plastic Waste" from the Social Minister of the Republic of Indonesia - September 2010
- CSR Best Practice for MDGs' Category Gold from the Coordinating Minister for People's Welfare– October 2010
- Award for the commitment in achieving Millenium Development Goals (MDGs) Goal 4: Reduce Child Mortality from Metro TV and United Nation for MDGs in Asia Pacific – December 2010



- Runner Up One, Best Sustainability Report 2009 in the 6th Indonesian Sustainability Reporting Award 2010 – December 2010

#### Field of Human Resources

- First Winner of Selection of Bipartite Cooperational Institution (*Lembaga Kerja Sama*, LKS) at the Regency Level of Kutai Timur
- First Winner of Selection of Best Employee at the Regency Level of Kutai Timur
- Third Winner of Selection of the Best Company in Industrial Relationship Maintenance at the Regency Level of Kutai Timur
- Second Winner of Best Female Employee Supervisor at the Provincial Level of Kalimantan Timur

#### Certification (4.12)

ISO – 14001:2004	4 <sup>th</sup> Sept '10 – 24 <sup>th</sup> Sept '13	Field of Environment from SGS
OHSAS 18001:2007	27 <sup>th</sup> Dec '10 – 27 <sup>th</sup> Dec '13	Field of K3 from SGS





# Management of Stakeholders

We have a K3L (Occupational Health, Safety and Environment) and Sustainable Development policy signed by the President Director and reviewed annually. The policy contains the commitment of the Company to implement sustainable development with the aim of creating local community's independence and increasing the community's life quality.

We try to involve the stakeholders in the Company's operational activities. Through the involvement, we continuously try to meet the latest needs of the stakeholders by making changes and program adaptations and running the activities towards better directions. We cooperate with different approaches according to the needs of the Company and the stakeholders.

We interact with the stakeholders so that every related party understands the economic, social, and environmental problems which affect the mining process. We keep trying to maintain the interaction through various ways, as will be described below.

We interact with the local community (religious leaders/community leaders/youth) through social mapping, socio-economic and environmental impact study, consultation forum, and local manpower development. With local businesses, we keep cooperating through training program activities, business consultation with KADIN (Chamber of Commerce and Industry), HIPMI (Indonesian Young Entrepreneurs Association) and local contractors.

With academicians, we interact through pioneering cooperation with: Department of Anaesthesiology and Reanimation of FK UNAIR, research/study, seminar/scientific discussion, consultation with University 17 August 1945 Samarinda, Mulawarman University, ITB (Institute of Technology, Bandung), UGM (University of Gadjah Mada Yogyakarta), IPB (Bogor Agricultural University) ANU (Australian National University), BALITKA (*Balai Penelitian Tanaman Kelapa*, Research Center for Coconut Plantation), STPM, STIPER (*Sekolah Tinggi Ilmu Pertanian*, Agricultural Academy) Sangatta, and Art Polytechnic Yogyakarta. We support the activities of research institutions in research and consultation in the fields of agricultural development with Balitjestro (Indonesian Citrus and Subtropical Fruits Research Institute), Puslit Koka (coffee and cocoa research center), Balitro (*Balai Penelitian Tanaman Obat dan Aroma*, Center for Herbs and Aromatic Research).

With NGOs (local, national, and international), we maintain interaction through: community development, medical services such as with PMI (Palang Merah Indonesia, Indonesian Red Cross), Puskota (Center of Urban Community Empowerment), Indonesian Business Link, GTZ, Wawasan, Interplast Australia and New Zealand, PILI (*Pusat Informasi Lingkungan Indonesia*, Indonesian Environmental Information Center), TNC (The Nature Conservancy), FKPL (*Forum Komunikasi Peduli Lingkungan*, Environmental

Care Communication Forum), Uplift International, PUPUK (*Perkumpulan Untuk Peningkatan Usaha Kecil*, Forum for Small Business Improvement) Bandung, BKMM (*Balai Kesehatan Mata Masyarakat*, Center for Community Optical Health), and PJI (*Prestasi Junior Indonesia*, Indonesian Junior Achievements). We also cooperate with International Donor Institutions in regional development with the Ford Foundation, British Council, Unicef, World Bank, International Chamber of Commerce, and AusAID.

We maintain good relationship with all elements of Government (regency, provincial, and national), i.e. *Pusat Penelitian dan Pengembangan Gizi dan Makanan* Departemen Kesehatan Republik Indonesia (Research Center for Nutrition and Food Development, Department of Health of the Republic of Indonesia), *Subdit Pemberantasan Penyakit Menular* Departemen Kesehatan Republik Indonesia (Sub Directorate for Contagious Disease Eradication, Department of Health of the Republic of Indonesia), consultation with related departments in the Regency and Provincial Governments, related departments such as ESDM (Ministry of Energy and Mineral Resources) and KLH (Ministry of the Environment). Similar cooperation is also maintained with contractors/suppliers in the tender and contract process implementation, performance review with custodians, OHS identification, auditing of ISO 14001, OHSAS 18001, consultations and discussions.

We maintain the customers' satisfaction through the activities of site visits for Request for Proposal/RFP, coal requirements, tender process, and marketing analysis. To maintain a good relationship with the employees, the Company runs the activities of performance evaluation, GCG socialization, ISO 14001 communication, safety, OHSAS 18001, social and sport activities, educational and health programs, and consultation with labour unions. As for the investors, we invite them to have a site visit and conduct roadshows in the customers' countries.

We establish communication activity forums with the stakeholders according to the groups affecting and affected by the company's activities. We realize the important role of the stakeholders' involvement on the continuity of the Company's operations. Various formal and informal forums have been organized so that the Company's vision and mission in sustainable community development reach their targets. The various forums that we have organized are given in the following table. (4.15)



**Table of Involvement of the Company's Stakeholders** (4.4; 4.14; 4.16; 4.17)

No	Stakeholders	Communication Approach	Frequency	Result
1	Local, religious, and community leaders around the mine	Participative, religious leader and community leader forums	Every 3 months or as necessary	Silaturahmi (goodwill), CSR program socialization, local manpower, socialization about water management at the mine
2	Regency Government	Partnership Team	Every 4 months or as necessary	Comdev 2010 program formulation, activity implementation mechanism formulation, system monitoring, evaluation and reporting, sustainable development program arrangement, and a series of cooperations with regency government departments to aid the implementation of the planned programs
3	National Government	Informal meeting	As necessary	<ul style="list-style-type: none"> <li>- National government approvals for permits</li> <li>- Perpu (regulations as replacement for law) discussion</li> </ul>
4	Mining contractors	KPC-Contractor HRCR (Human Community Relations) Forum	Bimonthly	<ul style="list-style-type: none"> <li>- Apprenticeship program</li> <li>- Standard Recruitment Procedure Resources &amp;</li> <li>- Community development program Synergy</li> </ul>
5	Labour Union	PKB discussion	Biennially	Housing allowance changes, meal allowances, and employment period
6	Customers	Forum Coal Trans	Annually	Obtaining latest information about world coal and selling activities





# | Our Commitment to Achieve the Goal of Sustainable Development |

“We utilize non-renewable natural resources by applying accredited mining operations systems to ensure long term business sustainability”.

- 
- 20 Sustainable Development Strategy and Approach
  - 21 Sustainable Improvement
  - 22 Sustainable Development Liability





## Sustainable Development Strategy and Approach (4.11,SO1)

The motto 'More Than Mining' has become a source of our inspiration in implementing the Company's sustainable community development program which covers post-mining activity. This motto has also been a source of inspiration for the implementation of activity approach in the fields of economic, social, and environmental done by the Company.

Our mining operations are not only directed toward utilizing non-renewable natural resources, but also making efforts on environmental mitigation and improving renewable resources by maintaining good relationship with stakeholders. We do it by trying to improve the community's skill and social institutions and government, besides encouraging a better business climate and work culture for the community around the Company's mining operations areas.

The high dependence of the Kutai Timur community on the coal mining sector is a problem that we have been concerned with. This makes the effort to achieve the Company's vision *"Becoming the Indonesian reputable coal producer which gives optimum values for all stakeholders"* not only on producing coal to fulfill the

world's demand, but also actively is carrying out the social responsibility in conserving the environment and improving the local economic independence.

As real evidence of carrying out our social responsibility program, we initiate programs supporting the local economic independence which is in accordance with the closing program of the mine. Through the implementation of a directed program, the community is expected to be more independent and not dependent on mining alone. Therefore, the local economic development concept is directed to the principle of partnership, community participation, and empowerment.





## Improvement Project Cycle 4

No	Projects	Achievements
1	Fuel Efficiency Stage 2	Reduction of Fuel Ratio as much as 11 %
2	Drill and Blast at CMD (Contract Mining Division) Stage 2	Reduction of PF from 0.34 to 0.32
3	Drill and Blast at MOD (Mining Operations Division) Stage 2	Reduction PF from 0.38 to 0.32
4	Grader PA Improvement	Project was continued to Cycle 5 with saving potential of USD 0.9 million
5	Dozer PA Improvement	Reduction of waiting lowboy, waiting labor, warranty, accidents, and technical problems with saving potential of USD 1 million
6	Electricity Energy Conservation	Awareness of energy savings for employees and reduction of electricity waste as much as 500,084 kWh in 2010 (EN 5; EN 6)
7	Dual Career Ladder Stage 2	Process and preparation for selection of 50 operators and mechanics to become master operator and master mechanic
8	Financial Manual Project	SOP Internal Payment Process and SOP External Payment Process
9	Reduction of Store 38 Transactions	Reduction of transactions at Store 38 as much as USD 820,000
10	Optimalization of Crusher 6	Crusher 6 average rate increase from 2200 to 2500 TPH
11	Improve Facility and Tooling at Tyreshop	Cleaner workplaces and the better tool settings
12	Cleanliness of Muster Area Pit J MOD	Cleaner and tidier Muster Area

### Sustainable Improvement

Through the Business & Performance Improvement Division (BPID), we have reintroduced improvement projects in 2010. Cycle 3 which started in 2009 ended in February 2010, while Cycle 4 ended at the end of 2010.

Besides finishing Cycle 3 and Cycle 4, BPID also reassembled the previous cycle projects and conducted Sustainability Audits for Cycles 1–3. We did this to ensure that the improvement initiative could be carried on continuously.

We have accomplished 38 projects up to 2010. The projects are divided into 4 cycles involving 270 employees directly, 3,000 employees indirectly, 10

divisions, and 8 Company contractors. The improvement projects conducted since 2008 have so far been able to save expenses of \$172 million and also produced 42 SOPs (Standard Operating Procedures) and 8 awareness materials.

We will continue the improvement projects by rolling Cycle 5 in 2011. To commence this Cycle 5, Business Performance Improvement Division (BPID) and the champion which is the division representative responsible for monitoring and directing the business improvement have carried out the project selection that we will organize in Cycle 5.



### Sustainable Development Liability

In accordance with the Company's management principles, we have organizations which are responsible for carrying out sustainability principles, namely:

- ◆ External Affairs & Sustainable Development Division, responsible for carrying out the mandate of the implementation of the Company's policy in sustainable community development.
- ◆ Health Safety, Environment and Security (HSES) Division, responsible for maintaining the performance of environment, occupational health and safety as well as security in the Company environment. Besides that, it also responsible for maintaining the mining operations are carried out according to the standards stipulated in environmental legislation as well as AMDAL requirements and also ensuring that the environment around the mine is not damaged.
- ◆ Human Resources (HR) Division, maintaining that the

Company management is in accordance with the company regulations.

- ◆ Finance Division, besides maintaining the Company's financial condition, it also carries out annual risk analysis to anticipate every activity in each division runs according to the economic principles. The monitoring of the economic performance is also carried out through financial auditing every four months and governance auditing which is reviewed every year.
- ◆ Supply Chain Development Division, organizing the availability of goods and services locally, regionally, nationally and internationally. It also includes the analysis of the Company's business activities in order to match with the annual achievement targets in mining production, as well as expenditure for both operational purposes in the internal Company environment and community development.







# | Sustainability Management |

(4.1,4.4,SO6)

“The implementation of good management, the provision of a clear vision and mission, and the completeness of regulations which are known, understood, and applied by all strata of staff ensure the business continuity.”

- 24 Management Structure
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- 25 Basic Policy of Management
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Culture of the Company



We have operational management and organization strategies in the fields of economic, social, and the environment to secure the Company from violations committed by employees resulting in work accidents, conflicts of interest, and also to maintain the performance of the Company in the fields of environment and social. In the document of the Company's policy for sustainable development, it is clear how we will carry out the vision and mission for all three strategies.

The framework that we adopt to fulfill the good company management and organization includes legal compliance, a sustainable development policy, good corporate governance and a code of conduct (employee ethics), annual target planning and its parameters, procedures, guidelines and instruments, auditing and inspection, risk management, training and awareness, assignments, annual performance reviews, management reviews, acknowledgement and awards.

To carry out the commitment, we have an organization structure which matches each responsibility in the fields of economic, social, and environmental. Besides that, we also have a reasonably clear system to monitor the mining operations activities which fulfills the three fields mentioned above, and the process of decision making by the management which refers to the framework of reference mentioned above.

## Management Structure (4.1)

### General Meeting of Shareholders

General Meeting of Shareholders (GMS) is the highest agency which has the authority, according to the stipulation of the statutes and the laws. GMS is a place for the shareholders to act equally in important decision making dealing with the investment that they have deposited in the Company. Through the GMS, the shareholders can utilize their rights and give their opinions and votes to make important decisions equally. (4.4)

### Board of Commissioners

In accordance with the Limited Corporation Act No. 42/2007, the Company implements a two board system on the peak management level, i.e a Board of Commissioners responsible for supervising the compliance of the Company with all relevant regulations in Indonesia and a Board of Directors responsible for carrying out the operational duties. However, the company does not have Independent Commissioners. (4.2, 4.3)

The composition of the Board of Commissioners during the reporting year is as follows:

Commissioner President	: Ari Saptari Hudaja
Commissioner	: Kenneth Patrick Farrell
Commissioner	: Raden Ajeng Sri Dharmayanti
Commissioner	: Prasad Raghava Menon
Commissioner	: Banmali Agrawala

### Board of Directors

The Company's Board of Directors consists of four Directors headed by a President Director, each one responsible for their own field. The composition of the Board of Directors is as follows:

President Director	: Nalinkant Amratlal Rathod
Director	: Evan William Ball
Director	: Robert Bismarka Kurniawan
Director	: Sowmyan Ramakhrisnan
Director	: Minesh Shri Krishna Dave

### Monthly Board Meetings (4.10)

The Company holds the meetings of the Board of Directors and Board of Commissioners once a month to review the Company's performance in the fields of economic, social, and environment to compare them with the planning. This meeting is also to discuss proposals outside the business plan.

The planning is prepared by inviting suggestions from all divisions of the Company. At present, the annual business plan has become the basis to compare the Company's performance every month.



### **Election and Evaluation of the Board of Commissioners and Directors**

The election of the Board of Directors and Board of Commissioners is determined in the General Meeting of Stakeholders (GMS). Generally, the qualification for the election of the Board of Directors and the Board of Commissioners is seniority, educational background, and work experience.

The evaluation of the performance of Board of Directors and Board of Commissioners is carried out in the General Meeting of Stakeholders (GMS) by looking at the Company's performance in the fields of economic, social, environment, and occupational health and safety (4.10). To improve the competence in deciding strategic aspects, the Company conducts training periodically on the concepts of the balance of social, economic, and environmental development (triple bottom line) to the peak management members. (4.7) Compensation and remuneration given to the Commissioners, Directors and other members of Senior Management depend greatly on the result of the performance achievement evaluation. (4.5).

### **Company Management**

Our mining operations are supported by a management team consisting of competent professionals in their respective fields and having work experience of more than ten years.

### **Executive Committee (4.9)**

All Company GMs have regular meetings led by CEO fortnightly in the Executive Committee (Exco) meeting forum. The meeting discusses all aspects related to the mining operational activities including planning, the status at the time, policy and other important matters for decision making or policy making for the future. Through this meeting forum we also evaluate all Company's performance in the aspects of economic, environment and social, review the legal compliance, determining the risks that must be addressed, and take advantage of opportunities that can be achieved.

Besides this meeting, we regularly conduct weekly meetings to discuss and solve the problems closely related to the production activities and led by COO. This meeting discusses problems listed in the mining division, mining support, coal processing, expansion projects, labour matters, and external issues dealing with land acquisition, and also with the government or community institutions.

An executive meeting is also held by the Contract Committee consisting of CEO, COO, CFO, GM SCD, GM ESD, GM Finance and Supply Manager specifically to discuss strategic project tenders conducted by the Company.

## **Basic Policy of Management**

### **Risk Control**

Since 30th April 2008, we have implemented Enterprise Risk Management with the aim that the Company can identify and manage risk by developing a reliable management and supervision system. It is done by instilling coordinated and harmonious risk management activities, followed by the formulation of specific plans to handle significant risk.

One part of Enterprise Risk Management which has been done is 'fraud risk assessment' in cash management, procurement and supply chain to identify the practices leading to corruption. In 2010, the fraud risk assessment involved departments responsible external relations, land management/compensation and community development. (SO2)

Besides that, we also routinely conduct Risk Assessment (RA) in the divisions of: Mining Operation Division (MOD), Supply Chain Division (SCD), Marketing, Finance, Mining Service Division (MSD), Accounting and Tax, and Processing and Infrastructure Division (PID). The result of this RA activity are the Risk Register, Risk Map, dan Mitigation Plan.

### **Internal Supervision and Control**

For evaluation on the effectivity of risk management process, the Company's controlling and management are conducted by the internal auditing division which gives assurance service and independent and objective consultation to provide added value and help management in achieving its targets through a systematic and directed approach. The activity of our internal auditor always refers to International Standards for the Professional Practice of Internal Auditing issued by Institute of Internal Auditors (IIA), including the fulfillment of Internal Auditing Code of Ethics which is also issued by IIA.





Relating to the action of corruption, for the year 2010, no action of corruption which was done by the Company's employees was discovered. **(SO4)**

#### **Conflict of Interest (4.6)**

To avoid conflicts of interest in a transaction which can cause loss for the Company, we have established a preventive policy for transactions containing conflicts of interest with the following summary:

- Every individual of the Company is not allowed to utilize important and confidential information for personal interest or for other parties which can lead to the Company's loss.
- Every individual of the Company who is involved in the decision making for a transaction which potentially contains a conflict of interest is not allowed to take part in the whole stages of the transaction decision making.
- There should not be family ties among members of the Board of Commissioners and Board of Directors to avoid transactions containing conflicts of interest.
- The employees who have blood or marriage relations which can lead to conflicts of interest are not allowed to work in the same department, both as a KPC employee and as a contractor/consultant.

#### **Political Affiliation (SO6)**

We recognize the right of every employee to channel their political aspirations. However, we firmly forbid the use of the Company's assets or giving donations in any form to any political party beyond the legal stipulation. We also forbid coercion to other individual of employees to channel their political aspirations to certain political party.

#### **Public Policy**

We are still an active participant of UNGC (United Nations Global Compact) in 2010. This shows our involvement in the global issues. More than that, we still give support to MDGs (Millennium Development Goals) by organizing social responsibility programs. To become a partner of the government and the community, we participate in making public policies through existing public organizations as members and/or managers.

The organizations in which we are involved are: KONI (*Komite Olah Raga Nasional Indonesia*, Indonesian National Sports Committee), Komite Nasional Pemuda Indonesia (KNPI, Indonesian National Youth Committee), *Kamar Dagang dan Industri* (KADIN, Commerce and Industry Chamber), BUN (*Bakrie Untuk Negeri*), APINDO

(*Asosiasi Pengusaha Indonesia*, Indonesian Entrepreneur Association), and forum Multi Stakeholder Corporate Social Responsible (MSH-CSR). Besides that, the Company is also an active member of Corporate Forum on Community Development (CFCD), Indonesia Business Link (IBL), *Forum Reklamasi Lahan Bekas Tambang* (FRLBT, Ex Mining Land Reclamation Forum), Indonesian Mining Association (IMA), PERHAPI (*Perhimpunan Ahli Pertambangan Indonesia*, Indonesian Mining Professionals Association), and *Asosiasi Pertambangan Batubara Indonesia* (APBI, Indonesian Coal Mining Association). **(4.13, SO5)**

## **Guidelines of the Conduct and Culture of the Company**

#### **Conduct Guidelines**

We support and implement Good Corporate Governance (GCG) through the implementation of Conduct Guidelines as is done by all other subsidiaries of PT. BUMI Resources Tbk. The Conduct Guidelines outline the main values and conduct norms as the basis for the Company to run its business. The conduct guidelines are divided into four ethic fields: ethics related to employees; ethics related to environmental and community relationship; ethics related to customers, suppliers, and competitors; and ethics related to stakeholders. All suppliers and contractors working with the Company are also obliged to follow the Conduct Guidelines. **(4.6, HR1)**

The Conduct Guidelines Committee is responsible for the supervision and implementation of the Conduct Guidelines in the circles of PT. Bumi Resources and all its subsidiaries. **(4.8)** The members of the committee are representatives of PT. Bumi Resources Tbk., PT. Arutmin Indonesia and PT. KPC with the term of service of 2 years and may be reelected for maximum of another period or as necessary.

In 2010, we formed an Auditing Committee through the Decree of Board of Commissioners No. L.136/BOC-COM2.8/VI/10 dated 1<sup>st</sup> June, 2010. The Auditing Committee is formed not only to maximize the effectivity of the supervisory function of the KPC Board of Commissioners related to internal control function, risk control, and legal compliance, but it is also to improve the effectiveness and communication quality with the internal and external auditors within their duty and responsibility scopes.





The supervision of the Conduct Guidelines implementation is conducted through Speak Up System, managed by an independent third party. The Speak Up System facilitates the employees and external parties to report violations against the Conduct Guidelines in a structured, independent and confidential way. Every report on the Conduct Guidelines violation involving either employees or senior management will be followed up by investigation based on the lodged report. Sanctions against the offender will be determined according to the stipulation of the Company's regulation.

Through this Speak Up System, the report lodger will also receive follow-up status of the violation that they report. The performance of Speak Up System is evaluated and reported every month to the Internal Auditing Division, Board of Directors and Board of Commissioners through the BUMI Auditing Committee. Since March 2009–April 2010, there have been 11 reports lodged through the Speak Up System.

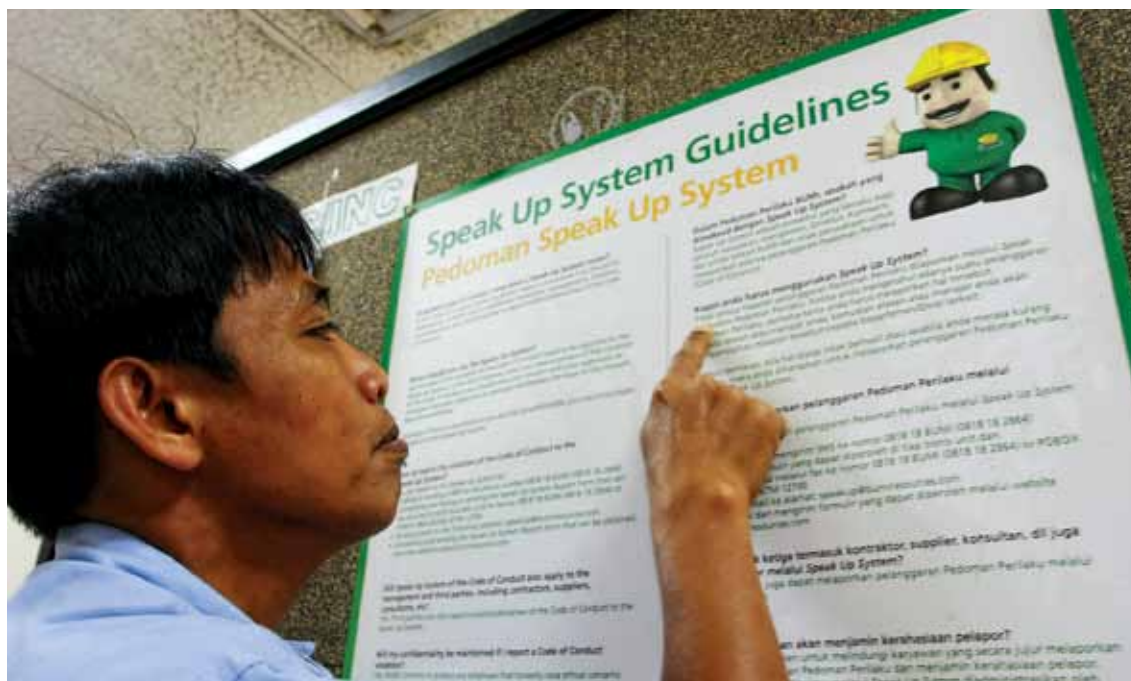
The socialization of the Conduct Guidelines and Speak Up System was done by the Conduct Guidelines Committee and each business unit gradually to the operative personnel level. (4.8) We have carried out socialization to 4,450 employees or 89.48 % of the total 4,973 Company's employees. The employees who have not participated

in the socialization are those who were absent during the socialization due to being sick, business travel, leave, absent with permission or other reasons. To facilitate the socialization, we posted Speak Up System posters at strategic places so that the employees know the system. (HR3; SO3)

### Company Culture

Beside the Conduct Guidelines, we also have company cultures, namely, working with full integrity, prioritizing excellence, acting professionally, prioritizing safety and environment as well as adhering to the law and regulations. Rejection against corruption, collusion, and nepotism and avoiding conflict of interests are also among the characters which are instilled in the Company's values. We have never committed any actions which are in nature of being anti-competitive, anti-trust, and monopolistic. We also avoid giving any donations to political parties as a means of avoiding conflict of interests. (SO7)

We refer to the GCG mascot, namely, Mr SPIRIT to facilitate easy understanding for the employees about the Company's values and ethics. This mascot symbolizes a high commitment regarding *Semangat*, Profesional, Independen, Rajin, Integritas and Tanggung Jawab (Enthusiastic, Professional, Independent, Diligent and Responsible).



The Speak Up System facilitates the employees and external parties to report violations against the Conduct Guidelines in a structured, independent and confidential way.







# | Management of Human Resources |

"We manage our human resources wisely, maintain a transparent and qualified recruitment process to bring in competent prospective human resources, provide directed and integrated training, and offer benefits that are equal to their contribution as well as create a healthy, comfortable and conducive working environment to ensure sustainable development."

- 
- A photograph of two female engineers in safety gear (hard hats, high-visibility vests, and blue shirts) standing next to a white pickup truck on a construction site. They are holding and reviewing large blueprints. The woman on the right is pointing upwards with her right hand. The background shows a clear blue sky and a dirt road.
- 30 Our Human Resources
  - 30 HRCR Forum & HR Network
  - 31 Training and Development
  - 33 Career Opportunities
  - 33 Employee Performance Appraisal
  - 33 Employee Retention Program
  - 34 Employee Benefits
  - 36 Quality Recruitment Process
  - 36 Scholarship Programs for Employee's Family
  - 36 Commitment to the Enforcement of Human Rights

## Our Human Resources (LA1; LA13)

In 2010, the company employs 5,206 employees, consisting of 5,196 Indonesian employees and 10 foreign employees. Based on employee status, for Indonesian employees, 4,803 of them have permanent status and 393 are on contract, while all the foreign employees are on contract. This number is higher compared to the year before which was only 4,973 people. The significant increase in the number of employees is needed to support the work plan and increase in the amount of production. We do not hire part-time workers.

The distribution of employees according to work location, level of education, employment status and gender is as follows.

### Employee Distribution Based on Work Location

Lokasi	Ekspatriat	Indonesia
Sangatta	10	5.129
Samarinda	-	4
Balikpapan	-	6
Jakarta	-	26
Bengalon	-	31
<b>Total</b>	<b>10</b>	<b>5.196</b>

Source: HR Division

### Employee Distribution Based on Level of Position

Level of Position	Indonesia	Ekspatriat	Total
Director	1	1	2
CEO/CFO/COO	2	1	3
General Manager	12	3	15
Manager/Advisor	54	2	56
Superintendent/Advisor	149	3	152
Supervisor/Specialist	844	-	844
Leading Hand/Officer	434	-	434
Operator/ Mechanic	3.102	-	3.102
Assistant	598	-	598
<b>TOTAL:</b>	<b>5.196</b>	<b>10</b>	<b>5.206</b>

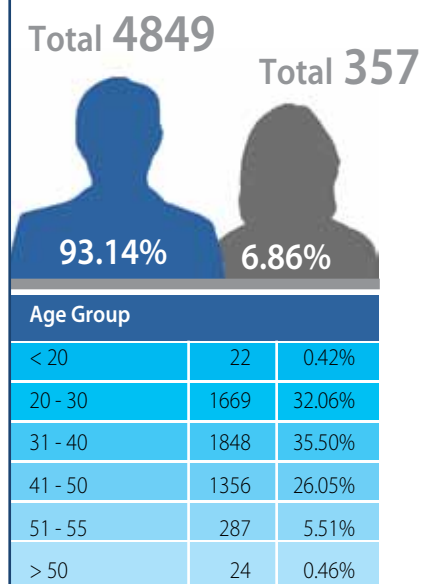
Source: HR Division

## HRCR Forum & HR Network

We established this forum with our subcontractors in 2004. The establishment of this forum was based on the similarity in issues concerning the coordination of the company and its contractors involving labor, industrial relations and community development. The meeting of this forum is held every two months to discuss matters agreed upon by members of the meeting.

The HR network forum is not only held with subcontractors but also with other mining companies known as the Big-4, namely KPC, FMI, INCO and NNT to accommodate all matters around labor.

### Employee Distribution Based on Sex and Age Group



Source: HR Division

### Employee Distribution Based on Place of Admittance

Place of Admittance	Ekspatriat	Indonesia
Sangatta	0	3883
Samarinda	0	247
Balikpapan	0	391
Jakarta	0	541
Luar Negeri	10	0
Lain-lain	0	134

Source: HR Division



#### Fostering Industrial Relations (4.4)

We build industrial relations based on existing labor regulations. Besides being bound individually through individual work agreement, the company and its employees also bind themselves to a Work Partnership Agreement (PKB) which is an agreement between the representatives of the employer and representatives of the employees through the existing Labor Union.

The Work Partnership Agreement in effect at the moment is PKB period 2009–2011 which was signed by representatives from management and the organizer of the labor union and authorized by the Directorate General of Industrial Relations and Workers Social Security of the Department of Manpower and Transmigration on 22 May 2009 in Jakarta. The Work Partnership Agreement (PKB) period July 2009 – June 2011 became a legal umbrella that contains employees' rights and responsibilities according to their work status. Several points of change were also registered in the new PKB, such as: meal allowance, housing allowance, gratuities, death benefits and several adjustments regarding labor regulation. The rights and responsibilities of all company employees, including the managerial level, are provided for in the Work Partnership Agreement.

The PKB period 2009–2011 team consists of 22 members, comprising of 9 representatives of management and 13 representatives from SP/SB. Other matters that have not been elaborated in detail in the PKB is explicitly explained in the Human Resource Policy (KSDM), the Staff Handbook, the Code of Ethics, the Corporate Governance, and other operational procedures.

Procedures and notifications related to the company's operational changes are also provided for in article 13.2 PKB where it is mentioned that every plan to change matters significantly related to operations will be preceded with a notice to all employees at least 7 (seven) days before. Concerning employee lay-offs, the company formulated a discussion and agreement regarding a 3 month compensation (PKB Pasal 75) (LA5)

#### Program Socialization

All forms of policy or program change is communicated to employees accordingly. Regular communication is also done to top level staff, administration and the whole staff

to socialize the company policy or rule. Particularly for points of change in the Work Partnership Agreement, the company will socialize them to all employees.

#### Labor Union (LA4; HR5)

According to the constitution, we recognize the existence of the Labor Union (SP/SB) including their involvement in discussing the Work Partnership Agreement equally as stated in existing regulations. We have also founded the Bipartite Cooperation Council (LKS *Lembaga Kerja Sama Bipartit*) since 31 January 2005 with organizers and members consisting of representatives from the management and the Labor Union (SP/SB), each providing 10 representatives.

Right now, we are fostering 6 (six) labor unions, namely: *Korps Pegawai Pertambangan Batubara* (KORPPRA), *Serikat Pekerja Kimia Energi dan Pertambangan* (SP-KEP), *Federasi Pertambangan dan Energi Serikat Buruh Sejahtera Indonesia* (FPE-SBSI), *Persaudaraan Pekerja Muslim Indonesia* (PPMI), *Serikat Pekerja Keadilan* (SPK), dan *Serikat Pekerja Mining Support Division* (SP-MSD) with the following list of membership:

#### List of Labor Union and Number of Members

Labor Union	Number of Members (People)
KORPPRA	1,348
SP-KEP	1,199
SBSI	859
PPMI	264
SPK	660
SP-MSD	136
Non Union	740
TOTAL EMPLOYEE	5,206

Source: HR Division

From that table, it is shown that the number of employees who have joined in labor unions is 4,466 people or 85% from the total number of overall employees, while 775 (15%) employees are not in any of the unions. Through the labor union, employees can articulate their opinion, give their suggestions on improvements for provisions or programs to the company management either written or orally. The labor union will gather these opinions and then deliver them to the management through a special meeting. (4.4)



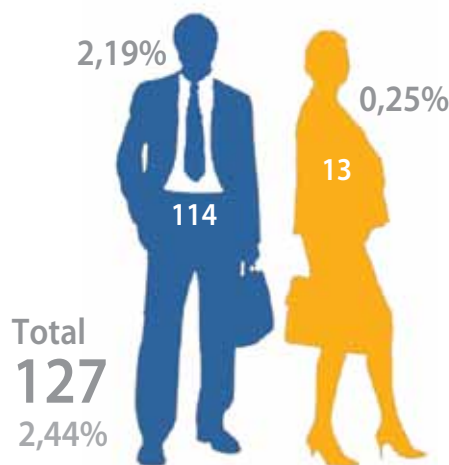
### Employee Consultation Service

We provide consultation for employees at any time either by the supervisor in each workplace or by the HR staff to any employee who feels that they need such service. Regularly, the supervisor of each workplace also provides coaching and counseling to his/her subordinates as needed. Consultation material is not only limited to work related issues but sometimes it can be about employee's personal problems.

### Employee Turnover Rate (LA2; LA5)

The total number of employees that quit or were laid-off from the company throughout 2010 was 127 people because of various reasons such as reaching the age of retirement, resignation, severe infringement, health reason and other reasons. For employees who submitted their resignation, based on UU 13 on employment and existing PKB, the letter of resignation should be handed in to their supervisor at least 1 month before. Most of the employees who resigned do so because they got better benefits and positions in their new workplace, besides other reasons such as school or family matters. Detailed data on employee turnover for 2010 are as follows:

### Employee Turnover Based on Sex



Sumber: HR Division

### Training and Development

As a form of the company's fulfillment on social responsibility to its employees, we are committed to continue developing our human resources to be able to compete and survive in the world of business that changes so fast, especially in the mining industry. We

realize that to be worldclass players, we need human resources who are competent, tough, professional and have high ethical standards in performing every activity. We provide training and development in order to

### Employee Turnover Based on Place of Admittance

Jakarta	45	0,86%
Surabaya	2	0,04%
Makassar	2	0,04%
Balikpapan	12	0,23%
Samarinda	7	0,13%
Bontang	0	0%
Sangatta	59	1.13%
<b>Total</b>	<b>127</b>	<b>2,44%</b>

Sumber: HR Division

### Employee Turnover Based on Age

18-24	13	0,25%
25-30	31	0,60%
31-35	10	0,19%
36-40	8	0,15%
41-45	13	0,25%
46-50	5	0,10%
51-55	38	0,73%
Up to 56	9	0,17%
<b>Total</b>	<b>127</b>	<b>2,44%</b>

Sumber: HR Division

enhance and refresh employees' knowledge and skill. During 2010, we administered various training programs for employees amounting to 411,666 training hours.

To develop the ability of fresh graduates, we carry out a Graduate Development Program/GDP. Participants of this program receive various managerial and technical training and undergo a rotation in various areas relevant to their expertise. The period for each employee rotation program is presented in the following table.

Beside personal development, we also provide education, training, counseling, preventive action and follow-up action related to occupational health and safety as the company's preventive effort to protect employees from work accidents. (LA8)



## Company Employee Training Year 2010 (LA10)

Training Category	1st Quarter	2st Quarter	3st Quarter	4st Quarter	Total Hours
General	8.984	2.217	410	918	12.529
Management	18.156	9.802	22.602	5.692	56.252
HSE	32.829	31.504	46.288	40.705	151.326
Operation	40.591	25.684	20.227	15.100	101.601
Maintenance	27.685	17.954	16.325	21.915	83.879
Engineering	2.408	1.960	791	920	6.079
Total Training Hours	130.653	89.121	106.643	85.250	411.666
Average Training Hour per Employee	79				

Sumber: HR Division

### Retirement Preparation Period Training (LA11)

We administered a training program for employees, and their spouses, who are in their Retirement Preparation Period (MPP) so that they can prepare themselves physically and mentally to face their retirement and to provide them with psychological consultation as well as the skills and knowledge on managing health and nutrition, maintaining a harmonious family relationship, and managing their finances. This training is also aimed to provide practical knowledge on entrepreneurship followed with a one-day visit to observe, share insights and experience with the company's retired employees who have started or have been successful in building their own business as entrepreneurs.

### Career Opportunities

We give equal opportunities to every employee to have a career in line with their field of expertise, qualification and

knowledge. Employees who possess the qualification suitable for a certain job may apply and follow a series of tests through an internal selection. Job vacancies are open and announced through the company's internal media as well as through external media such as newspapers.

### Employee Performance Appraisal (LA12)

All company employees receive their performance appraisal every year. This employee performance appraisal is done at the end of each trimester for non-staff employees and annually for staff employees. The result of this performance appraisal is used as a basis for determining the company policy and decision regarding the management of human resources, such as:

- Training and development (managerial and technical)
- Career planning
- Remuneration and other policies concerning employees.

### Rotation Area of Mining Engineering Fresh Graduates

Rotation Area of Mining Engineering Fresh Graduate	Estimated Duration
Pit Technical	9 months
Long Term Planning	6 months
Drilling and Blasting	6 months
Rehabilitation Project	3 months
Dispatch/Reporting	4 months
Coal Technical	4 months
Contract Mining	4 months

Sumber: HR Division

### Employee Retention Program

To appreciate employee contribution and performance in order to motivate good employees to keep giving their best in contributing, we implemented several of these initiatives:

- Development of functional career through Dual Career Ladder program.

- Providing various training that support employees to work effectively such as Fundamental Leadership, Disciplinary Action Training, Reliable Operator & Mechanical Training and HR for Non-HR Professionals.
- Developing a competency system that enables the implementation of competency-based human resources in KPC.
- Providing a soft loan program for the ownership of vehicles for employees at certain levels.
- Providing a soft loan program for the ownership of residence outside the company's operational area.

#### **Employee Benefits (4.5; EC3; LA3)**

We have increased the employee benefit expenses in 2010 to USD 126.7 million from USD 90.07 million in 2009. Those funds are allocated for paying employee salary, bonus, work leave, meal allowance, religious holiday allowance (THR), medication, accommodation, housing, rotated work allowance, pension plan, retirement plan, and other fringe benefits for employees.

We always calculate employee compensation based on their competence and performance. The higher the competence and performance of employees, the higher the amount of compensation that they will receive. Besides that, one of the benefits that demand employee involvement and is the interest of all parties in the company is the "Safety Voucher". This benefit works as an incentive, a reminder and a driver for all employees

to apply work safety procedures either for themselves, their colleagues and their work environment. This benefit is given for achievement of safe work hours without incidents that causes loss of work hours. Giving out the safety voucher to qualified employees or contractor workers is supervised directly by Company supervisors with the same amount of bonus points.

We determine employee remuneration based on their performance, the company performance, and a waging survey through "salary survey" with similar companies that is conducted every year, either with the help from consultants or by comparing directly with mining company in the same class (benchmarking). The better the company performance, the higher the remuneration that employees will receive, based on the performance and the level of responsibility.

The minimum wage for East Kutai District Sector (UMSK) in 2010 for the mining sector was Rp. 1,480,000.- (one million four hundred and eighty thousand Rupiah), while the minimum wage that we give our employee is Rp. 1,752,000.- (one million seven hundred and fifty-two thousand Rupiah) or 18% higher than the UMSK. Compared to the district minimum wage which is Rp. 1,080,000.- (one million and eighty thousand Rupiahs), it means we are giving salary that is 62% higher. Meanwhile, if we compare our salary with the minimum wage of East Kalimantan Province which is



*Company gives equal opportunities to every employee to have a career in line with their field of expertise, qualification and knowledge.*





*All employees have the same rights without differentiating their gender in terms of occupying a certain position in the company.*

Rp. 1,002,000.- (one million and two thousand Rupiahs), then it means we have been giving our employees salary that is 75% higher. That amount of minimum wage has increased 8.9% compared to the year before which is Rp. 1,637,000.- (one million six hundred and thirty seven thousand Rupiahs). **(EC5)**

For employees that have reached the retirement age, we will give a retirement benefit as provided in the company's retirement plan regulation, each in the form of regular dues for employees who were hired before 1 July 2005 of which is managed by KPC Retirement Funds while for employees who were hired after 1 July 2005, their benefit is managed by a third party which is a insurance company. **(EC3)**

Besides, a pension plan, employees who have reached normal retirement age will also be given a gratuity, travel cost to return to their place of hire or a maximum of a travel fare to Jakarta by ship along with their spouse, and severance money the amount of 2 times of basic wage for those with a work period of less than 5 years, 3 times of basic wage for those with work period between 5 to 10 years, and 4 times of basic wage for those with work period over 10 years.





Another that employees can have is a 16-day annual leave. The company also gives an Annual Leave Premium as much as 225% from the basic wage plus a sum of

Rp. 75,000.- (PKB, article 41) in cash. Other than that, the company also gives a religious holiday allowance (THRK) as much as 150% from the basic wage plus a sum of Rp. 1,500,000.- (one million five hundred thousand Rupiahs) which is paid at least 15 (fifteen) days before Idul Fitri holiday.

Leave Fares is given to permanent employees and their rightful dependent, while employees with a contract status will only be given Leave Fares for themselves. Funeral support is given in the amount of Rp. 4,000,000.- (four million Rupiahs) if an employee or his/her dependent dies. For safety, effectivity and efficiency of time and fuel, we also provide buses to pick up and take employees to and from work, even for employees' children, the company provides transport to take them to and from the company school. **(EN7; EN29)**

Considering the limitation in the capacity of the school managed by the company, some employees' children have to go to the public schools around the location of the company's operations. As a form of the company's concern regarding that matter, the company provides educational support for employees' children who are going to schools outside the company school. Details on the amount of support is shown in the following table:

## Education Assistance for Employee Children

Level of Education	Aid per Year
 Elementary School	Rp. 1.000.000,-
 Junior High School	Rp. 1.250.000,-
 Senior High School	Rp. 1.500.000,-
 University	Rp. 3.250.000,-

## Quality Recruitment Process

We go through various ways in looking for and selecting high competence prospective employees. The method we usually apply is by posting advertisements in the media, working together with universities' career centers, and using the service of head hunters.

Other methods that we have applied to attract potential people are:

- Provide the opportunity for practical work (KP) and final assignments (TA) to students from relevant majors as the company business.
- Give scholarships to students from majors related to the company business who are achievers, to complete their education.
- Working together with several well-known universities to detect prospective best graduates.

## Scholarship Programs for Employee's Family

This scholarship program for employees' children has been administered since 2003, particularly given to employees' children who are already in higher education. This program is routinely opened every year. Students who are qualified and have passed the selection will receive a scholarship of Rp. 6,000,000.- / semester for a maximum of 8 semesters.

Up to this moment, we have given scholarships to 102 employees' children. At the beginning of the program, this scholarship was given to 11 students per year, but since 2009 we have increased the number to 19 students per year. Scholarships are given to employees' children studying in the country and overseas.

We created this program to motivate employees' children to be achievers besides being a form of our appreciation for the performance and contribution given by our employees.

## Commitment to the Enforcement of Human Rights

We constantly uphold human rights in every aspect of the Company's operations. According to the 1945 Constitution, Article 28, we give the freedom of assembly and association to all employees to form some labor



*Griya Prima Lestari, one of housings provided by company for its employees.*





*Prima School, one of school provided by company for employees' children.*

unions within the company as a means to communicate and articulate their opinion.

All employees have the same rights without differentiating their gender in terms of safety, health and the environment, career opportunity, training and development, rotation and change, occupying a certain position in the company, as well as benefits from the company.

Contractors and suppliers who are involved in a partnership with the Company are obliged to conform to the regulations on employment and safety standards, health and the surroundings in the company. This is stated in every clause in the Work Partnership Agreement contract between the contractor or supplier with the company so that the rights of employees from those partner companies are also protected.

#### **Discrimination Acts (HR4)**

As a world-class mining company operator, we do not discriminate employees according to their religion, ethnic group, race or sex. We base our employee

selection process on quality, competence and experience of candidates so that female employees receive the same benefits as the male employees. Consequently, until the end of 2010 there were no incidents caused by discriminative actions in the company. Differences in the basic salary is merely present due to the difference in their period of employment and calculation of performance between the male and female employees. **(LA14)**

#### **Child Labor (HR6)**

In recruiting employees, we consistently hold on to existing employment regulations, including the one regarding the minimum age of future employees. In running our business, we have never employed workers under the age of 18 years. Company regulations stress that the minimum age for a candidate that can be accepted as employee is 18 years old.

#### **Forced Labor (HR7)**

Since the start of our operations, we have never forced work on any employee. The work roster that we go by always refers to existing employment regulations



and is agreed upon between the management and representative from the employees, including when we employ workers outside their normal working hour (overtime). It goes as well with the assignment of task to workers we put health and safety forward. Employees have the right to reject orders from their supervisors if it violates a certain procedure or endangers their safety.

#### Security Practices

Starting in April 2010, the company's security area was divided into 3 areas by appointing 3 independent security service bodies or BUJP (Badan Usaha Jasa Pengamanan) as security providers. All members of the company's security unit are required to enroll in a basic security unit education (DIKSAR Satpam) administered

by the regional police that teaches points on human rights in its curriculum. **(HR3)** As many as 422 people or 99 % from the 428 members of the security unit in Marga Sukses Sejahtera, Nawakara Perkasa Nusantara and Global Arrow has joined the basic security education (DIKSAR). This number has increased compared to the one last year which was 98%. **(HR8)**

#### Respect for Indigenous People's Rights **(HR9)**

We always respect the rights of indigenous people so during the reporting period, there were no incidents or violence from the Company towards people around the Company's mining operation. We foster a good relationship through various community programs oriented to bring prosperity for people around the mine.



*Company gives support for cultural events held by indigenous people, such as this Lomplai ceremony.*



# | Our Commitment on Occupational Health and Safety [ K3 ] | (LA8)

"We implement accredited international standards on occupational health and safety, perform assessment on its implementation periodically, maintain the health of workers, equip workers with good procedures and equipment followed up with regular training to create an environment that is healthy and free from work accidents."

- 
- 40 OHS Coordinator
  - 40 Health, Safety, and Environmental Management System
  - 41 HSE Forum
  - 41 Work Incidents
  - 43 OHS Training
  - 44 Occupational Health





We are committed to always maintain the health and safety of our employees. For that reason, we impose various rules to achieve that goal. We identify 11 types of work that possess fatal risk, as well as review standards, work implementation directions, audit criteria and work training based on OHSAS 18001. Then we implement the standard rule on occupational safety known as the “Golden Rules” since the last few years.

#### **OHS Coordinator**

To ensure the implementation of OHS rules, a number of employees are in charge of handling matters regarding the occupational health and safety of employees daily. There are 515 employees (OHS coordinators and OHS officials) or 2.4% from the total of 21,683 company and contractor employees who are involved in this task. Beside that, there are 118 company employees who act as occupational safety and health supervisors scattered in every operational division and department. OHS handling is also part of the responsibility of the line management staff. **(LA6)**

#### **Health, Safety and Environmental Management System / HSEMS**

We develop a HSEMS System as a guide in managing all issues related to the management of health, work safety and the environment. This system is a step up from the Prima Nirbhaya Occupational Health and Safety Management System by combining Environment Management System into it. This system is built by applying the principles of planning, implementing, checking and review (Plan-Do-Check-Action / P-D-

C-A) effectively and efficiently. This system is reviewed and renewed periodically along with the company's activities.

We use various standards in the accredited system of ISO14001 and OHSAS18001 in the HSEMS. Besides referring to those two standards, the implementation and monitor of the HSEMS program is done through auditing and inspecting in order to achieve continuous improvement.

#### **HSE Forum**

Various aspects of occupational health and safety are discussed routinely in various meetings both in the company and in the contractor. Meetings with employees are generally held weekly with the guide from each supervisor, especially in the divisional and operational departmental level. Safety coordinators in all divisions or departments work actively in preparing the topic, subject or messages, procedures and regulations on occupational health and safety in those forums.





Health and occupational aspects are also discussed in various routine meeting forums of the supervisors and heads. Operational divisions such as Mining Operations, Mining Support and Processing & Infrastructure also hold monthly meetings that involve department managers, contractors and safety coordinators. At the company level, periodic safcon (safety coordinator) meetings are held by involving KPC General Managers, Managers and OHS Practitioners as well as Contractor Managers and OHS Practitioners.

### Work Incidents (LA7)

The performance of occupational health and safety throughout 2010 is tainted by a fatal accident that occurred on 22 July 2010, that happened to a supervisor from one of KPC's contractors. We have taken various anticipative steps to prevent the recurrence of that fatal incident.

With that incident, during the reporting period, the Mining Operations Division recorded the frequency of fatalities that caused the loss in work hour (LTIFR) was 0.21 for 1 million work hours, this rate is below the targeted number of 0.45 LTIFR per 1 one million work hours. The Prinasa recorded during 2010 was 13.4% above the target, and 82.4% of the Prinasa focused on Fatality Prevention Element, which is believed to have contributed highly in reducing the rate of accidents that cause severe injury or fatality.

At the company level, the lost time injury frequency rate (LTIFR) was 0.32 (2010) per 1,000,000 work hours or 29% below the maximum limit set for 2010 which is

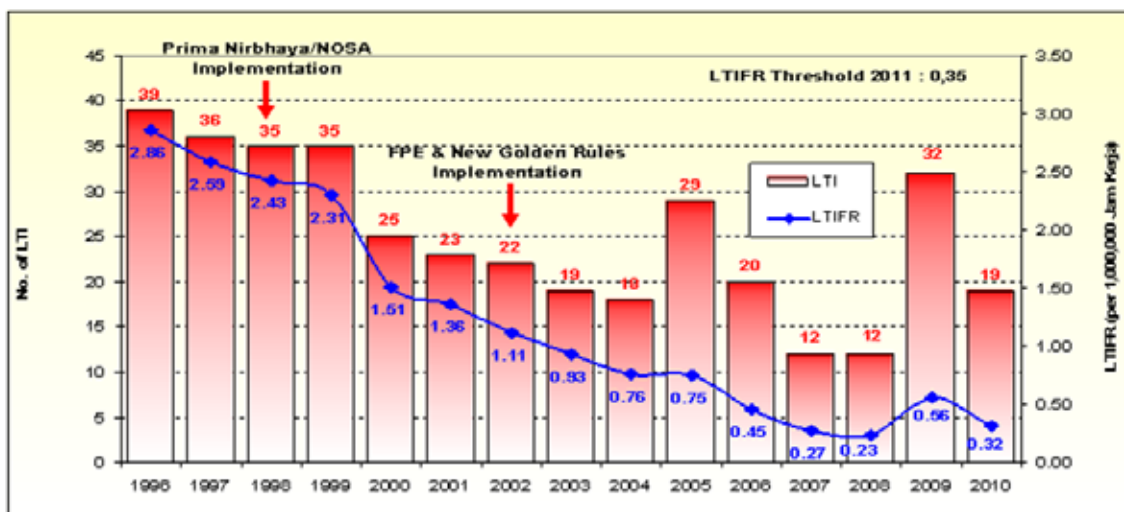
0.45. This number showed a decrease compared to the frequency rate in 2009 which was 0.56, the decreasing trend of LTIFR, is shown in the following graph.

During the reporting year, from the 19 incidents that resulted in loss of time (LTI), 4 of them happened to company employees while 15 of them happened to contractor employees. The cause of those accidents vary, where 26% (5 from 19 incidents) are related to shortcuts and/or violation of safety procedures / regulations. Meanwhile, the frequency rate of incidents that resulted to injuries that did not cause LTI was 2.4 per 1,000,000 work hours.

During 2010, the company has done 85 times measurement of compliance rates on the Fatality Prevention Element requirement, conducted by the Audit Division on Company Occupational Safety, which was the same as the number of measurements done in 2009.

Besides that, a considerable increase also happened to the Prinasa (Behavioral Observation Program) conducted by the management and OHS practitioners. From the 21,919 Prinasa in 2009, there was an increase to 28,257 in 2010, which is 10.9% above the target for 2010 which is 25,191. The focus of Prinasa that is related to the fatality prevention element, in 2010 was 22,516 or 80% from the total Prinasa conducted.

**Graph of Fatality Recurrence Level (LTIFR) (LA7)**



Data Source: Occupational Health and Safety Department



*Chief Mine Technical Officer, GM HSES, and OHS Manager give presentation in Safcon Meeting.W*

### **OHS Training**

Serious occupational fatalities or those resulting in loss of time has urged the company to continue administering various training programs related to the management of occupational health and safety. This is done to help employees and their families in preventing the occurrence of fatalities. The types of training that we administered are: HSE Induction, Job Safety Analysis, Human Element (Fatigue Management for Employees), Fatigue Management for Spouses, Change Management, Accident Investigation (Basic and Advanced), Safety Risk Assessment, Safety Inspection, CPR (Cardio Pulmonary Resuscitation), First Aid, Conducting Safety Talks, Awareness for Working at Heights, Working Near Water, Electrical Safety and Confined Space, Escort Training, Working at Height for Workers, Fire Extinguisher, Fire Warden, Prinasas, Prinutama, Socialization on HIV/AIDS Handling in the work place and Towards Health Program.

Besides training, we also made various efforts in campaigning health and safety such as: giving out daily safety messages through Radio GWP 100.2 FM, Safe and Healthy Residents Bulletin, Safety Alert, OHS Banners, competitions (painting, writing and photography), seminars in commemorating the National OHS Month 2010 and many more.

Starting in 2010 until June 2011, the Emergency Preparedness & Response Section has worked with BASARNAS (national search and rescue organisation) to give training to 42 personnel of KPC's Emergency

Preparedness & Response. Besides that, we have processed the procurement of 2 units of ICAO standard (International Civil Aviation Organization) fire trucks, of which one unit will be received in mid-May 2011, and the other in August 2011.

The number of HSE training participants during 2010 reached 61,680 employees (65.6% from the total number of participants in all training programs), with the number of training hours of 151,427 (36.8 % from the total hours of all training). The comparison of the number of HSE training from 2000 to 2010 with all types of training that we have given is shown in the following graph. During that time period it is shown that the company's commitment on OHS training for its employees is very high. **(LA8)**

In order to gain the support from all KPC employees for all OHS programs, various important matter related to OHS is stated in the Prima Perkasa Work Partnership Agreement between the management of the company and the labor union. **(LA9)**

### **Occupational Health**

To prevent the rise of certain diseases caused by the work environment and employees' lifestyle, we have organized several programs, such as: monitoring of potential health hazards in the work place such as noise, ash level, lighting, ventilation, heatstroke, poisonous gas level, vibration in heavy equipment and being healthy program. Beside that, we provide counseling and training on fatigue management for spouses of shift workers. **(LA8)**



In the reporting year, through the Department of Occupational Health and Safety, we provide counseling and training on hearing care program particularly for company and contractor employees working in noisy areas. KPC also gives counseling on the prevention and treatment of HIV/AIDS in the workplace. Food Hygiene inspection in the company cafeteria and the school cafeteria is also done to control food quality.

We also held 4 Safcon Meetings that involved the General Managers, Managers and HSE practitioners both from the company and the contractors. Some of the points discussed in this meeting are information on HSE, the development of HSE and many others. The Safcon Meeting is held to ensure that the management and HSE practitioners from the company and its partner contractors receive important information on HSE.

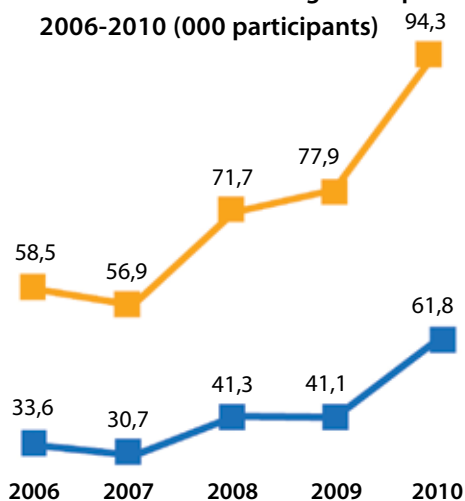
The company participates in dealing with victims of the natural disaster that hit Indonesia in 2010. We sent a Rescue Team to Mentawai on 29 October 2010 and to Yogyakarta on 5 November 2010.

#### Employee Occupational Health and Safety

We always prioritize health and safety aspects for all employees in running mining operations. Besides having it governed particularly in the company's safety regulations, the matters related to health and safety are also stated clearly in the Work Partnership Agreement which is an agreement between the management and employee representatives. Those matters are elaborated as follows.

#### Number of all Training Participants 2006-2010 (000 participants)

#### Number of HSE Training Participants 2006-2010 (000 participants)



Data Source: Occupational Health, and Safety Department

#### Rights and Responsibilities

The company and its employees are obliged to comply to existing laws and government regulations on occupational health and safety. Before signing a employment contract, the company will ask employee candidates to go through a pre-work medical check-up in the company's health facility or an appointed hospital. The company also administers periodical health examination based on government regulations and the standard for each type of work. Employees have to go through medical check-up regularly.

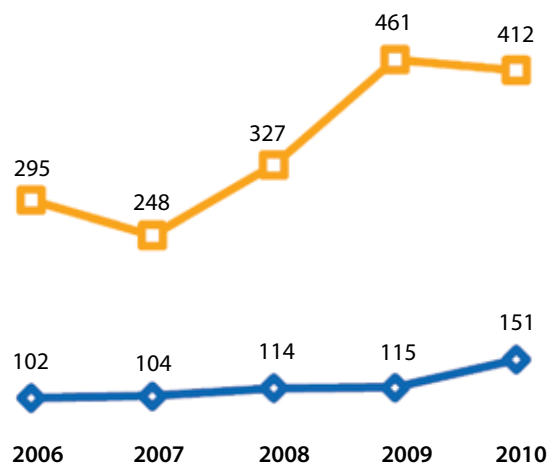
The whole management line is obliged to disseminate the Regulations and Procedures regarding Occupational Health and Safety (K3, standard rules and procedures. Violation on OHS rules is a serious violation on the company's rules hence will be charged with disciplinary action according to the details stated in the existing Golden Rules and the Disciplinary Action Guidelines.

#### Health Services

The company provides a health facility in the form of a clinic for employees and their families around the company's operations. Besides that, we also created a partnership with providers of medical services that have a good reputation in Sangatta, Bontang, Samarinda, Balikpapan and Jakarta. We do not discriminate employee status in terms of health benefits.

#### Number of all Training Hours 2006-2010 (000 hours)

#### Number of HSE Training Hours 2006-2010 (000 hours)



Data source: Occupational Health and Safety Department



### Personal Protection Equipment (PPE)

Tight implementation of occupational health and safety rules will be meaningless if it is not followed by providing appropriate personal protection equipment (PPE). To give protection for employees in doing their job, we provide protective equipment according to OHS standards. All employees must use and take good care of the safety equipment that we have provided. This safety equipment must be used by employees and must not be abused or transferred to unrightful people. An employee has the right to object doing work that does not meet the company's occupational health and safety requirements, including if the required PPE tools are not available.

### Handling of Workplace Accidents

All employees must report every workplace accident that they experience to their supervisor, likewise, the supervisors are also obliged to and responsible for reporting every workplace accident that has occurred in their area of responsibility. Safety officials, including the company doctor, must assist in collecting the necessary data so that officials from the benefits section can make a report to the employment office, PT. JAMSOSTEK, and Group Life Insurance in less than 48 hours.

### Illness in the Workplace

Employees who get sick in the the workplace are directly taken to the company clinic which is close to the company's operational location and is managed professionally. Employees who need more intensive care from special doctors will be sent to a place where such help is available. Employees who cannot return to work in their previous positions due to their illness will be placed in a position/work that does not go against the limitations that the doctor has set. Regulations on sick leave or extensive sick leave go into effect for employees who cannot return to work due to their illness.

The company can decide to lay-off employees because of health reasons after a doctor has decided that the particular employee can no longer return to work. Lay-off caused by health reasons is still subject to rules, particularly ones regarding the rights that employee is entitled to.



*Company sent rescue team to give assistants for Mount Merapi eruption's victims in Jogjakarta.*



# | Our Contribution to the National Economy |

"We realize investments measured and planned in order to increase production volume, maintain product quality and customer satisfaction to guarantee an increase in marketing and give positive contributions to the country, community around the mine area as well as other stakeholders."

- 48 Contribution to the Country
- 48 Contribution to the Economy around the Mine Area
- 49 Relationship with the Suppliers and Contractors
- 51 Product and Service





To support the company's operational activities, we have invested USD 56.1 million in 2010. Those funds are used to develop the infrastructure of mine areas as well as other supporting facilities, purchase heavy equipment and many more. Through that investment effort, improvement in the mining pattern and operational efficiency, we have been able to increase the company's economic performance as seen in the following table.

#### Contribution to the Country (EC9)

As seen in the previous table, our role in economic development in Indonesia is not limited to our CSR activities. In 2010, we have paid the company's coal royalty amounting to USD 376.25 million, while the tax reached USD 271.39 million. This considerable amount is made possible by the governments' participation in providing exceptional service for the company's operation, including the exemption to pay export tax commencing on 13 September 2006 for us and other companies joined in the first generation of PKP2B.

Although the contribution and the royalty increased every year as shown in the following graph, we have never received direct financial assistance from the government, both the regional government and the central government, in running our mining activities. (EC4)

#### Contribution on the Economy Around the Mine Area (EC9)

The role of our mining company on East Kutai economy is still very prominent. Based on East Kutai BPS data for 2010, the contribution of mining sector to Regional Gross Domestic Product (PDRB) reached 85.83 %.

Besides that, with the addition of employees, the economy around the mining area has indirectly received positive contributions. Referring to the result of CSSR study in 2007, every Rp. 1 million of employee wage and salary from the company, the income in East Kutai will be created up to Rp 2.42 million Rupiahs. This fact is also supported by a survey conducted by University of 17 August 1945 (UNTAG) in 2008 which concluded that the average income of respondents living around mining areas reach Rp. 2,880,603 / month.

**Table of Economic Value Distribution Summary (USD million) (EC1)**

Economic Performance	2010
Economic Value Generated	(USD million)
Revenue	3,009,398
Operating Costs	-
Costs of Sales	1,940.22
Operating Expenses	403,29
Other Expenses	33.08

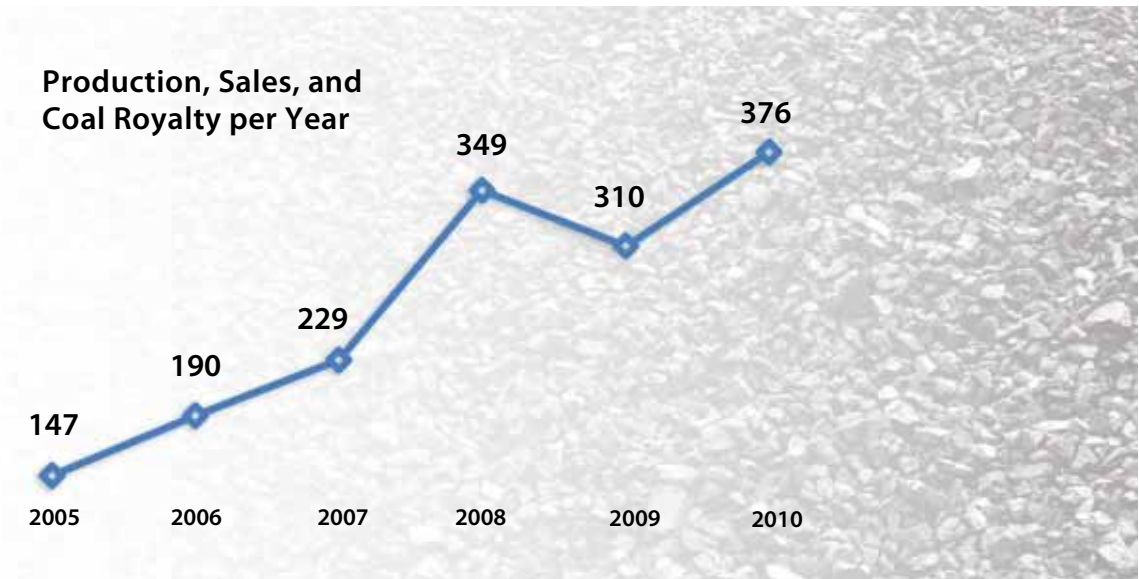


We also give indirect contribution to the economy of East Kutai by increasing the purchase of local products and services in East Kutai, in East Kalimantan even on the national scale. The development of goods and services purchases in 2010 is presented in the following graph.

**Relationship with Suppliers and Contractors**

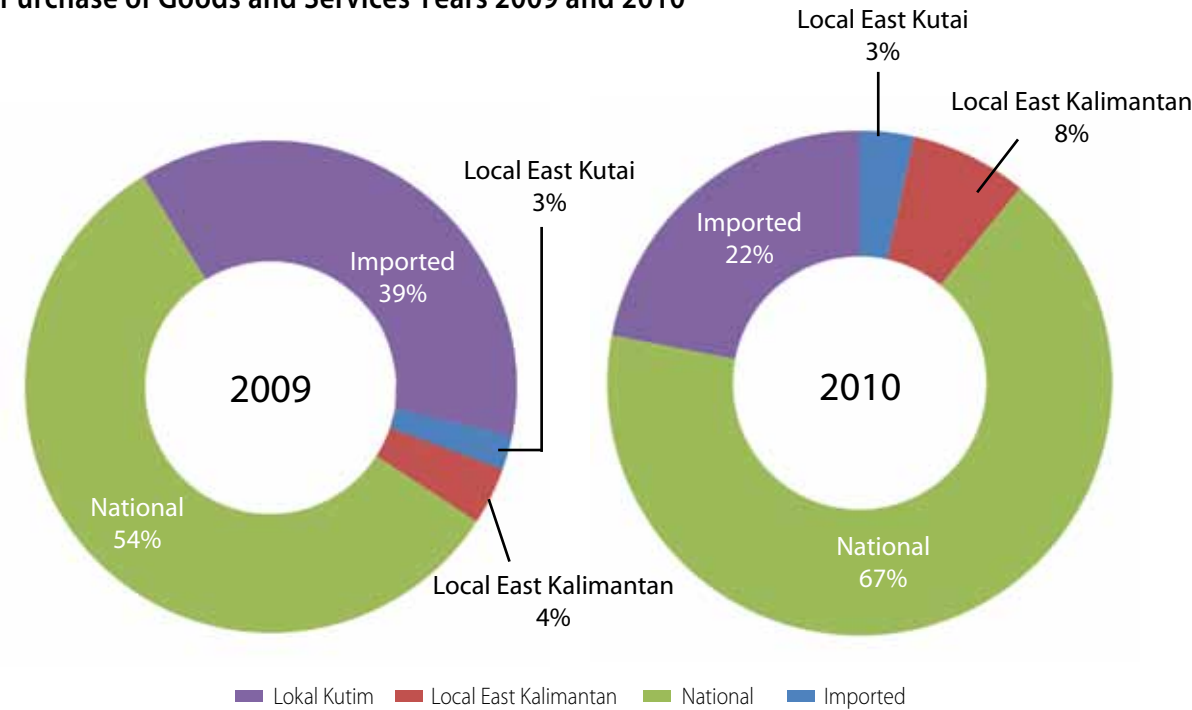
During the reporting period, our operations have

been supported by local, national even foreign contractors and suppliers. The funds that we have spent on purchasing goods during 2010 was USD 926,037,610.06, while for the use of services we have spent USD 259,082,020.23. That amount is based on the value of award/external commitment not based on the invoices paid in 2010. The amount of procurement in 2010 has included the value of procurement calculated with the Vendor Held Stock system.



Data Source: Data from KPC Business Analyst

**Purchase of Goods and Services Years 2009 and 2010**



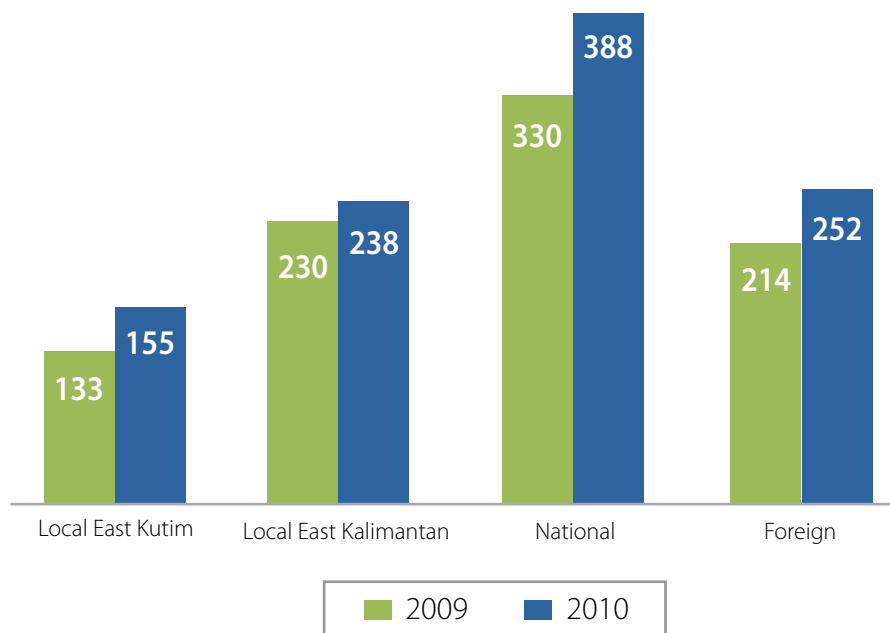


We are very responsible for the contractors and monitor them to see to it that they work effectively to reduce commercial, technical and OHS risk. We have created a Contract and Contractor Management System which we abbreviate as CMS (Contract and Contractor Management System) to be one of the ways to reduce those risks. The goal of this system is to ensure that all work being contracted is done by

competent contractors based on the set specifications, affordable and free from incidents, and meet the company requirements in terms of HSE, technical and commercial aspects.

All company contractors, including the investment in building Overland Conveyor 2 (OLC 2) and power plant, must meet the requirements stated in the CMS. Several

**Number of Suppliers of Goods and Services per Region Year 2009 and 2010**



**Composition of Supplier In the Procurement of Goods Year 2009 and 2010**

Region		Amount in USD		Increase
		2009	2010	
Domestic	Local Eastl Kutim	6,679,335.34	7,588,650.01	14%
	Local East Kalimantan	16,693,462.66	38,278,638.50	129%
	National	428,230,798.34	636,686,056.30	49%
	<b>Sub Total</b>	<b>451,605,605.34</b>	<b>682,555,354.81</b>	<b>51%</b>
Foreign		358,616,442.43	243,482,255.25	-32%
<b>Total</b>		<b>810,222,047.77</b>	<b>926,037,610.06</b>	

**Composition of Supplier In the Procurement of Services Year 2009 and 2010**

Region		Amount in USD		Increase
		2009	2010	
Domestic	Local Eastl Kutim	23,339,944.42	33,534,270.53	44%
	Local East Kalimantan	22,510,508.22	50,615,120.15	125%
	National	76,516,538.13	157,998,629.56	106%
	<b>Sub Total</b>	<b>122,368,999.77</b>	<b>242,150,030.23</b>	<b>98%</b>
Foreign		11,649,047.21	16,934,467.75	45%
<b>Total</b>		<b>134,018,046.98</b>	<b>259,082,020.23</b>	

Source: Data from KPC Supply Department



requirements related to human rights aspects are also stated, including the requirement to draw-up a work agreement for every contractor, enlisting contractor employees in the membership of Jamsostek, stating the minimum wage for employees along with the salary component, and several other requirements. In the future, we will stress more on human rights aspect in selecting contractors. **(HR1)**

Besides that, we are also committed to uphold the principle of mutual trust with the suppliers. All contractors and suppliers sign a code of ethics and general contract requirement including the clause on human rights. The signing must be done by the highest leader of the organization and they must comply to everything that has been put down in the document. We apply safety standards and not employ underage children as governed by existing law in creating a partnership with the suppliers and business partners. **(HR2)**

To get information and feedback from suppliers, we hold a Supplier Communication Meeting. This meeting is intended to inform recent company development, including long-term and short-term plans of activity. We conduct supplier visit to discuss the service level, performance, and supply chain. During the supplier visit ini, we also gather complaints and input for further improvement.

Besides that, we have also planned an HR audit that will be commenced in 2011. The HR audit is performed on company contractors due to CMS to see the implementation of human rights aspect such as the fulfillment of UMSK, Jamsostek, work hours, leave, and other matters regulated by the law.

For service contractors under the supervision of CMS (Contract and Contractor Management System), we have applied CPE (Contract Performance Evaluation) routinely as a form of contractor performance evaluation based on KPI (Key Performance Indicator).

In 2010, SCD made an advance by conducting a one-on-one meeting to see how far the code of ethics was implemented at the contractor level. This meeting is held between the Supply Manager and the head of the contractor involved.

We are committed to continue to develop, improve and empower the local economy and increase the participation of communities around the mine to take part in supplying reliable demand of goods and services. This initiative is realized through the establishment of the Local Business Development (LBD) subsection in the Department of Supply in 2007. Besides that, we continue to make the effort to continue the purchase migration program from overseas to domestic supplier and from the national scope to local scope of East Kalimantan even East Kutai. This migration opportunity is continued to be attempted in order to help increase the national and local economy. Those attempts are a form of our effort in developing the economy which can lead to prosperity. **(EC6)**

We invite suppliers/contractors in the procurement of goods and services to maintain credibility, fairness, and trust from suppliers of goods and services, based on the SOP (Standard Operation Procedures) of the Department of Supply. However, for dire emergency, end users can appoint a supplier/contractor directly by completing a waive to tender document with the knowledge of the division head and the approval from the Chief Executive Officer so long as the value is under USD 500,000.00. A contract value of over USD 500,000.00 must be approved by the President Director.

## **Product and Service (PR2, PR3)**

### **Responsibility for the Product**

As part of the company's commitment in producing a safe product, monitoring product quality is a very important component in the planning, executing, monitoring and controlling the process of mining, coal supplying and transporting.

We apply accredited health and safety standards so that overall production, loading even the transporting process by means of heavy equipment or the conveyor belt does not result in health disorders for field workers or surrounding communities. To minimize the impact of ashes during the process of loading, unloading or transporting, we regularly spray water to areas that need it.





The Quality Control Team monitors that process for 24 hours to guarantee the quality of the product, including to see to it that the whole production process is performed according to occupational health and safety standards. The result of monitoring and assessment is used as an evaluation consideration to improve the performance of the production process.

**(PR1)**

During the reporting year, there were no complaints from customers regarding the negative impact of using our product. This indicates the satisfaction of our customer. Besides that, the increase in the intensity of customers who continue to extend their purchase contract shows that our product is safe for use. This form of customer trust is the fruit of our continuous effort in maintaining the OHSAS 18001 certification: 2007 in occupational health and safety and ISO 14001: 2004 in the environmental field. Because our product is coal, we do not have special packaging for our product.

**(PR5, EN27)**

### Quality Control

The Management of Coal Quality is part of our overall operations. Some of the targets that we have set for implementing coal quality management include:

- Optimization of production and order schedule
- Optimization of resources, and
- Ensuring that all shipments to customers are according to the specification.

Because our product is coal, we do not have special labeling on our product. However, consumers receive information about the product as they requested. During the reporting year, there were no violations in providing product information. This is possible because our marketing sends sample products to our buyers and independent parties as required in the sales contract. We also send samples to globally reputable surveyors to ensure the reliability and accuracy of the examination results of product quality. **(PR4)**

### Customer Satisfaction

Most of our customers are power plants. We possess products and quality that is suitable with all designs of electrical power plants around the world. Nearby is an international class loading dock with adequate capacity to accommodate

### Diagram of the Company Coal Quality Examination:



even a capsize coal ship loader, lower shipping cost compared to other coal producers, and Indonesia's strategic location help to ensure customer satisfaction. Quality assurance and abundant resources allows us to have different customer portfolios for long-term contracts. Therefore, we are acclaimed to be one of the reliable coal suppliers with a competitive price.

We pay attention to after-sales service through:

- Organizing coal quality and quantity management
- Technical support that support customers. Our Coal Technology Department provides technical assistance for our final customers in dealing with and burning coal as well as actively communicate with consumers to ensure the quality of our coal.

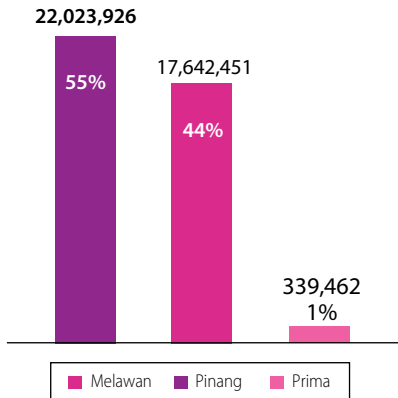
**(MM11)**



### Product Marketing (2.7)

Our total sales for coal in 2010 was 40,005,839 tons, consisting of 55% of Pinang coal, 44% Melawan while the rest is Prima coal.

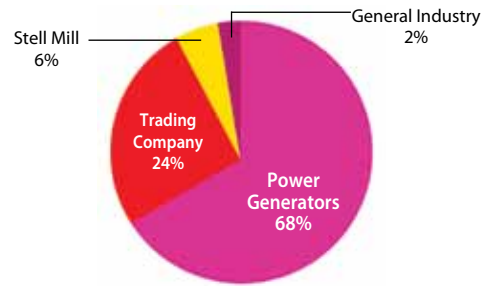
**Coal Sales 2010 by Product**



The majority of our sales in 2010 was for consumers in Japan, China, Indonesia, Taiwan, the Phillipines and several other countries; the complete table is as follows:

Meanwhile, based on the sector of users, 68% of our coal sales volume in 2010 was for power plants, 24% for trading companies, 6% for steel manufacture and the remaining 2% for other sectors. As you can see in the following graph.

**Sales Based on Purchaser Type**



### Marketing Communication Program (PR6)

Our marketing team, actively communicates and visits consumers as needed so we can foster good relationship with our consumers or prospective consumers. The communication is made through e-mail, facsimile, telephone and invitation to our location. For long-term consumers, we perform renegotiation process for price every year.

We continue to make the effort to fulfill every clause stated in the coal sales contract regarding the quality, promptness in shipping, load volume even consumer privacy. Consequently, during the reporting year, there were no violations or penalties and financial fines regarding marketing communication, inappropriate product advertising, or violations in sales contracts that we have done. (PR7)

**Coal Sales By Region (2.7)**

No	Sales Region	Coal Sales	
		2009	2010
1	Jepang	8.132.604 ton	9.647.727 ton
2	Eropa	2.951.503 ton	2.649.288 ton
3	Taiwan	4.763.369 ton	2.502.348 ton
4	India	3.210.078 ton	1.429.556 ton
5	Indonesia	3.419.350 ton	3.949.200 ton
6	Korea	2.161.408 ton	1.123.164 ton
7	Cina	8.092.209 ton	9.266.432 ton
8	Malaysia	1.587.204 ton	2.239.364 ton
9	Thailand	458.900 ton	689.974 ton
10	Filipina	950.475 ton	2.448.023 ton
11	Hong Kong	1.829.792 ton	2.051.587 ton
12	USA	116.436 ton	-
13	Italia	1.084.754 ton	2.009.176 ton
	<b>Total</b>	<b>38.758.082 ton</b>	<b>40.005.839 ton</b>

Data Source: Business Analyst



*Land preparation process for reclamation in ex-mine area.*

We often attend workshops and conferences as participant even as speaker to support the effort to market our products around the world. We always attend the Coaltrans event and meeting which is held several times in a year. In 2010, we attended Coaltrans China, Coaltrans Asia, Coaltrans Australia, and Coaltrans Europe.

Most of our sales are established using the Free on Board (FOB) method, Cost and Freight (CNF/CFR), Cost, Insurance and Freight (CIF), through several Delivered ex Ship (DES).

#### **Consumer Privacy Safeguards (PR8, PR9)**

Up to this moment, there have been no complaints from consumers regarding the violation of consumer privacy. We have set up a system to protect consumer privacy, such as implementing the 'Confidentiality Agreement' clause in the sales contract master with our customers. Up to now there has been no violations regarding those agreements.

#### **Financial Implications of Climate Change (EC2)**

Climate change as the impact of global warming did not directly affect the company's finance but has influenced the attempt to achieve coal production

targets and the transport of overburden. Besides that, it has also influenced the productivity of production equipment because it cannot operate optimally in a condition of high level of rainfall compared to last year's condition. The decrease in coal production target affected the income from sales.

We have set up a system to protect consumer privacy, such as implementing the 'Confidentiality Agreement' clause in the sales contract master with our customers. Up to now there has been no violations regarding those agreements.



# | Our Commitment to the Environment | (EN26)

"We prove our commitment to the conservation of the environment by applying accredited environmental management standards, conduct the assessment of its application periodically and allocate an adequate budget to design, execute and monitor a post mining revegetation program to ensure the conservation of biodiversity, restoration of the ecosystem and the environment from the negative impact of mining operations".

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*Land preparation process for reclamation in ex-mine area.*

#### **Commitment to the Environment**

As a form of commitment to continuously renew the performance of K3L (Occupational Health, Safety and Environment) system, we determine, monitor and improve the targeted parameter of the environmental management performance indicator. This environmental management performance indicator is determined every year based on the assessment on important impacts from mining activity as well as existing environmental regulations. Those indicators include the achievement of ex-mine area rehabilitation activities, water quality, air quality, and the management of waste and hydrocarbon.

To measure the environmental performance we have conducted monitoring (both internally and externally by an accredited laboratory) on the parameters of water quality, air quality, reclamation target achievement, and management of waste and hydrocarbon. The environmental parameter being monitored and the frequency of its monitoring refers to RKL and RPL as well as existing government regulations.

Evaluation on the achieved target that elaborates the level of compliance of regulations is done every year in the management review forum as one of the requirements of the ISO-14001:2004 standard.

The Management of the Company then sets up the improvement plan of environmental management on every indicator parameter for the following year. Thus, the environmental performance will continue to be improved from year to year to achieve maximum compliance so that the environmental impact can be controlled. **(4.12)**

#### **Environmental Policy**

The Environmental Policy which is an affirmation of the company's commitment on environmental management was established on 1 December 1998. The policy was then perfected along with the fulfillment of obligations required in the ISO 14001 standard. The current policy includes the management of Occupational Health, Safety and Environment (K3L), sustainable development and security, signed by the President Director of the Company on 1 September 2010.

The mining activity causes changes to the landscape so the management and reclamation of biodiversity becomes an important matter. Therefore, we emphasize the commitment to maintain biodiversity and restore ex-mining areas to be stable, safe and productive areas in the environmental policy statement. Our company's environmental policy is formulated in the following document.





## OCCUPATIONAL HEALTH, SAFETY, AND ENVIRONMENT (HSE), SUSTAINABLE DEVELOPMENT, AND SECURITY POLICY

PT Kaltim Prima Coal's management and employees are committed to achieving excellent performance and continual improvement in the areas of Occupational Health, Safety, and Environment (HSE), Sustainable Development, and Security.

In doing this, KPC commits to:

- Comply with all applicable government rules and regulations and other relevant requirements.
- Meet the requirements of all stakeholders, including employees, the local community, Government, shareholders and customers.
- Implement management system that defines elements, standards and procedures applicable in all KPC operational areas to continually identify and control the risks of HSE and security.
- Plan, implement, measure, report and review HSE and security objectives, targets and programs on regular basis.
- Commission regular independent audits of HSE and security performance.
- Implement Sustainable Development concepts through its involvement with the local communities.
- Continue to support corporate social responsibility efforts based on inter-dependency and sustainability.

### OCCUPATIONAL HEALTH AND SAFETY MANAGEMENT

KPC commits to provide a working environment in which KPC and its contractor's employees can perform their work free from serious injury and work-related illness.

Occupational Health and Safety must be given priority in all aspects of the company's operations. All parties, including KPC and contractor's employees, have a shared responsibility to work in a safe manner in accordance with KPC occupational health and safety standards and procedures. They also have responsibility to develop and motivate safe behavior.

### ENVIRONMENTAL MANAGEMENT

KPC commits to effectively manage the environmental impacts resulting from its operations. This includes:

- Preventing pollution.
- Returning all mined areas to a safe, stable and productive state.
- Maintaining biodiversity.

Environmental impacts must be considered in all aspects of the company's operations, and all KPC and contractor employees must act in an environmentally responsible manner.

### SUSTAINABLE DEVELOPMENT POLICY

KPC actively participates in sustainable development initiatives which are based on the integration and balance of economic, environmental and social priorities. To achieve this KPC will:

- Remain the supplier of affordable energy and a contributor to the alleviation of poverty, improved health, and better quality of life.
- Perform community empowerment programs to encourage regional economic development based on local potential.
- Build and maintain partnerships with local communities, governments and other stakeholders using transparency, mutual trust and mutual respect principles.

### SECURITY POLICY

All parties, including KPC and contractor's employees, have a shared responsibility to create conducive security condition in the workplace. KPC management conducts initiatives to secure its personnel and both physical and non-physical assets. KPC management also implements integrated security concepts that integrate elements of internal security, POLRI/TNI and community to ensure KPC's business continuity.

The management of KPC commits to providing the leadership, resources and support to achieve these HSE, Sustainable Development and Security outcomes.

**NALIN RATHOD**  
President Director  
01 September 2010

**ENDANG RUCHIJAT**  
Chief Executive Officer  
01 September 2010



### Environmental Management Organization

Structurally, the environmental management is performed by the Environment Department under the Health, Safety, Environment & Security Division. However, in terms of responsibility, the management of the environment lies within each division. According to the Ministry Decree, Kepmen 555.K/26/M.PE/1995-1, then functionally the one in charge of the enactment and compliance of K3L (Occupational Health, Safety and Environment) is the Chief Mine Technical Officer.

### Training in Environmental Field

To increase employees' knowledge and skill, we have developed several in-house environmental training programs. This training includes: ISO 14001 Environmental Management System, management of waste and hydrocarbon, and Rehabilitation Specifications. As many as 441 people have participated in this training during 2010, with the following breakdown: 20 people participated in the SML ISO 14001 training, 381 people participated in the waste and hydrocarbon management training, and 40 people participated in the Rehabilitation Specification training. The statute to provide and develop the need for training for every position holder in a company was stated in MSE 2.03 (Selection, Training, Competency & Authorisation).

### Land Provision and Monitoring (MM7)

The provision of land for mine activity is a very important step. If land cannot be provided in time, mining activities will be disrupted. The expansion of mine operations is started with the process of providing land by undergoing a land release process from authorization and/or work by communities within the concession area, as mandated in the PKP2B (coal mining contract agreement) and Law Number 11 Year 1967 on mining principles.

The land release process is conducted by consensus according to the SOP (Standard Operating Procedure) of land release to obtain agreement on the compensation through the settlement of land disputes or through legal processes as necessary in cases where consensus or government mediation cannot be reached.

Throughout 2010, we have released 5,462.01 ha of land from the targeted amount of 6,177 ha, which is smaller than in 2009 which was 8,327.08 ha. This is because most of the land that has to be released is productive community land so the bargaining process became more difficult. However, during the reporting year there were no land disputes with local inhabitants regarding the land release process that we have conducted. (MM6)





Monitoring of the land that we have released is done by competent authorized officials such as the police and the security guards. This routine monitoring is intended to prevent conflicts and claims from arising regarding the land in the future. This monitoring activity is also intended to allow early detection of unpermitted mining (PETI).

Monitoring of the land that we have released is done by competent authorized officials such as the police and the security guards. This routine monitoring is intended to prevent conflicts and claims from arising regarding the land in the future. This monitoring activity is also intended to allow early detection of unpermitted mining (PETI).

According to AMDAL documents for 70 million Mtpa in 2010 regarding the Segading Resettlement, the company was given the task of managing the impact of mining activities on the people of Segading as the indigenous people that need to be relocated to a new settlement. We then organized a work group in charge of the execution of the Segading Resettlement program according to Memo Ref.M006/ESD/IV/09. This step is in line with the formal decision of the Chief of Keraitan village numbered 049/KD/KRT/IV/2009 regarding the Village and Chief of the Sub-district of Bengalon Relocation Request numbered 100/41/KB-V/2009 on Village Relocation.

During 2010, Segading Resettlement has recorded quite a few positive and satisfactory advances. The most important achievement is the establishment of Segading Resettlement program and the resettlement location done formally by the Government of East Kutai District based on Decree of Bupati of East Kutai Number 140/K.855/2010 that provided the legal foundation for us to accelerate the Segading Resettlement program.

After that, we conducted several comparative studies that involved the Segading people which included economic and culture aspects. In 2010, we presented the results of the comparative studies on Segading people, particularly in agribusiness, agroforestry and the instances of Cultural Village management.

The progress and positive results of Segading Resettlement during 2010 is made possible

because of active involvement from communities, local government, and the regional government through the foundation of constructive reciprocal communication established by the Segading Resettlement Communication Office. Through this office, all related parties can access information and solve together every problem that arise regarding the process of establishing the Segading Resettlement.

The progress achieved by the Segading Resettlement program in 2010 the foundation of determining the target for Segading Resettlement in 2011. For 2011, we have set the target to complete the construction of physical infrastructure in the Segading Resettlement location as a primary target. So, in the same year, the process of relocation and mobilization can be performed gradually. **(MM5,MM9)**

#### **Post-Mining Plan (MM2,MM10)**

According to the sustainable development principle, mine closure activity attempts to be able to ensure the sustainability of people's lives around the mining location and the sustainability of the development of East Kutai region. Therefore, mine closure is planned most carefully by integrating it in every mining activity stage and involving stakeholders. Our mining operation is located in one area which is in East Kutai so all post-mining activity planning and impementation is concentrated in that particular region.

In order to construct a Mine Closure Plan, we conducted a special study in collaboration with a team of researchers from the Center for Forest Research and Development Department of Forestry and Nature Conservation. The study began in the fourth quarter 2008 to the first quarter 2009, with the goal of designing a spatial structure which has post-mining vegetation in the form of zoning and designing the restoration of vegetation in each zone to improve the function and benefits of the ecosystem.





The post-mining program we have performed in 2010 includes:

- continuing the research cooperation to determine zoning implementation in the field that is divided into five (5) zones, namely: protected zone, supporting zone, biodiversity conservation zone, tourism zone and utility zone. The research is conducted by a research team from the Forest and Natural Conservation Research and Development Center of the Forestry Department. In September 2010, the Puslitbanghut team have conducted a field survey to identify the characteristics of the existing reclamation area as a consideration in setting up the criteria and indicator of every zone to be the reference for post mining rehabilitation.
- utilizing the North Sangatta pond as a water tourism object of interest. Some of the activities that we have done until the end of 2010 are: building a look out, a playground, a camping ground and an indoor soccer (futsal) field.
- continuing with the integrated cattle farming (PESAT) program in the ex-mine area in D2 Murung. This program also provided the model and learning facilities for integrated farming that combines social, economic and environmental issues so that it can be a place to learn for the community, including an internship for those who are interested in learning about cattle farming.

Several other things that we continue to do in order to go through with the post-mining program include: reclamation, environmental monitoring, land rehabilitation, remediation of toxic material, dismantling mining facilities and community empowerment programs.

#### **Land Clearing and Ex-Mine Area Reclamation Plan (EN11, MM1,MM3)**

The size of the land clearing area for mining activities, the covering of overburden and the construction of the sedimentation pond during 2010 was 1,215.33 ha, which is lower than the planned amount of 1,688.6 ha. At the time the land is cleared, the top soil layer is lifted by using dozers and excavators. The top soil is then transported to the reclamation area or piled temporarily in the soil stockpile area. The volume of top soil that we have transported for the reclamation of the Sangatta mine during 2010 was 14,574 kbcm, and from Bengalon mine it was 1,090 kbcm.

The backfilling for overburden was done in the mine pit and outside the mine pit. During 2010 there was 153,606 kbcm of overburden that we backfilled in the mine pit from the planned amount of 212,938 kbcm (72% from planned). The following is a table showing the status of land use until the end of 2010.

#### **Use of Land for KPC Mining Activity**

No	Area	Size (ha)
1.	Concession Area (ha)	90,938.00
2.	Disturbed Area (ha)	15,565.59
3.	Infrastructure Area (ha)	358.37
4.	Reclamation Area (ha)	4,009.13

Source: Reclamation data, PT.KPC Environmental Department

The reclamation of ex-mine area in Sangatta and Bengalon during 2010 reached a total of 501.7 ha from the planned amount of 501 ha. The plants we used for land reclamation are local and non local plants, fruit trees and tropical rainforest plants (*Dipterocarpaceae*). The cultivation of plants in the reclamation area during 2010 covered 562.96 ha of land, consisting of reclamation plants (local, non-local, fruit and *Dipterocarpaceae* plants), as well as special commodity plants such as rubber and oil palm.

We used a Hydroseeder to spray the slopes with a mixture of seed, fertilizer, emulsifier, adhesive and compost to form a stable slope and prevent erosion. Reclamation by means of spraying using the hydroseeder reached a total area of 48.61 ha during 2010.

#### **Environmental Monitoring and Follow-up**

We monitored the environmental performance internally to measure the achievement of environmental objectives and targets that include monitoring key parameters on the fulfillment of environmental benchmarking, audits, inspections and visual observation. The procedure for monitoring is regulated in the MSE 3.01 HSE performance measurement and monitoring. Meanwhile the frequency and location of monitoring regarding the key parameters is regulated in the AMDAL document. Monitoring in the form of audits and inspections is done with reference to ERA (Environmental Risk Assessment) list.





Since 2007 we have commenced an integrated audit program on the management of hydrocarbon and waste referring to the Environmental Management System of ISO 14001. Since the middle of 2009 until the end of the second trimester of 2010, we have completed the integrated audit program of 43 work units (workshops). Verification on the action plan of audit findings was sent by each workshop since the fourth trimester of 2010.

During the fourth trimester of 2010, we have conducted the verification of 20 workshops. In case we find nonconformity in the monitoring activity regarding the system, procedure and benchmark, we will issue a CPAR (Corrective/Preventive Action Request). Rules regarding its issue and cycle of completion is determined in MSE 3.2 Investigation, Nonconformity, Corrective Action & Preventive Action.

Besides that, we facilitate the audit performed by the independent party regarding the administration of EMS ISO 14001 certification. We obtained the

certification from SGS on 24 September 2004. The second certification was issued on 24 September 2007 and is valid until 23 September 2010. On 24–26 August 2010, we facilitated the Recertification Audit of ISO 14001 standard performed by the SGS external auditor. The audit result explained that there were no nonconformity, either major or minor ones on environmental management by the company. We then obtained the extension of the ISO 14001:2004 certificate which is valid from 24 September 2010 until 24 September 2013.

To follow-up the result of the assessment done by the State Ministry of Environment regarding pH that exceeds the benchmark, we have reviewed and evaluated the technical aspects of mining and the mechanism of acidic mine water management. We did this to ensure that the method we applied can handle problems and increase the efficiency of overall water quality management.



*Water quality test is conducted to ensure the quality of the water meets the standard benchmark.*



### Material Usage

The volume of overburden removal the company has done in 2010 is 460,278 Kbcm from the planned production of 484,384 Kbcm, due to the delay in the arrival of new production equipment, limitation of production equipment and lack of support equipment. Changes in the mining area caused by erosion and geotechnical factors also affected production. Another factor that influences production is rainfall which in 2010 was quite high, above the estimated level. **(MM3)**

The lower level of overburden removal volume realized this year influenced the realization of coal production that resulted to 39,302 kt from the planned production of 45,879 kt. Other factors that influenced the realization of coal production in 2010 include: limitations in coal transportation equipment, differences of actual coal condition, burnt coal, or unidentified washouts besides the blockades that occurred in the coal transport line heading to the harbor, especially in the Bengalon area.

To support mining operations, we have added several items of equipment both moving and non moving such as vehicles (trucks), small capacity excavators (PC750, PC300, PC200), lighting plant and

lighting towers, dozers, graders and other supporting equipment. The supporting equipment we use is: 6 units of crushers and some ponds that we have constructed for water management in Bengkirai, Kepodang, Melaway, Panorama, Rasamalah and South Dyke Multipurpose Spillway.

We also needed several types of material in the mining operation consisting of: explosives, material for coal washing, and lubricants for heavy equipment such as those listed in the following table.

### Energy Use

To supply the energy requirement, we operate 2 PLTU (steam generated power plant) units each with a capacity of 5MW as the main power generator, and several supporting diesel generators as a back-up in case the use of electricity is higher than the power supplied by the PLTU. The overall electricity production in 2010 was 107,430 MWh. The electricity is used to fulfill the need of the whole KPC mine operation in Sangatta which include the processing and washing of coal, transporting coal from the mine to the ship, and power the whole office and housing.

### Material Consumption for Mining Operation Year 2010 **(EN1)**

No	Type of Material	Use	Unit	Amount		
				2008	2009	2010
1.	Ammonium Nitrate	Explosive	Ton	91.081	119.844	150.120
2.	Magnetite	Coal washing	Ton	620	1.460	1.432
3.	Flocculant	Coal washing	Ton	25,8	61,2	37,9
4.	Lime	Coal washing	Ton	195	325	243
5.	Lime	Acid water calcification	Ton	1.036	2.787	2.513
6.	Lubricating oil	Lubricant	kL	4.157	5.128	5.360

Source : Ellipse System, PT.KPC Supply Department

### Direct and Indirect Energy Consumption Year 2009-2010 **(EN3)**

No	Energy	Source	Electricity Production (MWh)			Fuel Consumption			Type of Fuel
			2008	2009	2010	2008	2009	2010	
1.	Electricity	PLTU KPC	60.931,2	68.736	67.070	37.686 (ton)	42.553,5 (ton)	42.278,5 (ton)	Coal
2.	Electricity	Generator	36.298,8	33.261,1	40.360	9.924,5 (kL)	9.040,5(kL)	14.883,9 (kL)	Diesel
3.	Electricity	PLN	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Source: data of PLTU and Generator electricity production, PT.KPC Coal Terminal OLC & Power Department



Kenaikan konsumsi solar untuk produksi listrik dari genset dipengaruhi oleh kebutuhan listrik bagi kegiatan ekspansi Perusahaan untuk meningkatkan produksi batubara. Kami berencana membangun PLTU berkapasitas 3x18 MW untuk menggantikan penggunaan genset dan menurunkan konsumsi solar.

Another source of energy that we use beside electricity is gasoline (diesel and pertamax) to fuel operational equipment and vehicles for the company and our contractors (light vehicle, heavy equipment in the mines, employee buses, etc.). The fuel consumption for 2010 is presented in the following table.

**Fuel Consumption Year 2008–2010 (EN4)**

No	Type	Fuel Consumption (L)		
		2008	2009	2010
1.	Diesel	530,255,451	518,468,664	710,428,749
2.	Pertamax	607,711	564,557	744,729

Source: Ellipse System, PT.KPC Supply Department

The increase in the consumption of diesel for electricity production was influenced by the electricity demand for the company's expansion activity to increase coal production. We plan to build a steam generated power plant (PLTU) with the capacity of 3x18 MW to replace the use of generators and reduce the consumption of diesel.

The fuel efficiency program has been implemented since 2008 but the rise in the number of vehicles and the number of operators as well as the increase in the size of operation area has urged us to review this program so that the efficiency target can be achieved. The heavy equipment we focus on in implementing this program is the OB transport truck and the shovel in MOD Division. Besides that, we performed several new actions such as issuing a new SOP on the start-up after blasting and after rainfall; review the optimal range match factor regarding the choice to turn off the shovel during breaks or to turn off trucks when there are more trucks operating than is needed; and installing special lights in trucks to monitor whether or not operators actually turn off the truck engine during standby.

Through those steps, we hope to save consumption of diesel up to 32.74 million liters. Besides that, we started

building up the OLC from Melawan to the crusher in order to increase efficiency and suppress the use of diesel in trucks. (EN5,EN6, EN7)

Regarding the consumption of diesel and oil that is quite high, we have the procedure and a team to overcome any spills of diesel or oil (oil spill response team) so that the process of handling spills can be done immediately. As an addition, in every maintenance garage, we have provided the "oil spill kit" as an emergency kit in case of spills.

During 2010 there have been five hydrocarbon (diesel and oil) spills in the garage area, the gas stations and in the mine area with an estimated total of spill reaching + 9,187 liters. However, those spills can be isolated and cleaned up so that there were no spill that got out of the mine area. (EN23)

**Water Requirements for Production and Drinking**

The need for clean water and drinking water is obtained from river water and drill wells that we process in the water processing installation or WTP (Water Treatment Plant). The amount of water produced and used during 2008–2010 is as follows. (EN8,EN9)

Clean water and drinking water used in the office of PT. Thiess comes from the MSW02 pond in Melawan mine area that has been processed beforehand. During 2010, the clean water produced and consumed was 13,965 m<sup>3</sup>.

For the purpose of water conservation, the process of coal washing in the CPP is done by using water from sedimentation ponds by means of recycling. Spraying the road in the mines and CPP area is also done by using water from sedimentation ponds. We do not use surface water or water from rivers so there is no impact in terms of pollution, drop in ground water level or reduction in the volume of water source. (EN9)

## Water Production and Consumption Year 2008-2010

No	Decription	Volume(m <sup>3</sup> )		
		2008	2009	2010
1.	Drawing Out Surface And Ground Water (As Raw Water)			
	Sangatta River Water (taken at Papa Charlie)	2,420,330	2,478,422	2,486,887
	Surface Water And Tanjung Bara Drill Well	517,424	619,189	621,856
	Total Raw Water Drawn Out	2,937,754	3,097,611	3,108,743
2.	Total Processed Raw Water (Pre Treatment)	2,200,056	2,478,422	2,486,877
3.	Water Treatment Processing (WTP)			
	WTP Swarga Bara	1,651,110	1,762,181	1,670,456
	WTP Tanjung Bara	434,846	438,860	469,326
	Total Water Production	2,085,956	2,201,041	2,139,782
4.	Total Water Consumption	1,997,365	2,102,992	2,200,312

Source: data of clean water production, PT.KPC Infrastructure Department

### Biodiversity Management in Reclamation Areas (EN12, EN13, EN14, EN25, MM2)

We realize that open mining will cause change in the initial face of the environment, including the extinction of biodiversity. To maintain biodiversity, we have propagated local and rare plants in a 3 ha nursery in Tango Delta area which we will plant later in the reclamation area.

Besides that, we work together with the seed suppliers, particularly for local plant seeds in Bengalon, Koperasi Mitra Tani Bengalon, as part of our effort to empower the community. We perform reclamation in 3 stages: planting cover plant species to reduce erosion, planting fast growing plant species to form a canopy, and planting tropical rainforest species.

Besides those efforts, especially since 2006, we have decided on an ex-mine reclamation area in D2 Surya

with the size of 22 ha as an arboretum area. Until the end of 2010 there were 110 species of plants that have been planted in the arboretum location, consisting of local (original) plants, non local plants, fruit, and Dipterocarpaceae.

To ensure the implementation of biodiversity management, we have established an SOP (Standard Operating Procedure) for managing biodiversity. The scope of the SOP is to manage flora and fauna aspects from several activity stages, namely: pre-cutting flora and fauna survey (to identify the diversity of flora and fauna that can be the basis in preparing the types of seedlings), cultivating, planting, maintaining, monitoring, and evaluating the progress of reclamation in ex-mine reclamation areas. To maintain the biodiversity of flora, we have planted around 30 types of plants in every reclamation location.

### Water for Coal Washing Process by Recycling (EN, EN10)

Year	Discharge of water going into	Discharge of water flowing out to the sedi- the wash	Discharge of water being recycled mentation pond	Operating tim	Volume of water recycled	Coal being washed	Recycled water/ coal tonnage
	(m <sup>3</sup> /hr)	(m <sup>3</sup> /hr)	(m <sup>3</sup> /hr)	%	m <sup>3</sup>	(ton)	(m <sup>3</sup> /ton)
2007	280	210	89.1	51.5 %	401,924,73	1,081,679	0.372
2008	280	210	89.1	51.5 %	401,924,73	1,130,642	0.356
2009	280	210	89.1	58.1 %	453,433,53	1,130,124	0.401
2010	280	210	89.1	54.4 %	424,557,38	1,151,369	0.369

Source: data of CPP washing water, PT.KPC Coal Processing Plant Department (calculation of inflowing water debit used pump capacity approach; calculation of outflowing water to ponds and being recycled using a flow meter).



The monitoring of flora and fauna was done by the Environmental Department following the monitoring scheduled that is divided into 2 groups: Initial Monitoring (for plants aged 1, 3, 9, and 12 months), and Long Term Monitoring (for plants aged 3, 6, 9, and 12 years). Besides knowing the progress of the reclamation area, the result of monitoring also provides information on the types of flora that can grow and spread well in the reclamation area and the types of fauna that comes to merely drop by or stay and breed there.

In the next analysis, we also calculated the Shannon Index of what can be found in the reclamation area. The Shannon Index shows the level of diversity in type both among types and the number of each type and its domination. Monitoring during 2010 was for the initial monitoring that we did in 46 locations according to the age of plants. The result, the average number of plants was 396 per hectare with an average diversity index of 1.01.

The long term monitoring was done in 4 plot levels:

- Understory: to see the coverage of land surface by vegetation
- Tree Height: to look for natural seedlings
- Subplot: to see the stance with a diameter of less than 20 cm
- Primary Plot: for trees with a diameter of less than 20 cm.

The data obtained is then compared with the standard which is the average condition of the stance in the

company's reclamation area at a certain level of age to find out whether the condition of the area is unbalanced, recovered or complete.

One of the areas that we monitored in 2010 was Taman Payau, with the monitoring result falling under the category of recovered with a score of 81.57. Which means that if the area does not experience any meaningful disturbance, it can undergo good natural succession because the component of the stance was completely present at the moment of the age monitoring.

Fauna monitoring in 2010 was done to inventorize the Orangutan as a protected endangered species by using the nest inventory method. This activity was done with the PPHT Unmul (Mulawarman University) Samarinda team in organizing the program of Best Management Practises for the conservation of Orangutan in the mining reclamation area. The conclusion of this activity is that the Orangutan uses the vegetation resources in the mining reclamation area as its source of food and trees as nest, this is shown by the many nests and scratches in the tree trunks in the reclamation area.

We also conduct a survey of biodiversity in the area of waters (rivers) that are affected by mining activities every two years. Monitoring of aquatic biota in all rivers and creeks in Sangatta and Bengalon affected by mining activities in 2009 was conducted by consultants from the University Mulawarman, Samarinda, and they will be back in 2011.





Considering it is endemic, we tried our best to relocate Orangutan found in mining locations to a safer location. We conducted the relocation together with the local Natural Resource Conservation Institute and BOSF (Balikpapan Orangutan Survival Foundation), a foundation of Orangutan savers located in Samboja-Balikpapan.

#### **Orangutan Relocation (EN15)**

Orangutan is an typical Kalimantan species listed in the IUCN Red List categorized as “endangered”, which we occasionally encounter in the mining activity area. Considering it is endemic, we tried our best to relocate Orangutan found in mining locations to a safer location.

We conducted the relocation together with the local Natural Resource Conservation Institute and BOSF (Balikpapan Orangutan Survival Foundation), a foundation of Orangutan savers located in Samboja-Balikpapan. To support the relocation program, we have a temporary shelter for the Orangutan before it is returned to the wild. There was no relocation during this reporting year.

In June 2010, we got a visit from the OCSP (Orangutan Conservation Services Program) that is working together with Mulawarman University from Samarinda, to conduct a survey on the population of Orangutan in Pinang Dome conservation area and several other locations in the company’s mining area.

#### **Water Quality Management (EN25)**

We manage the water quality from the outflow of the mining activities through the periodic maintenance

of sedimentation ponds by excavating the sediment using a dredge, improving the capacity of the ponds and digging new ponds. We monitor every outflow regularly to make sure that the water quality is always up to the standard benchmark. Sediment excavation during 2010 was done by 3 dredges: LP068, LP125 dan LP139.

According to the RKTTL KPC 2010 and along with the expansion of mining area, during 2010 we have completed the construction of several new sedimentation ponds and some are allowed to be used as compliant point of waste disposal, namely:

- Panorama Pond, located at the upper side of Sisi Danau pond, was completed in the second trimester of 2010. The pond was constructed to reduce the load of sediment in Sisi Danau pond.
- Melawai Pond, located at the lower end of Kedapat pond, was completed at the end of June 2010.
- Sipadan pond, constructed in the Thiess mine area in June 2010, to contain the flow from Khayal Pit.
- Rasamala sedimentation pond, was completed at the beginning of the fourth trimester of 2010, intended to contain the sediment from Pelikan North Pit area. We have proposed this pond to Environmental Agency (BLH) of East Kutai to be the compliant point of liquid waste disposal.



- Bengkirai pond, located at the lower end of Sipadan pond in Melawan mine area was completed at the beginning of the fourth trimester of 2010. This pond was also proposed to the Environmental Agency (BLH) of East Kutai to be the organizing point of liquid waste disposal.
- Spillway South Dike (Lockpond 4) in J Pit is intended to improve the quality of water in Keny J pond.
- Kepodang pond, was completed in the fourth trimester of 2010 and is intended to contain the sediment from Inul Pit area. This pond is proposed to the Environmental Agency (BLH) of East Kutai to be an organizing point of liquid water disposal.
- Apokayan pond, at the upper end of New Pond Bengalon, was completed in October 2010. This pond was also proposed to the Environmental Agency (BLH) of East Kutai to be an organizing point of liquid waste disposal.
- Seroja pond, which is still under construction in the fourth trimester of 2010 is intended to contain the water flow from SWD2 Dump in A Pit Bengalon.

Determining the compliant point of water quality was permitted by the Regent (Bupati) of East Kutai. During 2010, KPC has obtained several permits from the Regent of East Kutai to dispose of liquid waste in reference to the following:

- Decree of the Regent of East Kutai no. 658.31/K.722/2010 dated 2 August 2010, which is the extension of liquid waste disposal permit 2009, for 8 locations in Sangatta, namely: Lower Melaso, WQ06 (Kedapat pond), WQ27D (Volvo pond), WQ33 (Sisi Danau pond), AB 103, Keny J, WQ19, and Pewe (Pelikan West pond); as well as 3 locations in Bengalon, namely: NWD02, New Pond and Kelawitan ponds.
- Decree of the Regent of East Kutai no. 660.5/K.718/2010 dated 29 July 2010 for 4 locations, namely: Meruya, Mahoni, Meranti, and Sipadan ponds.
- Decree of the Regent of East Kutai no. 660.1/K.885/2010 dated 25 October 2010 for 2 locations, namely Melawai and Tiung.

Water outflow from the sedimentation ponds directly flows to public waters (river and sea) as stated in the following table. **(EN21)**

## Disposal Point of Mine Water Outflow

Compliance Point Year 2009		Compliance Point Year 2010	Receiving Water Way
<b>Sangatta Location</b>			
1	Lower Melaso	1 Lower Melaso	Sangatta River
2	WQ06	2 WQ06	Sangatta River
3	WQ27D	3 WQ27D	Sangatta River
4	WQ33	4 WQ33	Sangatta River
5	AB 103	5 AB 103	Bengalon River
6	Keny J	6 Keny J	Kenyamukan River
7	WQ19	7 WQ19	Tanjung Bara Sea
8	Pewe (Pelikan West)	8 Pewe (Pelikan West)	Bengalon River
		9 Meruya	Sangatta River
		10 Mahoni	Sangatta River
		11 Meranti	Bengalon River
		12 Sipadan	Bengalon River
		13 Melawai (Kedapat replacement)	Sangatta River
		14 Tiung	Bengalon River
<b>Bengalon Location</b>			
1	NWD02	1 NWD02	Lembak River
2	New Pond	2 New Pond	Lembak River
3	Kelawitan	3 Kelawitan	Lembak River





### Acid Rock Water Management (MM3)

The management of acid rock water is done by calcification both manually and by means of semi-automatic equipment and a Neutra-Mill, in several sedimentation ponds in Sangatta and Bengalon mine areas. Manual calcification in Sangatta mine area is done in Pelikan and Khayal Pits to improve the water quality in those areas which will then flow to Lower Melaso pond in Tango Delta pond to maintain the water quality that flows to Sisi Danau pond.

We also perform manual calcification in the sedimentation ponds in Bengalon (in the inlet of Kelawitan pond, inlet of NWD2 pond and inlet of New Pond pond) and calcification using semi automatic equipment (in the outlet of Kelawitan pond and outlet of New Pond pond) to maintain water quality. Calcification by using a static Neutra-Mill is performed in Keny J pond in J Pit continuously during 2010. In the sedimentation ponds in Bengalon, a Neutra-Mill is also operated alternately in Kelawitan and Apokayan ponds.

Classification and sorting of overburden is done according to the potential of acid rock formation, namely: by geochemical NAG (Net Acid Generation) analysis performed in KPC's Environmental Laboratory. We performed the geochemical NAG analysis on sample rocks from exploration areas (diamond core or geology drill chips), blast holes, and final dump. Throughout 2010 we have performed the NAG analysis on 92,073 rock samples.

### Air Quality Management and Air Emission Monitoring (EN16,EN17,EN20)

#### Emission Quality Management

Considering our activity does not involve an extraction process, the main impact of our product on the environment is soft dust particles that follow operation activities starting from the mining process, loading, transporting by means of massive vehicles, and unloading in the harbor. Management of air quality that arises from those mining activities is performed in several ways, namely: spraying mine roads continuously; planting trees in operational areas; applying a dust suppression system in coal processing plant (CPP) location as well as the loading and unloading areas by using water and a chemical substance vinasol; and obliging employees to use masks.

Monitoring of ambient air quality is performed once every six months in community residential areas in Sangatta and Bengalon. As a result, the air emission during 2010 met the standard in the benchmark. (EN29)

Results of air emission observation from the chimneys of the PLTU and generators also met the standard in the benchmark during 2010. PLTU and generators are our main source of energy used to supply electricity, therefore they are the major sources of emission. Beside the PLTU, we also operate an insinerator to demolish waste contaminated by hydrocarbon (filters and wipes) and clinical waste. The result of air emission monitor from the insinerator chimney also met the standard in the benchmark during 2010, as shown in the following table, which shows the amount of NOx, SOx, CO gas emission and other particles that were under the benchmark.(EN20)

Calcification by using a static Neutra-Mill is performed in Keny J pond in J Pit continuously during 2010. In the sedimentation ponds in Bengalon, a Neutra-Mill is also operated alternately in Kelawitan and Apokayan ponds.



## Measurement Result of PLTU Chimney Emission Year 2010

Parameter	Unit	BML Men LH 21/2008	PLTU 1 Chimney		PLTU 2 Chimney	
			Min	Max	Min	Max
Sulfur dioxide (SO <sub>2</sub> )	(mg/m <sup>3</sup> )	750	43	131	24	118
Nitrogen oxide (NO <sub>x</sub> )	(mg/m <sup>3</sup> )	850	54	115	48	103
Total Particles	(mg/m <sup>3</sup> )	150	30.7	47.8	21.8	38.6
Opacity	(%)	20	15	15	10	15

Source: data of Sucofindo measurement result

## Measurement Result of Generator Chimney Emission Year 2010

Parameter	Satuan (Unit)	BML Men LH 21/2008	TB 1 Generator		TB 2 Generator		TB 3 Generator		CPP1 Generator	CPP2 Generator	CPP3 Generator
			Min	Max	Min	Max	Min	Max			
Carbon monoxide (CO)	(mg/m <sup>3</sup> )	600	32	172	75	106	60	61	49	54	78
Sulfur dioxide (SO <sub>2</sub> )	(mg/m <sup>3</sup> )	800	15	40	14	61	20	67	30	21	20
Nitrogen oxide (NO <sub>x</sub> )	(mg/m <sup>3</sup> )	1000	215	640	552	621	257	614	138	80	22
Total particle	(mg/m <sup>3</sup> )	150	30.4	63.2	41.6	61.4	31.6	67.5	31.4	21.8	31.7
Opacity	(%)	20	10	15	10	20	10	15	15	10	20

Source: data of Sucofindo measurement result

## Measurement Result of Incinerator Chimney Emission Year 2010

Parameter	Unit	BML Kep. Ka. Bapedal 03/1995	Filter Waste		Medical Waste	
			Min	Max	Min	Max
Particle	(mg/m <sup>3</sup> )	50	9.82	27.48	6.22	32.55
SO <sub>2</sub>	(mg/m <sup>3</sup> )	250	2	20	3	24
NO <sub>2</sub>	(mg/m <sup>3</sup> )	300	79	89	72	159
HF	(mg/m <sup>3</sup> )	10		<0.1		<0.1
CO	(mg/m <sup>3</sup> )	100	2	5	3	7
HCl	(mg/m <sup>3</sup> )	70		<3		<3
CH <sub>4</sub>	(mg/m <sup>3</sup> )	35		<1		<1
As	(mg/m <sup>3</sup> )	1		<0.001		<0.001
Cd	(mg/m <sup>3</sup> )	0,2		<0.005		<0.005
Cr	(mg/m <sup>3</sup> )	1		<0.005		<0.005
Pb	(mg/m <sup>3</sup> )	5		<0.01		<0.01
Hg	(mg/m <sup>3</sup> )	0,2		<0.001		<0.001
TI	(mg/m <sup>3</sup> )	0,2		<0.02		<0.02
Opacity	(%)	10		5		5
Efficiency	(%)	-		99.9		99.9
Gas Velocity	m/sec	-	6.8	14.8	6.8	15.3
CO <sub>2</sub>	%	-	3.6	48.0	4.6	7.1
Gas Temperature	oC	-	92	129	97	141
Air Pressure	mmHg	-		758		758

Source: data of Sucofindo measurement result

### Carbon Emission Management (EN18, EN19)

The use of various operational equipment and power generators with fossil fuel by our company has resulted in a number of carbon emissions. Based on the data of fossil fuel usage during 2010, we estimated the total carbon emission from operational activities to be 2,057,854.46 equivalent tons CO<sub>2</sub>, according to the following table (EN16, EN17):

EH4500 trucks; while ones that have qualified Tier 2 standard are 3 units of Komatsu PC300 excavators, 1 unit Komatsu PC750 excavator, 4 units of Dozer D10T and 6 units of Komatsu Wheel Dozer WD600-3.

To improve the condition of the environment and reduce the amount of carbon dioxide gas emission from the mine area, we conducted reclamation which

**Table. Fuel, Unit, Consumption, Conversion**

Bahan Bakar	Unit	Konsumsi	Konversi	Emisi CO <sub>2</sub> (ton eq)
GasolinePertamax	Kiloliter	744.7	2,3247	1,731.27
Diesel for Operational Cehicles	Kiloliter	710,428.7	2,6681	1,895,494.95
Diesel for Generator	Kiloliter	14,883	2,6681	39,711.73
Coal	Ton	42,278.5	2,86	120,916.51
<b>Total Emission</b>				<b>2,057,854.46</b>

To reduce the impact of gas emission from operational equipment or vehicles, we constantly perform periodical maintenance to ensure the performance of the combustion process in the equipment. Besides that, in the procurement of new equipment (particularly trucks and other heavy equipment), we have used Tier 1 and Tier 2 of the EPA (Environmental Protection Agency) emission standard. Several units/equipment that have gone through the commissioning process and have qualified Tier 1 emission standard are 10 units of Euclid

will be continued to revegetation. The vegetation can create a relatively stable condition, prevent erosion and in the end will improve the overall condition of ex-mine land. Besides that, the vegetation will be able to absorb carbon from the air.

The vegetation's ability to absorb carbon is closely related to its own growth so by knowing the growth by counting its biomass, the amount of carbon absorbed by the vegetation can be estimated. By using the

**Table of Carbon Absorption Year 2010**

Reclamation Age (yr)	Area (ha)	Biomass Production (ton/ha)	Total biomass (ton)	Carbon absorption (ton)
<2	1146.68	3.48	3991.24	1,382.56
3	439.58	13.25	5824.42	2,017.58
4	230.00	20.18	4641.72	1,607.89
5	248.08	25.56	6340.38	2,196.31
6	161.20	29.95	4828.04	1,672.43
7	171.37	33.66	5769.13	1,998.43
8	255.62	36.88	9427.79	3,265.79
9	293.35	39.72	11651.84	4,036.20
10	341.90	42.26	14448.18	5,004.85
11	318.30	44.55	14181.82	4,912.58
12	190.20	46.65	8873.09	3,073.64
13	195.80	48.58	9511.94	3,294.94
14	64.03	50.37	3224.90	1,117.11
15	39.10	52.03	2034.28	704.68
<b>TOTAL</b>	<b>4,095.21</b>			<b>36,284.97</b>



formula to calculate biomass and average carbon content (34.64%), the amount of carbon absorbed in the reclamation area is shown in the following table.

Besides carbon emission (greenhouse gas/GHG), our operations indirectly produce ozone depleting substances/ODS. These gas emissions come from the use of air cooling devices such as air conditioners both in offices and in vehicles at the time of repair. The amount of ODS emission is considered immaterial. (EN19)

#### **Solid Waste Management and Processing (EN22, MM3)**

General waste (garbage) that comes from residences and the company's industrial area is thrown into the landfill in Hatari East dumping area. Meanwhile the paper waste from the offices is collected and processed into compost. The composting process is done in the company's nursery. Besides paper, compost material also comes from wet waste from the kitchen in employees' mess.

The compost produced is used as a mixture for a planting medium, used in both pots and reclamation areas. Paper waste from offices is also used as mulch that we mix with other materials such as seed, fertilizer and a binding agent to be sprayed onto slopes by using the Hydroseeder.

Besides paper waste, used cardboard and plastic from offices and garages are also collected and processed. Used cardboard and plastic are collected by the Cooperative supported by the ESD Division of PT. KPC. Used cardboard and plastic that have been collected are sent to the recycling companies in Balikpapan and Surabaya to be processed. During 2010, we have sent 6,712 kg of used cardboard and 4,197 kg plastic waste.

Used tyres from heavy equipment (trucks) are used to make drainage systems (drop structure) in reclamation areas. During 2010 as many as 2,028 used truck tyres (type 777, 785, 789) have been used in Mentari pond, Panel 4 Dump, Panel 8 Dump, Prima Dam Pit J, Rawa Indah Pit J, Bengkirai Pond, Kedapat Pond, Belut

**Amount of Managed B3 Waste B3 Year 2010**

No	Category	Type of Waste	Unit	Amount Generator	Process
1	B3	Used oil	Liter	9.253.922,47	Utilized internally + sent to 3 <sup>rd</sup> party
2	B3	Hydrocarbon Contaminated item	Ton	605,01	incinerated + sent to 3 <sup>rd</sup> party
3	B3	Oil Filters	Ton	418,75	incinerated + sent to 3 <sup>rd</sup> party
4	B3	Hydraulic Fluid Hoses	Ton	396,22	sent to 3 <sup>rd</sup> party
5	B3	Used Batteries	Ton	139,17	sent to 3 <sup>rd</sup> party
6	B3	Used Grease	Ton	76,67	sent to 3 <sup>rd</sup> party
7	B3	Hydrogen peroxide waste	Ton	7,91	sent to 3 <sup>rd</sup> party
8	B3	Incinerator ash	Ton	9,92	sent to 3 <sup>rd</sup> party
9	B3	Oily mud	M <sup>3</sup>	501,58	Bioremediation
10	B3	Coal ash	Ton	8.485,00	Utilized
11	B3	Medical waste	Ton	4,01	Incinerated
12	B3	Used toner	Ton	0,22	sent to 3 <sup>rd</sup> party
13	B3	Chemical waste	Ton	25,15	sent to 3 <sup>rd</sup> party
14	Non B3	General waste	M3	17.002,60	Sent to landfill

Source: PT.KPC waste balance





Stockpile, Melawai Pond, Bendili Panel 3 Stage I & II, and Sawit Road Stage II & III.

Thus, various of our operations have been using recycled materials such as used oil to a mixture of explosives (ANFO), household waste for composting which we use as organic fertilizer in the area of reclamation and other uses such as we described in the description above. Whereas other solid waste that we can not use such as paper, used batteries and plastic materials, we send it to a competent company recycler. **(EN2)**

Toxic waste (B3) from the company's operations is managed according to existing government regulations and permits. B3 waste that we send to third parties is intended to be processed further according to the permit set by the Ministry of Environment and the Environment Agency of East Kutai.

The third party referred to before is a B3 waste processor in Indonesia that is permitted by the Ministry of Environment to process some types of waste or all sorts of toxic (B3) waste. We do not send B3 waste overseas. The following is a list of B3 waste that we have managed during 2010. **(EN24)**

Used oil from the operational activity of the company and its contractor in Sangatta area, except for Thiess, is used as a supporting material for explosives (ANFO-Emulsion), according to the permit for utilization of used oil obtained through the Decree of the State Ministry of Environment No.185 Year 2010 dated 11 August 2010, replacing the previous permit which has expired, No. 560 Year 2008.

Based on the permit, the composition of used oil to new diesel is 80:20. During 2010, used oil waste from KPC and its contractors, both in Sangatta and Bengalon was 9,253,922.47 liters. From that amount 2,549,500 liters (28%) is used as a compound for explosives. The rest, which is 6,704,422.47 liters (72%) was sent to a permitted waste processor. **(EN2)**

According to the obtained permit, Decree of Bupati of East Kutai No. 658.31/K.33/2010 dated 25 January 2010, fly ash and bottom ash coming from the residue of PLTU combustion is collected in a storage area in the Tanjung Bara Coal Ash Stockpile. This coal ash is then used internally in accordance to the permit to use coal ash obtained through the Decree of State Ministry of Environment No. 37 Year 2010 dated 22 February 2010, replacing the previous permit, No. 403 Year 2007 which has expired.

During 2010, we have used as much as 3,840 tons of fly ash as a material for Eco Road. Besides that, as much as 2 tons of fly ash was also used as a compound for concrete in the harbor for the Sea Wall BLF Project. So the total fly ash that we have used throughout 2010 is 3,842 tons.

We process hydrocarbon contaminated solid waste in two ways, that is some is processed by means of incineration and some is sent to a third party (permitted processor). Processing by incineration is done by using the incinerator in Sangatta North Dump, in accordance with the permit obtained through the Decree of State Ministry of Environment No. 789 Year 2008, which was then renewed by a new permit No. 276 Year 2010 dated 25 October 2010. According to the permit, B3 waste that's permitted to be incinerated is hydrocarbon contaminated filters and wipes and medical waste from the company clinic. Ash from the incineration is then sent to permitted processor.

Oil contaminated soil from all garages, particularly the ones coming from interceptors (traps) is processed by means of bioremediation using petrophylic bacteria. The processing of oil contaminated soil is done in the BTU (Biological Treatment Unit) area in Sangatta North Dump, in accordance with the permit obtained through the Decree of State Ministry of Environment No. 184 Year 2010 dated 11 August 2010, replacing permit No. 318 Year 2006.

## Cost and Awards for Managing and Conserving the Environment

### Total Cost of Managing the Environment (EN30)

The total cost that we have incurred for the environmental management and monitoring program throughout 2010 is as follows:

### Total Cost of Environmental Management

No	Description	Cost (USD)
1	<b>Environmental Management</b>	
	a. Land Organization (soil transport, drainage building)	11,630,659
	b. Water quality management:	
	• Sediment excavation	454,193
	• Acid water prevention and handling	1,152,959
	• Construction of new ponds and increasing the capacity of ponds	3,228,912
	c. Reforestation (germinating, supplying seedlings, planting, maintaining plants)	1,995,312
	d. Sustaining the rehabilitation force	16,212,422
2	e. Managing hydrocarbon and B3 waste	243,724
	Environmental monitoring (procurement of monitoring equipment, sampling (water, air, rock), laboratory analysis)	763,728
3	<b>Miscellaneous</b>	
	a. Employee training, biodiversity program, etc)	855,405
	b. Commemoration of Environment Day	6,413
	c. Recertification of ISO14001	28,000
<b>TOTAL</b>		<b>36,571,726</b>

Data Source: Financing report, KPC Accounting Department

We show our commitment in improving and managing the environment continuously through the fulfilment of all standards and benchmarks set by the government based on the results of air and water quality monitoring as well as the achievement in reclamation land targets. Consequently, during 2010, we have avoided administrative penalties regarding the nonconformance of standards or fines resulting from nonconformance of environmental management performance. This is the form of commitment in fulfilling environmental policy that we will continue to do in every step of the company's operation. (SO8, EN28)

### Awards for the Management and Conservation of the Environment

Performance of Environmental Management in the the company is also audited by the government both the central government (Ministry of Environment and Ministry of Energy and Mineral Resources) and the regional government (Environmental Agency of

East Kalimantan Province and East Kutai District). As a result, in August 2010, we received an award from the Governor of East Kalimantan based on the Coal PROPER Assessment for the period of 2009/2010, namely the Green Certificate for Sangatta site and Gold Certificate for Bengalon site. In September 2010, we also got the "Aditama Award" for mining environmental management from the Ministry of Energy and Mineral Resources, Directorate General of Mineral, Coal and Geothermal.





## OUR MINING PROCESS

In general, the company's mining operation is divided into 3 stages, namely: mining preparation, mining, and post mining. The Preparation Stage of mining is begun with exploration survey activities. Exploration activities include site mapping, measuring the geological structure, measurement of geological structures, taking core samples, exploration drilling, geophysical logging and estimating deposits. After that, geological modelling is done by using mining software (Minex Software 4.1-G) to make deposit calculations followed by drawing-up a mining plan. In 2010, the company is also in the transition process of changing to a new mine software, Minex Software 6.

The next step is to make a more detailed deposit calculation by involving economic analysis using Minex Software version 4.1-G used to design pits, overburden piles, mine roads and optimal drainage systems to plan the mining stage that can provide a description of overburden volume to be moved and the coal

production yield. In this stage, the amount of topsoil to be moved is calculated, planning for rehabilitation areas is made and the amount of mining equipment required is also calculated. Then we go into the next stage, the mining or production stage.

Production Stage is started with the felling and cutting of trees as well as the moving of topsoil after identification and documentation of flora and fauna that inhabited the area is made. Several species of important plants are collected to be used as the seedlings needed for the rehabilitation activity later. The top soil is transferred to the storage location that has been prepared or is used directly for the rehabilitation of permanent stockpile areas. After the tree cutting step and the moving of top soil, drilling and blasting of overburden is performed.

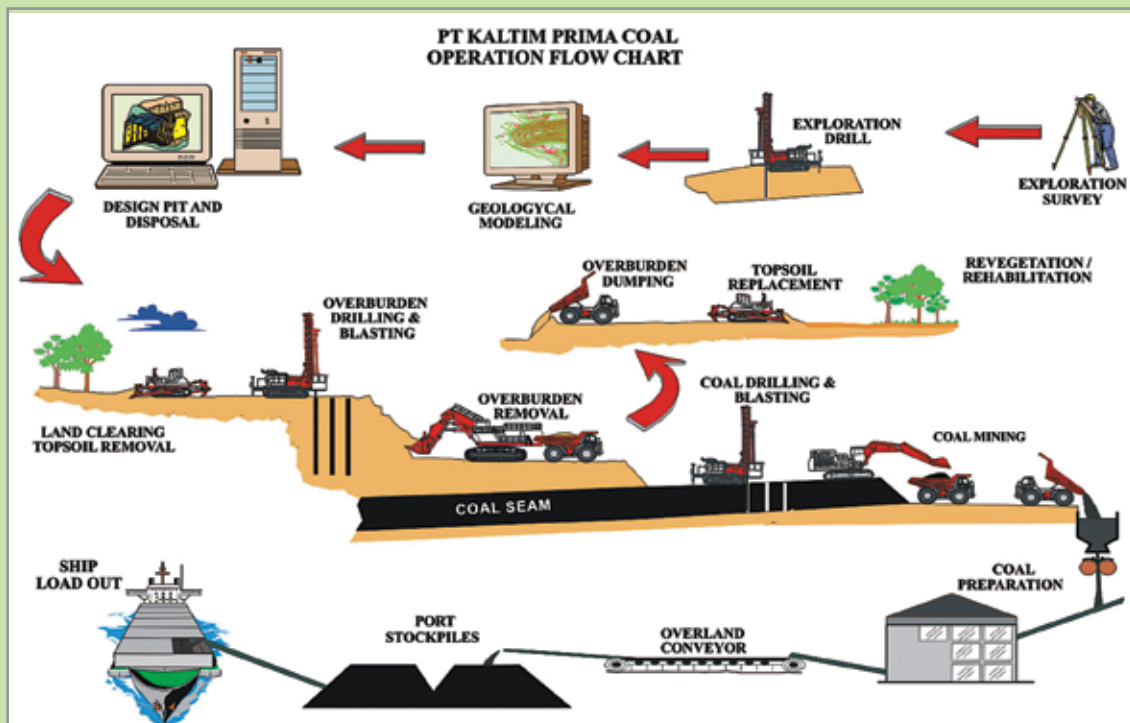
The overburden that has been blasted is then loaded by shovels and backhoes and transported by trucks to be piled in the planned stockpile locations. Overburden that contains acid/PAF (Potential Acid Forming) is piled separately from soil that does not contain acid/NAF (Non Acid Forming) in the planned location. Overburden categorized as NAF is piled in a permanent stockpile location and is temporarily rehabilitated while the one categorized as PAF is piled into a temporary stockpile location. This process is performed by using electronic control system (Dispatch system).

After the overburden is lifted, the revealed coal is mined by using special coal loaders. The coal is then transported by trucks and head directly to the crushing area or piled temporarily in the coal stockpile according to the quality of coal. In the crusher location, the coal is crushed into the defined size then it is continued on to be washed if the coal is dirty. Coal that has been reduced in size and is ready to be sold is then transported by means of a belt conveyor heading to

the coal stockpile location in Tanjung Bara harbor (Coal terminal). Along with the increase in production, coal transport is also performed by means of coal trucking from the coal stockpile in the CPP to the coal stockpile in the Port stockpile in limited amounts. Ready-to-be-sold coal is then loaded into ships to be sent to customers.

After the mining process is completed, we perform reclamation on ex-mining areas. As our form of responsibility to the environment, we have a rehabilitation program that is intended to restore the land to a safe, stable and productive state. Rehabilitation is performed gradually. The Rehabilitation Program includes planning, placing overburden, final forming, placing the top soil, constructing water drainage facilities, planting, sustaining, and monitoring.

## Flowchart of PT. Kaltim Prima Coal Operations





# What They Say

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## **Mugiyono - Rantau Pulung Inhabitant** **Saving Time to The Field**

I feel helped with the existence of this drinking water aid. All this time, I had to boil water before going to the field. Now, not anymore, for this water is ready to drink. The price is low while the quality is high. Most importantly, I am sure, this water's sanitation is more guaranteed.



## **Dani - Chairperson of IPAB Sekerat Management** **The Pipe Straight to Home**

All this time, we had water with lime content. Now, thanks to KPC's management, it contains no more lime, and is even save to drink. What's more important, villagers don't have to go to the river any more.



## **M. Yunus - Vice Chairman of BPD Sepaso Induk** **Hopefully Household Industries Will be Reactivated**

We hope the cooperation for the electricity problem solution in Bengalon can keep continuing, because during the alternating blackouts, household industries have been disturbed. Almost 80% of household industries use electricity from PLN. The alternating blackout disturbs everything. Thanks to KPC's assistance, we see the positives and hope for the continuity so that household industries can be reactivated.



*KPC donates a genset to the people of Bengalon with the total capacity of 1.3 MW divided at 3 stages (365 KVA, 455 KVA, and 500 KVA. It satisfies the electricity needs of 1,278 households at Bengalon.*



## **Murhan - Traditional Head of Sepaso Timur Village** **People Once Emotional**

People were once emotional because the genset promised by KPC did not come for a time. We thought, what's up with this assistance, why does it take so long? While the loss due to the blackout was not minor, because all household industries depend on the electricity from PLN. But, gratefully, now one set has been installed. We thank KPC for the concern to solve the electricity crisis in Bengalon.



*KPC donates a genset with the capacity of 2 X 150 KVA which can accommodate the electricity needs of 450 households in Rantau Pulung at present.*



# | Our Commitment to Community Empowerment |

"We encourage the growth of the community potential, motivate independence and facilitate their welfare improvement through the implementation of the seven fields of community empowerment programs."

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### Vision, mission, and social responsibility commitment

The Company's plan to increase its production to 70 million tons/year has been approved through the Decree of Regent of Kutai Timur No. 660.5/K.205/2010. To support the production increase in 2010, we have carried out a series of expansion projects while keeping the implementation of the principles of good mining practice as evidence of the Company's commitment. In line with government's regulations, the production increase is supplemented with AMDAL (Analisis Mengenai Dampak Lingkungan, Analysis on the Impact on the Environment) study with the aim of reducing the negative impacts and optimizing the positive impacts.

Through the Vision and Mission of the External Affairs and Sustainable Development Division, we are making efforts for improving the quality of the community's lives affected directly or indirectly by the mining activities. The negative and positive impacts in the social aspect has become the basis for various community development programs that we organize. In the implementation of the programs, we also refer to the principle Triple Bottom Line, i.e. economic, social, and environment.

We outline the vision and mission through seven community empowerment programs with the main

aim to help accelerate the community independence at the village level to face the post-mining era, especially in fulfilling basic needs, improving environmental quality, and developing their economic base on renewed resources.

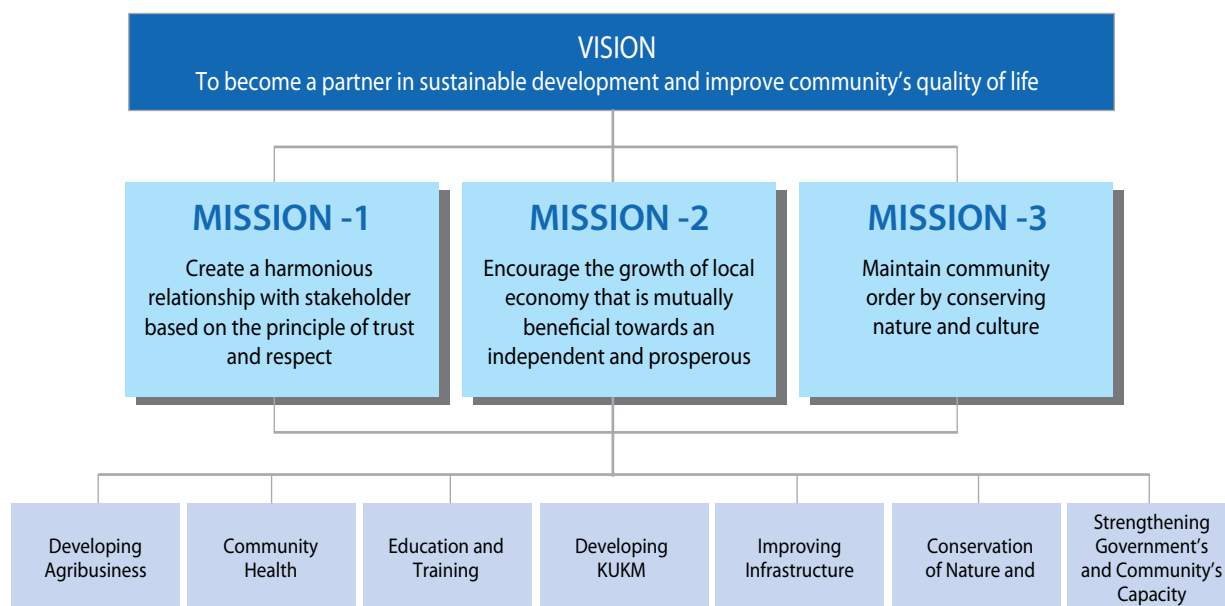
### Multi Stakeholder for Corporate Social Responsibility (MSH-CSR) Forum

We are one of this forum's member and active in implementing community development program. This forum was formed by the Regent of Kutai Timur in 2006 through the Decree of Regent No. 71/02.188.45/HK/III/2006. Through this forum, we maximize the method of managing the community development fund allocation of USD 1.5 million out of all community development funds every year. The management of this forum is coupled with the routine meeting of the Company and the forum secretariat members, to do, among others, program planning, program implementation, and program monitoring and evaluation. Through this forum we give input in the form of policies, work procedures and maximum program or project control.

Monthly monitoring is carried out by MSH-CSR Forum to see how far the implementation of the program has been. This mechanism also provides direction for the Company to ensure that the funding allocation has been utilized appropriately.

## COMMUNITY DEVELOPMENT VISION AND MISSION

External Affairs and Sustainable Development Division PT Kaltim Prima Coal





### Complaints Handling and External Communication

In accordance with the mandate of AMDAL 2010, the community's complaints due to the mining activities should be well managed. The monitoring over the community's critical complaints is done through community feedback system, covering the issues of environment, threats against production, natural disasters, social conflicts, requests/demands, and press coverings. This system is carried out according to the Standard Operating Procedure (SOP) ESDMS/DOC/SOP/ESD/CFS/002 as technical implementation guidelines.

All the 11 complaints in 2010 as can be seen above have been properly managed and all ended with a closed status. The number of complaints decreased significantly to 31.25% lower than the number in 2009. The complaints under the social conflict category still hold the biggest portion. Compared to 2009, there was an increase of disturbances/blockades in 2010: 3 in Sangatta and 4 in Bengalon. This is due to the increase of the community's expectation on the production increase plan. (MM4)

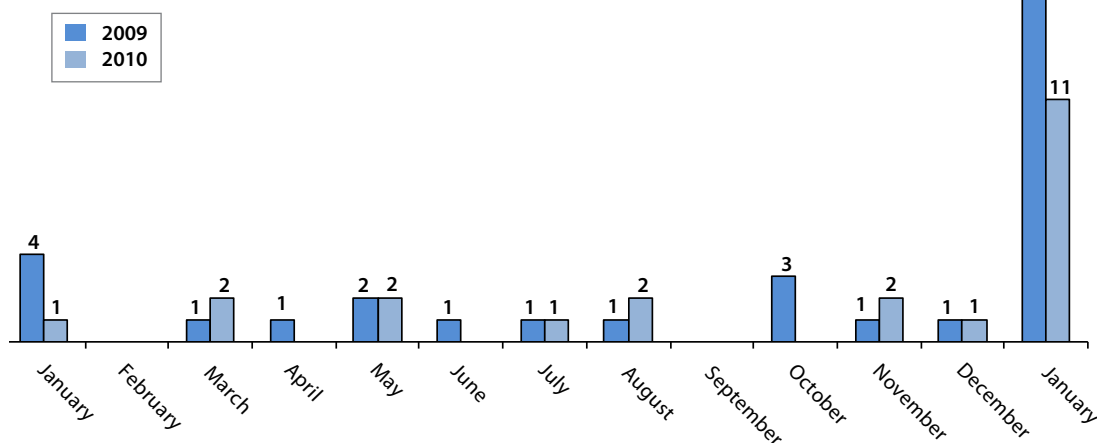
The composition of complaints consists of 90.9 % social conflict, the rest are related to environmental issues. The complaints were conveyed through collective demands accompanied by threats of demonstrations and blockades, all of which could be settled. The low percentage of environmental issues is a positive indicator that the management and monitoring mechanisms of the environmental issues in 2010 have been effective.

### Community Empowerment Program

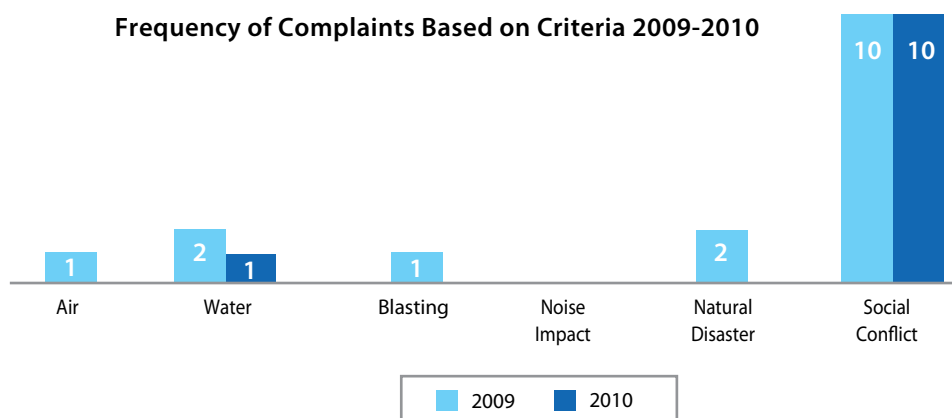
Partnership Towards Independence is the spirit which is always manifested in all community empowerment programs that we organize, so that the involvement and participation of the community are an essential part in all processes of community empowerment activities. The independence of the community which is directly affected by the Company's activities is encouraged by maximizing all available potency through the above 7 program fields.

Besides local (village) and regional (sub-regency and regency) issues, the community empowerment

Number of Complaints based on Community Feedback 2009–2010



Frequency of Complaints Based on Criteria 2009-2010



Source: Data from Department of Community Empowerment





program also addresses various national and international issues as a reference in developing synergy with the development direction of the Government of Kutai Timur Regency. Gerdabangagri (*Gerakan Daerah Pembangunan Agribisnis, I Regional Movement for Agribusiness Development*), Kutim Cemerlang (Bright Kutai Timur), *Swasembada Daging Nasional* (National Meat Self-Fulfillment) 2014, National Food Endurance, Act of the Republic Indonesia No. 18/2008 on Waste Management, support the Millenium Development Goals and Global Compact. **(4.12)**

The areas that we prioritize are the areas around the mine, covering the Sub-Regencies of Sangatta Utara, Sangatta Selatan, Bengalon and Rantau Pulung. The community aspirations in the four sub-regencies are derived through various mechanisms of formal as well as informal communications with the stakeholders. However, the assistance for public facilities and institutional and community capacity improvement are also given to the other sub-regencies in the Regency of Kuati Timur, although in smaller proportions compared to the amount and value given to the four sub-regencies around the mining circle.

We also cooperate with various institutions, such as universities, research centers, NGOs, and other international donor institutions in planning, implementing, monitoring and evaluating the activities to obtain optimum and objective results. Here we will describe the summary of the implementation of the seven programs for Community Empowerment that we have carried out.

#### **Community Infrastructure Development (EC8)**

We assisted the implementation of the infrastructure improvement programs by building various adequate infrastructure facilities especially for the community at four sub-regencies around our mine, i.e. Sangatta Utara, Sangatta Selatan, Bengalon dan Rantau Pulung. We

believe that the availability of adequate infrastructure can improve the local economy development as well as strengthen the government and community capacity.

We encourage the involvement of local contractors in the infrastructure development according to their capacity. In organizing the work involving local contractors, we try to implement a side-by-side approach towards technical skill improvement and awareness about safe ways of working that we have applied through supervision of the work quality and supervision on the work system which values the workers' health and safety. We do this to improve the skill, competitiveness and economical value of the local contractors' capacity.

The development of various basic infrastructure which we have accomplished including the construction of the Prima bridge connecting Rantau Pulung and Sangatta; a road in Sepaso Timur, Bengalon, a length of 1,850 m; connecting the road of SP3-SP4 at Rantau Pulung and M. Yusuf Street at Bengalon, 800 m in length. We also build other infrastructures, including the facility of clean water processing and provisioning, in cooperation with PDAM or independently.

The location of clean water provisionings are in Rantau Pulung, Bengalon and Sangatta so that they can fulfill the needs of no fewer than 6,467 household in Rantau Makmur, Sangatta Selatan, Sekerat, Sangatta Utara and Bengalon. Besides that, we also built various other facilities, such as: worship places, school buildings, village offices, social facilities, and other public facilities, both in the four sub-regencies and other sub-regencies in the region of Kutai Timur Regency.

Apart from the community infrastructure improvement, we also completed the development of RSUD (Regional General Hospital) stage 2 and the maintenance of Soekarno Hatta Street. A significant main support from



Construction of Prima bridge connecting Rantau Pulung and Sangatta.



Roadwork at Sepaso Timur, Bengalon. This construction of 1,850 m-long burtu (one layer of asphalt) specification road was done with the local community.



*KPC CEO, Endang Ruchijat, got a flower from one of patient of smile and Hope Program.*

the Company to the community around the mine in 2010 was electricity support at Bengalon Sub-Regency (1.3 MW), Rantau Pulung (2 x 150 KVA), and Sangatta (1.3 MW and 265 KVA).

We carried out all infrastructure development so that the community around the mining areas could utilize adequate facilities, meet the needs for clean water and maintain the quality of their health so that they could improve their productive activities in turn.

Besides the infrastructure improvement, we also supported religious activities by improving the employees' quality in terms of religious life. We have improved some worship facilities, among others: Al Kautsar, Al Ikhlâs, Baiturrahman, An Nur, Al Falah Mosques; Oukumene and Katolik Churches; and the temple at Bumi Etam as a worship place for Hindu followers. We also aided the celebration of religious festivals of the respective religions by giving facilities, donations, and permits to leave work during the days of celebration established by the government.

#### **Community Health Improvement**

We have various programs for community health improvement as a form of the Company's participation in supporting the programs for the eradication of infectious diseases, improvement of nutrition and quality of public health as well as the improvement of community health care awareness. Some of the programs that we carried out, include:

- Infectious disease prevention program, such as HIV/AIDS, Tuberculosis and Dengue Fever.
- Health counselling for the community and improvement in health and nutrition for toddlers and school children.
- Health and medical aids, such as cleft lip surgery, treatment of burns, mass circumcision, and free medication.
- Blood donations involving employees and the Company's contractors.

#### **Education and Training for the Community**

To improve the competency and capability of the community around the mine, we carried out various programs of education and training, covering:

- Scholarships for study at Junior High School, Senior High School, S1, S2 and S3 levels.
- Entrepreneurship education for students and community health improvement as a means of the Company's participation in the Competency Test for Vocational High School.
- Teacher training and incentives for teachers who teach at remote schools.
- Training for operators and mechanics.

Besides participating in the community competency improvement through education and training, we also provided job vacancies to accommodate available local labour according to the qualification of our activities. This shows our commitment and care for the human resources development in Kutai Timur.



Rice and durian harvest at Rantau Pulung attended by Vice Regent of Kutai Timur and Camat (Head of Sub-Regency) of Rantau Pulung



Winners of Kampung Bersemi (Spring Village) competition receive the three-wheel motorcycle key from Vice Regent of Kutai Timur.

Since 2005, we recruited our new employees by referring to the decree of the Department of Manpower of Kutai Timur Regency No. 562/973-PLK/Disnaker/VII/2005 which regulated the recruitment system based on "Scoring System". The candidate with the highest score will be prioritized to continue to the next selection process, followed by the next scores. **(EC7)**

We carried out the recruitment program for mechanic trainees in 2010, while recruitment for operator trainees for 2011 needs was done in December 2010. Specifically for the mechanic trainees, we provided training for one year. Participants with high achievement received placement to work at the Company.

The number of mechanic trainees up to 2010 is 302 trainees. Out of this number, 77 were from the mechanic trainee program 2007 and 2008, and they have become Company's employees, while the rest 111 were from mechanic trainee program 2010 and still under the training program.

## Development of Cooperative, Small and Medium Scale Enterprises (KUKM) **(SO1)**

We support the effort of developing Cooperatives and SMEs (KUKM, Koperasi, Usaha Kecil dan Menengah) through the implementation of various relevant programs, covering:

- Training, side-by-side guidance and development of UKM businessmen.
- The implementation of the program AKU BISA (I CAN), i.e. empowerment of drop out local youth through basic skill training.
- The empowerment of local contractors through local contractors' participation in infrastructure development followed by the implementation of security standards and competency improvement training.

## Agribusiness Development **(SO1)**

We also encourage the growth of the local community's agribusiness with products such as oranges, cocoa,

## Scores Based on Birthplace and Education

RING	Location	Score			
		Brithplace	Primary School	Junior School	High School
RING I	SANGATTA DAN BENGALON	40	30	15	15
RING II	KUTAI TIMUR	30	20	10	10
RING III	KALIMANTAN TIMUR	20	10	5	5
RING IV	OUTSIDE KALIMANTAN TIMUR	10	5	0	0

Source: Decree of the Department of Manpower of Kutai Timur Regency No. 562/973-PLK/Disnaker/VII/2005

## Number of Local Labor for Operator and Mechanic Trainees

NO	Name program	2006	2007	2008	2009	2010	Total number having been trained	Number of local labor who have worked at KPC
1	Operator trainee	200	0	279	403	0	882	882
2	Mechanic trainee	0	62	129	0	111	302	77
	<b>Total</b>						<b>1.122</b>	<b>959</b>

Note: Mechanic trainee program started in 2008



nilam (patchouli oil), durian, vegetables, sago, rice etc. through the program of Gerdabangagri (Regional government agribusiness and industry development movement). Through this program, we support the effort of improving knowledge, skill for post-harvest processing and expansion of the marketing of agricultural and plantation products of the program's participants, which included 2,882 families.

### Increase the Capability of the Village and Community

Through the program of Desa Mandiri (Independent Village), we conducted side-by-side mentoring in 11 villages in Bengalon Sub-Regency in the making of the Village's Medium-Term Development Planning (RKPDes). Through this program, we hope that all participating villages as well as the regional government and other third parties have a common reference in developing the villages.

### Nature and Cultural Conservation Program

We organize several programs in increasing the village community's participation to maintain nature conservation and develop local cultural diversity. Some of the programs that we organize include:

- *Gerak Bersemi* (Clean, Healthy and Independent Community Movement) and *Kampung Bersemi* (village integrated waste management) Program. Through this program, we support the community-based waste management, so that household waste can be recycled and utilized with the 3R (Reduce, Re-use and Recycle) principle which gives economic benefit..
- *BPPUTK (Bumi Pelatihan dan Percontohan Usaha Tani Konservasi, Conservational Agrobusiness Training and Demonstration Plot)* Program. Through this program we also support the provision of education/ecotourism facilities, i.e. in terms of the management of waste, energy from biogas, fertilizer and pesticide etc. which is environment-friendly for students and surrounding community aiming at increasing environmental awareness, so that the community has a place for learning, teaching, as well as relaxing.
- Forest Conservation at Kutai National Park and Wehea Protected Forest  
We support the existence of the conservation park



Farewell of scholarship recipients to STPMD-APMD Yogyakarta



KPC employees participate in the competency test for Vocational High School (SMK) to improve the quality of graduates of SMK in Kutai Timur



111 people participated in the Company's mechanic trainee program 2010

and protected forest by providing lodging facilities for tourists and researchers at Wehea Protected Forest to develop the ecotourism business and increase community visits and awareness of the forest and its conservation.



## Independent Assurance Statement

Report No. 1011/BD/0103/JK

### To the management of PT Kaltim Prima Coal

We were engaged by PT Kaltim Prima Coal ('KPC') to provide assurance in respect to its Sustainable Development Report 2010 ('the Report'). The assurance has been carried out by a multi-disciplined assurance team with a broad range of skills and depth of experience, thus providing a high level of competency for the assurance engagement.

### Independence

Apart from offering comments during the draft process, we were not involved in the preparation of any key part of the Report and carried out all assurance undertakings with independence and autonomy. We did not provide any services to KPC during 2010 that could conflict with the independence of assurance engagement.

### Assurance Standards

We conducted our work in accordance with ISAE3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information' issued by the International Auditing and Accounting Standards Board. In addition, we have also planned and carried out our work in accordance with AA1000AS (2008) 'AA1000 Assurance Standards (2008)', issued by AccountAbility.

### Level of assurance and criteria used.

Our evidence-gathering procedures have been designed to obtain a limited level of assurance based on ISAE3000 and a moderate level of assurance engagement as set out in AA1000AS (2008) in order to provide confidence to readers by reducing risks or errors to a very low but not zero. Moreover, we have confirmed that the Report has been prepared according to the GRI G3.0 & Sector Supplement and the Application Level requirements. The AA1000 AccountAbility Principles Standard (2008) of Inclusivity, Materiality and Responsiveness has also been used as criteria to evaluate the Report.

### Scope of Assurance

We provided Type 2 assurance engagement under AA1000AS (2008). This involved an assessment of KPC's adherence to the AA1000 AccountAbility Principles Standard (2008) and an assessment on the accuracy and quality of specified sustainability performance information contained within the Report, as well as an assessment of the application level of the GRI G3.0 & Mining and Metals Sector Supplement, Version 3.0/MMSS Final Version.

### Responsibility

KPC is responsible for all information and claims contained in the Report, including established sustainability management targets, performance management, data collection and report preparation, etc. Our responsibility in performing this engagement is to the management of KPC only for the purposes of verifying its statements relating to its sustainability, more particularly as described in the agreed scope. Our responsibility is to express our conclusions in relation to the agreed scope.

### Methodology

We have assessed several assertions and specified data sets included in the report and the systems and processes used to manage and report these using the following methods:

- Reviewed report, internal policies, documentation, management and information systems
- Carried out interviews with staff involved in sustainability-related management and reporting.
- Followed data trails to initial aggregated source and checked sample data to a greater depth during the engagement process.

### Limitations

Our scope of work was limited to a review of the accuracy and reliability of specified data and interviews with data providers, persons in charge of data collection and processing, as well as persons in charge of sustainability performance-related information, and did not include any on-site validation of the mining site.

## Conclusions

### GRI reporting

We have reviewed the GRI indicators referenced in the Report to determine that have been either partially or fully applied, and concluded that the report meets GRI G3.0's requirement for application level A (A+ with this assurance engagement).

### AA1000 AccountAbility Principles Standard (2008)

Findings and conclusions concerning adherence to the AA1000 AccountAbility Principles of Inclusivity, Materiality and Responsiveness include:

#### ■ Inclusivity

An assessment has been made to determine whether KPC has included all key stakeholders in developing and achieving an accountable and strategic response to sustainability.

We believe KPC demonstrates a strong commitment to stakeholder inclusivity. KPC has effective systems in place for key stakeholders to participate in the development of the organization's response in the context of sustainability. This is demonstrated, for instance, by conducting a needs assessment procedure on the community development program.

#### ■ Materiality

An assessment has been made as to whether KPC has included in the Report the material information required by its stakeholders in order for them to be able to make informed judgments, decisions and actions.

We found KPC has a strong process in place to determine material issues. Key material issues were adequately reported and were found to provide balanced information about KPC's sustainability performance. A range of internal stakeholders are involved in KPC's materiality determination process. However, we recommend that KPC continues to conduct materiality testing on a regular basis in future reports.

#### ■ Responsiveness

An assessment has been made as to whether KPC demonstrates that it responds to its stakeholders and is accountable to them.

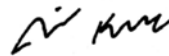
KPC was found to be responsive to key stakeholder concerns and expectations. This was achieved through the organization's allocation of resources to stakeholder engagement, the timeliness and accessibility of reported information, and the types of communication mechanisms regularly employed. However, the Standard Operating Procedure on stakeholder engagement could be further formalized in order to achieve a better response to KPC's key stakeholder concerns and expectations.

### Reliability of Sustainability Performance Information

Based on our limited assurance engagement, nothing has come to our attention that causes us to believe that the data of the Report has been materially misstated.

All key assurance findings are included herein, and detailed observations and follow-up recommendations have been submitted to KPC management in a separate report.

Jakarta, October 2011



**James Kallman**  
President Director



*Mazars is an international, integrated and independent organization, specializing in audit and assurance, accountancy, tax, legal and advisory services. Mazars can rely on the skills of 13,000 professionals in the 61 countries that make up its integrated partnership in Europe, Africa, the Middle East, Asia Pacific, North America, Latin America and the Caribbean, whilst in Indonesia is served by PT Mazars, one of the leading sustainability assurance providers.*



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## ABBREVIATION LIST

Abbreviantion	Information
AMDAL	Analisis mengenai dampak lingkungan
APBI	Asosiasi Pertambangan Batubara Indonesia
APINDO	Asosiasi Pengusaha Indonesia
B 3	Bahan Berbahaya dan Beracun
BALITKA	Balai Penelitian Tanaman Kelapa
Balitra	Balai Penelitian Tanaman Obat dan Aromatik
BKMM	Balai Kesehatan Mata Masyarakat
BLH	Badan Lingkungan Hidup
BML	Baku mutu lingkungan
BOSF	Balipapan Orangutan Survival Foundation
BPID	Business & Performance Improvement Division
BPPUTK	Bumi Pelatihan dan Percontohan Usaha Tani Konservasi
BTU	Biological Treatment Unit
BUN	Bakrie Untuk Negeri
CFCD	Corporate Forum on Community Development
CIF	Cost, Insurance and Freight
CMD	Contract Mining Division
CMS	Contract and Contractor Management System
CNF/CFR	Cost and Freight
CPAR	Corrective/Preventive Action Request
CPE	Contract Performance Evaluation
CPP	Coal Processing Plant
CPR	Cardio Pulmonary Resuscitation
CSRA	Certified Sustainability Reporting Assesor
CSRS	Certified Sustainability Reporting Specialist
DES	Delivered ex Ship
DIKSAR	Pendidikan Dasar
EPA	Environmental Protection Agency
ESDM	Energi dan Sumber Daya Mineral
Exco	Executive Committee
FKPL	Forum Komunitas Peduli Lingkungan
FOB	Free on Board
FPE-SBSI	Federasi Pertambangan dan Energi Serikat Buruh Sejahtera Indonesia
FRLBT	Forum Reklamasi Lahan Bekas Tambang
GDP	Graduate Development Program
Gerdabangri	Gerakan Daerah Pembangunan Agribisnis
GRI	Global Reporting Initiatives
HRCR	Human Resources & Community Relations
HSE	Health, Safety and Environment
HSEMS	Health, Safety and Environment Management System
IBL	Indonesia Business Link
ICAO	International Civil Aviation Organization
IIA	Institute of Internal Auditors
IMA	Indonesian Mining Association
IUCN	International Union for The Conservation of Nature and Natural Resources
K 3	Kesehatan dan Kecelakaan Kerja
K3L	Kesehatan, Keselamatan Kerja dan Lingkungan
KADIN	Kamar Dagang dan Industri
KLH	Kementrian Negara Lingkungan Hidup
KNPI	Komite Nasional Pemuda Indonesia

Abbreviantion	Information
KONI	Komite Olah raga Nasional Indonesia
KORPPRA	Korps Pegawai Pertambangan Batubara
KPI	Key Performace Indicator
KSDM	Kebijaksanaan Sumber Daya Manusia
LBD	Local Business Development
LTIFR	Lost time injury frequency rate
MDG	Millenium development goals
MOD	Mining Operation Division
MSD	Mining Service Division
MSH-CSR	Multi Stakeholder for Corporate Social Responsible
NAF	Non Acid Forming
NNT	Newmont Nusa Tenggara
OB	Over burden
OCSF	Orangutan Conservation Services Program
ODS	ozon depleting substances
OLC 2	Overland Conveyor 2
PAF	Potential Acid Forming
PDRB	Pendapatan Domestik Regional Bruto
PERHAPI	Perhimpunan Ahli Pertambangan Indonesia
PESAT	Peternakan Sapi Terpadu
PETI	Penambangan tanpa izin
PID	Processing and Infrastructure Division
PILI	Pusat Informasi Lingkungan Indonesia
PJI	Prestasi Junior Indonesia
PKB	Perjanjian Kerja Bersama
PKP2B	Perjanjian Kontrak Karya Pengusahaan Pertambangan Batubara
PLTU	Pusat Listrik Tenaga Uap
PPMI	Persaudaraan Pekerja Muslim Indonesia
Prinasa	Program Observasi Perilaku
PUPUK	Perkumpulan Untuk Peningkatan Usaha Kecil
RFP	Request for Proposal
RKL	Rencana Kelola Lingkungan
RKPDes	Rencana Kerja Pembangunan Desa
RPJMDes	Rencana Pembangunan Jangka Menengah Desa
RPL	Rencana Pantau Lingkungan
RUPS	Rapat Umum Pemegang Saham
SCD	Supply Chain Division
SDM	Sumberdaya manusia
SOP	Standard Operating Procedure
SPK	Serikat Pekerja Keadilan
SP-KEP	Serikat Pekerja Kimia Energi dan Pertambangan
SP-MSD	Serikat Pekerja Mining Support Division
STIPER	Sekolah Tinggi Ilmu Pertanian
STPMD	Sekolah Tinggi Pembangunan Masyarakat Desa
THRK	Tunjangan Hari Raya Keagamaan
TNC	The Nature Conservancy
TPA	Tempat Pembuangan Akhir
TPH	Ton per Hour
UMSK	Upah Minimum Sektor Kabupaten Kutai Timur
WTP	Water Treatment Plant





## Feedback

### PT. Kaltim Prima Coal Sustainability Report 2010

Thank you for your willingness to read our sustainability report this year. We value your attention and appreciation of our report.

To improve our service and for the development of future sustainability reports, we humbly ask that you fill in the following questionnaire and send it back to us. We are looking forward to your thoughts, opinion, suggestions and criticism.

#### Statement

1. This report provides useful information on the policy, impact and implementation of PT. Kaltim Prima Coal in the fields of economics, environment, and social within the context of sustainable development.



2. This report provides a description and summary on the performance of PT. Kaltim Prima Coal that is in line with the effort to achieve a sustainable development.



3. This report is easy to understand.



4. Information in this report is quite sufficient.



5. This report is appropriate/accountable



Strongly Agree

Agree

Undecided

Disagree

Strongly Disagree

6. Information that is useful is :

- a.
- b.
- c.

7. Information that is less useful is:

- a.
- b.
- c.

8. Suggestions about the content, design, layout, etc. are:

- a.
- b.
- c.

9. Information that can be added is:

- a.
- b.
- c.

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## Your Profile

Name :

Age and Sex :

Institution/Company :

Type of institution/company

☐ Government

☐ Industry

☐ Media

☐ NGO

☐ Community

☐ Other

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Thank you for your willingness to take the time to fill out this feedback sheet.

We kindly request that you send this back to us.

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**WAKAROROS** - A unique painting of Dayak Basap, a tribe from East Kutai. It is also called "Sitting Banyan Tree". This painting represents flowered trees or creeping roots whose flowers will attract bees because of their plentiful flower essence, so it will result into abundant honey.



YAYASAN PENINGKATAN PRIMA  
MARGA AR

JALAN  
SOEKARNO-HATTA  
2009

dari  
**KPC**  
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