

Become a Good Neighbor



PT KALTIM PRIMA COAL

SUSTAINABLE DEVELOPMENT REPORT 2008





SUSTAINABLE DEVELOPMENT REPORT 2008

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|-----------------------------|--|
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FROM THE EDITORS



In performing the mine operations, PT Kaltim Prima Coal can not be independent from the stakeholders who stay around the mine area. In developing the interaction with the stakeholders, our company has a strong commitment to carry out sustainable development as the form of company responsibility toward human resources, nature, and environment.

This report constitutes a form of our company's transparency and openness in carrying out sustainable development. More than that, this report is also exhibits the accountability of our company for our company stakeholders.

To improve the trust, to answer the information needs about our company, and also to strengthen the dialogue with the stakeholders, we use the GRI (Global Reporting Initiative) standard in structuring this report. We have been using the GRI standard since 2003 and from year to year the standard has been improved. For the sustainable development report 2008 we use the newest version that is 3.0.

In producing this report, we also conducted an external review that was performed by PA CSR consultants and also an external audit by the verification and independent certification group SGS Indonesia. It was conducted to maintain the level of accuracy, accountability, and transparency of this report. Some input from SGS about the previous annual report has been conducted by our company to improve the quality of the report.

The good mining practice activity that is conducted by our company can be seen clearly in this report. We are not only conducting a mining activity but also other activities in economic, social, and environmental sectors. Our company considers that the mining activity must give the benefit to the communities around the mine area. The benefit can be achieved directly through the communities' development activity and indirectly resulting from the multiplier effect of the mining activity such as tax revenue, domestic purchasing, employee's salary, etc. Because of that, the theme that we use as the title for this year's report is "Become a Good Neighbor".

We say thank you to all stakeholders who supported all of KPC's sustainable development programs and also to the contributors who worked remarkably for the realization of this sustainable development report.

Criticism, suggestions and questions about the data and information we present, please convey this to:

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Enjoy the reading,

Editors

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear PT Kaltim Prima Coal Stakeholder,

Together with the development of our company, in 2008 PT Kaltim Prima Coal (PT KPC) continuously made serious efforts to balance and fulfill the stakeholders' needs starting from the shareholder, customer, employee, community leader, religion leader to the supplier and contractor and also the next generation.

We also try to involve the stakeholder in our business, because we realize that cooperation with the stakeholder and their support that will bring about the development of this company. For that, we offer our biggest most hearty thanks for their support during this period.

The business that we are performing has brought direct and indirect impacts for many parties. The coal that we produce, the technology that we use and the management and quality of the company that we put in operation has produced energy that is needed for the sake of industry and also improves the local economy by recruiting workers amounting to 4,334 people. This number of workers is has increased more than 15% from the previous year. Of the number about 75% of the workers that are recruited are from Sengata.

We realize that our mining operation causes other impacts that influence the environment around our operation area. For that, we always conduct efforts to reduce the environmental and social effects through the corporate social responsibility program that we have conducted.

In this year 2008, our efforts in the environmental sector have received special acknowledgement from environmental observers. We have received a number of awards for example "The Best Mining Company for Environmental Program" from Tambang Magazine; Aditama award from the Department of Energy and Mineral Resources Directorate of General Mineral Coal and Geothermal; Proper Hijau Certificate for Bengalon Site and Proper Emas Certificate for Sengata Site from the Governor of East Kalimantan.

Besides in the environmental sector, we have received some awards in the social sector such as Corporate World Award for Participation and Support Toward Housing Development from the State Minister of Public Housing; Indonesian Sustainability Reporting Award from Indonesian Institute of Accountants; Corporate Social Responsibility Award from SGS; and "The Best Mining Company for Community Development" from Tambang Magazine.

In the Occupational Health and Safety sector, some accomplishments that we attained were the reduction of the incident frequency level that causes Lost Time Injury Frequency Rate (LTIFR) in the amount of 15% from 0.27 in 2007 to 0.23 in 2008. We also established a new achievement namely 24,353,202 safe work hours which is equivalent to 175 days (9 April–29 September 2008). More than that, in 2008, the PT Kaltim Prima Coal fireman received first place in the Water Rescue Competition in the Indonesian Fire and Rescue Challenge Championship. These achievements represent illustrations of our hard work to keep on striving for the employees' safety that is the backbone of our mining operation.



PT KPC ALWAYS WANTS TO BE FOREMOST TO PARTICIPATE IN COMMUNITY DEVELOPMENT. BESIDES AS THE GOVERNMENT PARTNER IN DEVELOPMENT IMPLEMENTATION, OUR COMPANY IS ALSO CONCERNED ABOUT SPECIAL ATTENTION TO INTERNATIONAL ISSUES. ONE EXAMPLE OF EVIDENCE OF OUR PARTICIPATION IS THE SIGNING OF THE UNITED NATIONS GLOBAL COMPACT (UNGC) IN JAKARTA. UNGC IS AN INITIATIVE FROM THE UNITED NATION THAT URGES COMPANY COMMUNITIES IN THE WHOLE WORLD TO ADOPT A SUSTAINABLE SOCIAL POLICY AND PROMOTE IT BY MAKING THE REPORT ABOUT THE POLICY.

The hard work that we continuously strive to maintain and develop work safety up to now is not enough. One fatal incident that caused us to lose one of our best employees in 2008 made us conscious to always work hard to attain sustainable job safety. To reach that, we always conduct training concerning Occupational Health and Safety of the employees, and also continuously campaign for Occupational Health and Safety.

In the same manner as other companies in the world, global warming and unfavorable climate changes to a degree bring impacts for our company operations. Heavy rainfall is one of the factors that caused the removal of overburden is 19% under plan. Besides that, the stopping of mining activity in the Thiess pit area, PAMA and PT. Darma Henwa in Bengalon during August until the first week in September 2008 also impacted on the coal production performance that failed to meet the required target. From the planned target of 46,107 kt, only 37,466 kt could be achieved.

As proof of our participation in reducing global warming which also is included in AMDAL activity implementation, we also conducted continuously various efforts of environmental management with a total cost of environmental management reaching more than US\$18 million. This amount decreased about 1.5% from the previous year.

Dealing with the global crisis that has faced by all companies in the world that brought about a significant impact, then a strategic step needed to be carried out, one of them was through the establishment of a new division namely the Business and Performance Improvement Division. This division was established with the objective to overcome the escalation of operational costs such as fuel, explosives, tires and maintenance costs. Besides that, this division also aims to identify and implement opportunity improvement in PT KPC operations so that it will make PT KPC operations sustainable in the long term, effective and efficient in all aspects.

In 2008, PT KPC also established a division, the Expansion Project, which aimed to prepare the increase of coal production in 2010 from 48 Mtpa into 70 Mtpa. With this increasing production, we expect to give more effort toward the local economy in West Kutai in particular and Indonesia in general.

From the plan of 43 million tons, sales reached 35.77 million tons in 2008. From the sales, PT KPC handed over royalties in the amount of USD349.15 million to the central government. Although this accomplishment was less than what we achieved in 2007 in the amount of 39.72 million tons, nevertheless it is expected with the increasing production in the future, PT KPC can give a higher royalty to Indonesia so that it can increase the national income. For 2009, PT KPC is planning the coal production will reach 41 million tons.

PT KPC always wants to be foremost to participate in community development. Besides as the government partner in development implementation, our company is also concerned about special attention to international issues. One example of evidence of our participation is the signing of the United Nations Global Compact (UNGC) in Jakarta. UNGC is an initiative from the United Nation that urges company communities in the whole world to adopt a sustainable social policy and promote it by making the report about the policy.

PT KPC's sustainable development program in the social sector is still focused on seven programs, namely agribusiness development, education and training, community health and sanitation, the development of KUKM (Cooperatives and Small and Medium Enterprises), the development of community infrastructure, nature and culture conservation, and the development of institutional

capacity. The sustainable development program has given direct benefit to 2,718 farmers, 847 teachers and 242 scholarship students, 282 small industries and cooperatives, 7,762 people in the development of health and the environment, and the thousands of people who get indirect benefit.

One of our community health programs, namely PERGIZI was chosen as the MDGs nominee in 2008. The PERGIZI is a program of mother and child health development. KPC is also keeps on trying to supply the availability of clean water by giving the assistance of clean water management place in the East Kutai community environment and assistance for PDAM (Regional Drinking Water Company). Besides that, in the middle of year 2008, the renovation of the Ranta Pulung-Sengata road started to be done. With the renovation of this road, it is expected the speed and independence of the community's economy can be enhanced. It is in line with the short term program of PT KPC sustainable development until 2010. It is expected by the end of 2010, the dependence of the communities with regard to the mining sector can be reduced until 35%.

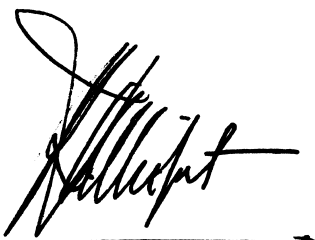
Until 2010, PT KPC will carry out the identification of farmland and regional planning and also an appraisal of agriculture and fishery development in the former mining areas and also outside mine area. This appraisal and study is carried out to maintain the ability of the environmental bearing capacity and look for the newest development potency of natural resources.

With well thought out planning that has been structured properly, human resources owned by the company, and with the company's commitment to keep on carrying out sustainable development, it is expected at the closing of mine the dependence of communities with regards to the mining sector will reduce until 5%.

Sustainable development not only becomes just the expression for now. PT KPC has already become a company showing real evidence that it not only works in mining. Cooperation with all stakeholders is the main key for the successes of our company's sustainable development. For that, we are hoping for the support and involvement from the stakeholders in the sustainable development implementation for the next year.

To give to the world the energy of our coal without putting aside the needs of the next generation, and also keeping on carrying out sustainable development is the challenge that we take for the development of PT KPC.

Thank you,



Endang Ruchijat
Chief Executive Officer

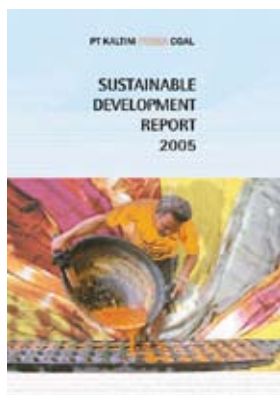
ABOUT THIS REPORT



SDR 2003, GRI 2002, Level 1



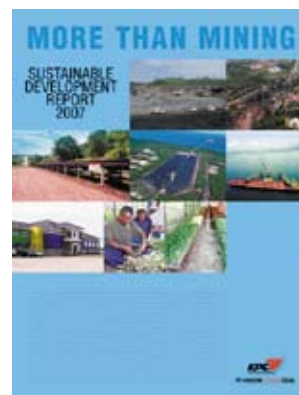
SDR 2004, GRI 2002
Level 1, Score 33%



SDR 2005, GRI 2002
Level 2, Score 45%



SDR 2006, GRI 2003 (G3)
Level 2, Score 82,5%



SDR 2007, GRI 2006 (G3)
Level 2, Score 91%

This Sustainable Development Report of PT Kaltim Prima Coal not only explains the commitment and performance of the company in coal mining operations, but also how the company has given social, economic and environmental benefits through the partnership with the community and other stakeholders.

The operational performance is reflected through the application of good corporate governance principles and also the mining operational practice that consistently refers to the high Occupational Health and Safety standards. Besides that, the company also holds the commitment to carry out the sustainable community development program by effectively performing the activity based on planning.

The activity programs are not only in compliance of 2005 AMDAL (environmental impact analysis) requirements in social and economic sectors, but also as the proactive effort of PT Kaltim Prima Coal Corporate Social Responsibility. This is reflected the efforts of PT Kaltim Prima Coal to bring on sustainable development. More than that, its implementation is adjusted with long term strategic planning for the survival of communities around mine area prior to the planned mine closure in 2021.

Three fundamental sustainable keys are the benefit of economic activity that is considered as the consequence of the social relationship and the environmental impact that might appear; second, in using the resources, the company must consider the needs and hope of the next generation; and third, the government, the industry performer and all community members must participate together in order to synchronize the needs.

By continuously applying high standards for Occupational Health and Safety, environment, and community health and also in partnership with the government and the local community, KPC is trying to create long term of economic and social development.

This report is the 6th Sustainable Development Report of PT Kaltim Prima Coal. Every year, PT KPC reported the sustainable development activity since 2003 by referring to the Global Reporting Initiative standard. The usage of this standard greatly assists the reporting which complies with transparency principles, sustainability, and clarity for every activity's aspects undertaken by PT KPC in economic, environment, and social fields.

ABOUT THIS REPORT

The sustainable report of PT KPC 2008 is refers to GRI standard 2006 (G3) where the level of attainment continuously is being raised. It proves that PT Kaltim Prima Coal is continuing to make a serious effort to increase quality of its sustainable development report.

REPORTING OBJECTIVES

This report aims to communicate the company's commitment and economical, environment, and social performance of the company to managers as well as the community transparently. With the existence of this report, it is expected the stakeholders can get a clearer description about all activities of sustainable development in PT Kaltim Prima Coal.

This report also presents the developments that occurred during 2008. The principles of Accuracy, Completeness, and Reliability are the principles that we use to explain the information in this report. Through the process of internal and external audits that we have performed, give assurance that the third principle is included in this report.

Fulfillment of the important parts required in the Report Parameter Indicators found in GRI G-3 has been achieved in this report. Designated company staff who got training concerning the GRI Standards participated in the compilation of this report. This strengthened the editorial team of the Sustainable Development Report 2008 PT Kaltim Prima Coal and gained a high level of support from the company management.

In order to enable this report to provide accurate and reliable data, as with the previous year, we have asked an independent party to examine the validity of this report.

APPROACH TO REPORTING SYSTEM

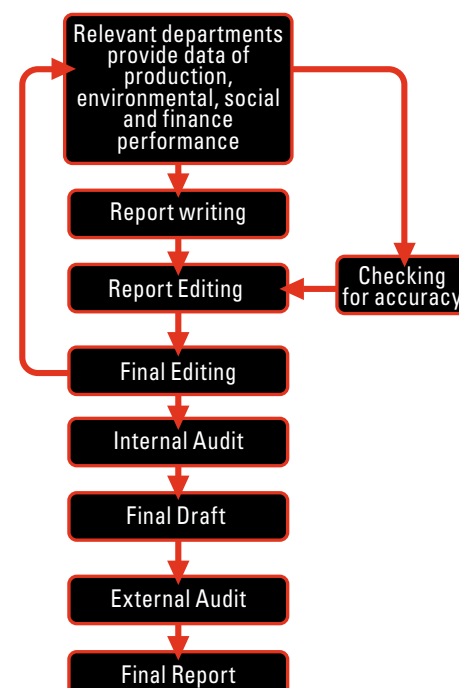
This sustainable development report is focused on the reporting of program performances in achieving sustainable development and stakeholders' participation in this development. Data that is required in the GRI indicators will be described statistically.

The stage in this report arrangement is a little different with the 2007 report. The external review stage that was conducted in 2007 we didn't do in 2008. This relates to the existence of the "Specialist Reporting" person who possessed a certificate as an assesor of NCSR (National Centre for Sustainability Reporting). This Specialist Reporting person lead the internal audit to ensure the Sustainable report conformed to the GRI indicators.

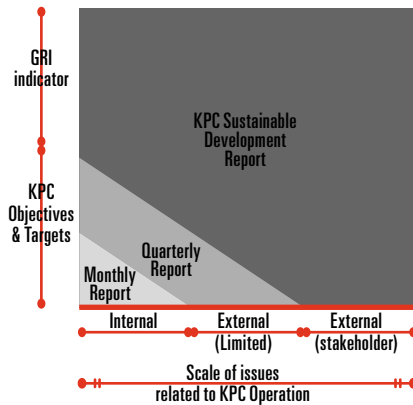
Sustainable Report Structure

This sustainable development report is structured with the following stages:

- Data is gathered on the 2008 performances
- Data gathered is to be verified by the Manager to ensure the accuracy of the data
- Editorial team analyzes the data and structure of the report draft
- Report draft is edited by the Chief Editor
- The edited Report is sent back to the contributors
- Final editing is done
- Internal audit is conducted led by a certified Reporting Specialist as an assesor from NCSR (National Centre for Sustainability Reporting)
- Findings from the internal audit are sanctioned as the matter of the final report
- The report is submitted to an independent assesor to be audited



ABOUT THIS REPORT



Graphic 1. Approach to Reporting System

What we report is:

- Economic, social and environmental performances as required in the GRI indicator. This year's report is trying to present all indicators in GRI standards.
- The changes that happened during 2008.
- Operational activities as required in GRI indicator.
- Operational activities that fulfill the compliance to regulations or other requirements.
- Additional indicators in GRI.
- Indicators in GRI Mining and Metal Sector Supplement Version 1.0.

REPORTING ASSESSMENT

This year's report is audited based on the 2nd level report assessment by the independent party to improve the reliability of our report. This 2nd level report assessment includes:

1. Evaluation of the report accuracy
2. Gap analysis with regard to the GRI scope
3. Assessment by means of a scoring system and its percentage in relation to the GRI requirements.

We are also reporting the remedial actions requested by the auditor team in the previous year. These include the completeness of all GRI indicators, the stakeholders' performance and their input, and also the focus on global issues.

We believe that this report is in GRI 2006 at level A+.

BASIC GUIDELINES

This report is formulated based on the Global Reporting Initiative (GRI) 2006 version 3.0 or more recognized with the G3 Reporting Standards and Mining and Metal Sector Supplement Pilot Version 1.0. Reference to the fulfillment of the GRI guidelines compliance can be seen on pages 87–91.

REPORTING SCOPE

This report informs of all aspects of our operational performance in KPC's mining areas and the changes that we have experienced during 2008, including the changes of company shares ownership, the financial condition and the products. As what we reported before that this report is based on the Global Reporting Initiative (GRI) 2006 version 3.0 (G3) and Mining and Metal Sector Supplement Pilot Version 1.0.

INDEPENDENT VERIFICATION

The content of this report has been verified by SGS Indonesia, an international company that especially handles the certification and verification of environmental reports, social and report continuity. SGS Group is a company that works in the inspection, examination and verification sector that operates in 140 countries.

In this report, their verification statement of the accuracy and transparency of this report we mention on the last page.

AWARDS 2008

ENVIRONMENTAL ASPECT

- Aditama, Backfilling Overburden Rock Management Award and other related coal mining activities from the Department of Energy and Mineral Resources, Directorate General of Mineral, Coal and Geothermal. (December 2008)
- "The Best Mining Company for Environmental Program", from Tambang Magazine. (April 2008)
- Green Proper Certificate for Site Bengalon from the East Kalimantan Governor. (June 2008)
- Gold Proper Certificate for Site Sengata from the East Kalimantan Governor. (June 2008)



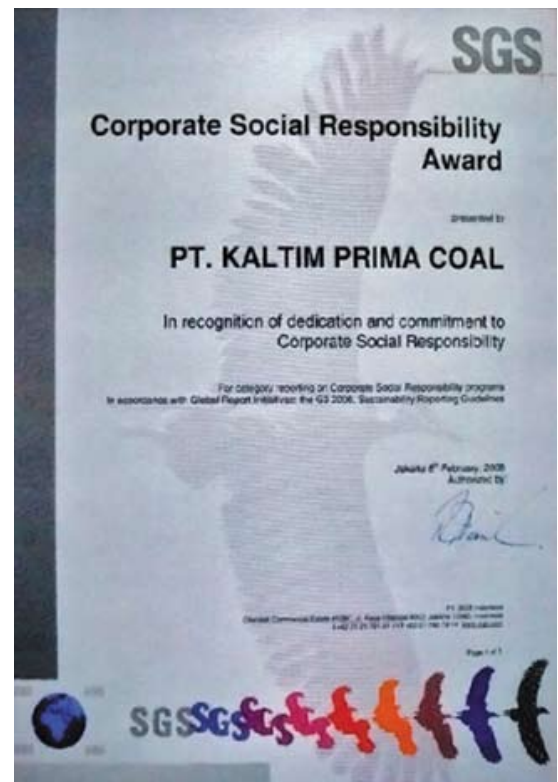
AWARDS 2008

OCCUPATIONAL HEALTH AND SAFETY ASPECTS

- First Place Water Rescue Competition in the Indonesian Fire and Rescue Challenge Championship. (November 2008)

COMMUNITY DEVELOPMENT ASPECT

- Award for Business Sector for Participation and Support towards Housing Development from the State Minister of Public Housing. (October 2008)
- Indonesian Sustainability Reporting Award from the Indonesian Accountants Union. (November 2008)
- Corporate Social Responsibility Award from SGS. (February 2008)
- "The Best Mining Company for Community Development", from Tambang Magazine. (April 2008)



KPC is a Coal Mining Company located in the East Kutai Regency that was established with Deed Number 28 dated 9 March 1982 and approved by the Minister of Justice of the Republic of Indonesia according to Decision Letter Number Y.A.5/208/25 dated 16 March 1982 and it was published within the State Gazette of the Republic of Indonesia dated 30 July 1982 Number 61 addendum Number 967. Since the commencement of operations in 1992, KPC was a Foreign Investment Company owned by British Petroleum International Ltd (BP) and Conzinc Rio Tinto of Australia Ltd. (Rio Tinto) where each company owned a 50% in KPC. Based on Deed No. 9 dated 6 August 2003 and Reporting Document of the Minister of Justice and Human Rights of the Republic of Indonesia No. C-UM. 02 01.12927 dated 11 August 2003, the stock of KPC owned by BP and Rio Tinto was been sold to Kalimantan Coal Ltd. and Sengata Holding Ltd and furthermore on 18 October 2005, according to Notary Deed No. 3 dated 18 October 2005, PT Bumi Resources acquired the stocks owned by Kalimantan Coal Ltd and Sengata Holding Ltd. Based on Notary Deed No. 34 dated 4 May 2007, Shareholders of PT Kaltim Prima Coal sold 30% of its stocks to Tata Power (Mauritius) Ltd.

Under the terms of the Coal Agreement (Perjanjian Kontrak Karya Pengusahaan Pertambangan Batubara - PKP2B) signed on 8 April 1982, the Government gave KPC license to explore, produce and market coal from its agreement area until 2021. The agreement area covers 90,938 ha in East Kutai Regency, East Kalimantan Province.

BOARD OF DIRECTORS AND BOARD OF COMMISSIONERS SELECTION AND EVALUATION

BoD and BoC selections are determined at the Shareholders General Meeting (Rapat Umum Pemegang Saham (RUPS)). In general, the criteria applied to select BoD and BoC are seniority, educational background, and working experience as well.

The evaluation of BoD and BoC is conducted in the Shareholders General Meeting (RUPS) by reviewing the performance towards the company involvement in economic, social, environmental and also Occupational Health and Safety aspects.

Within the BoD, BoC and Shareholders, KPC does not have any independent parties who have no financial interest with regard to the company.

MANAGEMENT OF KPC

Our mining operation is supported by a management team that consists of skilled professionals and very competent in each of their fields and also they have more than ten years experience. There is no management team member representing an independent group. The structure of our management team is as follows:

ABOUT KPC

| | 2007 | 2008 |
|--|------------------------------|---------------------|
| Chief Executive Officer | Endang Ruchijat | Endang Ruchijat |
| Chief Operating Officer | R. Utoro | R. Utoro |
| Chief Financial Officer | Ashok Mitra | Ashok Mitra |
| GM Mining Development Division | Chris Lauritzen/Shane Bennet | Shane Bennet |
| GM Human Resources Division | Sam Alwie Alkaaf | Tulus Siregar (act) |
| GM External Affairs & Sustainable Development Div. | Harry Miarsono | Harry Miarsono |
| GM Contract Mining Division | Ilda Harmyn | M. Rudy |
| GM Marketing Division | Herlan Siagian | Herlan Siagian |
| GM Finance Division | Yulianti Subian | Yulianti Subian |
| GM Mining Operation Division | Rod Bridges/Bambang Saptono | Frank Sinatra |
| GM Health, Safety & Environment Division | Khudori | Khudori |
| GM Mining Support Division | Richard Schloss | Richard Schloss |
| GM Processing and Infrastructure Division | M. Sumali | M. Sumali |
| GM Supply Chain Division | Simon Scott/Pratikto | Pratikto |
| Head of Project Expansion Team | - | Bartley Hopkins |
| GM Business & Performance Improvement | - | Dasril |



From left to right : Shane Bennet, Pratikto, Harry Miarsono, M. Sumali, R. Utoro, Endang Ruchijat, Ashok Mitra, Makin Perdana Kusuma, Richard Schloss, Dasril, Frank Sinatra

In 2008, changes occurred within our organizational structure. The addition of 2 new divisions occurred namely Expansion Project Division (EPD) in May and Business and Performance Improvement Division (BPID) in June this year.

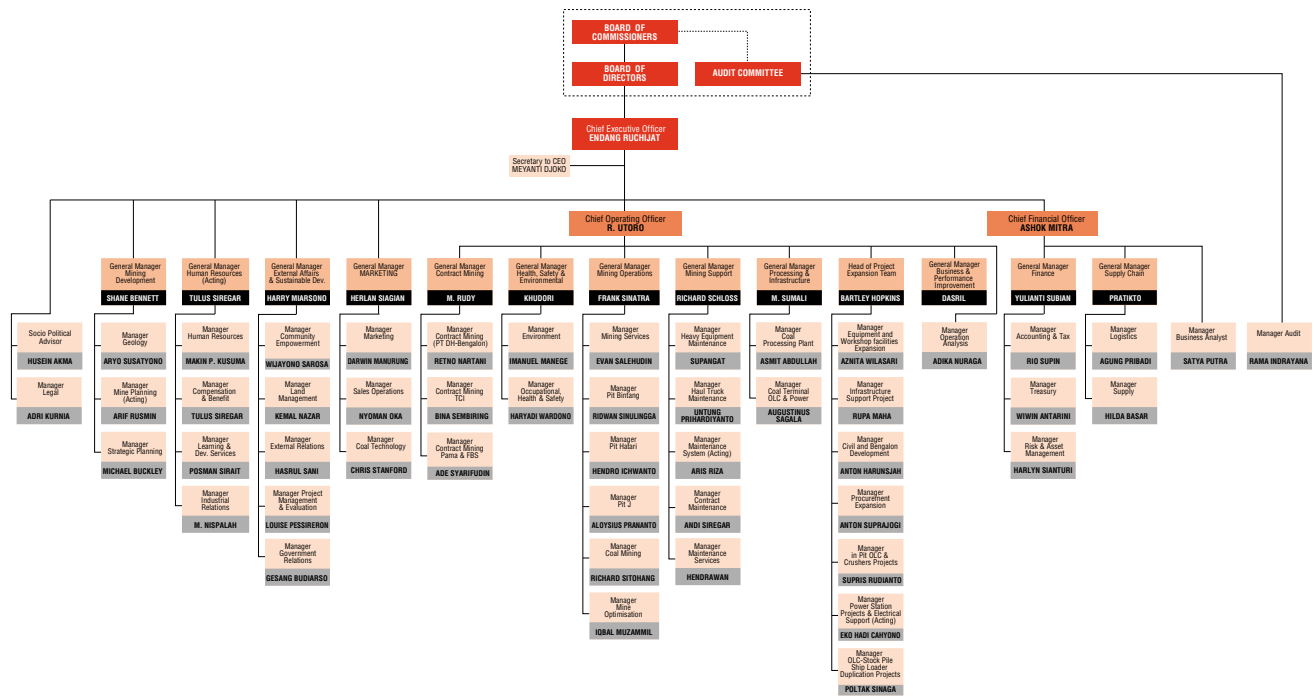
The Expansion Project Division was established in order to prepare the increase of our coal production. Meanwhile Business and Performance Improvement was established to overcome increasing operational costs such as fuel, explosives, tires and maintenance costs. In addition, this division also aims to identify and to run improvement opportunities in the PT KPC operation so that its operations become sustainable and also effective and efficient in all aspects. This is one of sustainable improvements applied by KPC.

ABOUT KPC

In less than 6 months KPC has saved more than USD9.9 million through 2 of its 6 improvement projects: Fuel efficiency improvement project and Fuel quality improvement project. These projects involve 41 members from 8 different divisions and 3 main contractors as well.

Using the PDCA method (Plan, Do, Check, Action) which was developed by Prof W.E Deming, BPID leads the changing of work habit where everyone in this organization are involved in continuous improvement and take part in maintaining the continuity of the KPC operation. By becoming an innovation centre and with continuous improvement that facilitates the development of employees in business improvement, BPID is ready to support KPC to be the most innovative, the safest, the biggest, and the most profitable coal company.

The organizational structure of PT Kaltim Prima Coal is as follows:



ABOUT KPC

Company's Profile up to 31st December 2008

| | |
|----------------------------------|--|
| Types of license | Contract of Work Agreement for Coal Mining Exploitation (PKP2B contract No.J2/Ji.D4/16/82) |
| Date of signing | 8 April 1982 |
| Stage of Activity | Production Operation (Decision Letter for Reducing Production No. 940.K/20.01/DJP/1999 dated 24 December 1989) |
| Excavation material | Coal |
| Active period | 30 years since production stage was approved (January 1 st 1992) |
| Width | 90,938 ha (D4KW 96PB0363) |
| Site/Head Office address | PT Kaltim Prima Coal, Mine Site Building, Sengata, East Kutai Regency, East Kalimantan |
| Shareholders | 65% PT BUMI Resources, 30% Tata Power Company, 5% Kutai Timur Energy |
| Manpower | Permanent Employees (3,817), Fixed Term Employees (515) |
| Sold Coal | 35,772,323 tons (Prima: 1.36 %, Pinang: 65.73 %, Melawan: 32.91%) |
| Net sales | USD 1,766.58 million |
| Royalty paid in 2008 | USD 349.15 million |
| Community expenditure commitment | USD 5,000,000 |
| Environmental Cost | USD 18,771,896 |

SUSTAINABLE DEVELOPMENT STRATEGY AND APPROACH

The motto "More than Mining" is an inspiration for the sustainable community development program in PT Kaltim Prima Coal that is sketched in up to the post mining activity. This motto also becomes the approach in social, economic and environmental aspects conducted by the company. It proves that KPC mine operations are not only exploiting non-renewable resources but also conducting environmental mitigation and also increasing renewable resources by maintaining a good partnership with the stakeholders. It is done by improving the ability of the community, community institutions and government as well, moreover establishing a better business climate and work culture for the community around KPC's mining operation area.

Dependency of East Kutai Community towards the coal mining sector is still high (84.23%) representing a problem that becomes KPC's concern. It makes KPC's vision to become a major world class thermal coal supplier not only limited to coal production for the world's request fulfillment but also the active implementation of social responsibility in the cases of environmental conservation and improving local economic independence.

As real proof of the implementation of the social responsibility, KPC initiates programs that support local economic independence in line with the mine closure program. With implementation of a controlled program, the community is expected to be more independent in 2025 and not to depend on the mining sector only. Therefore, the concept of local economic development is directed to the principles of partnership, community participation, and empowerment.

| 2005-2010 | 2010-2015 | 2015-2020 | 2021-2025 |
|---|--|---|--|
| Agricultural Development Study Intensive Training Fisheries Study Land Use Identification Spatial Mapping Study Potential Analysis | Implementation Study Agriculture Development Land Usage Rehabilitation Agricultural Development | Agricultural Development Fisheries Industry Services Industry Development Of Agribusiness Technology | Development Of Agriculture Industry Services Industry Development Of Agribusiness Export |
| Mining 65% | Mining 50% | Mining 35% | Mining 5% |
| Non Mining 35% | Non Mining 50% | Non Mining 65% | Non Mining 95% |

Graphic 2. Long-term Strategic Plan for Implementation of KPC Sustainable Development

Until 2010, KPC will carry out land identification and area settlement (spatial mapping) and also agribusiness and fishery development studies both in the ex-mining area and the out of mining area. These appraisals and studies are conducted to sound out the bearing capacity of environment and to identify the potential of developing renewable resources.

On 8 August 2008, KPC issued a letter No. L093/CEO-ESD5.4/VII/08 containing KPC's proposal to become a UNGC (UN Global Compact) participant. This step was continued with the Global Compact Pledge signing in Sinar Mas Auditorium BII Plaza Tower, Jakarta. It is one form of KPC's involvement in global issues. In addition, to become a supporter of development for the community and government, KPC, through available public organizations, participates in determining public policies. The organizations involved are The Indonesian Farmers' Union (Himpunan Kelompok Tani Indonesia - HKTI), Indonesian National Sports Council (Komite Olahraga Nasional Indonesia - KONI), Indonesian National Youth Council (Komite Nasional Pemuda Indonesia - KNPI), Indonesian Chamber of Commerce and Industry (Kamar Dagang dan Industri - KADIN), Local Research Council (Dewan Riset Daerah - DRD), Local Movement for Agribusiness Development (Gerakan Daerah Pembangunan Agribisnis - GERDABANGAGRI) and Multi-stakeholder Forum on Corporate Social Responsibility (MSH-CR) In addition KPC is an active member of Corporate Forum on Community Development (CFCD), Indonesian Business Link (IBL), Indonesian Mining Association (Asosiasi Pertambangan Indonesia - API) and also Indonesian Coal Miner's Association (Asosiasi Pertambangan Batu Bara Indonesia - APBI)

As the world class coal supplier, KPC continues to make all sorts of environmental conservation efforts to minimize the environmental impact of the mine operation. It is similar with the previous year, environmental conservation programs are conducted in an integrated manner by applying the Environmental Management System in accordance with ISO 14001. All potential impacts are identified so as to allow operational control from planning to mine closure. In addition to focusing on minimizing the environmental impact around the mine area, KPC also has made conservation efforts on a broader scale namely partnership programs with Kutai National Park. In addition, KPC also made an MoU with Wehea National Park which had the substance of KPC's commitment towards conservation efforts of Wehea National Park located in Muara Wahau, East Kutai.

STAKEHOLDERS' ROLE

In running its operation, KPC makes serious efforts to live harmoniously with the company's stakeholders. KPC is very aware that its success in the meantime can not be separated from the stakeholders both directly and indirectly. It is not separated from KPC's desire to become a good neighbor around the operations area of KPC.

Becoming a good neighbor is defined as an expectation where KPC is able to be a partner that is capable and ready to help communities in finding answers to the problems related to the fulfillment of the needs of communities around the mining operations area both for now and for the next generation, so that the local communities' independence and also their decent quality of life become a reality. This strong commitment is manifested in its Health, Safety and Environmental and Sustainable Development Policy which has been signed by the President Director of KPC. The establishment of cooperation is performed by applying different approaches which are adjusted to the interest of the company and stakeholders.

The policy has been in effect since 2007 and has not had any changes until now. Some global issues were not explicitly written because of the efforts in the field that are still in the form of concepts based on global issues such as CDM (Clean Development Mechanism). However, some other global issues like MDGs and global warming have been an indivisible part of the implementation of the CSR environment and health sectors.



HEALTH, SAFETY, ENVIRONMENTAL AND SUSTAINABLE DEVELOPMENT 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, Environment (HSE) and Sustainable Development (SD).

In doing this, Kaltim Prima Coal (KPC) commits to:

- Comply with all applicable Government legislation and other requirements.
- Meet the requirements of all stakeholders, including employees, the local community, Government, shareholders and customers.
- Plan, measure and report on HSE objectives and targets.
- Review and update HSE targets on a regular basis.
- Commission regular independent audits of HSE performance.
- Achieve continual improvement in all aspects of HSE management.
- Implement SD concepts through its involvement with the local communities.
- Continue to support corporate social responsibility efforts based on inter-dependency and sustainability.
- Establish and maintain good relationships with the local communities and government based on transparency, mutual trust and mutual respect.

HEALTH AND SAFETY MANAGEMENT

KPC commits to provide a working environment in which KPC and contractor employees can perform their work free from serious injury and illness. Management will implement a safety management system that provides the means to continually identify, control, and reduce the risk of serious injury or illness from work related tasks.

Safety must be given priority in all aspects of the company's operations. All parties, including KPC and contractor 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 a 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. To achieve these outcomes, KPC will implement an environmental management system that includes management plans, standards and procedures that apply equally to KPC and its contractors.

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 mutual trust and mutual respect principles.

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


NALIN RATHOD
President Director
01 September 2008


ENDANG RUCHIJAT
Chief Executive Officer
01 September 2008

Picture 3. HSE and Sustainable Development Policy

In 2008, the involvement of the community increased much more through CSR community based programs such as Gerak Bersemi. In addition, KPC which joined the Bakrie Business Group (KUB - Kelompok Usaha Bakrie), and also conducted a series of activities to celebrate the 66th KUB anniversary. The activity held on 20 February–15 March 2008 included donors giving blood, village and ditch cleaning, tree planting as well. The program involved the community widely, KPC's contractors, the government, employees and management of PT KPC.



Graphic 4. Cleaning program in Singa Gembara Village which involved the community, contractors, and PT KPC



Graphic 5. More than 100 people from various society levels registered themselves to join the blood donor program.

Interaction with the stakeholders is conducted for each other to grasp economic, social, environmental problems that have impact with regard to the mining process. KPC always tries to interact with them by some means. **Local Communities** (religious/community/and youth figures): conduct social mapping, studies of socio-economical and environmental impact, consultation forums, and local manpower development. **Local Business People**: Training, business consultation with KADIN, Indonesian Young Entrepreneurs' Union (Himpunan Pengusaha Muda Indonesia – HIPMI), and local contractors. **Academia**: Department of Anesthesiology and Reanimation Faculty of Medicine UNAIR, Research/study, seminar/discussion, consultation with University 17 Agustus 1945 (UNTAG) Samarinda, Mulawarman University (UNMUL), Bandung Technology Institute (ITB), Gajah Mada University (UGM), Bogor Agricultural University (IPB) and Australian National University (ANU). **Research Institutes**: Research activity and consultation in agriculture development with Research Institute for Citrus Fruit Plants and Subtropical Fruits (Balai Penelitian Tanaman Jeruk dan Buah Subtropika – Balitjestro), Research Center for Coffee and Cocoa (Pusat Penelitian Kopi and

Kakao – Puslit Koka), Research Institute for Medicine and Aromatic Plants (Balai Penelitian Tanaman Obat dan Aromatik – Balitro). **Non-Government Organizations** (local, national and international): Cooperation in community development, health services such as with Indonesian Red Cross (Palang Merah Indonesia – PMI), Center of Urban Community Empowerment (Pusat Pemberdayaan Masyarakat Kota – PUSDAKOTA), Indonesian Business Link, GTZ, Wawasan, Australian and New Zealand Interplants, Uplift International, Association for the Advancement of Small Businesses (Perkumpulan untuk Peningkatan Usaha Kecil – PUPUK) Bandung. **International Donor Institutes:** Cooperation in regional development with Ford Foundation, British Council, Unicef, World Bank, International Chamber of Commerce, and AusAID. **Government** (Regent, Provincial and Central Government): Centre for Research and Development of Nutrient and Food, Republic of Indonesia Department of Health, Sub-directorate for the Eradication of Infectious Diseases, Republic of Indonesia, consultation with related Offices in the Regency and Provincial Government, related departments such as Energy and Mineral Resources Department (Departemen Energi dan Sumber Daya Mineral – ESDM), and Ministry of the Environment (Kementerian Lingkungan Hidup – KLH). **Contractor/supplier:** Tender and contract process, performance review with custodians, HSE introduction, ISO 14001 audit, OHSAS 18001, consultations and discussions. **Customers:** Site visit requests for proposal/RFP, coal qualification, tender process, market analysis. **Employees:** Performance evaluation, Good Corporate Governance (GCG) socialization, communication of ISO 14001, OHSAS 18001, social and sport events, education and health programs, consultations with worker/labor unions. **Investor:** Invitations for site visit and performance of road shows in customers' countries.

Table 1. The Stakeholders of PT Kaltim Prima Coal and their role

| No | Stakeholders | Communication Approach | Frequency | Outcomes |
|----|---|--|------------------------------------|---|
| 1 | Prominent local, religious and community figures from around the mining operation | Religious and Community leaders' forums and participation | Every four months or if necessary. | Visiting relatives, socialization of CSR program, local labor, socialization of water management in the mining area |
| 2 | Local Government | Partnership team | Every four months or if necessary. | Formulation of Comdev 2005 program, formulation of activity operational mechanism, monitoring system, evaluation and reporting, arrangement of sustainable development program, and cooperation combination amongst services in the regency government to help running the arranged programs. |
| 3 | Central Government | Informal meetings | Depending on need | <ul style="list-style-type: none"> Central government approval about licenses Constitution regulations |
| 4 | Mining Contractors | KPC-Contractor HRCR (Human Resources & Community Relations) Forums | Every two months | <ul style="list-style-type: none"> Apprentice program Standard Recruitment Procedure Program synergy community empowerment |
| 5 | Workers' unions | Bipartite Cooperative Body | Depending on need | House subsidy, food subsidy, and years of service award changes |
| 6 | Customers | Coaltrans Forums | Annually | Get the latest information about the world coal market and also conducting sales activities |

Being aware of the importance of the stakeholders' involvement is a concern within KPC's operation, hence various formal and informal communication forums are regularly established and performed together. Through those meetings, communication of effective and efficient information occurs, so that strategic vision and mission of KPC in the case of sustainable community development is expected to be able to reach the target. Communication forums with the stakeholders can be seen in Table 1.

Based on the definition of stakeholders' importance, KPC assigns them based on the groups which influence and are influenced by KPC activities. Based on the communication approach and communication frequency that is conducted, then in broad lines the stakeholders are grouped into

ABOUT KPC

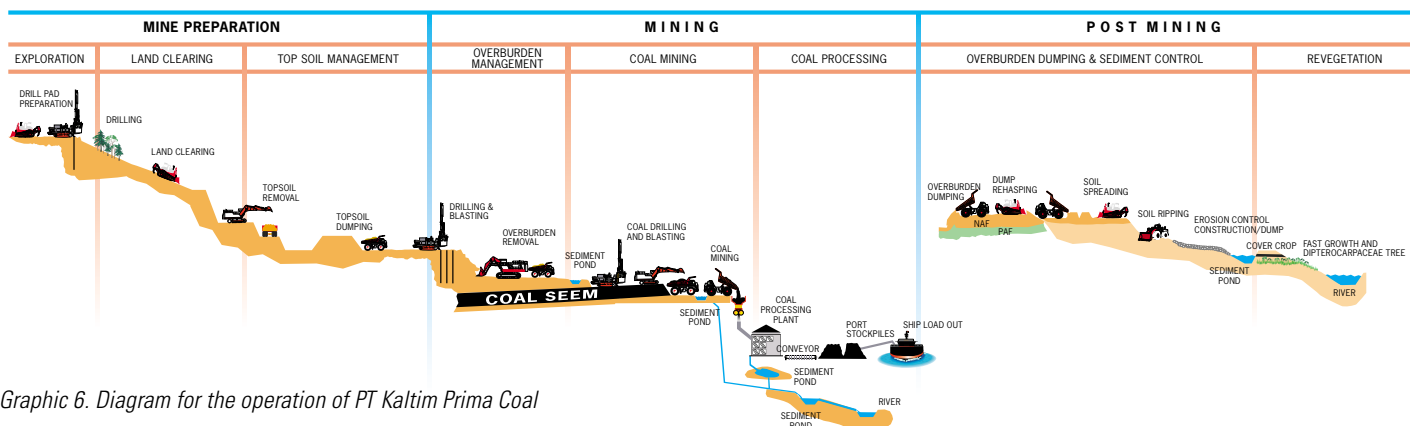
community figures, local government, central government, mining contractors, associations of labor and buyers. Stakeholders have a significant influence on the continuity of KPC operation. That is why, with each group, KPC holds meetings and communication that is then increased so that there will be a better and synergic relationship quality with continuing issues for the benefit of all parties.

OUR MINING PROCESS

Mining operations in PT KPC are started from the stage of exploration surveying. After passing through the exploration surveying stage, geology modeling is conducted from the gained exploration data using Minex software to calculate the reserves. After the coal reserves data is identified, then the mine plan is drafted. A detailed reserves calculation involving economic analysis makes use of Minex software to make the pit design, the extent of overburden, mine roads and an optimal drainage system for planning the mine stage will yield the amount of overburden soil that will be removed and coal obtained. In this stage, the amount of top soil that will be removed, the rehabilitation area plan and the number of mining equipment required are also calculated.

The next stage is production. The production stage is commenced with hewing and cutting up trees and the removal of top soil. The top soil will be removed to the prepared storage area or immediately used for rehabilitation of a permanent dump area. After passing through the stage of hewing and removal of top soil, drilling and blasting is then conducted. The blasted overburden is then loaded by shovel and backhoe and then will be transported by truck to be dumped in the designated dump area. Slightly acidic overburden/Potential Acid Forming (PAF) and non-acidic overburden/Non-Acid Forming (NAF) will be separately dumped in the designated area. The overburden with the NAF category will be dumped in the permanent dump area for rehabilitation. Meanwhile the overburden with the PAF category will be dumped in a temporary dump area. This process is conducted using an electronic system control (Dispatch System) to monitor and control the allocation of each type of overburden (PAF and NAF).

After the overburden is removed, the exposed coal will be picked up by some equipment specific for loading coal. Blasting is conducted in advance for coal with a thickness more than 2 meters. The coal is then transported by truck to the crusher area or temporarily dumped in the coal stockpile area. In the crusher, the coal will be crushed as per determined size. In this stage, the washing process for the impure coal is also conducted. The coal which has already undergone a reduction process and is ready for direct sale will be transported using a conveyor belt to the coal stacking location at the harbor in Tanjung Bara (Coal terminal). Together with the product growth, the coal transportation also uses coal trucking from the coal stockpile at the Coal Processing Plant (CPP) to the coal stockpile in the Port stockpile with limited quantity. Coal ready for direct sale is then loaded into the ship to be sent to the customers.



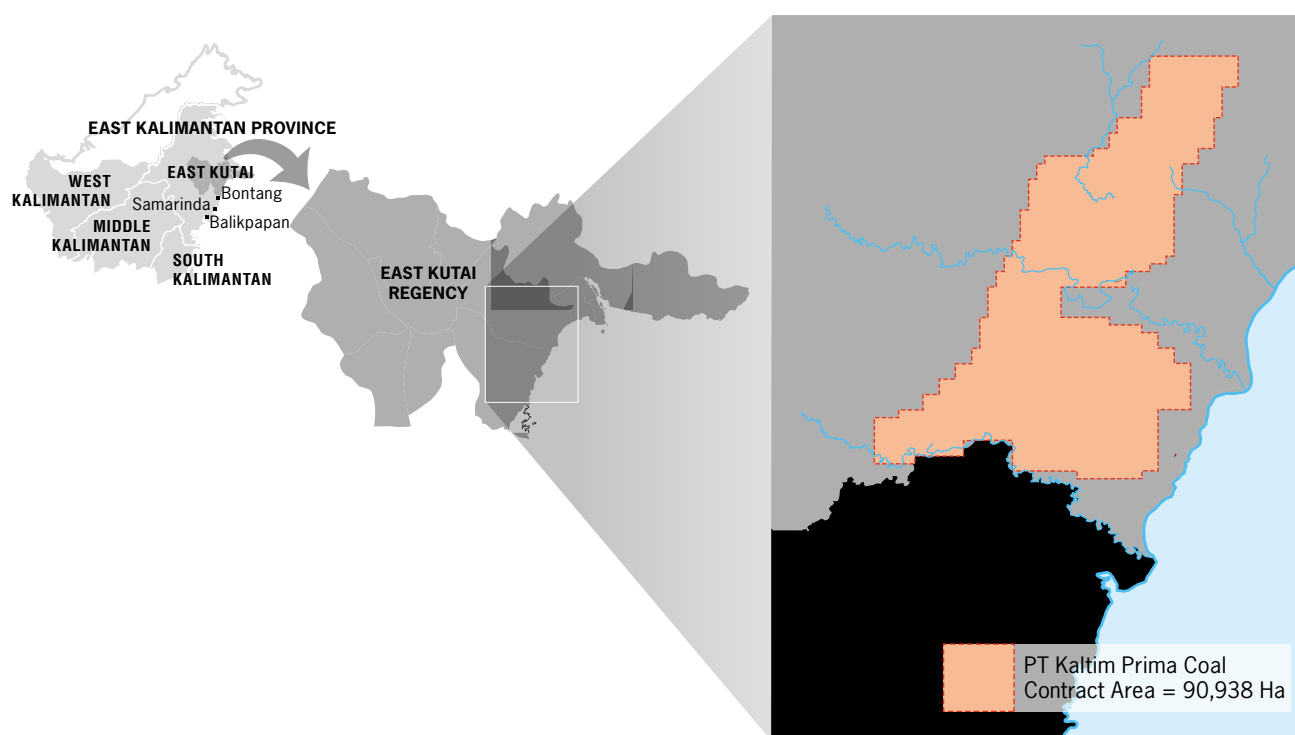
Graphic 6. Diagram for the operation of PT Kaltim Prima Coal

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OUR MINING OPERATION

The coal mining business of PT Kaltim Prima Coal in 2008 was solely operated by KPC, in this case by the MOD division and contractors. Several pit areas that were directly operated by KPC in 2008 were: Pit Bendili, Pit J and Pit Big AB. The pits that were operated by contractors were Pit A Bengalon by PT Darma Henwa, Pit Pelikan and Kangguru by PT Pama Persada, Pit Melawan, Belut Keruang and Khayal by PT Thiess and also Pit Arkit by PT Fajar Bumi Sakti. In the operational process, KPC was never involved with artisanal and small scale mining (ASM).

Based on the Coal Contract of Works/PKP2B, the Government gives KPC a license to explore, produce and market coal in an area of 90,938 ha until 2021 in East Kutai Regency, East Kalimantan Province (see Graphic 7)



Graphic 7. Map of the area under the control of PT Kaltim Prima Coal mine

The removal of KPC's overburden in 2008 was 366,779 Kbcm which was under the production plan that was 400,709 Kbcm. The decrease of the overburden production was caused by the delay of equipment appearing that impacted on the number of trucks that would be used to load the overburden were not according to plan in 2008. In addition, burnt coal was not identified in the geology model (Pit Pelikan), the halt of mining activity in the pit area of THIESS, PAMA, and PT. Darma Henwa in Bengaklon during August until the first week of September 2008 and also the high intensity of rainfall caused the utilization hours of the equipment to decrease and the physical availability of equipment was lower than planned.

The overburden removal output that was 19% lower than the 2008 plan certainly influenced the coal profitability of the year. The coal's profitability plan of PT KPC in 2008 was 46,107 kt while the actual result is 37,466 kt. The decrease in production was caused by some factors such as the high intensity of rainfall that caused the productivity of the production equipment to decrease because the equipment could not be optimally used. The second factor was the landslide which resulted in the exposed coal not being immediately picked up but increased the overburden's covering due to the landslide. It caused the postponement of production. Meanwhile, another factor which caused the production plan not to be reached was the geology modeling approach that could not identify the actual condition of the coal. Another matter that was previously mentioned was the halt of KPC's operation in the pit area operated by PT Thiess, PT. Pama Persada and PT. Darma Henwa for a few weeks that sufficiently contributed for the decreasing of coal production in 2008.

OUR COAL PRODUCTION

The coal produced by PT KPC is classified into several classes based on its quality. The sale worthy coal is divided into Prima, Pinang and Melawan. The Prima coal is the best high quality coal. The next class of coal is Pinang that is divided into some specifications in regard to the calorie percentage. The third class of coal is Melawan that is divided again with different specifications into 2 types namely Melawan A and Melawan B.

Prima coal is one of the highest quality internationally traded fuel coals. It is a high volatile bituminous coal with high calorific value, very low ash, moderate sulfur, and relatively low total moisture. Prima coal is also a bright and lustrous coal with high vitrinite content.

Pinang coal is similar to Prima coal but with higher moisture and lower energy. Melawan coal is an ultra clean sub-bituminous coal with ultra low ash / sulfur content. Prima and Melawan coal is produced from Sengata pits, and Pinang coal is produced in both Sengata and Bengalon pits.

To see the typical quality of each type can be seen in following tables

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Table 2. Quality of Prima Coal

| PRIMA INDICATIVE COAL QUALITY | | Typical |
|--------------------------------------|--|----------------|
| TOTAL MOISTURE % as received | | 10.5 |
| PROXIMATE ANALYSIS % air dried basis | | |
| Moisture | | 5.0 |
| Ash | | 5.0 |
| Volatile Matter | | 41.0 |
| Fixed Carbon | | 49.0 |
| CALORIFIC VALUE kcal/kg | | |
| Air dried | | 7,100 |
| Gross as received | | 6,689 |
| Net as received | | 6,389 |
| HGI | | 46 |
| ULTIMATE ANALYSIS (daf) % | | |
| Carbon | | 80.0 |
| Hydrogen | | 5.50 |
| Nitrogen | | 1.60 |
| Sulfur | | 0.67 |
| Oxygen | | 12.2 |
| SULFUR (adb) % | | 0.60 |
| CHLORINE (adb) % | | <0.01 |
| PHOSPHORUS (db in coal) % | | 0.009 |
| ASH FUSION TEMPERATURE °C | | Reducing |
| Initial Deformation | | 1,200 |
| Hemispherical | | 1,300 |
| Flow | | 1,350 |
| ASH ANALYSIS (% in ash) | | |
| SiO ₂ | | 56.0 |
| Al ₂ O ₃ | | 24.5 |
| Fe ₂ O ₃ | | 9.5 |
| CaO | | 1.70 |
| MgO | | 2.00 |
| TiO ₂ | | 1.10 |
| Na ₂ O | | 0.50 |
| K ₂ O | | 2.20 |
| P ₂ O ₅ | | 0.40 |
| SO ₃ + others | | 2.10 |
| SIZING | | |
| Above 50mm | | 2.0 |
| Under 2mm maximum | | 15.0 |

According to ISO methods, except HGI to ASTM standard method

*) updated in 2008, source: www.kaltimprimacoal.co.id

Table 3. Quality of Pinang Coal

| PINANG 6150 GAR INDICATIVE COAL QUALITY | | Typical |
|--|--|----------------|
| TOTAL MOISTURE % as received | | 14.5 |
| PROXIMATE ANALYSIS % air dried basis | | |
| Moisture | | 9.0 |
| Ash | | 5.5 |
| Volatile Matter | | 40.0 |
| Fixed Carbon | | 45.5 |
| CALORIFIC VALUE kcal/kg | | |
| Air dried | | 6,546 |
| Gross as received | | 6,150 |
| Net as received | | 5,850 |
| HGI | | 45 |
| ULTIMATE ANALYSIS (daf) % | | |
| Carbon | | 78.5 |
| Hydrogen | | 5.50 |
| Nitrogen | | 1.60 |
| Sulfur | | 0.70 |
| Oxygen | | 13.7 |
| SULFUR (adb) % | | 0.60 |
| CHLORINE (adb) % | | <0.01 |
| PHOSPHORUS (db in coal) % | | 0.009 |
| ASH FUSION TEMPERATURE °C | | Reducing |
| Initial Deformation | | 1150 |
| Hemispherical | | 1250 |
| Flow | | 1300 |
| ASH ANALYSIS (% in ash) | | |
| SiO ₂ | | 53.0 |
| Al ₂ O ₃ | | 23.5 |
| Fe ₂ O ₃ | | 9.0 |
| CaO | | 3.10 |
| MgO | | 2.70 |
| TiO ₂ | | 1.00 |
| Na ₂ O | | 0.60 |
| K ₂ O | | 2.10 |
| P ₂ O ₅ | | 0.36 |
| SO ₃ + others | | 4.6 |
| SIZING | | |
| Above 50mm | | 2.0 |
| Under 2mm maximum | | 15.0 |

According to ISO methods, except HGI to ASTM standard method

*) updated in 2008, source: www.kaltimprimacoal.co.id

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Table 4. Quality of Melawan Coal

| MELAWAN A INDICATIVE COAL QUALITY | | Typical |
|--|--|----------------|
| TOTAL MOISTURE % as received | | 23.5 |
| PROXIMATE ANALYSIS % air dried basis | | |
| Moisture | | 18.0 |
| Ash | | 3.0 |
| Volatile Matter | | 38.0 |
| Fixed Carbon | | 41.0 |
| CALORIFIC VALUE kcal/kg | | |
| Air dried | | 5,735 |
| Gross as received | | 5,350 |
| Net as received | | 5,009 |
| HGI | | 42 |
| ULTIMATE ANALYSIS (daf) % | | |
| Carbon | | 75.6 |
| Hydrogen | | 5.40 |
| Nitrogen | | 1.51 |
| Sulfur | | 0.25 |
| Oxygen | | 17.3 |
| SULFUR (adb) % | | 0.20 |
| CHLORINE (adb) % | | <0.01 |
| PHOSPHORUS (db in coal) % | | 0.003 |
| ASH FUSION TEMPERATURE °C | | Reducing |
| Initial Deformation | | 1,150 |
| Hemispherical | | 1,200 |
| Flow | | 1,230 |
| ASH ANALYSIS (% in ash) | | |
| SiO ₂ | | 36.0 |
| Al ₂ O ₃ | | 13.9 |
| Fe ₂ O ₃ | | 14.8 |
| CaO | | 12.70 |
| MgO | | 8.60 |
| TiO ₂ | | 0.80 |
| Na ₂ O | | 0.70 |
| K ₂ O | | 1.70 |
| P ₂ O ₅ | | 0.20 |
| SO ₃ + others | | 10.6 |
| SIZING | | |
| Above 50mm | | 2.0 |
| Under 2mm maximum | | 15.0 |

According to ISO methods, except HGI to ASTM standard method

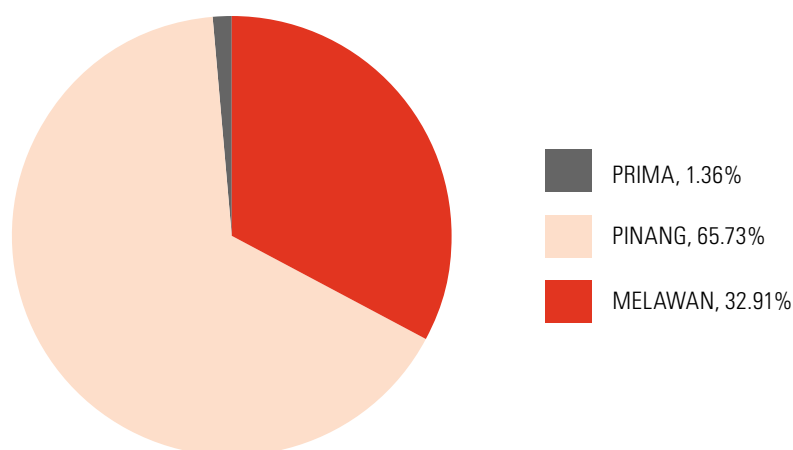
*) updated in 2008, source: www.kaltimprimacoal.co.id

COAL MARKET

KPC's Coal Sales in 2008 reached 35,772,323 tons.

Table 5. Coal Sales

| NO | TYPES OF COAL | COAL MARKET | |
|----|---------------|-----------------------|-----------------------|
| | | 2007 | 2008 |
| 1 | Pinang | 28.034.650 ton | 23.512.371 ton |
| 2 | Melawan | 10.332.050 ton | 11.772.783 ton |
| 3 | Prima | 1.352.896 ton | 487.169 ton |
| | Total | 39.719.596 ton | 35.772.323 ton |

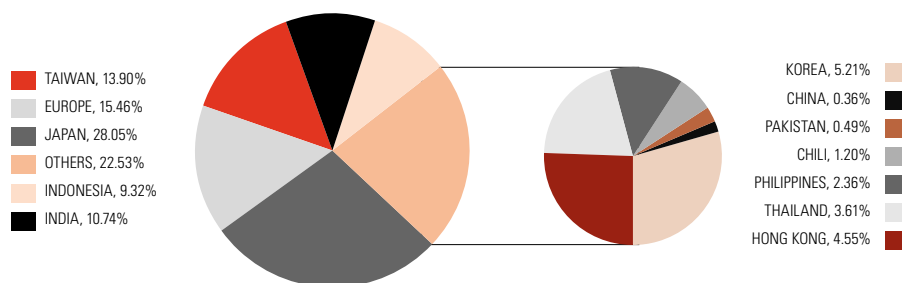


Graph 1. Coal Sales based on Product

Table 6. Coal Sales based on Region

| NO | SALES AREA | COAL SALES | |
|----|---------------|-----------------------|-----------------------|
| | | 2007 | 2008 |
| 1 | Japan | 9.051.926 ton | 10.033.998 ton |
| 2 | Europe | 2.278.692 ton | 5.529.058 ton |
| 3 | Taiwan | 7.553.598 ton | 4.972.814 ton |
| 4 | India | 2.932.631 ton | 3.842.868 ton |
| 5 | Indonesia | 2.726.875 ton | 3.332.973 ton |
| 6 | Korea | 3.292.536 ton | 1.863.617 ton |
| 7 | China | 1.691.242 ton | 127.561 ton |
| 8 | Malaysia | 1.077.975 ton | 1.700.578 ton |
| 9 | Thailand | 710.474 ton | 1.291.308 ton |
| 10 | Filipine | 1.124.927 ton | 842.617 ton |
| 11 | Chili | 1.133.491 ton | 430.418 ton |
| 12 | Pakistan | 85.002 ton | 176.315 ton |
| 13 | Hong Kong | 2.190.946 ton | 1.628.198 ton |
| 14 | UK | 200.854 ton | - |
| 15 | USA | 474.912 ton | - |
| 16 | Brazil | 216.569 ton | - |
| 17 | Mediterranean | 2.976.946 ton | - |
| | Total | 39.719.596 ton | 35.772.323 ton |

ABOUT KPC



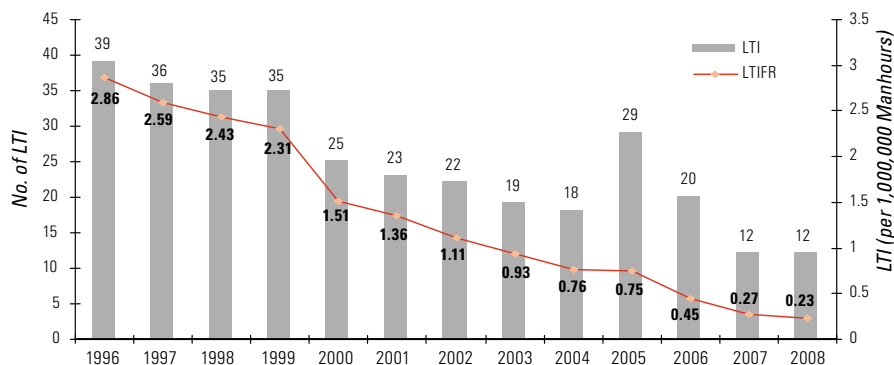
Graph 2. Coal Sales based on Region

OCCUPATIONAL HEALTH AND SAFETY

KPC is committed to always keep the health and safety of its employees. Various regulations have been implemented to achieve that goal. 11 (eleven) types of potentially fatal jobs were identified and reviewed either in standards, performance procedures, audit criterion and training based on OHSAS 18001. Occupational Safety standard regulations which are known as "Golden Rules" have been implemented as of the last few years.

In implementation in the field, a number of employees every day undertake to directly handle issues of employees' Occupational Health and Safety. 306 employees registered as HSE coordinators and officers or 1.6% of 18,578 of KPC's employees and contractors are involved in this mission. In addition, 121 employees of KPC work as representatives of Occupational Health and Safety who are spread out in each division and the Mining Operations Department. HSE management is a part of the responsibility of this management's staff.

The performance of KPC's Occupational Health and Safety (K3) program in 2008 was blemished with the fatal incident of one of KPC's employees. Meanwhile, 2008 was marked with a number of satisfying achievements such as the reduction in level of the Lost Time Incident Frequency Rate of around 15% from 0.27 in 2007 becoming to become 0.23 in 2008. This achievement is better if it is compared with the incident frequency that caused the Lost Time Incident Frequency Rate (LTIFR) in Rio Rinto Group coal mining that reached 2.5 in 2008 (data gathered from Rio Tinto plc - Annual Report and Financial Statement - Safety). This achievement is also better than if it is compared with broad surface coal mining in USA that reached 3.30 in 2008, that the figure was derived from 23 coal companies in which every company on the average employed 9,448 people (data from US Department of Labor and MSHA). The level of malignancy incidents which caused work time loss decreased from 7.76 (2007) to 6.54 (2008) and was accompanied by a reduction in the number of days lost because of accidents from 342 days (2007) to 335 days (2008). The trends of the number and level of Lost Time Incident Frequency Rate are shown in the following graphic.



Graph 3. Lost Time Incident Frequency in 2008

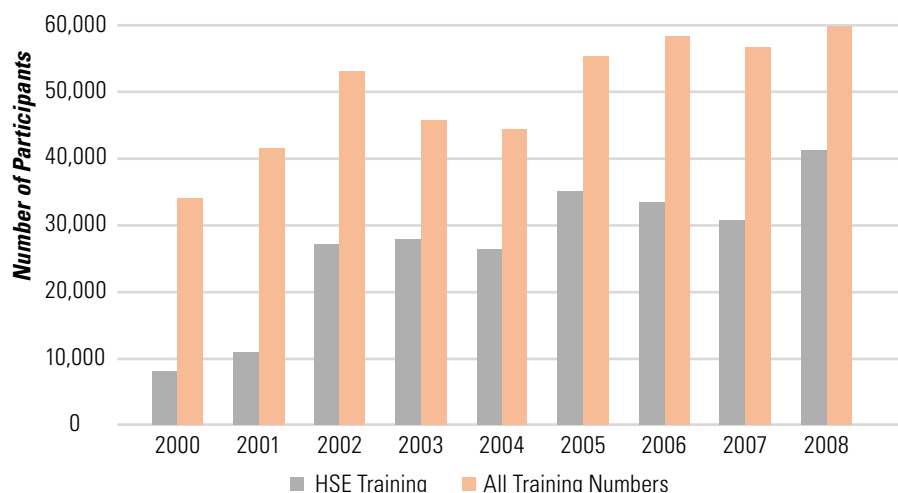
Another achievement was the creation of a new record 24,353,202 safe man hours of KPC and its contractors without a lost time accident or equivalent with 175 days (9 April–29 September 2008). The previous record was 14,012,673 man hours or equivalent with 116 days (31 May–22 September 2007)

Of the lost time incidents, 25% happened to KPC's employees (including 1 fatal), while 75% occurred to the contractors' employees. The causes of the accidents varied but the most of them were job procedure or job safety analysis noncompliance.

Any existing serious work accident or lost time accident encourages KPC to conduct several training programs related to Occupational Health and Safety issues. It is conducted to help the employees along with their family to prevent the accident occurring. The types of conducted training are HSE Induction, Job Safety Analysis, Human Element (Fatigue Management for the 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 Extinguishers, Fire Warden, Safety Behavioral Observation Program (Prinasa), and Safety System Database (Prinutama). Besides training, KPC also conducts various HSE campaigns such as daily safety messages through Radio GWP 100.2 FM, Warga Sehat dan Selamat bulletin, Safety Alert, HSE banner, drawing, writing and photography competitions and seminars in regard to celebrating the National HSE Month 2008, etc.

Meanwhile, it was the conclusion of the Work Rehabilitation Program Team (management of company's clinic and company's representative) that during 2008, 3 (three) employees were sick due to occupational accidents, while others were due to other factors.

The number of participants of HSE Training during 2008 reached 41,239 employees (58% of all types of training participants) with training hours of 114,869 (35% of all types of training hours). The comparison of HSE training numbers since 2000 until 2008 with all other types of conducted training are shown in the graphic below. During the time frame, it shows the high commitment of KPC towards HSE training for its employees.



Graph 4. Number of HSE training participants 2000–2008

ABOUT KPC



Graph 5. Number of HSE training hours 2000–2008

To gain the support from all employees of KPC within various HSE programs, some important matters related to HSE have been covered in the Prima Perkasa Mutual Agreement between PT KPC and Worker/Labor Unions.

All members of KPC's Security have attended Basic Education (DIKSAR) that is conducted by Polda (Regional Police) in which the training curriculum includes training about Human Rights. 438 members or 90.3% of all security members in Group4 and 485 members in Global Arrow have attended Basic Education (DIKSAR).

EMPLOYEES' BENEFITS

In running its operation in 2008, KPC spent USD 78.13 million for all of its employees. The fund was allocated to pay the salary, bonus, THR/holiday allowance, medical treatment, accommodation and other benefits for the employees.

KPC based the compensation on the competency and performance of the employees. The higher the competency and performance of employees, the more compensation was paid to the employees. In addition, one of benefits where the employees' involvement was high and became an interest to all parties in the company was the implementation of the "Safety Voucher". This benefit became the support, reminder and stimulus for all employees of how important job safety was either for themselves, their partners and environment. This benefit was given for the achievement of man-hours performance and absence of a fatality. The grant of safety voucher was applied to all entitled employees and with the same amount.

The determination of the employees' remuneration is based on the company's performance and salary survey where every year the company performs a survey of the salaries of similar companies. Both are done with consultant assistance and are immediately compared to the benchmarking of similar class mining companies. The better the company's performance is, the more the remuneration received by employees will be. In maintaining internal equity, the company gives amounts of remuneration to employees as per the level of their responsibility within the company.

Compared with the East Kutai Regency Sector Minimum Rate (Upah Minimum Sektor Kabupaten – UMSK) Rp 1,250,000.00 for coal sector, in 2008 KPC gave a minimum salary to the employees in the amount of Rp 1,502,000.00 or 17% higher than it. If compared with the Regency Minimum Rate in amount of Rp 900,000.00, KPC gave 40% higher than it. Meanwhile, if compared with the Province Minimum Rate Rp 815,000.00, KPC gives salary to the employees in amount of 46% higher than it.

For those who resign due to reaching retirement age, the company will pay a pension benefit according to KPC's Regulation of Retirement Fund, benefit for transportation cost to the point of hire or maximum the transportation fare to Jakarta with ship class 3 and severance payment of: under 5 years working period will be 2 times basic salary, 5 years until less than 10 years will be 3 times basic salary and more than 10 years will be 4 times basic salary.

Another benefit received by employees is annual leave of 16 calendar days. The company provides Annual Leave Premium in amount of 225% from the basic salary and extra money in amount of Rp 750,000.00 (Mutual Agreement, article 41). Leave Fares for the staff is given to all family members/ lawful dependants, while for contract staff it is given only for themselves. Besides, KPC also provides an employees bus as transport. Except for fuel efficiency, the bus used in connection with security problems and employees safety.

In addition, with the company's concern about the education of employees' children, KPC provides Education Assistance where the amount of the subsidy can be seen in the table 7.

Table 7. Education Subsidy for the children of employees

| EDUCATION GRADE | SUBSIDY 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,- |

LAND PREPARATION AND MONITORING

Land preparation for mining activity is a very important stage for KPC. If the land cannot be allocated according to the time period, the mining activity will be delayed. During the year 2008, KPC exempted land measuring 3,952.14 ha.

KPC always proposes mutual consensus with the community and also a persuasive approach according to the SOPs (Standard Operating Procedures) of land exemption. If this phase cannot be reached, litigation will be performed to resolve this problem.

Land exemption which contributes economic and social added value to the land owner is a solution offered, so that neither party loses. Agriculture development is one of programs offered by KPC. It is in line with the government program "Movement for Regional Agriculture Development" (Gerdabangagri).

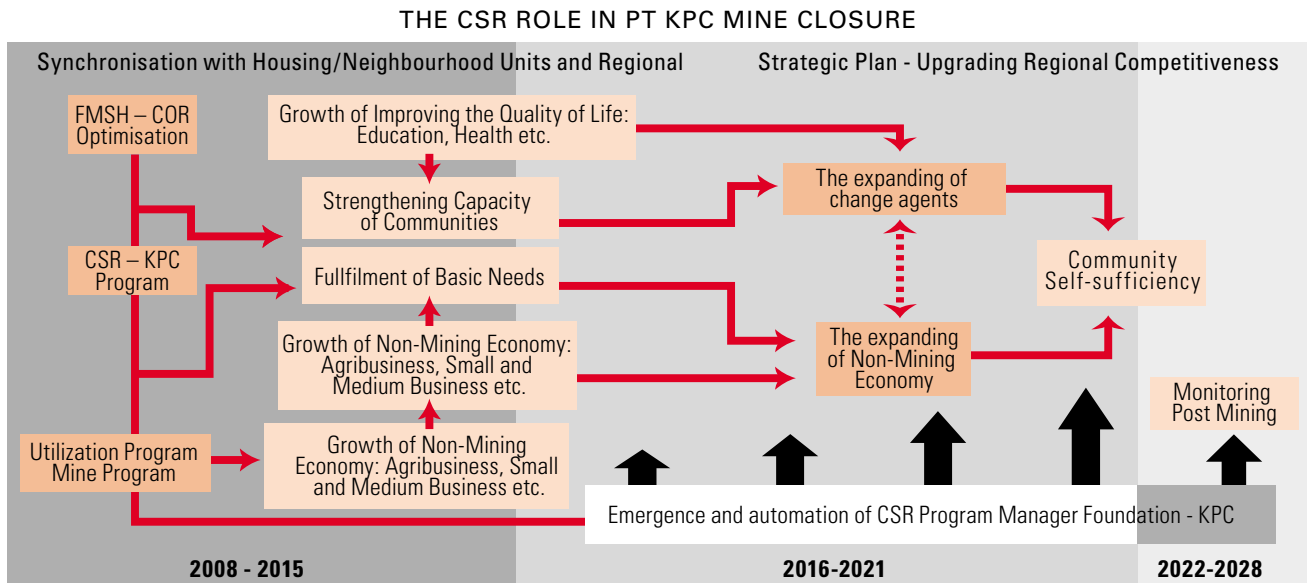
The monitoring program with regards to exempted land is carried out with any related parties such as police and security personnel. This routine monitoring aims to prevent any conflicts and claims upon the land by the community in the future. This monitoring also detects earlier the efforts of irresponsible parties to conduct illegal mining (penambangan tanpa izin - PETI).

ABOUT KPC

Relocation and resettlement is conducted if the area to be exempted is settled by people. This process involves the community actively. Before relocation is conducted, we conduct a social study and analysis in advance so that the relocation runs smoothly. The study is carried out by social experts so that the result is accountable. In 2008, there were no relocations executed by KPC in the mining process.

POST MINING PLAN

The post mining plan of PT KPC can be seen from the diagram below.

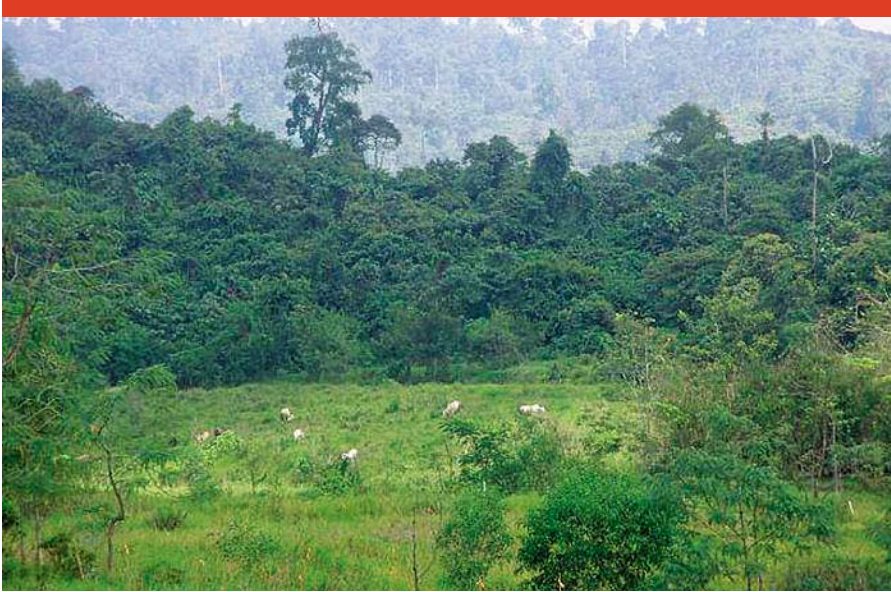


In order to prepare for an integrated mine closure in 2021, KPC initiated to commence some stages of activities such as:

A) CATTLE HUSBANDRY

A post mining research program for cattle husbandry has been conducted in the Sengata South East Dump area to see the utilization potential of ex-mining land for animal husbandry activities. The activity during 2008 is the rearing of 18 head of cattle (of the initial number is 14 cows and 4 calves). This research is a cooperative effort between KPC with one of UNMUL's lecturers who will soon complete his doctoral program in animal husbandry at the Bogor Agricultural University (IPB). Subsequent to the research results, KPC then follow up in the form of cooperating with IPB for building on the research results of ex-mining land in the form of supplying training facilities, cultivation and incubator animal husbandry business for the community, so that later on they are able to develop it in the area where they are, especially in the area around the mine.

This project is one of strategic plans of KPC in the face of the mine closure plan, supporting the speeding up of economic resources from renewed resources and at the same time supporting the government's meat self sufficiency program.



Picture 8. Cattle pasturing area in SSE Dump

B) STUDY OF POND WATER UTILIZATION AFTER MINING

This study was conducted by the research team from the Agency for Assessment and Application of Technology (BPPT) in the fourth quarter of 2008. The objective of this research was to analyze the quality and quantity of pond water after the mining operation that will be formed at the end of mining in 2021. A number of large ponds that will be formed after the mining activity closes in 2021 will be assessed by comparing with 2 existing ponds namely the Sangatta North and Surya Ponds. From the results of the study some conclusions and suggestions were obtained:

- The quality of the Sangatta North pond meets quality standards of water class 1 based on Government Regulation 82/2001 that is for the water standard of potable water. Moreover the quality of the Surya pond water in general meets the standard of water class 1, but its quality is still unstable due to existing dumping activities.
- From the Morphoedaphic Index (MEI) analysis results to know the nutrient content, it indicates that the Sangatta North pond has a high compatibility level and is suitable for water plant activity and the Surya pond is too.
- From the chemical analysis and mine water analysis towards overburden rock, acid production potency in the Sangatta North pond is low, while in the Surya pond is relatively higher than the Sangatta North pond. Therefore, the placement of overburden rock that is adjusted with reclaiming standard (DC03) becomes of vital importance.
- Those assessment results indicated that the rain potency in KPC's area is sufficiently high and the rest of ponds can function as water storage for potable water requirements, agriculture, industry and plantations, besides the potency of the surrounding rivers. Therefore, the pond's construction becomes a principal determinant for the pond's quality in the future.
- If the mine pond water that will be used as standard potable/drinking water meets quality standard class 1 PP 82/2001, then some alternatives of potable water treatment technology can be used such as slow sand filter process, rapid sand filter, ultrafiltration and a combination of biofiltration and ultrafiltration.

C) STUDY OF ECOSYSTEM RESTORATION DESIGN FOR EX-MINING LAND

This study was conducted by the research team from the Research and Development Centre for the Forest and Nature Conservation of the Forestry Department in the fourth quarter of 2008. The objectives of this research was to design the area layout after KPC's mining activity which had vegetation established in the form of zones and design the restoration of the vegetation in each zone to enhance the function and benefit of the ecosystem. From the results of the study some conclusions and suggestions were obtained:

- The forest zone that goes through KPC's mining area ecologically is an integrated part of East Kalimantan regional ecosystem and represents the habitat for Kalimantan's biodiversity that values the conservation and important ecology.
- The concession region of PT KPC ecologically has continuity with the Kutai National Park ecosystem due to its location's neighboring border. The existence of natural forest and rehabilitated forest in KPC's area has an urgent role for TNK biodiversity conservation namely as a habitat extension area, evacuation area, corridor and animal transit area.
- The rehabilitation of trees in the ex-mining area since 2006 now has formed a forest ecosystem and is able to contribute to forest functions as soil fertility protector and restorer, water management regulator, climate controller, and a habitat for various wild animals. Even able to provide a habitat for Orangutan (*Pongo pygmaeus*) to live and reproduce.
- Based on the biophysical condition and its prospect development, the outcome of rehabilitated forest of KPC's ex-mining area can be classified functionally as the following five: (a) area protection, (b) caretaking of TNK conservation area, (c) animal conservation, (d) tourism, education and science, and also (e) limited utilization for the enhancement of the surrounding community's prosperity.
- For repairing the forest ecosystem, then the distribution of zone proportion is suggested as follows: preservation zone 40%, buffer zone 15%, conservation area zone 25%, tourism zone 10% and utilization zone 10%.



Picture 9. Activity at the time of the ecosystem restoration design study

D. DOKUMEN RENCANA PENUTUPAN TAMBANG

Dari hasil-hasil penelitian di atas selanjutnya akan disusun dokumen Rencana Penutupan Tambang yang akan disampaikan kembali kepada pemerintah dan pemangku kepentingan (direncanakan tahun 2009).

OUR PRODUCT QUALITY

RESPONSIBILITY FOR THE PRODUCT

As part of KPC's commitment to achieve a safe product, monitoring of product quality is an essential component of the planning, implementation, monitoring and control of the mining, coal preparation and transportation process. The KPC Quality Control team monitors the above processes 24 hours a day to make sure that there will be no 'rejected' product.

Although the customer survey has not been conducted by KPC in this 2008, there have been no complaints from customers related to any negative effect of using our product represents an indication of KPC customer satisfaction. Furthermore the degree to which customer's continue their long term sales contracts with KPC is one of the indications that our product is safe to be used. Insomuch the product of KPC is coal; then no special product packaging is done.

CUSTOMER SATISFACTION

Most of KPC's customers are electric power plant companies. KPC has good products and the quality fits in well with all power plant designs across the world. Considering the port location and the shipping costs of KPC that are lower than any other coal producers, KPC transportation costs are less than other coal producers. KPC is recognized as one of the reliable suppliers with competitive prices. The quality and size of the coal resource and the ability to load large bulk carriers from its own world class terminal has enabled KPC to build a diverse portfolio of term contracts. These are the backbone of KPC's business.

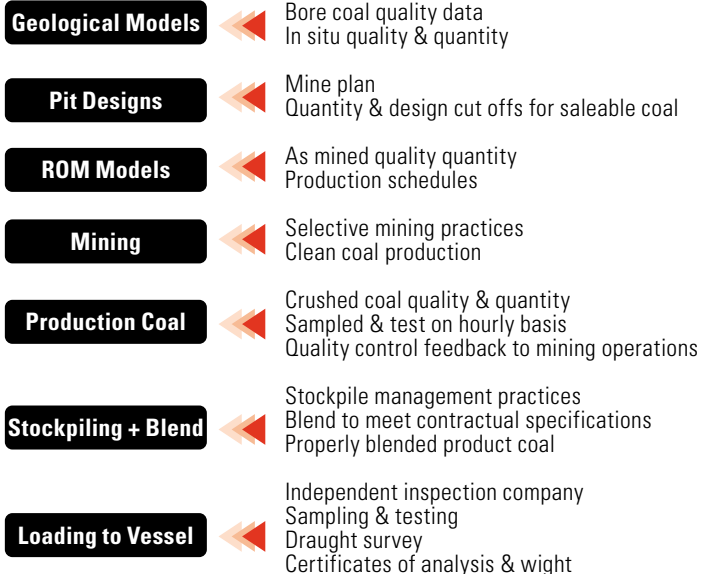
KPC pays attention to post sale service through:

1. Supervision of Quality Management and Coal Quantity
2. Technical marketing that supports the customers. The Coal Technology Department of KPC gives technical assistance to final customers in the handling and combustion of the coal and is actively involved with customers to guarantee the quality of coal is up to standard.

The Division of Coal Quality Management is a part of the overall KPC's operations. Some targets that were established for coal quality management include:

1. Optimization of production and demand schedules
2. Optimization of resources, and
3. Assurance that all deliveries to customers are as per specification

In addition, the Marketing Division of KPC sends a sample to the buyer according to sales contract clauses and also sends a sample to an independent party, if requested by customers. Samples of KPC products are also sent to world-wide reputable surveyors in order to achieve reliable source data in obtaining typical quality for each product accordingly. The complete diagram is as follows:



OUR PRODUCT QUALITY

MARKETING COMMUNICATION PROGRAM

The KPC Marketing team regularly communicates and visits customers as required. By visiting, KPC Marketing maintains good relationships with customers and also potential customers. For long term customers, there are annual price negotiations as well. Communication can be done by e-mail, facsimile, telephone, and site visits. In 2008, no infringements took place in connection with marketing communications that were conducted by KPC.

Attendance at workshops and conferences as a participant or speaker can support KPC Marketing in selling and promoting KPC products across the world. Several meetings that were attended by KPC was the McCloskey Conference on 25–26 February 2008 and the ICCC (International Coal, Coke and Carbon) Forum in Zagreb, Croatia on 16–19 November 2008.

Beside those meetings, KPC always attends every Coaltrans meeting that is held several times in a year. In 2008, KPC attended Coaltrans India (4–5 March 2008), Coaltrans China (14–15 April), Coaltrans Bali (1–4 June 2008), Coaltrans Australia (28–29 July 2008), and Coaltrans Prague (17–22 October 2008).

Sales are mostly done in Free on Board (FOB), Cost and Freight (CNF/CFR), Cost, Insurance and Freight (CIF) and sometimes in Delivered ex Ship (DES).

CUSTOMER PRIVACY INFRINGEMENT

To this date, no customer complaint has been found related to a customer privacy infringement. A system protecting customer privacy has been established. A 'Confidentiality Agreement' is always one of the clauses within a sales contract master with the customer. So far, no infringement has occurred with regard to such an agreement.

As a subsidiary company of PT BUMI Resources Tbk, KPC supports Good Corporate Governance (GCG) or the Behavior Guidelines possessed by PT BUMI Resources Tbk. The Behavior Guidelines that were approved by the President Commissioner and President Director on September 2006 and were later revised on June 2008 elaborate the main values and behavioral norms that become a reference for the company to run the business.

Four main values of the company that will be continuously conducted are: act with integrity, strive for excellence, behave professionally and give priority to safety and the environment, and comply with the prevailing Law and Regulations as well. One of the integrity values applied is an objection to corruption, collusion and nepotism such as by avoiding any conflict of interest. KPC itself has never conducted an action that was related with anti-competitive, anti-trust, and monopoly activities. Not to give donations to political parties was also one of the steps to avoid conflict of interest that was conducted by KPC.

In addition, GCG's mascot Mr. Spirit is expected to raise a sense of partnership. In 2008, GCG is focused on the enterprise wide risk management aspect.

To monitor the implementation of the Behavior Guidelines in PT Bumi Resources Tbk and its subsidiary companies, the Board of Commissions and Directors established Behavior Guidelines Committee. Members of the committee are representatives of PT Bumi Resources Tbk., PT Arutmin Indonesia and PT KPC with a 2 year membership period and may be reappointed as a maximum for the next period or according to needs.

Monitoring of the Behavior Guidelines implementation is executed by the Speak Up System that is managed by an independent third party. The Speak Up System facilitates the employees and External parties to report any violation on the Behavior Guidelines procedurally, independently and confidentially. Any violation report on the Behavior Guidelines that involves employees and also senior management will be followed up with an investigation upon the report being received. Sanctions to any violators will be established according to prevailing company's regulations.

Through the Speak Up System, the reporters will also obtain follow up status of the reported violation. The performance of the Speak Up System is evaluated and reported each month to the Internal Audit Division, Directors and Board of Commissioners through the BUMI Audit Committee. Since March 2008 until April 2009, 73 reports were received through the Speak Up System.

Since being launched on 25 April 2008, socialization of the Behavioral Guidelines and the Speak Up System was conducted by the Behavioral Guidelines Committee and each business unit as well. For KPC, the socialization was conducted to 3,871 workers or 98.10% of the total 3,956 workers. The workers who did not yet attend the socialization were those who were absent when the socialization was conducted due to sickness, tour of duty, leave, consented absence and some other reasons. To support the socialization, posters related to the "Speak Up System" were set up in strategic areas so that the workers may know about the system.

Besides the Speak Up System, the Company also executes a "Fraud Risk Assessment" in the cash management, procurement and supply chain areas to identify the possibility of any corruption happening. The Fraud Risk Assessment is a part of the "Enterprise Risk Management System" that has been implemented by PT Bumi Resources Tbk. along with its subsidiary companies, including PT KPC since 30 April 2008.

CODE OF CONDUCT

Several divisions in KPC that have undergone Fraud Risk Assessment (FRA) are Mining Operation Division (MOD), Supply Chain Division (SCD), Marketing, Finance, Mining Service Division (MSD), Accounting and Tax, dan Processing and Infrastructure Division (PID). The outcome from FRA is Fraud Risk Register, Fraud Risk Map, and High Level Fraud Mitigation Plan.

KPC has a code of management strategy and an operational code of conduct (COC) in economic, social and environmental aspects. It is conducted to save the company from the workers' infringements that may cause accidents, conflicts of interest and oversee the company's performance in environmental and social aspects. In the document of the company's policy for the sustainable development, it is clearly seen how the company will implement the vision and mission for the three items above.

We have a framework to meet a good code of management and code of conduct comprising compliance to the Law and Regulations (legal compliance), a Sustainable Development Policy, good corporate governance and a code of ethics (GCG and COC), annual target planning and its measuring instrument, procedures, guidelines and their peripherals, audits and inspections, risk management, training and awareness, assignation, annual performance review, management reviews, acknowledgments and rewards.

To carry out this commitment, KPC has an organizational structure that is compliant with each responsibility in the economic, social and environmental aspects. In addition, KPC also has a clear system to monitor the mining operations that comply with those three aspects above and also a process of decision making by management that refers to the reference framework.

SUSTAINABLE DEVELOPMENT ACCOUNTABILITY

Due to the company's management, KPC has some organizations that are responsible to carry out the sustainable principles, namely:

- The External Affairs & Sustainable Development Division is responsible to carry out the sustainable community development mandate.
- The HSE Division has responsibility to oversee the environmental and occupational safety performance and also maintains the quality of the environment around the mining operation area in order to be up to the standards as promulgated both in Environmental Laws and AMDAL requirements.
- The HR Division keeps the company's code of conduct running according to the Company's Regulations.
- The Finance Division, besides maintaining the company's financial condition, also carries out the annual risk analysis to anticipate any activity in each of the company's divisions in order to be in compliance with the company's economic framework. Economic performance monitoring is also conducted through finance auditing every four months and governance auditing that is always reviewed every year.
- The Supply Chain Division manages the availability of goods and services for the company either through local, regional, national, as well as international ways. It also includes how each company business activity is analyzed as well as possible in order to be in compliance with the annual achievement target both in the mining production aspect and the company's expenditure both for operational interests in the company's internal environment and also community development.

MONTHLY BOARD MEETING

The Board of Directors and Commissioners meeting is held once a month. This meeting reviews the company's performance compared with its planning. This meeting also discusses proposals beyond business planning.

The BoD approved the annual business for year 2009 in 2008. The planning was prepared by contributions from all divisions of KPC. Nowadays, the annual business plan becomes the basis for comparing the company's performance each month.

EXECUTIVE COMMITTEE

All General Managers (GM) of KPC hold a routine meeting once every two weeks led by the CEO by means of the Executive Committee (Exco) meeting forum to discuss all aspects related to mining operational activities of all parties including planning, decision making and policy and also other important matters that ought to be discussed for making decisions or policy determination. This meeting forum routinely addresses the problems of the mining activity from lowest until the highest level.

Besides this meeting, there is also a weekly meeting that is particularly for activities related to production activities led by the COO. This meeting discusses the main problems in the mining division, mining support, coal process, expansion project, manpower issues and external issues related to the redemption of land that will be mined and also relationships with government institutions or the community.

An executive meeting is also held by the Contract Committee consisting of the CEO, COO, CFO, GM ESD, GM Finance and Manager Supply specifically for discussing the strategic project tender conducted by company.

FORUM HSE

Some aspects of Occupational Health and Safety are routinely discussed within some meeting forums both in KPC and the contractors. Meetings with the workers are generally held daily or weekly by each supervisor particularly in the various divisions and operational departments. Safety coordinators in all divisions or departments play an active role in preparing the topic, materials or conveying messages, procedures and regulations of Occupational Health and Safety within the forums.

The Occupational Health and Safety aspects are also matters discussed within some regular meeting forums of supervisors and management. In operational divisions such as Mining Operation, Mining Support, and Processing, and Infrastructure also hold monthly meetings involving department managers, contractors and safety coordinators. Periodically the Safety Contractor (SAFCON) meeting is held involving the chief officer and the safety coordinators from all of the KPC contractors.

FORUM HRCR & HR NETWORK

This forum was established by KPC and the Subcontractors in 2004. The establishment of this forum was based on the similarity of local manpower issues that need to be uniformly solved within the mechanism of recruitment of local people. Besides the manpower issues, this 2 monthly forum is used for sharing information among HR divisions in KPC and subcontractors regarding manpower regulations, their implementation in the field and also the efforts of solving other social problems.

The HR Network Forum is not only conducted with the subcontractors but also other mining companies known as the Big-4 namely KPC, FMI, INCO, NNT where all issues related to manpower are accommodated in it.

CODE OF CONDUCT

HEALTH, SAFETY, AND ENVIRONMENT MANAGEMENT SYSTEM

This system is a guideline for KPC in managing all issues related to health, safety and environment management. This system is the improvement of the Health and Safety Management System of Prima Nirbhaya by combining an Environment Management System into it. This system was built by effectively and efficiently applying Plan-Do-Check-Act (P-D-C-A) principles. This system is periodically renewed and reviewed in line with the company's activities.

Some standards that became the reference of this system were: ISO14001 and OHSAS18001.

The execution and review of the program that refers to both standards above are also conducted through auditing and inspection to achieve a continuous improvement.

MSH-CSR (MULTI-STAKEHOLDER FOR CORPORATE SOCIAL RESPONSIBILITY) FORUM

KPC is one of this forum's members and is active in the community development program. This forum was established by the Regent of Kutai Timur in 2006 through the Decision Letter (Surat Keputusan – SK) of Regent Number 71/02.188.45/HK/III/2006. Through this forum KPC maximizes the management of community development funds that are allocated 1/3 of all community development (Comdev) funds each year. This forum management is also followed with KPC's meeting with members of the forum secretariat routinely including program planning, execution, and also monitoring and evaluation. Through this forum KPC offers some contribution in the form of policy guidelines, job procedures and control of program or projects that are maximal.

In 2008, MSH-CSR Forum processed presentations and assistance to its entire proponents. At the same time, this mechanism is a type of familiarization of the proposal approval procedure offered to community. Moreover, this mechanism more sharpens the community's or proponent's ability in program planning.

Monthly, the MSH-CSR Forum monitors the progress of running programs. This mechanism also directs the company to watch that subsidy funds are really used according to their intended cause.

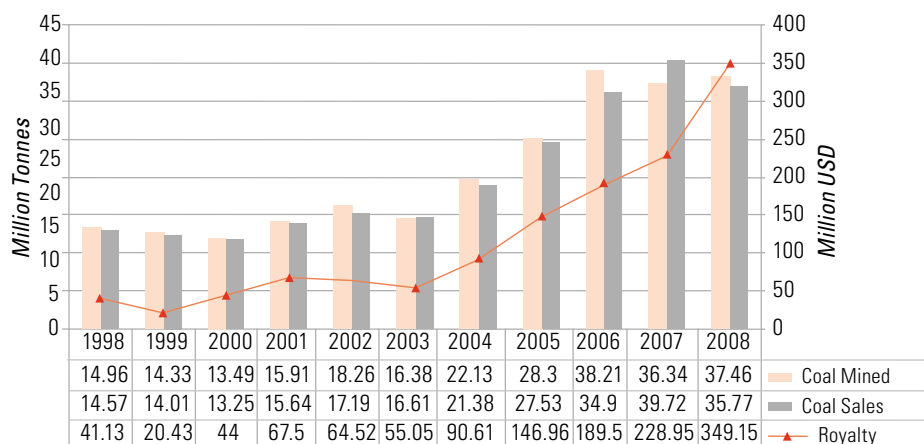
ECONOMIC PERFORMANCE

To support company operational activity, KPC has expended investment funds totaling USD 55.6 million in 2008. The investment funds were used for the infrastructure sector, heavy equipment etc.

OUR CONTRIBUTION TO NATIONAL ECONOMIC DEVELOPMENT

KPC's participation in the economic development in Indonesia is not limited to its CSR activity only. In 2008, KPC paid a coal royalty in the amount of USD 349.15 million for 2008 to the Indonesian government, while for the 2008 tax this reached USD 198.07 million. This amount which is not insignificant was irrespective of the government's participation that had given favourable assistance for the company operations.

With effect from 13th of September 2006, KPC and other companies included in the first generation of the Contract of Work Agreement for Coal Mining Enterprises (PKP2B), have been exempt from the export tax payment. In running its mining activity until now, KPC has not received financial assistance from both Local and Central Governments



Graph 6. Production, Sales, and Coal Royalty per year

INFLUENCE OF RAINFALL ON PRODUCTION

Heavy rainfall that occurred early in the year did not affect the company's finances. However, it did directly affect the coal production resulting in a decreased amount. The productivity of production equipment also decreased, caused by the equipment not being able to work optimally in the heavy rainfall. These changes of coal production affected sales revenue.

SUPPLIER INVOLVEMENT

During 2008, KPC's operations were supported both by contractors and local, national and foreign suppliers. Funds that have been expended for goods supply during 2008 was in the amount of USD 876,219,995.04, while the expended funds for utilizing services was in the amount of USD 169,191,122.12.

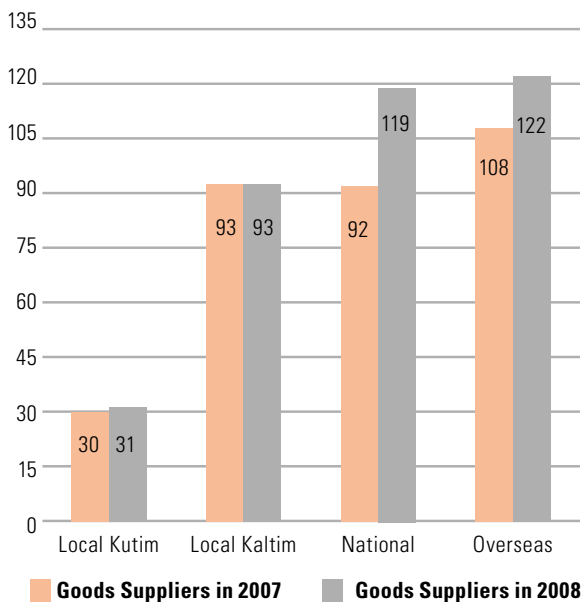
KPC has a great responsibility towards contractors because they represent the broadening of KPC labor. If the work done by contractors is not effectively managed, there is a potential in which KPC will face significant risks from commercial, technical, and K3L perspectives. In order to overcome those risks, KPC has created the Contract and Contractor Management System (CMS)

ECONOMIC PERFORMANCE

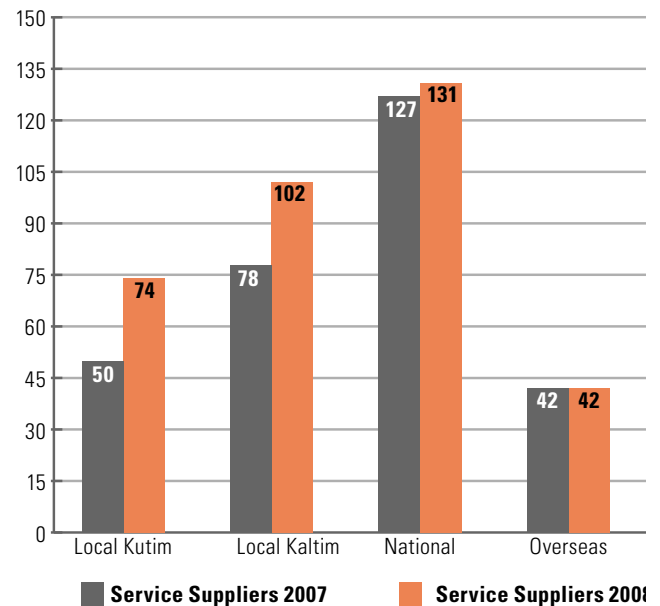
The aims of the Contract and Contractor Management System is to unconditionally make sure that all contracted works are done by a competent contractor, according to specifications, achieved budget and without incident, according to KPC conditions in the case of K3L, technical and commercial. This is gained by ensuring that relevant contract and contractor is effectively managed.

KPC has a commitment to respect the trust principle with the suppliers. Looking ahead, KPC will start to make a commitment in relation to regulations concerning labor and human rights. To KPC, it is an important thing that suppliers and KPC's business partners will also respect this principle. The application of safety standards, and not to employ underage children based on the prevailing regulations, is a criteria applied by KPC in upholding cooperation with the suppliers and KPC's business partners.

The contractors who want to be KPC's contractors are obliged to fulfill requirements as stated in the Contract and Contractor Management System. Some requirements related to human rights aspects are work agreements for each contractor employee, contractor employees will be registered for Jamsostek (Labor Social Insurance) membership, declaration of minimum payment and its components for the employee, and other requirements. In the future, KPC will emphasize more on human rights aspect in the selection of its contractor.



Graph 7. Number of Goods Suppliers in 2007 and 2008



Graph 8. Number of Service Suppliers in 2007 and 2008

Table 8. 2008 Supplier Composition of Commodity Stock

| ITEMS PURCHASED BY REGION | TOTAL (IN USD) |
|----------------------------------|-----------------------|
| Local East Kutai | 7.510.068,32 |
| Local East Kalimantan | 56.445.805,91 |
| National | 476.254.792,33 |
| Overseas | 336.009.328,48 |
| Total Items Purchased | 876.219.995,04 |

Table 9. 2008 Supplier Composition of Commodity Services

| SERVICES ORDERED BY REGION | TOTAL (IN USD) |
|-----------------------------------|-----------------------|
| Local East Kutai | 9.409.649,89 |
| Local East Kalimantan | 48.549.025,97 |
| National | 25.251.395,84 |
| Overseas | 5.808.516,69 |
| | 89.018.588,39 |
| Service Contracts 2008 | 85.979.042,42 |
| Total Pemesanan Jasa | 174.997.630,81 |

KPC has a commitment to develop, improve and empower the local economy, and increase the participation of communities around the mine area to participate as the suppliers of goods and services needs that can be relied on. The Supply Department has established the Local Business Development (LBD) subsection. This local business development concept was first stated by the ESD Division in early 2007 which was then mutually developed with the Supply Department more intensively in the 4th quarter of 2007. The more structured system and mechanism has been developed mutually by conducting counterpart study visits to the companies that already have this system as the implementation reference. This local business development initiative has become a very important thing because at the same time it attests the KPC's concern for the development of economy of the local communities that in the end can bring prosperity for communities around company area.

The Supply Department also has standard regulations in the tender process. KPC invites suppliers/ contractors of goods and services supplies to maintain the credibility, justice, and trust from the goods and services suppliers. It is based on the Supply Department regulations which are stated in Standard Operation Procedures (SOPs). However, if there are emergency needs, the end user can directly appoint a supplier/contractor by completing a waive to tender document that must be made known to the division director and get approval from the Chief Executive Officer if the value is less than USD 500,000.00. If the contract value is above that amount, then it must get the approval from the contract committee.

ECONOMIC PERFORMANCE

KPC'S EFFECT ON THE EAST KUTAI ECONOMY

The role of PT KPC mining operation on the East Kutai economy is very evident. Based on BPS data of East Kutai Regency in 2008, the coal mining sector's contribution to the Regional Gross Domestic Product (PDRB) reached 84.2%.

According to a survey conducted by University of 17 Agustus 1945, the existence of PT Kaltim Prima Coal mining operations in Kutim has to be recognized as the agent of change and the agent of development, as the development stimulus coming out from a local government non-program. The survey in 2008 was conducted in 4 districts which are directly adjacent to the area of KPC operation; they are Sengata Utara, Sengata Selatan, Bengalon, and Rantau Pulung.

According to that survey, the average respondent input around the mining area reached Rp 2,880,603/month. It was greater compared with regency minimum payment in the amount Rp 900,000 or 320% higher.

It was in accordance with the study result of CSSR in the previous year which concluded that the domestic input multiplier number is in the amount of 2.4234 which means that every one million rupiahs of KPC's employee's wage and salary would be able to create earnings in East Kutai in the amount of 2.4234 million rupiahs. It can be seen that the multiplier number has increased in 2008.

During 2008, KPC still confirmed its commitment to conduct corporate social responsibility programs. Starting from the exploration process to the mine closing, KPC continues to be involved with and share with the community and the regional government as the host with the principles of mutual respect and openness.

To reach the objectives of local economic improvement, poverty decrease, and improvement of the community quality of life, KPC has seven programs in the application of its social responsibility. Those programs are agribusiness development, improvement of health and sanitation, education and training, improvement of community infrastructure, development of cooperatives, small and medium enterprises (KUKM), conservation of nature and culture, and also the strengthening of the capacity of community and governmental institutions.

COMMUNITY EMPOWERMENT POLICY

KPC, as one of the biggest coal producers in the world, has a big responsibility toward all of the stakeholders of this company. One of the company's stakeholders that has a close relationship and is directly in contact with the KPC operation is the community around the mine area. To them KPC places the most attention without ignoring the needs of the other stakeholders.

As one of the forms of corporate social responsibility and its exit strategy, KPC conducts community empowerment which is aimed at the development of renewable natural resources and adjusted to the East Kutai Regency government program Gerdabangagri (Gerakan Daerah Pengembangan Agribisnis)/Local Movement for Agribusiness Development.

Through the seven KPC community empowerment programs, it is expected they produce community independence from the coal mining activity. It will enable the community to carry out economic activities based on renewable resources at the end of KPC's contract with the government (PKP2B).

A Triple Bottom Line principle of economy, social, and environment are KPC's guideline in implementing community empowerment programs. Besides that, KPC is also continuously promotes independence, involves community participation, and attempts to discover renewable and long lasting resources.

The priority region is the area around the mining operation which has the most direct impact from the mine operation as mentioned in AMDAL (Environment Impact Analysis). To get an optimum and impartial result, KPC cooperated with universities, research institutions, Non-Governmental Organizations, international donors, etc. While to assimilate the community aspiration accurately and accountably, KPC placed Area Associates (PW) staff in each village. The observation program implementation was conducted through a survey mechanism concerning the community and routine meetings with residents.

AGRIBUSINESS DEVELOPMENT

As the form of concern towards Agribusiness development in East Kutai and support to the local government program, Gerdabangagri, KPC carried out counseling, support and assistance through various agriculture programs which in their implementation give priority to the active participation from the communities which owned the program. This started from the commodity choice, the activity implementation as well as the group rules in managing the assistance given by KPC. KPC hoped that the choice of the agriculture program would become the family economic standard that was sustainable for the community in the future.



Graphic 10. Jeruk Siam Commodity Seedling Location in Rantau Pulung

The development of the Jeruk Siam (Siam or Thailand Orange) agribusiness that has been conducted since 2003 has brought a lot of benefits for the farmers. KPC cooperated with the Research on Orange and Sub-Tropical Plants Center (Balitjestro or Balai Penelitian Tanaman Buah Jeruk dan Subtropika)/ in Malang, East Java in conducting this program. In 2008, KPC added a new Seedling Multiplication Block (BPMT or Blok Penggandaan Mata Tempel) especially to produce Borneo mandarine (Jeruk Keprok Borneo) seedlings.

Bud production, grafted seedlings and the amount Jeruk Siam healthy seed that has been distributed in 2008 can be seen in the following table.

Table 10. Performance of Jeruk Siam Seed Production in Rantau Pulung & Distribution-2008

| ACTIVITY | PERFORMANCE | | | | TOTAL 2008 |
|--------------------------|-------------|-------|--------|--------|------------|
| | Q1 | Q2 | Q3 | Q4 | |
| Bud Production (BPMT) | 4.260 | 6.260 | 10.820 | 19.700 | 41.040 |
| Grafted Seedlings | 4.035 | 6.260 | 10.820 | 19.700 | 40.815 |
| Orange Seed Distribution | 6.566 | 2.143 | 1.077 | 8.385 | 18.171 |

With that achievement, it is expected the farmers' requirements in orange seed can be accomplished, so that the orange agribusiness in East Kutai in general and Rantau Pulung in particular will develop properly.

The farmers who get the benefit from this activity amount to 580 people who joined together in 54 farmer groups in 8 villages in Rantau Pulung sub-district covering an area of 234.9 hectare.

Besides the orange agribusiness development, another agriculture commodity that has becomes a priority for KPC is cocoa. Now KPC has 4 visitor plots in 3 adjacent areas at Bengalon, South Sengata and Rantau Pulung. Two visitor plots in Bengalon have experienced production development that has progressively increased. The cocoa sales price reached Rp 11,000–Rp 14,000/kg which is good enough for this agribusiness in the future.

Efforts conducted for this cocoa development is also facing problems. Pest attacks such as squirrels, rats, pigs, helopelthis and vascular streak dieback (VSD) are of significant concern for the farmers. Some efforts that are conducted to overcome these pests are the use of banana trees as the protecting plant, use of black ants as the pests' biological control, and covering the young fruit. Beside that, KPC is also gives assistance of 75 rolls of barbed wire to prevent intruding animals.



Graphic 11. Assistance handling of cocoa pests as a development effort of cocoa quality from East Kutai.



Graphic 12. The patchouli seedlings as the pioneer of the patchouli agribusiness in East Kutai for the future.

The development of patchouli agribusiness exhibits good development. To accommodate the various agribusiness activities, farmers have established Koperasi Serba Usaha Bukit Subur Mandiri (KSU BSM)/an all-purpose cooperative that receives the patchouli harvest product and then processes it into atsiri oil.

The distillation result which is conducted by KSU BSM resulted in patchouli oil quality above the Indonesian National Standard (SNI) that is in PA 42% level (SNI – 32%) and Alcohol 14% level (SNI - 24%) and the patchouli oil clarity level is adjusted to the general prevailing standard in Indonesia that is 2%.

Various efforts that are conducted by KPC to support patchouli agribusiness is a participative seminar (24–25 April 2008) to conduct the mapping the distribution link of the patchouli business, PENTALOKA Development of Competition Potency of East Kutai in patchouli agribusiness (21 July–1 August 2008), and technical training of patchouli cultivation in collaboration with Balai Penelitian Tanaman Obat dan Aromatik Bogor (Balittro)/Medicinal and Aromatic Plants Observation Office Bogor.

The other efforts of agribusiness development are the training for creating natural pesticides, field crop cultivation, the cultivation of local variety mountain rice, and the utilization of house yards and fields for vegetables.

Besides plantations and agriculture, the other agribusiness sector that receives the assistance from KPC is fishery development. The fisheries that are developed are for fresh and salt water fish. The assistance given by KPC is the making of pools and ponds, seed, and also fish food. Besides that, training for the making of fish food is also given to overcome the high price of fish food.



Graphic 13. Farmers in Tebangan Lembak who succeeded in harvesting approximately 100 tons of mountain rice, this harvest can also supply the rice requirements in the village for a year.



Graphic 14. Goldfish inspection conducted by KPC's staff, as the assistance effort for improvement in the fresh water fish agribusiness in East Kutai.

In the husbandry sector, KPC in collaboration with IPB (Bogor Agricultural University) is concerned about plans for the development of cattle in the reclamation areas after the mine operation. This plan has entered the budgeting calculation stage. IPB has sent the design concerning this project and it is still in the review stage by KPC. This project is one of KPC's strategic plans in facing the mine closing period. The community is expected to be able to contemplate and take advantage in the business opportunity from this activity.

SOCIAL PERFORMANCE

COMMUNITY HEALTH

In support of the Millennium Development Goals in its CSR program, KPC is also gives a lot of attention to community health in East Kutai. Various social services and public medical treatments were conducted during 2008.

Social services that were conducted also involve KPC's staff such as KPC's Prayer Communion. It shows the concern of KPC's staff toward the area where they live.

In cooperation with the East Kutai Health office and BKMM (Balai Kesehatan Mata Masyarakat)/Samarinda Community Eye Health Center, KPC conducted cataract screening training for health officers and continued with cataract surgery on 20th of November 2008. In the activity about 23 people who came from Sengata, Bengalon and Rantau Pulung were successfully operated on.

As KPC's commitment toward the national program of tackling TB, KPC is incorporation with the Regional Government of East Kutai Regency through the Health Office of East Kutai Regency, the Association of Indonesian Tuberculosis Elimination of East Kutai and the sub-office P2TB (Elimination of Tuberculosis Disease of the Central Health Department) conducted various efforts in tackling Tuberculosis. One of them was conducting a TB cadre workshop that was attended by 138 people from 4 sub-districts in East Kutai. Besides that, checking for TB patients was also conducted. From the checking during 2008, 191 TB suspects were found from Rantau Pulung, Bengalon, South Sengata, for 31 people were treated, 12 people recovered. Together with the Indonesian Doctor's Association and PMI (Indonesian Red Cross), KPC is also performed a diabetes symposium in relation with tuberculosis that was conducted in celebrating 2008 National Health Day.

HIV/Aids prevention also represents an item that has also become KPC's concern. The checking of sex workers at the IMS clinic is regularly conducted although facing some problems. Besides that counseling about HIV/Aids prevention was also conducted. In 2008, the counseling was conducted for PAMA and KPC staff and also Senior High School students in Rantau Pulung.

On the occasion of AIDS International Day, cooperating with the PMI East Kutai branch, KPC conducted a Talk Show with Fight Against Aids theme in the Swarga Bara Town Hall. On that occasion KPC arranged for speakers from PKBI (Indonesian Family Planning Organization) Samarinda and ODHA (people with HIV/Aids) to attend.

To overcome the dengue fever that is found a lot in East Kutai, KPC through its health development program continuously conducted socialization of dengue fever prevention. Besides that, mosquito larvae surveys are also conducted every year. Fogging is conducted if dengue fever cases are found in the community in collaboration with the East Kutai Health Office, as was conducted in Bengalon, South Sengata, and Rantau Pulung sub-districts. This activity involved posyandu (integrated health service center) personnel, Puskesmas (Public Health Center) staff, PJI (Junior Achievement Indonesia) students and the local area associates.

In addition to being conducted directly to the community, health counseling is also conducted through the Consultation/Halo Doctor program on Radio GWP (Gema Wana Prima). The radio audiences can also be actively involved in this program by asking questions on the subject of health problems that has become the discussion topic. The discussed topics were ISPA (acute respiratory infection), HIV/Aids, hepatitis, TBC (tuberculosis) and dengue fever.

One of the programs chosen, which became an MDGs nomination in 2008, was the PERGIZI program. This program is in collaboration with the Puslit Gizi Bogor / Bogor Nutrient Research Center. This survey program was conducted in 7 posyandu (Integrated Health Service Center) in 6 pilot project villages. Of 153 children that followed this program, only 112 children followed the program until the end. Based on the finding results, 55 children increased their status to have sufficient nutrients, 49 children were still in low in nutrients and the status of 8 children was still bad.



Graphic 15. Health checkups by health officers, measuring and weighing the children's weight and height as the part of PERGIZI program

EDUCATION AND TRAINING

A good education is the basis for a region going forward in the future. KPC is very concerned with the development of quality human resources in East Kutai that has established 20% of its budget for education. It has been proven with the education development programs that are conducted by the KPC's Community Empowerment Department.

In 2008, KPC granted scholarships to 242 students and university students from SMP (Junior High School) to S3 (doctoral degree). In granting the scholarships, KPC collaborates with Yayasan STMPD 'APMD' Yogyakarta and IPB Bogor. It is expected for those who are chosen will come back to East Kutai and participate in the activity to develop the region based on the area of studies they have followed.

The other education program conducted by giving counseling through an interactive dialog program in Radio GWP is Education Talks (Celoteh Pendidikan). This program discusses issues around the educational world. Through the interactive dialog, KPC's Education Talks asks the audience to communicate actively in every broadcast session. By the existence of this program it is expected the wide community, participants and education performer will understand the education world especially in East Kutai. The issues discussed are for example student study style, information of HIV/Aids for teenagers, the profile of vocational schools and early age education.

Another program mentioned earlier, Junior Achievement Indonesia (Prestasi Junior Indonesia) has also got special attention from KPC. Through the Junior Achievement Indonesia program, KPC hopes to give a contribution to students in East Kutai about stock purchasing in the business world that they will face in the next years, it is expected through this activity East Kutai will produce professional business people.

On October 2008, PJI (Junior Indonesian Achievement) East Kutai undertook the regional trading activity going to several schools that had the PJI program in Java. 6 students and 2 teachers and the PJI East Kutai staff participated in this program. Furthermore, 662 students at SMP and SMU level from Sengata, Rantau Pulung and Bengalon participated in a business simulation activity as an annual activity from PJI program. The program was conducted in Tenggarong, Bengalon, Rantau Pulung and Sengata.

SOCIAL PERFORMANCE

In December 2008 was conducted the liquidation of students' companies that were included in Junior Indonesian Achievement program. On the same occasion it also conducted the assessment for the best company officials. The new cooperation agreement was also signed by Central PJI represented by Mr. Sarwono Kusumatmadja as the representative of the Founding Council and PT KPC represented by Harry Miarsono as GM ESD. This assignment was witnessed by the Regional Government Secretary (Sekda) of East Kutai and the Educational Office of East Kutai.

The other activity in the education sector was the support of teacher capacity development through several activities and training. The activities that were conducted during 2008 were for example Curriculum Training for Local Agribusiness, Neuro-Linguistic Programming Training, Media Creativity Training and Learning Methods for Elementary School Teachers, and support for a teacher conference in Samarinda



ANI, SMP Ma'arif Teacher, North Sengata

"Up to now we learnt about computers at another school, because we didn't have our own computer. With KPC's assistance through their MSH-CSR fund, we can learn with our own computer, because from the funds we received we used for supplying a computer."

HAIRIL, HMI (Muslim Student Association) East Kutai

We are very thankful for the assistance given by PT KPC to us through the MSH-CSR Forum, because of this assistance, the activities that we conduct to develop university students resources can be conducted properly and smoothly.

COOPERATIVE, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT (KUKM)

The development of Small and Medium Enterprise (SME) activities as the form of community economic strengthening and the availability of new job vacancies is well supported by KPC. In its CSR program application, KPC conducts assistance to small and medium enterprises. By the strengthening of the community economy through small and medium enterprises, the dependence toward mining sector can be reduced so that the independence of East Kutai will be increased.

During 2008, KPC involved 42 local contractors in the construction of KPC projects such as the construction of the M 16 parking area and its paving, the construction of Prima bus stop, the construction of the temporary STIPER (Agriculture Institute) classrooms, installation of a barbed wire fence in OLC area, and the reparation and maintenance of Diponegoro street.



RIDIYANTO, Profil Kencana Contractor, South Sengata

"The existence of PT Kaltim Prima Coal (KPC) helps the community alot in educational, health, agriculture, fishery, small and medium enterprise and infrastructure sectors.

As a local contractor, we hope that we able to become a CMS (Contractor Management System) or PT KPC partner. We feel that there is a good relationship between PT KPC and its sub-contractors. As a sub-contractor in ESD, during this time we are helped by the existence of guidelines and we always follow the available rules. We hope that this cooperation will continue so that the workers around PT KPC feel they can participate in PT KPC projects"



MOHAMMAD ALWI TANG, CV Prima Sakti, Sengata

"After I and PT KPC worked together, thanks to God that I and CV Prima Sakti really felt the benefit from the results of the work that was given by PT KPC, although it is still in small scale. Representing CV Prima Sakti, I gave suggestions to PT KPC, when it was possible, invoices for small and large amounts could differ in the time for payment, if it is possible the small amounts should be paid by 3 weeks at the latest."

In conducting the area reclamation, KPC is in collaboration with Mitra Tani Cooperative in Bengalon. Supply of local seed has been handed over to this cooperative with on average of 4,500 seeds each quarter.

On 26–27 February 2008, KPC conducted training for package making that was attended by 40 people involved with UKMs (small and medium enterprises) from Sengata, Bengalon and Rantau Pulung in cooperation with PT Packing House International from Jakarta. This training was an activity sequel from the assistance of home industry especially for food provisions that is managed by the PT KPC assistance group. After following the training for package making, several groups of small enterprises started to make packing designs for their product. The package that has been made is the packaging for candlenut. And the rest is still in the design making stage.

In addition, the effort of bag manufacture groups from plastic waste is still going on. This group has associated itself in the activities of the Environment Concern Community Forum (FKPL). The thing that becomes the problem of this group is the lack of plastic raw material supplies that can be processed to become recycle products.

Mitra Usaha Multi-enterprise Cooperative is in collaboration with the KPC Environment Department to make use of waste from the Prima Swarga Bara Education Foundation (YPPSB). Besides that, this cooperative also processes plastic waste that is obtained from those who collect waste in the Sengata area and is in collaboration with PT Benua Etam Jaya in Bengalon.



Graphic 16. The utilization of plastic waste into handcraft products and organic waste into compost

COMMUNITY INFRASTRUCTURE DEVELOPMENT

Good infrastructure development will increase the development rate of community life in East Kutai. Because of that KPC conducted substantial development and infrastructure reparation in East Kutai based on the requirement level and incoming recommendations.

To increase the safety aspect for company employees as well as their family and community road users, then KPC conducted repairs to the Wisma Prima bus stop. The repairs of the M16 parking area was also done to increase KPC services to the employees and its guests. Besides that, KPC is also gave assistance to the traffic police for police post at the junction of Road 9, Singa Gembara.

SOCIAL PERFORMANCE



Graphic 17. As the service improvement for employees and guests, PT KPC developed the quality of parking area in M16 that become the main entrance.



Graphic 18. With workshop in SMPN 1 Sengata, that is contribution from PT KPC, the students will not get any problem in conducting the real application from theory learned at school.

Besides the development of public facilities, KPC has also contributed to the development and reparation of educational infrastructure. The contributions are: the construction of a library room in Kenyamukan 006 Elementary School, 2 classrooms in Segading Elementary School, a contribution of 200 million rupiah for Asisi Catholic Junior High School, 2 classrooms in Singa Gembara 002 Junior High School, and the continuing construction of GPL (Griya Prima Lestari) Munthe Elementary School.

SOCIAL PERFORMANCE

Through the MSH-CSR Forum, KPC also participates in giving educational infrastructure contributions: assistance of material supplies for Al-Ma'arif integrated kindergarten (TK), cementing the Nurussa'adah boarding school (pondok pesantren) yard, the construction of classroom in Insan Cita kindergarten (TK), the construction of classrooms in Madrasah Diniyah, the construction of an office in Persada Plus Junior High School, and the construction of a workshop at Sengata 1 Junior High School.

Clean water facility is the vital necessity that is needed by communities. KPC assisted with the construction of clean water facilities in several places: Singa Gembara Village, Sekurau Sub-village Bawah, Bajang Tidung Sub-village, Muara Bengalon Village, Kenyamukan Sub-village, and Hajar Abyadi boarding school. With the existence of clean water facilities, the community difficulty with clean water until now can be overcome.

KPC is concerned towards religious life in East Kutai is actualized with the assistance for the development and reparation of various religion's facilities. The assistance includes: rehabilitation of Nurul Iman Mosque in Marah Haloq village, construction of the altar in Singa Gembara church (GPSDI), construction (terrace) at Al-A'raf Mosque, construction (border wall) at Bhuana Sari Temple (Pura), construction (church foundation construction) at the Sahabat Church of the Indonesian Jemaat Efrata, construction (material supply) for the Al-Insan small mosque, and construction (foundation construction) at the Indonesian Gospel Tabernacle Church (Gereja Kemah Injil Indonesia).



Graphic 19. The continuing development of GPL Munthe Elementary School will increase the educational quality in Sengata with sufficient buildings.

Graphic 20. This ADM road renovation later will shorten the traveling distance between Sengata-Rantau Pulung that will increase the economic growth.

Several programs of roadworks were conducted in 2008 to facilitate transportation in East Kutai that can increase the economic growth in this regency. The programs provided assistance with the road and lane repairs in Singa Gembara Village, maintenance of Kabo Road, maintenance of 29,380 m ADM road as the alternative access in Sengata-Rantau Pulung, maintenance of the access road in Desa Keraitan/Segading Village, and maintenance of Pemuda road.

KPC is also assisting in road repairs through the MSH-CSR Forum, such as providing assistance with the repairs to the main road in Sengata Bontang, and road building up and asphaltting of 3 roads in Singa Gembara Village.

The improvement and repairs of other infrastructure make up the program and commitment of KPC in this sector such as providing assistance with the construction of PLTU Sengata, construction (master plan structuring) of Maloy harbor, construction of Koramil Bengalon office, construction of Sangkima airport and construction of Sangkulirang market.

SOCIAL PERFORMANCE



Graphic 21. The construction of the Regional General Hospital (RSUD) which is wholly funds from KPC later will become the biggest hospital in East Kutai.



Graphic 22. Sukarno Hatta road connecting Road 9 and Pelangi Hill will make the community access easier from Bengalon to the government offices.

Besides the funding allocation of USD 5 million, KPC is also making a commitment in the infrastructure development in East Kutai such as the Sengata Regional General Hospital (RSUD) that in the future will become the biggest hospital in East Kutai. In addition, the repair and development of the Soekarno-Hatta road was also done in 2008. This road will connect the official complex in Bukit Pelangi with Road 9. One more quite big development is the flyover development that will connect Suwandi road as a direct road to Bengalon.

CANDRA DEWI, Teacher, Persada Plus Junior High School, North Sengata

"We thank KPC for helping our school. This second stage of assistance, we used for the construction of an office at Persada Plus Junior High School. We also report that the first stage of assistance, we used for the construction of a sports field. We are very proud, because with the existence of that sports field, our students are able to play and smile happily because of the field."



CHOIRUL ANAM, Margo Santoso Street, Sengata

"We are very supportive/are unanimous with the assistance that was given by KPC to construct a religious place in our location. The funding/assistance is right on the target, to smoothen the prosperity of community components surrounding the KPC mine area."

RUDIANSYAH, CV Azzam Putra, Sengata

"PT KPC's empowerment of local contractors by developing community infrastructure is an effort to develop local business person professionalism and education for us as young business people are able to develop and progress as the non-local business people that are successful. Thank you PT KPC."

Hopefully PT KPC will still keep on upholding the cooperation with local business people and the East Kutai community in the development."



NATURE AND CULTURE CONSERVATION

KPC's concern towards nature and culture conservation in East Kutai is realized in the following programs:

- **MITRA TNK (KUTAI NATIONAL PARK) PROGRAM**

In 2008, KPC renewed it's commitment in the Mitra TNK program (Kutai National Park) and also participated in its program. The amount of funding that was given for this activity was Rp 100,000,000.

- **WEHEA NATIONAL PARK**

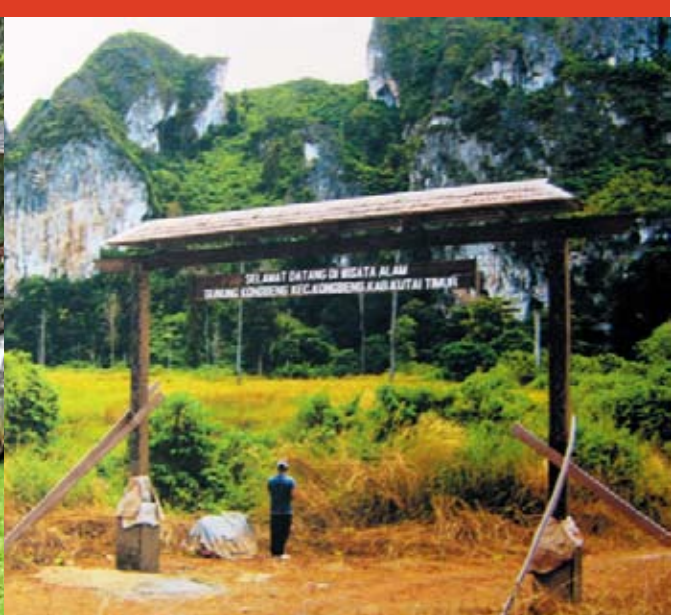
As support towards the prevention in global warming, PT KPC assisted the conservation activity of Hutan Lindung Wehea (Wehea Protected Forest). This support was marked with the signing of an MoU between KPC and Wehea National Park that consisted of KPC's commitment towards the conservation effort of national park. Besides allocating the budget for this activity, KPC also assisted in the promotion of the Wehea protected forest through radio and the company's internal media. The funds from KPC later will be used for the establishment of a cottage as the stopover place for Wehea Protected Forest visitors, establishment of a culture and traditions village hall, conservation in Nehes Liah Bing Village, training of an early information warning in managing Natural Resources and the creating of a media publication in the form of a billboard.

- **CULTURE CONSERVATION PROGRAM**

Quite a lot of assistance for culture conservation in East Kutai has been given by KPC. That assistance includes: operational assistance of pamonging art and culture Ngundi Laras (supply of art instrument), operational assistance for the Kutim Fine Arts gallery (fine art training for Kindergarten and Elementary School teachers), assistance development of the business for Lekan Maran carving art (supply of carving tools), creation of a cultural dais, and the development of the Kongbeng Cave (Gua Kongbeng) tourism object.



Graphic 23. Lodging as the stopover place in Wehea National Park



Graphic 24. Development of the Kongbeng Cave tourism object



JUMAMPIT, Dayak Carving Art, Miau Baru

"We felt worried about the young generation today as none of them are able to make Dayak carvings. Because of that we established a carving group to preserve the Dayak sculptures. Thanks to KPC because they wanted to help us to preserve this carving art. We hope KPC keep on developing and we also support any of KPC's programs to develop itself. So that the community will always get the benefit from this company's operation."

- GERAK BERSEMI PROGRAM (HEALTHY, CLEAN AND SELF-SUPPORTING COMMUNITY MOVEMENT)**

This program was established from the issue of the increasing amount of waste as the impact of the increasing population in Sengata. The Gerak Bersemi concept itself arose after the waste management techno-social training which is held by KPC, East Kutai Environment Office and Family Welfare Empowerment Group (PKK) of East Kutai Regency. The main approach includes the sustainable development paradigm and environmental leadership.

This program is combining 5 of 7 CSR KPC Programs: Culture Preservation, Health and Sanitation, Agribusiness, Small and Medium Enterprises and the Development of Community Capacity. At this time 3 areas have been selected to become the implementation model of Triple E Model (Eco-waste Management Model; Eco-Health Community Model; Eco-Enterprise Business Model): Gang Mushola, Margo Santoso, and Gunung Teknik.

This program has also had a big impact with the movement of volunteers who are from cadres in cooperation with BPP UTK to share their knowledge to the community. The activity benefit receivers are kindergarten students, Elementary school students, students' parents, teachers and other inhabitants.



Graphic 25. The establishment of Environment Concern Community Forum (FKPL) – at “Pelipatgandaan agen” and “Gerak Bersemi



Graphic 26. Agent Multiplier in Gang Musholla

Graphic 27. Agent Multiplier in Gunung Teknik

Graphic 28. Agent Multiplier in Margo Santoso

GOVERNMENT AND COMMUNITY CAPACITY DEVELOPMENT

Various forms of support for government and community capacity development were conducted by KPC during 2008. KPC always participated in routine activities such as the celebration of religious holidays and national holidays.

Besides that, KPC is also gave assistance to the Office of National Unity and Community Protection (Badan Kesbanglinmas) in the form of rubber boats and tents for the preparation of tackling floods. Kutim TV, as the local television station also gets attention from KPC.

Other assistance given include supply of Kutim Regency Government (Pemkab) bus, supply of litter bins, supply of fire extinguisher equipment, tools and infrastructure for Karang Taruna (youth organization) and the Family Welfare Empowerment Group (PKK) ladies, and local government radio organization.



Graphic 29. Through the MSH-CSR Forum, KPC gave assistance of rubber boats and tents through Kesbanglinmas as the preparation effort of tackling flood disasters.



Graphic 30. To accelerate the East Kutai local government tasks, KPC gave assistance of a government bus for local government officers.

Various activities were also conducted by KPC for government and community capacity development such as the socialization of the Statutes of Domestic Violence, mass marriages, and Training for the Development of Good Governance of Village Affairs.

Commitment to give the wider chance to local manpower that is stated in the Managing Director's letter (ref L-051/MD-ESD5-2/VII/06) and is designated to KPC and its subcontractor.

In the recruiting of unskilled manpower, since 2005 KPC referred to the Decision Letter of East Kutai Regency Manpower Office Number: 562/973-PLK/Disnaker/VII/2005 in which the recruitment system is arranged based on a "Scoring System" as in the following table:

Table 11. Birthplace Score

| | BIRTHPLACE | SCORE |
|----------|-------------------------|--------------|
| RING I | SENGATA & BENGALON | 40 |
| RING II | EAST KUTAI | 30 |
| RING III | EAST KALIMANTAN | 20 |
| RING IV | OUTSIDE EAST KALIMANTAN | 10 |

Table 12. Education Place Score

| LOCATION | SCORE | | |
|-------------------------|-------------------|---------------------------|---------------------------|
| | ELEMENTARY | JUNIOR HIGH SCHOOL | SENIOR HIGH SCHOOL |
| SENGATA & BENGALON | 30 | 15 | 15 |
| EAST KUTAI | 20 | 10 | 10 |
| EAST KALIMANTAN | 10 | 5 | 5 |
| OUTSIDE EAST KALIMANTAN | 5 | 0 | 0 |

SOCIAL PERFORMANCE

The candidate with the highest score will get the main priority in the acceptance selection, then the score below will be followed.

The local manpower percentage is compared with manpower from outside the regency as in the following table

Table 13. Manpower percentage based on recruitment location

| RECRUITMENT LOCATION | NUMBER OF EMPLOYEES | PERCENTAGE |
|-------------------------|---------------------|------------|
| SENGATA | 3.254 | 75 % |
| SAMARINDA | 186 | 4 % |
| BALIKPAPAN | 343 | 8 % |
| OUTSIDE EAST KALIMANTAN | 562 | 13 % |
| TOTAL: | 4.345 | 100 % |

For the empowerment of local manpower, KPC has several programs such as a trainee operator program and training for a mechanic. These programs are aimed to develop the local manpower quality, so that it can compete with the manpower from outside East Kutai.

The trainee operator program in 2008 was set up as 4 steps. 141 trainee operators attended this program and 7 of them became KPC employees as operators in the Mining Operation Division.

Table 14. Number of trainee operators for each stage in 2008

| STAGE | NUMBER |
|-------|--------|
| 1 | 20 |
| 2 | 29 |
| 3 | 37 |
| 4 | 55 |
| Total | 141 |

Meanwhile, the training for a mechanic program that was conducted in 2008 was attended by 129 participants. From the participants who attended the program, 11 people become KPC employees for the Mining Service Division as a mechanic. For this training program, the participants were divided amongst several places to practice as mechanics.

Table 15. Number of Mechanical Trainees

| STAGE | NUMBER |
|--------------------|--------|
| 1 (United Tractor) | 12 |
| 1 (P16- KPC) | 31 |
| 2 (United Tractor) | 11 |
| 2 (P16-KPC) | 29 |
| Modul 2 | 16 |
| 3 (P16-KPC) | 30 |
| Total | 129 |

SOCIAL PERFORMANCE

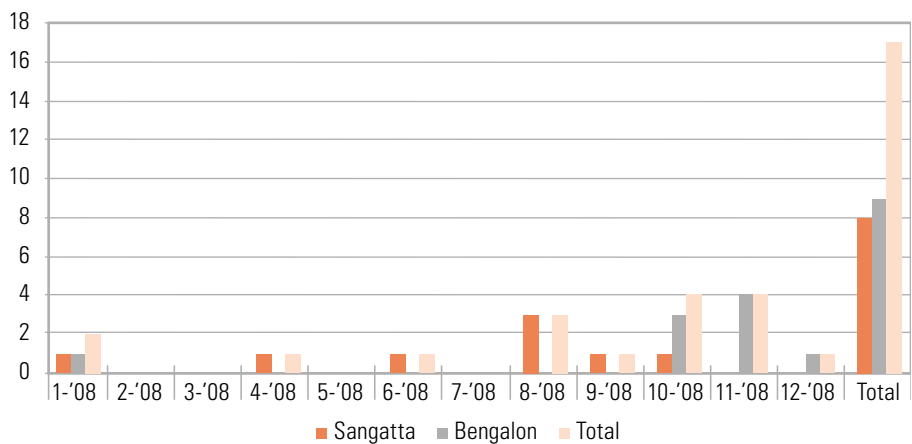
HANDLING OF GRIEVANCES AND EXTERNAL COMMUNICATION

There are rules concerning compliance in a mine, accordingly KPC must also strive to obey the rules in running the production of coal that has been targeted. Those rules were stated in AMDAL (Environmental Impact Analysis) 2005. One of them is managing community grievances caused by the mining activity so that it will be documented, as it is one of KPC compliances in the Environment and Social Management Plan.

In 2008, the Community Feedback System was still used to handle critical grievances as it was stated in memo Ref. M004/ESD/VII/06. These handling issues were conducted based on the Standard Operation Procedure (SOP) ESDMS/DOC/SOP/ESD/CFS/002 as the guide of its technical implementation.

KPC, in this case the Community Empowerment (CE) Department, was given the mandate to conduct the management of community grievances caused by the mine such as issues related to the environment, natural disasters, and social conflicts. The CE Department also coordinated and facilitated for the continuity of the social monitoring process in collaboration with the related Government Offices and the District Local Governments in each area. The facilitation included solving the conflict/problem caused by the community's disappointment of the KPC mining activity.

For the period of January–December 2008, no work strikes occurred, but there were grievances from the community of which 17 grievances occurred. The greatest number of grievances occurred in the periods of October and November 2008 with 4 grievances. The least number of grievances occurred in the periods of April, June, September and December with 1 grievance for each month.

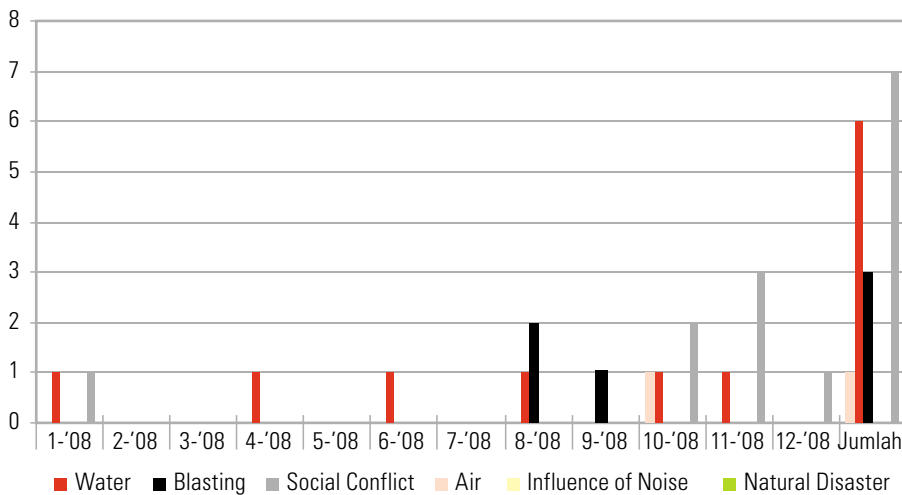


Graph 9. Composition of grievances in 2008

Generally, from the 17 grievances that occurred, there were 2 grievances that were in the outstanding status. This was because those cases are still under investigation and need further meetings to determine the agreement reached between the community parties and KPC. However, the monitoring process is still continuing. The two grievances are about the problems of land compensation and the graves of Dayak Basap ancestors.

Meanwhile, the cases with a closed status total more (15 cases). This indicates a higher level compared with the outstanding cases. In addition, a demonstration and a blockade occurred once in this period.

From the feedback of the 17 cases or grievances, the most commonly occurring category was regarding environmental cases (impact of mining) and social conflicts.



Graph 10. Composition of grievances in 2008 based on criteria

From this graph, it can be seen that environmental problems (water pollution, dust and blasting vibration), and social conflict such as manpower problems and relationships with the local community (custom) have become the company concerns. This is in view of the fact that those problems have the potency for wider conflict to appear, and that may have negative consequences for the company operations.

From the observation results and grievance analysis in 2008, we can conclude that communities still do not understand about the environmental management and mandate of AMDAL (environmental impact analysis) that is given to KPC. KPC and related offices need to socialize the issue of management (environmental and social issues) continuously that is caused by operational mines, integrated and systematically. In addition, the company response level needs to be improved in comprehending and managing the social issues in the community such as the restlessness towards river water pollution, blasting vibrations that are felt so strong in the settlement area, manpower problems and absorption of local manpower. Those issues must be understood as part of the community dynamics that must be able to be managed by the company, so that the mechanism and coordination amongst the related department (departments, divisions) in KPC are needed, so the problems' solutions will be comprehensive and integrative.

MONITORING AND EVALUATION

Similar to the previous year, the monitoring activity in the social sector was conducted in an internal way, with firstly creating the 2008 monitoring and the evaluation framework for every community development program that was conducted in order that it be more measured and directed, and conform to the reference standard on each program.

Some forms of monitoring and evaluation that were operated during 2008 included visits and inspections to the area to ensure the continuity and conformity of the program or project with the plan and implementation scope; coordination meetings at division and department level regarding budgets and the realization by persons responsible for the program; feedback system and grievance closing cycle; and also the program evaluation report.

SOCIAL PERFORMANCE

Evaluation and monitoring processes during this time were still facing the problems due to the lack of personnel. The size of the region that includes 18 districts with limited access also is an obstacle such that the evaluation and monitoring activities could only be conducted for Sangata, Bengalon, and Rantau Pulung areas. To overcome this problem, the PME (Project Monitoring and Evaluation) department got assistance from KPC's regional colleagues who are in KPC's support areas such as Sangata, Bengalon, and Rantau Pulung. Besides this problem, another problem was the activity implementer/proponent did not understand the activity's technical aspect that was conducted also became a problem that often appeared in the field.

In conducting the evaluation and monitoring, there were some verification tools that were used such as monitoring work plan, monitoring schedule, activity report, transfer report, work report of field supervision and other required documents for monitoring and evaluation processes.

To develop the monitoring and evaluation processes, several company and its partners' staff participated in the Moving Forward on CSR through Monitoring and Evaluation Program training in Bandung on 19–21 November 2008 that was conducted by ICSD (Indonesia Center for Sustainable Development).

Through this training, monitoring staff have better task knowledge to develop quality observation and evaluation and also uphold communication with the network of CSR agent of other companies.



Graphic 31. 2 staff of KPC Edward Marzella and Rusdiansyah, and 1 person from MSH-CSR Forum, Slamet Supriyanto, attended training concerning Monitoring and Evaluation.

ENVIRONMENTAL PERFORMANCE

The form of KPC's commitment to keep on renewing the HSE system performance is realized by stating the parameters of the environmental performance indicators as described in table 16. The environmental performance indicators are stated annually based on an assessment on important impacts of mining operations and prevailing environmental regulations. The indicators involved the fulfillment of rehabilitation activities in ex-mining areas, water quality, air quality and waste/rubbish and hydrocarbon treatment. Improvement efforts were conducted for individual parameters as the commitment of KPC management to fulfill provisions in the existing environment regulations.

To measure the environmental performance, monitoring was conducted (internal and external ways by an accredited laboratory) concerning the parameters for water quality, air quality, reclamation target achievement, and also waste and hydrocarbon management. Environment parameters that were monitored and its monitoring frequency were related to Environment Impact Analysis RKL-RPL and prevailing government regulations. Evaluation toward target achievement that is expressed in the form of the compliance level is conducted every year in a management review forum as one of the requirements of Standard ISO 14001. The KPC management then establishes improvement actions for the coming year in every individual environment indicator parameter. Thus environmental performance will be revised from time to time to achieve maximum compliance levels with the result that the environmental impacts of the operations are managed

Table 16. 2008 Environmental Performance Indicators

| NO | PARAMETERS | 2007 ACHIEVEMENT | 2008 PLAN | 2008 ACHIEVEMENT |
|----|---------------------------------|------------------|-----------|------------------|
| 1. | Reclamation Area (ha) | 230,00 ha | 435,00 ha | 439,58 ha |
| 2. | Water Quality | | | |
| | -TSS (%) | 99 | 90 | 100 |
| | -pH (%) | 100 | 95 | 100 |
| | -Mn | 90 | 95 | 100 |
| | -Fe | 97 | 100 | 100 |
| 3. | Air Quality | | | |
| | -PLTU Vent Emission (%) | 100 | 100 | 100 |
| | -Total Dust Concentration (TSP) | 100 | 100 | 100 |
| | -Ground & Sound Vibration | 100 | 100 | 100 |
| 4. | Hydrocarbon & waste | | | |
| | management compliance based | | | |
| | on integrated audit value (%) | 79,34 | 86 | 88,56*) |

Resource : data of internal and external laboratory measurement results

*) audit result verification in 2007 that was conducted in 2008

ENVIRONMENT POLICY

The environment policy as the formulation of KPC's commitment in maintaining the environment was issued on 1 December 1998. The policy then was modified in line with the fulfillment of ISO 14001 Standard requirements. The latest policy is a sustainable development policy, health, work safety and environment (K3L) that was signed by the President Director on 1 September 2008. The policy involves three basic points, i.e. compliance, pollution prevention, and continuous improvement.

ENVIRONMENTAL PERFORMANCE

Considering that mining activities result in modified landscapes, then biodiversity and reclamation have turned out to be significant issues. Therefore, in the environment policy statement, KPC emphasizes a commitment to preserve biodiversity and reclaim ex-mining land to become an area that is stable, safe and productive.

ENVIRONMENT MANAGEMENT RESPONSIBILITY

Structurally, environment management is carried out by the Environment Department which is part of the Health Safety & Environment Division. But, responsibly every division is devoted to the management of the environment. In accordance with the Minister Decree (Kepmen) 555.K/M. PE/1995-1, and then the Technical Chief of the Mine (Kepala Teknik Tambang) has functional responsibility for the compliance of HSE regulations.

TRAINING

In terms of improving employees' knowledge and skill, KPC develops some in-house training programs. Those cover the EMS ISO 14001 material, important environment aspects (hydrocarbons, waste, reclamation including water quality, mine acid water, and revegetation). 287 employees have followed that training during 2008. The provision to create or formulate training needs for individual position holders in KPC was regulated according to MSE 2.03 (Selection, Training, Competency & Authorisation).

MONITORING AND FOLLOW UP

Environmental performance monitoring activities were performed internally to measure the achievement of environmental objectives and targets. Internal monitoring activities involve key parameters for environmental quality standard fulfillment, audits, inspections and visual monitoring. The monitoring procedure was regulated according to MSE 3.01 (HSE performance measurement and monitoring). Whereas the frequency and location for monitoring related to key parameters were regulated according to the Environmental Impact Assessment (AMDAL) document. Inspection and audit monitoring were done according to the ERA (Environment Risk Assessment) list. Besides monitoring on the key parameters, some inspections and audits were conducted as per the stated schedule. In 2007, an integrated audit program was commenced (waste, hydrocarbon and Environment Management System) in all work units in the areas of KPC and contractors. In 2008 it continued with the audit result verification activity.

In case during the monitoring activities, inappropriate system, procedures and quality standards were found the team would issue a CPAR (Corrective/Preventive Action Request). The procedure for the issuing and settlement cycle is defined in MSE 3.2 Investigation, Nonconformity, Corrective Action & Preventive Action.

Besides that, KPC was also audited by an independent party in accordance with EMS ISO 14001 certification. KPC was certified by SGS from 24 September 2004. The Second certificate was issued on 24 September 2007 and is valid until 23 September 2010. The audit surveillance ISO 14001 conducted by SGS on 22–25 September 2008, recommended that KPC was still able to hold the ISO 14001 certificate.

In addition, KPC's performance on environmental management was also audited by the Central Government (The State Ministry for Environment and Directorate General Mineral Coal & Geothermal) and the Local Government (Bapedalda and the Local Environment Office). For nine consecutive years since 2000 until 2008, KPC was awarded the Gold award by Proper Batubara (Performance Ranking Program) for the Sengata mining area in East Kalimantan, while the Bengalon mining area achieved Proper Green award in 2008. In December KPC was awarded the Adhitama Award for the management of overburden rock dumps and other related activities at its coal mining activity.

ENVIRONMENTAL INDICATORS

In running the mining operation, KPC needs some type of materials such as for explosives, materials for coal washing and lubricants for heavy equipment, as shown in Table 17.

Table 17. Material Consumption for Mining Operation 2008

| NO | MATERIAL TYPE | USAGE | UNIT | TOTAL |
|----|----------------|-------------------|------|-----------|
| 1. | Amonium Nitrat | Blasting Material | Ton | 91.081 |
| 2. | Magnetite | Coal Washing | Ton | 620 |
| 3. | Flocculant | Coal Washing | Kg | 25.850 |
| 4. | Lime | Coal Washing | Kg | 1.231.300 |
| 5. | Oil | Lubricant | L | 4.157.648 |

Resource: PT KPC Ellipse System Supply Department

To fulfill the needs of required electricity energy, KPC operated 2 units of PLTU (steam-powered electric generator) each having a 5MW capacity and some support gensets (diesel generator). Electricity production for 2008 was 97,229.97 MWh (see table 18). The electricity was used for the KPC's coal mining operation needs in Sengata that includes the preparation process and coal washing, coal delivery from mine site to ship, all offices and senior staff housing. As the main electricity generator/PLTU and diesel generators are operated if the electricity consumption is more than the PLTU power. Gensets was also used as the reserve if the PLTU was facing a problem, periodical maintenance or damage occurred. With the PLTU and gensets operations, KPC only supplied internal electricity needs so that it did not buy or sell to outside parties.

Another energy resource used besides electricity was fuel oil (diesel fuel and pertamax), which was used to move the operational equipment of KPC and contractors (light vehicles, heavy equipment in the mine, employee's buses, etc.). The fuel consumption in 2008 can be seen in Table 18.

Tabel 18. Konsumsi Energi Langsung dan Tidak Langsung Tahun 2008

| NO | ENERGY | RESOURCE | 2007 | | 2008 | |
|----|-------------|----------|------------------------|-----------------------|------------------------|---------------------|
| | | | Electricity Production | Fuel Consumption | Electricity Production | Fuel Consumption |
| 1. | Electricity | KPC PLTU | 68.069,2 MWh | 41.119,6 ton batubara | 60.931,2 MWh | 37.686 ton batubara |
| 2. | Electricity | Genset | 34.256,64 MWh | 9.384,5 kL solar | 36.298,77 MWh | 9.924,55 kL solar |
| 3. | Electricity | PLN | Nil | Nil | Nil | Nil |

Resource: data of PLTU and genset electricity production, Coal Terminal OLC & Power Department, PT KPC

Table 19. Fuel Consumption 2008

| NO | TYPE | FUEL CONSUMPTION | |
|----|-------------|------------------|---------------|
| | | 2007 | 2008 |
| 1. | Diesel Fuel | 420.521.491 L | 530.255.451 L |
| 2. | Pertamax | 682.037 L | 607.711 L |

Resource: Ellipse System, Supply Department, PT KPC

In relation with the increasing of fuel consumption per year, KPC has carried out an effort of efficiency (economizing) especially in terms of diesel fuel and oil use. A special team was established to operate the diesel fuel and solar efficiency program.

ENVIRONMENTAL PERFORMANCE

FUEL EFFICIENCY PROGRAM

The fuel efficiency program (especially diesel fuel) has been done since 2008, based on the data of fuel use which was in an unproductive condition. KPC then established a team commissioned to find the causes factors and implement the improvement efforts. Some upgrading steps which had been done were:

1. Improve upon the fuel consumption report, starting from the transfer done by the fuel man to the operator up to the weekly report audit by the production superintendent in each department,
2. Improve the match factor control in grade 0.6 up to 0.9, followed by the making of an SOP,
3. Change broken breather caps (of fuel filling line) in heavy equipment until light vehicles,
4. Improve the fuel economizing controls and socialization by way of switching off the unproductive machine, through training and issuing a new SOP,
5. improve upon the crowded traffic signs and road/crossroad planning,
6. Make graphs and reports to control the fuel consumption in all departments in MOD,
7. Socialize 2 (two) new SOPs: Switch off the Unproductive Machine SOP and Keep Match Factor (Balance) Truck-Shovel at Optimum Operational SOP.

Since the beginning of this program in March 2008 up to late of December 2008, the amount of diesel fuel that had been cut was in the amount of 10.35 ML.

OIL EFFICIENCY PROGRAM

The background of this program's implementation is: the high consumption of oil as the lubricant in heavy equipment and the expensive price of new lubricant; the high level of consequence and risk of used lubricant handling which is included in B3 waste category; and the high unit/equipment downtime for periodic service.

To overcome those problems, KPC's MSD (Mining Service Division) since 2008 conducted an oil efficiency/economizing program by way of minimizing the use of oil in 56 units of 789 trucks, with the program details as follows:

1. Lengthen the Engine Lubricant's Age (250 to become 500 hours), by means of: Increasing the oil grade from API Service CH-4 to become CI-4 Plus, and adding tank capacity from 212 L to become 280 L.
2. Lengthen the Transmission Lubricant's Age, Hydraulic, Final Drive, and Differential (2000 to become 4000 hours), by means of: increasing the oil grade from Caterpillar TO-2 to become TO-4, and doing oil filtration (Kidney looping) every 500 hours.
3. Monitoring the oil's condition every 500 hours by providing on site lab oil analysis to gain analysis in the same day.

From the result of the implementation on 56 units of 789 trucks, we got oil economizing results for the engines in the amount of 34% (equivalent to 103,826 liters of oil) and oil savings for transmission, hydraulic, final drive, and differential oil in the amount of 50% (equivalent to 110,897 liters of oil).

THE WATER REQUIREMENTS FOR PRODUCTION AND DRINKING

Requirements for fresh water and drinking water are drawn from the river and bore wells which are treated in the Water Treatment Plant. The total water resulting and used during 2008 is shown in table 20.

Table 20. Water Production and Consumption 2008

| NO | DESCRIPTION | VOLUME (m3) |
|----|---|-------------|
| 1. | SURFACE WATER & GROUND WATER (AS RAW WATER) | |
| | • Sengata Raw Water (taken from Papa Charlie) | 2.420.330 |
| | • Tanjung Bara Bore Water | 517.424 |
| | Raw Water Usage | 2.937.754 |
| 2. | TOTAL RAW WATER PROCESSED (PRE-TREATMENT) | 2.200.056 |
| 3. | WATER TREATMENT PLANT | |
| | • WTP Swarga Bara | 1.651.110 |
| | • WTP Tanjung Bara | 434.846 |
| | Total Potable Water Production | 2.085.956 |
| 4. | TOTAL POTABLE WATER CONSUMPTION | 1.997.365 |

Source : PT KPC Infrast Department

In terms of conserving water usage, water for coal washing process purposes at CPP was recycled from the sedimentation pond. For watering the mine and CPP area roads this utilized water coming from the sediment pond.

Table 21. Recycled Water for Coal Washing Process

| Year | Discharge entering the wash (m3/jam) | Discharge leaving sediment pond (m3/jam) | Discharge recycled (m3/jam) | Washed Coal (ton) | Recycled Water (m3/ton) |
|------|---|---|--------------------------------|----------------------|----------------------------|
| 2007 | 280 | 210 | 89,1 | 1.081.679 | 0,372 |
| 2008 | 280 | 210 | 89,1 | 1.130.642 | 0,356 |

Resource: data of CPP washing water, Coal Processing Plant Department, PT KPC (incoming water debit calculation with the approach of pump capacity, calculation of water discharge leaving sediment pond and recycled by mean of a flow meter).

LAND OPENING AND EX-MINING AREA REHABILITATION

In order to improve the coal production, an area of 1,234.59 hectares was opened for mining operations including overburden rock dump areas. The opening of Pit areas under the Sengata Contract was carried out at Pit Khayal, Belut, Melawan, Pelikan, Kanguru, Parkit, Kancil, and Beruang. The opening of Pit areas under the Bengalon Contract was conducted at Pit A. The total soil volume transferred for reclamation purposes at the Sengata Mining area during 2008 was 11,866 kbcm. While the soil volume transferred from the Bengalon Mining area was 1,303 kbcm. Meanwhile, the dumping of overburden rock was conducted in the mining pits (backfilling method) and out of the mining pits. The backfill method was performed by KPC at the Hatari and Bintang dumping areas, namely BIG AB and Bendili; and at the dumping Pit under the Sengata Contract, i.e. Melawan Barat, Belut, Beruang Khayal, Pelikan, Kanguru and at the Pit area under the Bengalon Contract namely Pit A. The status of land use to the end of 2008 is shown on Table 22. According to the Decision Letter of the Minister of Energy and Mineral Resources No. 1.K/40.00/DJB/2007 dated 1 January 2007 regarding the decrease in the area of 22 ha, therefore the size of the concession area has become 90,938 ha from the size before of 90,960 ha.

Table 22. Land Use for KPC Mining Operations

| No | Area | Extent (ha) |
|----|--------------------------|-------------|
| 1. | Concession Area (ha) | 90.938 |
| 2. | Disturbed area (ha) | 12.632,68 |
| 3. | Infrastructure Area (ha) | 348,34 |
| 4. | Reclamation Area (ha) | 3.281,86 |

ENVIRONMENTAL PERFORMANCE

The total reclamation of Sengata and Bengalon ex-mining areas in 2008 (January–December 2008) totaled 439.58 hectares, out of the reclamation area of 435 hectares planned for 2008, as shown in table 23. Plants utilized for reclamation purposes involved local plants, non-local plants, fruit plants and tropical lowland rainforest trees (Dipterocarpaceae). Commodity plants also were cultivated in the reclamation area namely: castor-oil, oil-palm and rubber. Oil palm cultivation until the end of 2008 measuring 37.96 hectare, is located in the Taman Rusa, Sengata North and Prima Dump areas. Rubber cultivation is in the Belut and Kudanil areas, with a total area of 21.99 hectare. These palm oil and rubber cultivation projects were intended for the purpose of research into land use at an ex-mining area in the plantation sector.

One Hydroseeder unit, which was supported by 1 water tank unit, was used to spray the hill slopes with mixtures of seeds, fertilizer, mulch, bonding material and compost to create a stable slope and reduce erosion. Reclamation by this way covered an area of 25.78 hectares during 2008

Tabel 23. Reklamasi Lahan Berdasarkan Pit (ha)

| NO | MINE AREA | QUARTER 1 | | QUARTER 2 | | QUARTER 3 | | QUARTER 4 | |
|----|-----------------------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|-------------|
| | | Plan | Realization | Plan | Realization | Plan | Realization | Plan | Realization |
| 1 | Hatari-AB | 18,48 | 6,93 | 20,55 | 13,33 | 11,81 | 26,78 | 0 | 24,75 |
| 2 | Bintang | 35,41 | 41,46 | 29,99 | 50,90 | 33,79 | 0 | 0 | 0 |
| 3 | Bendili | 0 | 9,00 | 0 | 7,75 | 0 | 19,34 | 0 | 1,43 |
| 4 | Pit J | 6,80 | 0 | 1,50 | 0 | 0 | 5,68 | 0 | 0 |
| 5 | Panel 7 | 0 | 0 | 0 | 0 | 29,78 | 31,46 | 56,89 | 5,89 |
| 6 | Hydroseeding | 7,50 | 8,53 | 7,50 | 6,94 | 7,50 | 5,38 | 7,50 | 4,93 |
| 7 | Sengata Contract Pit | | | | | | | 0 | 0 |
| | - Khayal | 0 | 21,89 | 12,34 | 0 | 23,22 | 0 | 0 | 1,81 |
| | - Belut | 0 | 27,10 | 27,70 | 12,04 | 22,33 | 10,33 | 24,41 | 7,79 |
| | - Melawan | 0 | 0 | 0 | 5,50 | 0 | 8,23 | 0 | 0 |
| | - Pelikan | 0 | 0,90 | 0 | 0 | 0 | 12,64 | 0 | 10,54 |
| 8 | Bengalon Contract Pit | 12,00 | 3,10 | 12,00 | 10,14 | 13,00 | 23,16 | 13,00 | 13,93 |
| | Total | 80,19 | 118,91 | 111,58 | 106,60 | 141,43 | 143,00 | 101,80 | 71,07 |

Resource: reclamation data of PT KPC Environment Department

BIODIVERSITY PROJECT FOR REHABILITATION AREA

We realize that open cut mining will cause changes in the environment's original condition including the extinction of biodiversity. To maintain the biodiversity, KPC plans to raise seedlings of local and rare plants as stated in the AMDAL. Reclamation was divided into three stages, namely planting covering trees to reduce erosion, fast-growth trees for canopies, and rainforest species. The total area of rainforest species planted was 246.16 hectares, dispersed at Gajah Hitam, CPP Dump, C North, Albaret, D2 Surya, Murung, Panel 4 Mentari, Dirty Coal, Batu Merah, Panel 7 Surya, D4 valley, Anna pond, Taman Payau, and Mandili.

As an effort to maintain biodiversity, in a revegetation activity local plants were planted of types found in the area prior to mining. To provide these appropriate plants, there are clippings of the Dipterocarpaceae family in the nursery. Some Dipterocarpaceae species which have been cultivated from clippings have already been produced: *Shorea balangeran*, *Shorea johorensis*, *Shorea mojongensis*, *Shorea paquiteana*, *Shorea parvifolia*, *Shorea pauciflora*, *Dryobalanop lanceolata*, *Shorea asamica*, *Shorea leprosula*, *Shorea ovalis*, *Shorea seminis*, and *Shorea smithiana*.

Besides those efforts, since 2006 KPC has established an ex-mining reclamation area of 22 ha in D2 Surya as an arboretum area. Up to the end of 2008 there were 110 species of plants which have been planted in the arboretum area, consisting of local plants, non-local plants, fruits and Dipterocarpaceae species tropical lowland rainforest trees.

To guarantee the execution of the management of biodiversity, we have a biodiversity management SOP (Standard Operating Procedure). The scope of the SOP is to manage the flora and fauna from several stages of the activities, namely: a pre-mining flora and fauna survey (to find out the flora and fauna diversity which will be the basis to providing seeds), seeding, cultivation, monitoring and the evaluation of reclamation success in the ex-mining reclamation area. To maintain the flora diversity, 30 types of plants have been cultivated in each reclamation area.

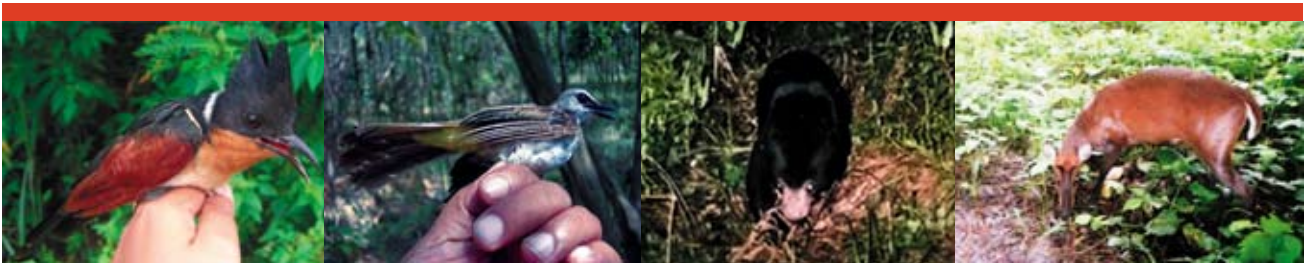
The fauna monitoring activity was conducted in 2008 working along with the team from the Faculty of Forestry of Mulawarman University, Samarinda. The monitoring was conducted in three ex-mining reclamation areas: Taman Payau (10 years old), Hatari East (10 years old), and Panel 3 (6 years old). It was conducted to find the type and quantity of fauna which was present in the reclamation area, so the biodiversity level in the area could be known. The result of the fauna monitoring which was performed together with a consultant from the Faculty of Forestry of UNML gave some conclusions about the existence of fauna in PT KPC reclamation area:

- The existence of types of fauna in the reclamation area showed their response toward the habitat change (improved overburden land) in the reclamation area
- The water habitat played its own role in creating individual habitat complexes for herpetofauna types, waterfowl, and certain mammals such as Pecuk Ular (*Anhinga melanogaster*) and Elang Bondol (*Haliastur Indus*), and the carnivore mammal Sero Ambrag (*Aonyx cinerea*) present in a full water habitat and trees
- The correlation for butterfly varieties was in line with the vegetation cover in every monitoring site. While the dragonfly varieties were affected more by the water conditions
- Insect eating birds were the most found in each monitoring period, indicating the availability of a lot of insects
- An abundance of small mammals was particularly determined by vegetation density with low height and in the canopy level, an abundance of wood and fallen branches, extent/amount of rock heaps and wet areas, and also wood stumps. Those structures provide many places to escape to or for hiding so that could increase their ability to avoid predators. The composition and abundance in particular places likely create certain habitat structures and specifications and differentiate the small mammals which exist there. Two types of rat found in this study, the Wood Rat (*Rattus tiomanicus*) and Field Rat (*Rattus exulans*) were the first types which existed (called as founder species) on the reclamation site together with the beginning to close off the area with the cover crop which was planted and grass as well as pioneer undergrowth which grows naturally.

ENVIRONMENTAL PERFORMANCE

- There was an ecological niche division between the rats found in this monitoring and two other small [squirrel-like] mammals (Tupai Tercat and Bajing Kelapa). The Wood Rat and Field Rat tended to live in short plants which dominated with the cover crop and pioneer undergrowth. In the area which was dominated by stalks and trees where the canopy was complete, the existence of Bajing Kelapa and Tupai Tercat was dominant. In such areas, the plants underneath increased their density, but the abundance of branches and dead wood decreased
- Generally, the general primate was quite capable to adapt with the habitat structure and composition changes
- The carnivores found were not genuine carnivores, as they could also eat plants
- There was a seasonal impact with the existence of the fauna
- The existence of natural secondary forest spots (remnant patches) was very important to maintain the flora and fauna types.

Some types of fauna found during the monitoring are shown in the figure below.



Graphic 32. Bubut pacar jambul

Graphic 33. Merbah cerucuk

Graphic 34. Honey bear

Graphic 35. Muncak deer

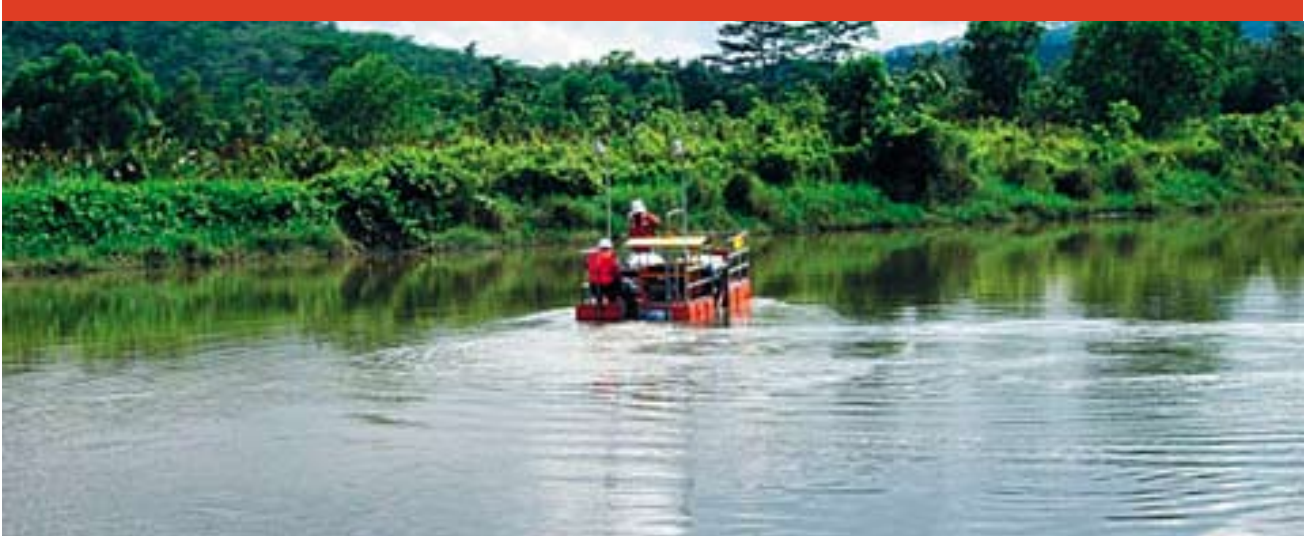
Waters biota monitoring in Sengata and Bengalon river area is performed every two years. The latest monitoring was performed in 2007 and will be performed again in 2009.

ORANGUTAN RELOCATION

The Orangutan is a special Kalimantan animal which is included in the IUCN Red List categorized "endangered", sometimes it is found in the mining activity area. Paying attention its endemic nature, KPC earnestly tries to move them from the mining area to a safer place. The relocations are performed in collaboration with the local Office of Natural Resources Conservation and BOSF (Borneo Orangutan Survival Foundation), a foundation that saves Orangutans and is located in Samboja, Balikpapan. To support the Orangutan relocation project, KPC has a temporary relocation site before the Orangutan is released to the wild in Kutai Natonal Park. During 2008 there was no relocation activity for Orangutans.

ROCK ACID WATER MANAGEMENT

To manage rock acid water in the sediment pond, the addition of lime both manually and by means of a Neutra-Mill was performed. Manual addition of lime was performed in Pelikan and Khayal Pits, also in Pit AB if required. A static Neutra-Mill was operated in the Keny J pond Pit J during 2008 to maintain water quality outside of the sediment pond. A new dynamic Neutra-Mill (which could be moved in all directions in the pond) also was put in the Keny J pond at the end of June 2008 to assist the addition of lime process. In the sediment ponds at Bengalon (NWD02, New Dam and Kelawitan) the addition of lime was also done manually as well as by means of a Neutra-Mill.



Graphic 36. Neutra-Mill operations in Kelawitan pond Bengalon

The classification and separation of overburden rock was conducted based on the potential rock acid water creation, i.e. through the use of NAG (Net Acid Generation) geochemical analysis conducted in the KPC Environment Laboratory. This analysis was conducted on rock samples taken from the exploration area (diamond core or geology drill chips), blast holes and final dump. 141,069 rock samples had been NAG analyzed during 2008.

The NAG geochemical analysis taken from the exploration area was conducted for Bendili, Kancil, Kanguru, Pedayak, Pelikan, Melawan, Pit J, Khayal, Kancil, Inul, Kenari, Kalajengking, Kancil, Prima Dump, and Zebra Pits. The NAG geochemical analysis from blast hole samples came from areas in Hatari, Bintang, Pit J, Bendili, Belut, Pelikan, Melawan, Kanguru Pits, and Pit A Bengalon. Information resulting from the geochemical analysis was very important to minimize the potential of Mine Acid Water.

The rock geochemical analysis was carried out at the final dump by taking samples by means of drill holes at 10 meter depth with a drill inter-hole distance of 50 meters (dump drill). Sample collection at the final dump was performed at Pelikan, Hatari Panel 8, Surya Panel 7, Belut, Khayal, Melawan, AB East Dump, Pit J, Harapan South, Rawa Indah, Bendili Pits, and NWD4 Dump Pit A Bengalon. Such an analysis was performed as part of the quality control efforts in the treatment process of rock acid water prior to reclamation.

MATERIAL USED BASED ON VOLUME

Waste paper from offices was collected and treated as compost raw material. The compost processing was conducted in the KPC Nursery. In addition to the paper, compost materials also involved wet rubbish taken from the pantry at the employees' mess. Compost produced was used as a media mixture used in both pot-based cultivation and cultivation in the reclamation area. Paper-based wastes also served as mulches that ultimately combined with other materials such as seeds, fertilizer and bonding material, and they were used for slope spraying using the Hydroseeder. One unit of Hydroseeder has operated since the end of the 2006 second trimester to create stable slopes and reduce erosion.

ENVIRONMENTAL PERFORMANCE

During 2008 1,191 used tires were produced. 281 used tires were utilized in the drainage system (drop structure) of the reclamation area during 2008, in the area of Lower Melaso pond, Tepian Kancil, Melawan East and Panel 4.

EMISSION, EFFLUENT & WASTE

An air quality management system arising out from the mining operation was conducted through the following methods: watering mining roads using water tank trucks; planting trees surrounding industrial areas; maintaining and modifying the dust suppression system at the coal preparation plant (CPP); as well as maintaining the power plant station and the exhaust flue of the coal fired power plant (PLTU).

Ambient air quality monitoring was conducted every six months at the housing area in Sengata and Bengalon, and it indicated the results complied with the quality standard during 2008.

The results of the ambient air monitoring from the exhaust flue of the coal fired power plant (PLTU) and the genset exhausts showed they complied with the quality standard during 2008. The coal fired power plant and genset are the main energy sources from KPC to provide electricity, hence, it becomes the main emission source. Besides the PLTU, KPC also operated an incinerator to destroy waste contaminated by hydrocarbons (filter and rags) as well as clinical waste. Monitoring with regard to air emission from the PLTU exhaust flue and genset exhausts were conducted every 6 months while the incinerator emission monitoring was conducted every 3 months. The monitoring report could be seen in Table 24, 25, and 26.

Table 24. Emission Monitoring Report of PLTU Exhaust

| SITE | DATE | NOX (NITROGEN OXIDE) | SO2 (SULFUR DIOXIDE) | TOTAL OF PARTICLES | OPACITY |
|------------------|--------|----------------------|----------------------|--------------------|---------|
| | UNIT | (MG/M3) | (MG/M3) | (MG/M3) | (%) |
| Quality Standard | | 850 | 750 | 150 | 20 |
| Exhaust 1 | Jan 08 | 591 | 17 | 20.5 | 20 |
| Exhaust 1 | Jun 08 | 429 | 118 | 26.18 | 15 |
| Exhaust 2 | Jan 08 | 443 | 13 | 15.8 | 20 |
| Exhaust 2 | Jun 08 | 448 | 125 | 28.74 | 20 |

Resource: data of measurement results by external party (Sucofindo)

ENVIRONMENTAL PERFORMANCE



Table 25. Emission Monitoring Report of Genset Exhausts in Sengata and Bengalon

| PARAMETER | UNIT | QUALITY STANDARD | SENGATA | | | | | | BENGALON | | |
|-----------|---------|------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| | | | Genset 1 | Genset 2 | Genset 3 | Genset 1 | Genset 2 | Genset 3 | Genset 1 | Genset 2 | Genset 3 |
| | | | Jan 08 | Jan 08 | Jan 08 | Jun 08 | Jun 08 | Jun 08 | Dec. 08 | Dec. 08 | Dec. 08 |
| NH3 | (mg/m3) | 0,5 | <0,1 | <0,1 | <0,1 | <0,1 | <0,1 | TD *) | 0,024 | 0,019 | 0,020 |
| Cl2 | (%) | 10 | <5 | <5 | <5 | <5 | <5 | | <0,002 | <0,002 | <0,002 |
| HF | (mg/m3) | 10 | <3 | <0,1 | <3 | <3 | <3 | | <0,001 | <0,001 | <0,001 |
| HCl | (mg/m3) | 5 | <0,1 | <0,1 | <0,1 | <0,1 | <0,1 | | 0,349 | 0,215 | 0,228 |
| NO2 | (mg/m3) | 1000 | 939 | 956 | 965 | 276.4 | 213.5 | | 10,7 | 27,6 | 25,3 |
| SO2 | (mg/m3) | 800 | 82 | 65 | 127 | 64.3 | 51.2 | | <0,26 | <0,26 | <0,26 |
| H2S | (mg/m3) | 35 | 17.2 | 5.55 | 14.7 | 26.3 | 29.4 | | 0,42 | 0,69 | 0,69 |
| Opacity | % | 35 | 20 | 15 | 20 | 15 | 15 | | <1 | <1 | <1 |
| Particles | (mg/m3) | 350 | 15.6 | 10.5 | 20.8 | 14.3 | 16.4 | | 269,8 | 121,1 | 191,5 |
| Hg | (mg/m3) | 5 | <0,001 | <0,001 | <0,001 | <0,001 | <0,001 | | <0,001 | <0,001 | <0,001 |
| As | (mg/m3) | 8 | <0,005 | <0,005 | <0,005 | <0,005 | <0,005 | | <0,001 | <0,001 | <0,001 |
| Sb | (mg/m3) | 8 | <0,005 | <0,01 | <0,005 | <0,005 | <0,005 | | <0,001 | <0,001 | <0,001 |
| Cd | (mg/m3) | 8 | 0,002 | <0,001 | 0,003 | <0,005 | <0,005 | | <0,005 | <0,005 | <0,005 |
| Zn | (mg/m3) | 50 | 1.47 | 2,05 | 0,66 | <0,08 | <0,08 | | 0,03 | 0,03 | 0,03 |
| Pb | (mg/m3) | 12 | 0,27 | <0,01 | 0,24 | <0,01 | <0,01 | | <0,01 | <0,01 | <0,01 |

Resource: data of measurement results by external party (Sucofindo)

*) TD : not measured due to the genset was broken at that time

Table 26. Emission Monitoring Report of Incinerator Exhaust

| PARAMETERS | STANDARD | MONITORING REPORT **) | | | |
|-------------|-----------|-----------------------|---------|---------|---------|
| | | K1-2008 | K2-2008 | K3-2008 | K4-2008 |
| Particulate | 50 Mg/m3 | 11.6 | 11.41 | 12.48 | 14.37 |
| SO2 | 250 Mg/m3 | <1 | 13 | 17 | 14 |
| NO2 | 300 Mg/m3 | 34 | 68 | 150 | 136 |
| HF | 10 Mg/m3 | <0,1 | <0,1 | <0,1 | <0,1 |
| CO | 100 Mg/m3 | 4 | 7 | 9 | 8 |
| HCl | 70 Mg/m3 | <3 | <3 | <3 | <3 |
| CH4 | 35 Mg/m3 | <1 | <1 | <1 | <1 |
| As | 1 Mg/m3 | <0,001 | <0,001 | <0,001 | <0,001 |
| Cd | 0,2 Mg/m3 | <0,005 | <0,005 | <0,005 | <0,005 |
| Cr | 1 Mg/m3 | <0,005 | <0,005 | <0,005 | <0,005 |
| Pb | 5 Mg/m3 | <0,01 | <0,01 | <0,01 | <0,01 |
| Hg | 0,2 Mg/m3 | <0,001 | <0,001 | <0,001 | <0,001 |
| Tl | 0,2 Mg/m3 | <0,02 | <0,02 | <0,02 | <0,02 |
| Opacity | 10 % | 7 | 5 | 5 | 5 |
| Efficiency | - | 99,99 % | 99,99 % | 99,99 % | 99,99 % |

Resource: data of measurement results by external party (Sucofindo)

**) Emission monitoring report of 100 kg waste filter incineration

ENVIRONMENTAL PERFORMANCE

MANAGEMENT OF GREENHOUSE GASES AND OZONE-DESTROYING GASES

In order to decrease ozone-destroying substance emission, then a program for substituting Freon R-12 with Freon gas (R-134) was gradually implemented for the A/C on heavy equipment, light vehicles and room coolers as well as refrigerators. The Freon A/C on heavy equipment and light vehicles was entirely changed with R-134.

In the supplying of new equipment (especially trucks and other heavy equipment), KPC has purchased those which fulfill the standard of EPA emission (Environmental Protection Agency) Tier 1 and Tier 2. Several units/equipment that have been bought during 2008: 14 Liebherr trucks and 13 Euclid truck which comply with Tier 1 emission and 12 units of Caterpillar and 36 units of Komatsu comply with Tier 2 emission standard. KPC has made efforts to minimize the greenhouse gas emission, but has not calculated the reduction of that emission yet.

ROLE OF BIOMASS PRODUCTION FOR CO₂ ABSORPTION IN RECLAMATION AREA

Based on the CO₂ emission calculation with the input and output method of the 2005 data, the mining activity will produce CO₂ emissions equal to 1,703,528.32 ton and 1,263,906.42 ton equivalent. This calculation did not consider CO₂ absorption in the reclamation area. But the calculation of CO₂ absorption was done in 2007. In an effort to balance the carbon emission release into the air, PT Kaltim Prima Coal has performed land reclamation since 1993 until now of an area of 2,842 ha.

A study to estimate the capability of the vegetation derived from the reclamation in absorbing carbon has been conducted by calculating biomass production of the vegetation. This study also could be used in management planning for long term stands and a base for a nutrient cycle study with the description of organic substances in an ecosystem.

Biomass stand production average for the land reclamation area PT KPC mine was: 3.83 ton/ha/year. With the carbon content average in tissue 35.94%, an area 2,842 ha, then carbon that could be absorbed by the reclamation vegetation is in the amount of 3,912.02 ton/year.

WATER DISCHARGE IMPACT

As required in the AMDAL 2005 and environmental management standard for mining operations, all effluent water produced by the mining operation is treated by means of sediment ponds (see table 27) to keep fulfilling the quality standard. Individual effluent was monitored on a routine basis to identify its water quality.

To ensure the fulfillment of the quality standard of water produced by the mining operation, improvement efforts are conducted from time to time such as sedimentation dredging with a dredger and a long reach excavator, upgrading the capacity of sediment ponds (in Mandili and Melawan East pond), and building new sediment ponds (H. East, Lower Melaso and Tepian kancil). Such efforts are aimed to lessen the impact of mining operation effluent.



Graphic 37. Lower Melaso Pond with drop structure from used tires

TOTAL SETTLING POINTS OF MINE WATER EFFLUENT

Based on the District Head of East Kutai Decree Letters No. 188.4.45/100/HK/III/2008, KPC is authorized to discharge mining run-off water that has been precipitated in sedimentation ponds through monitored points as seen in Table 27. Water coming out from the sedimentation ponds will flow to the general waters (river and sea).

Table 27. Coordination Points of Mine Run-Off Water Disposal

| NO | NAME OF SEDIMENT POND | EFFLUENT POINT | WATER BODY RECIPIENT |
|----------------------|---|----------------|----------------------|
| SENGATA MINE | | | |
| 1 | Melawan South | Melaso | Sengata River |
| 2 | Melawan South West 02 | MSW02 | Sengata River |
| 3 | Kedapat | WQ06 | Sengata River |
| 4 | Villa Pond | WQ27D | Sengata River |
| 5 | Lake Side | WQ33 | Sengata River |
| 6 | AB Far North | AB Far North | S. Pinang Bengalon |
| 7 | Keny-J | Keny-J | Kenyamukan River |
| 8 | Sediment pond North and South coal terminal | WQ19 | Tanjung Bara Sea |
| BENGALON MINE | | | |
| 1 | NWD2 | NWD2 | Lembak River |
| 2 | New Dam | New Dam | Lembak River |
| 3 | Kelawitan | Kelawitan | Lembak River |

ENVIRONMENTAL PERFORMANCE

OIL SPILL MANAGEMENT

Hydrocarbon (oil and diesel fuel) spill occurrences during 2008 can be seen in Table 28. KPC has procedures and an oil spill response team so that the handling of spills could be undertaken immediately. In addition, every workshop is complete with an "oil spill kit" as an emergency response tool if there is any spill in the workshop area.

Table 28. Oil Spill Occurrences in 2008

| Spill Occurrence | Resource | Location | Type | Quantity (+/-) | Action Conducted |
|------------------|--|-----------------------|--------|----------------|--|
| Jan 08 | Operator negligence to close fuel distribution tank tap to dyno test | Trakindo Workshop | Diesel | 2000 | Spill isolated so did not get out of the mining area |
| Apr 08 | Truck which carried explosive material mixture overturned in mining area | Pit Harapan South | Diesel | 800 | Spill isolated so did not get out of the mining area |
| June 08 | Damage on fuel tank (Dewatering Pump) | Pit Melawan Thiess | Diesel | 60 | Spill isolated so did not get out of the mining area |
| Oct 08 | Damage on height indicator equipment for genset Fuel | Sewatama Tanjung Bara | Diesel | 600 | Spill isolated so did not get out of the mining area |
| Oct 08 | Failure on Quick Coupler system so fuel spill | Fuel Station Pit J | Diesel | 1200 | Spill isolated so did not get out of the mining area |

Resource: database hydrocarbon spill occurrences, Environment Department, PT KPC

HAZARDOUS WASTE

General waste originating from the housing and KPC industrial area was disposed of into the Waste Disposal Place (TPA) in the Hatari East dumping area. While the Hazardous and Poisonous Waste (B3) of KPC's operational activity was treated by following the current government regulation. B3 which is delivered to a third party was aimed for further treatment with permission from the State Minister for the Environment. The third party means a B3 collector in Indonesia that has permission from the State Ministry for the Environment to conduct treatment of some or all of the waste from a producer. It is important to know that the KPC did not send any B3 waste abroad. The amount of B3 waste managed during 2008 is shown below.

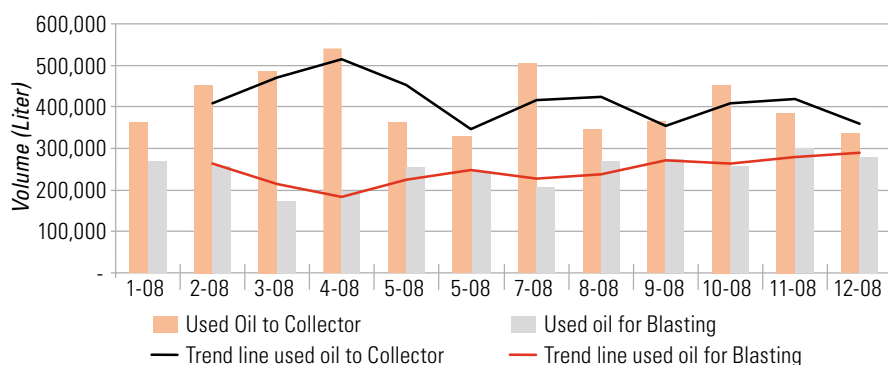
ENVIRONMENTAL PERFORMANCE

Table 29. Amount of B3 Waste Managed during 2008

| NO | CATEGORY | TYPE OF WASTE | UNIT | TOTAL WASTE | TREATMENT |
|----|----------|--------------------------|-------|---------------------|---|
| 1 | B3 | Used Oil | Liter | | |
| | | KPC | | 5.406.196,00 | Utilized internally + Sent to 3 rd Party |
| | | Thiess | | 1.677.256,00 | |
| | | DH | | 815.965,00 | Sent to 3 rd Party |
| | | Total of Used Oil | | 7.899.417,00 | |
| 2 | B3 | Contaminated rags | kg | 453.000,00 | Incinerated + Sent to 3 rd Party |
| 3 | B3 | Filter : | kg | | Incinerated + Sent to 3 rd Party |
| | | KPC | | 123.687,00 | |
| | | Thiess | | 61.891,45 | |
| | | Pama | | 47.510,00 | |
| | | DH | | 75.690,00 | |
| | | Total Filter | | 308.778,45 | |
| 4 | B3 | Mud Containing Oil | m3 | 455,45 | Bioremediation |
| 5 | B3 | Used Battery | Each | 3.032,00 | Sent to 3 rd Party |
| 6 | B3 | Coal ash | m3 | | Utilized |
| | | Fly Ash | | 6.621,00 | |
| | | Bottom Ash | | 1.099,00 | |
| | | Total of Coal Ash | | 7.720,00 | |
| 7 | B3 | Incinerator Ash | kg | 15.720,00 | Sent to 3 rd Party |
| 8 | B3 | Hydrogen Peroxide | Liter | 14.345,00 | Sent to 3 rd Party |
| 9 | B3 | Medical | kg | 3.522,50 | Incinerated |
| 10 | Non B3 | Public Waste | m3 | 17.850,60 | Sent to Waste Disposal Place |

Resource: waste statement of PT KPC

The used oil that KPC produced was utilized as auxiliary blasting fuel (ANFO emulsion) with the composition of 80% used oil and 20% fresh diesel, as per Decree of the State Minister for the Environment no. 560 year 2008. This number increased from the last permit to utilize used oil with the composition up to 75%. Around 2,975,942 L (37.67%) of used oil that KPC produced was utilized as auxiliary blasting fuel. Used oil not utilized as auxiliary blasting fuel was collected in Tanjung Bara B3 (Hazardous and Poisonous) waste area, then sent to the licensed used oil collector.



Resource: database of used oil utilization, Environment Department PT KPC

Graph 11. Used Oil Utilization

ENVIRONMENTAL PERFORMANCE

Fly ash and bottom ash that the power plant produced were collected in the Tanjung Bara B3 waste area. The fly ash waste was utilized internally as per Decree of the State Ministry for Environment No. 403, Year 2007. The utilization of fly ash during 2008 was as road base which located in Tanjung Bara. The total of fly ash that had been utilized for road base was 920 ton.

KPC was also licensed by the State Minister for the Environment to operate a B3 waste treatment plant using an incinerator at the Sangatta North Dump, per Decree of State Minister for the Environment no. 789/2008 with the allowed characteristics of the combustible waste in the incinerator involving filter waste and oil contaminated rags, and medical waste from the clinic company. Ash that the incinerator produced was then sent to the licensed waste collector.

Oil contaminated soil from all workshops particularly the interceptor facility was biologically treated using Petrophylic bacteria. Such treatment was conducted at the BTU (Biological Treatment Unit) area in Sangatta North Dump. KPC was licensed by the State Minister for the Environment through the Decree of State Minister for the Environment no. 318/2006 for this treatment which is valid until 2009.

TOTAL COST OF ENVIRONMENT MANAGEMENT

The total cost spent for environmental management and monitoring, and community development was as follows:

Table 30. Total Cost of Environment Management

| No. | PROGRAM | COST (USD) |
|-----|--|------------|
| 1 | General Environment Management | 426.871 |
| 2 | Reclamation and Revegetation | |
| | • Planting and plant maintenance | 911.470 |
| | • Soil management and hauling, drainage, etc | 9.591.700 |
| 3 | Environment Monitoring | 1.234.195 |
| | • Sediment Management | 605.060 |
| | • Rehabilitation fleet maintenance | 5.261.886 |
| 6 | Water and air quality monitoring | 569.561 |
| 7 | Waste and hydrocarbon management | 171.153 |
| | TOTAL | 18.771.896 |

Resource: Financing report, Accounting Department KPC

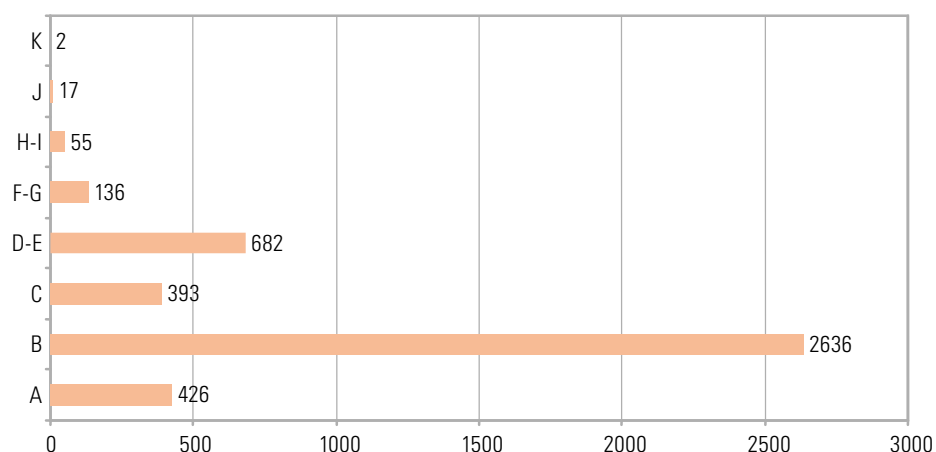
The sustainable development commitment in the case of environment management has been shown through KPC's performance in 2008 environment management. The waste and air quality monitoring data have fulfilled the quality standards stated by the government, and also the land reclamation target has been achieved. On that account, during 2008 KPC did not receive any administrative sanctions related to quality standard infractions. This represents the KPC commitment to fulfill environment policy that will be conducted in every KPC operational phase in the future.

LABOR PERFORMANCE

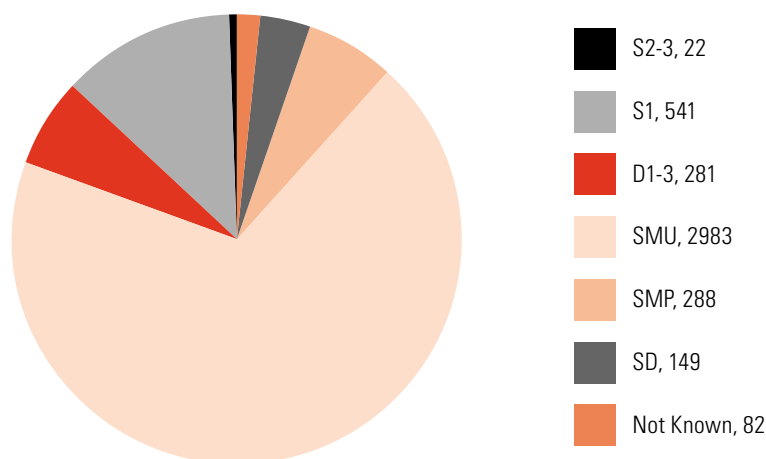
HUMAN RESOURCES

In 2008, KPC hired 4,347 employees that consist of 4,334 Indonesian employees and 13 foreign employees. Based on the employment status, there are 3,815 permanent employees and 519 contract employees. There are no part time employees who work in KPC.

The number of employees in 2008 increased by 591 employees as compared with the previous year's 3,756 employees. Employees' distribution based on position level, educational level, employment status and gender can be seen as follows:



Graphic 12. Distribution of employees based on position level



Graphic 13. Distribution of employees based on educational level

Table 31. Distribution of employees based on employment status

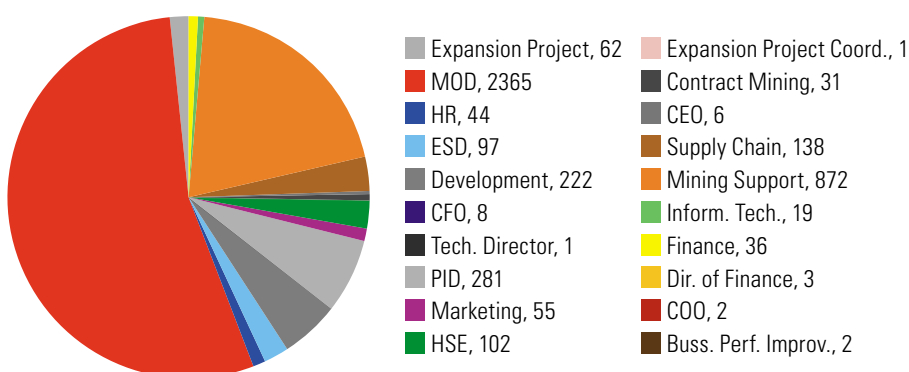
| STATUS | NUMBER |
|---------------------|--------|
| Permanent | 3.830 |
| Contract (fix-term) | 517 |
| Total | 4.347 |

LABOR PERFORMANCE

Table 32. Distribution of employees based on gender

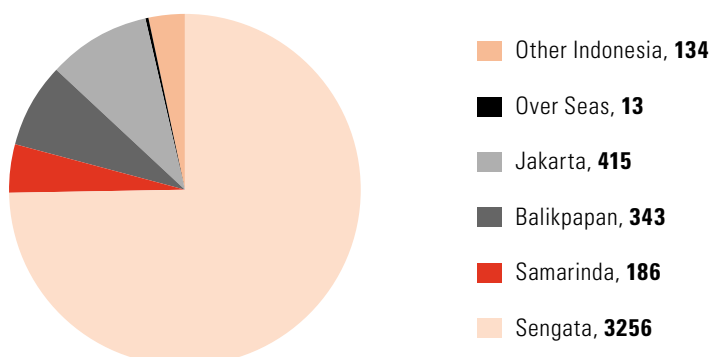
| SEX | NUMBER |
|--------|--------|
| Male | 4.065 |
| Female | 282 |
| Total | 4.347 |

The Mining Operation Division is the division with the largest number of employees, it is in line with KPC's core business as an open coal mining company which operates many fleets and is a world class operator. The composition of the employees of each division can be seen in the following graphic.

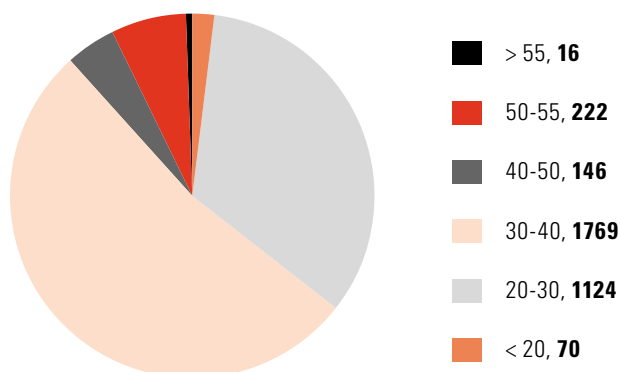


Graphic 14. Composition of employees based on division

In employee recruitment, the largest composition of the points of hire is Sengata where KPC runs its mining operation. Meanwhile, if viewed from the age composition, the largest number is the employees among 30–40 year olds of 1,769 employees. KPC also has 13 foreign/expatriate employees which is 0.29% of the total employees.



Graphic 15. Composition of employees based on point of hire



Graphic 16. Composition of employees based on age

Table 33. Composition of Indonesian and Foreign Employees

| NO | DIVISION | EMPLOYEE COMPOSITION | |
|--------------|--------------------------------|----------------------|-----------|
| | | INDONESIAN | FOREIGN |
| 1 | Business Perf. Improvement | 2 | 0 |
| 2 | CEO | 6 | 0 |
| 3 | CFO | 7 | 1 |
| 4 | COO | 2 | 0 |
| 5 | Contract Mining | 31 | 0 |
| 6 | Development | 221 | 1 |
| 7 | Dir of Finance | 2 | 1 |
| 8 | Head of Project Expansion Team | 1 | 0 |
| 9 | ESD | 97 | 0 |
| 10 | Finance | 36 | 0 |
| 11 | HSE | 102 | 0 |
| 12 | Human Resource | 44 | 0 |
| 13 | Information Technology | 19 | 0 |
| 14 | Marketing | 53 | 2 |
| 15 | Mining Operation Division | 2365 | 0 |
| 16 | Mining Support Division | 868 | 4 |
| 17 | Processing & Inf Div | 281 | 0 |
| 18 | Project Expansion Team | 59 | 3 |
| 19 | Supply Chain Divison | 138 | 0 |
| 20 | Technical Director | 0 | 1 |
| Total | | 4334 | 13 |

INDUSTRIAL RELATIONSHIP

The Collective Agreement (PKB) used in 2008 is the is PKB of 2007–2009 that was signed on 4 June 2007 in Jakarta by the parties and approved by General Director of Industrial Relationship and Employees Social Security of Labor and Transmigration Department. The PKB of the July 2007–June 2009 was approved as an umbrella to cover the employees' rights and obligations without looking at their working status. As a result of negotiations, in the current PKB some amendment items were covered such as shift allowance, housing allowance, medical services, health incentive, education assistance, land transportation fee, housing rent support, meal allowance for all out of camp employees.

LABOR PERFORMANCE

The rights and obligations of all KPC's employees including management are regulated in the PKB. The PKB team of 2007–2009 was 23 people consisting of 10 management representatives and 13 Labor Union representatives. Any matters which were not yet elaborated in the PKB were elaborated in detail in the Human Resources Policy, Staff Handbook and other operational procedures.

In PKB article 13.2 it is written that if any modification related to significant operations, an announcement to all employees is to be made at least 7 (seven) days in advance (PKB Article 13.2).

a. Program Socialization

Regular communication is conducted either to management, admin staff or all employees in order to socialize the company's policies or regulations. Socialization of the Good Corporate Governance (GCG), Code of Conduct and Speak Up System was conducted in February until September 2008. It aims to create a good business ethic and work performance.

b. Worker/Labor Union

The company acknowledges the existence of the Worker/Labor Union including involving them in Collective Agreement negotiations in accordance with the prevailing regulations. The Bipartite Cooperation Institute (LKS) has been established, the functions and members of its institute consist of management and Labor Union representatives.

At this time the company manages 6 (six) Worker/Labor Unions namely Coal Mining Employees Corps (Korps Pegawai Pertambangan Batu Bara – KORPPRA), Energy Chemical and Mining Employees Union (Serikat Pekerja Kimia Energi dan Pertambangan – SP-KEP) Mining and Energy Federation – Indonesian Prosperous Labor Union (Federasi Pertambangan dan Energy Serikat Buruh Sejahtera Indonesia – FPE-SBSI), Indonesian Moslem Workers Brotherhood (Persaudaraan Pekerja Muslim Indonesia – PKMI), Justice Workers Union (Serikat Pekerja Keadilan – SPK) and Mining Support Division Workers Union (SP-MSD) with the membership structure as in the following table:

Tabel 34. Serikat buruh dan jumlah anggota

| WORKER/LABOR UNION | TOTAL MEMBERS (PERSONS) |
|--------------------|-------------------------|
| KORPPRA | 1029 |
| SP-KEP | 956 |
| SBSI | 647 |
| PPMI | 240 |
| SPK | 644 |
| SP-MSD | 205 |
| NON UNION | 613 |
| TOTAL EMPLOYEES | 4.334 |

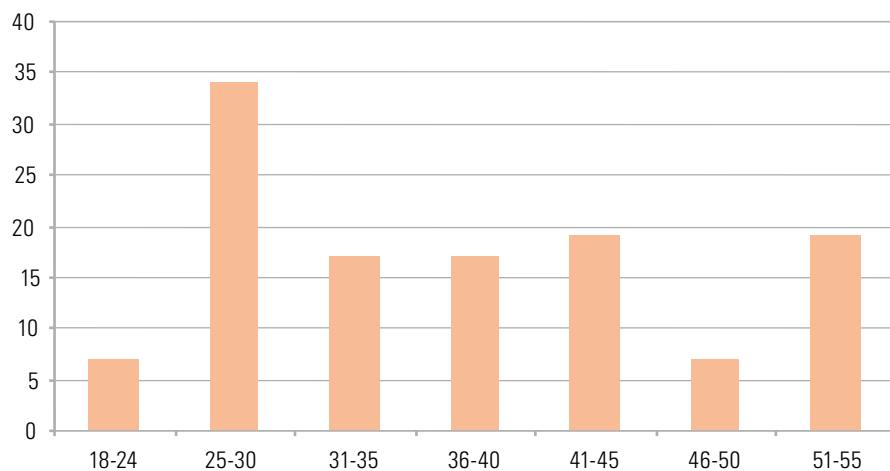
From the data above, can be seen that 86% of the employees joined a worker/labor union, while 14% employees did not join it.

c. Employees Consultation Service

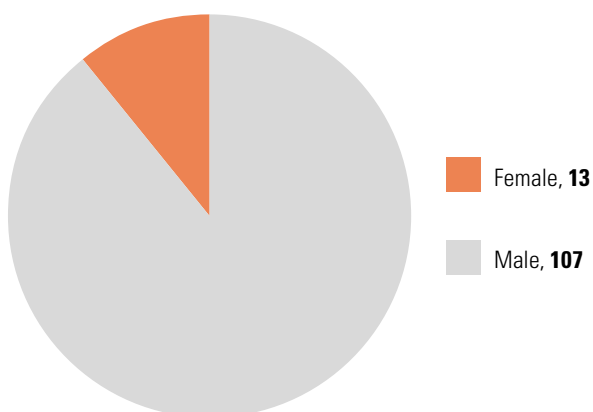
A consultation service is conducted anytime both by the supervisors in each workplace and the HRD staff for particular employees.

d. Number of Employees Turnover

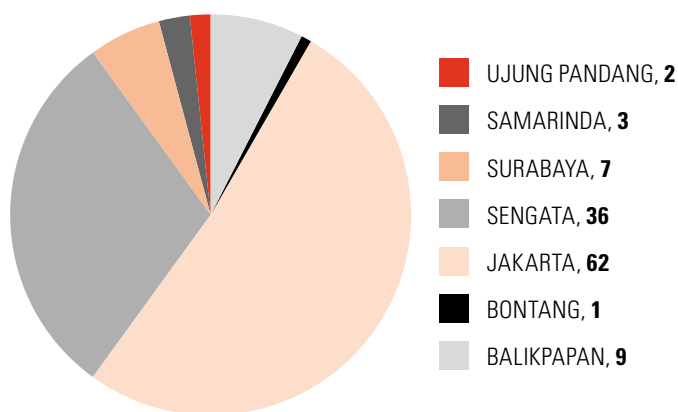
The number of KPC's employees who underwent termination of employment (resigned, retired, etc.) in 2008 was 120 people. For the employees who lodged resignations according to Manpower Law no.13 and the Collective Agreement, each party presented his/her resignation letter a minimum of one month in advance.



Graphic 17. Employee turnover by age



Graph 18. Employee Turnover by gender



Graphic 19. Employee turnover by point of hire

LABOR PERFORMANCE

TRAINING AND DEVELOPMENT

As a form of the company's social responsibility to the employees, PT Kaltim Prima Coal is committed to continuously develop its human resources in order to be able to endure and compete within rapid global business changes particularly in the mining industry. KPC realizes that to be a world class competitor, quality human resources with strong, professional and possess high standard of etiquette is needed within each activity in the company.

Human Resources are the company's valuable asset that is expected to be able to respond to future challenges by contributing their best performance in managerial and technical aspects. KPC provides the training and development for employees to upgrade and to refresh the skills and the knowledge of its employees. During 2008, around 30,250 of KPC's employees attended various training programs with 197,185 total training hours. Besides that, KPC also conducted training program to 47,303 KPC contractor company employees, with 211,278 total training hours.

Table 35. Training attended by KPC employees in 2008

| NO | CATEGORY | KPC EMPLOYEE | | CONTRACTOR EMPLOYEE | | TOTAL | |
|----|-----------------------------|--------------|----------|---------------------|---------|--------------|----------|
| | | Participants | Hours | Participants | Hours | Participants | Hours |
| 1 | General | 617 | 10118 | 221 | 3079.5 | 838 | 13197.5 |
| 2 | Management and Commercial | 2018 | 24366 | 1110 | 38019 | 3128 | 62385 |
| 3 | Health, Safety, Environment | 10630 | 36530.5 | 31057 | 79540.5 | 41687 | 116071 |
| 4 | Equipment Operation | 14735 | 100396.5 | 7892 | 22014.2 | 22627 | 122410.7 |
| 5 | Equipment Maintenance | 2160 | 25234 | 6836 | 66893 | 8996 | 92127 |
| 6 | Engineering | 90 | 540 | 187 | 1732 | 277 | 2272 |
| | Total | 30250 | 197185 | 47303 | 211278 | 77553 | 408463.2 |

To develop the new graduates, KPC runs a Graduate Development Program (GDP). The program participants get a variety of managerial and technical training, and follow a rotation in various relevant sectors within their background. For example, the program of employees' rotation can be seen in the following table.

Table 36. Rotation Area for Graduates of Mining Engineering

| ROTATION AREA (GRADUATES OF MINING ENGINEERING) | 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 |

CAREER OPPORTUNITIES

All KPC employees are open to the same career opportunities based on their field, qualifications and knowledge. The employee who meets the job qualification may apply and follow the sequence of test through to internal selection. The job vacancy is opened and announced through the KPC internal media.

EMPLOYEE ASSESSMENT

The employee performance assessments are conducted at the end of the last quarter for non-staff employees, and at the end of year for staff employees. In addition, the results of performance assessment can also be used as the basis of policy and decisions of the company in managing its human resources. The company's policies and decisions are as follows:

- Training and Development (managerial and technical)
- Career Plan
- Achievement and other policies related with employees

EMPLOYEES RETENTION PROGRAM

To appreciate all the contributions and performances of the employees as well to maintain the potential employee in order to keep working and give a valuable contribution in the business, the company will take up some initiative such as:

- Developing a functional Career Path through the Dual Career Ladder program.
- Giving a variety of training that supports employees to work effectively, such as Fundamental Leadership and HR for Non-HR Professionals.
- Developing a competency system, that allows the implementation of human resources managing based on competency at KPC.

LABOR PERFORMANCE

ATTRACT POTENTIAL EMPLOYEES

KPC seeks and selects employee applicants through various approaches. Common methods used are advertising in the media, cooperation with university career centers and using head hunter advertising.

Other methods to attract potential employees are:

1. Giving Field Practice opportunities and Final Projects to university students of courses relevant with KPC's business.
2. Giving scholarships to achieving university students of courses relevant with KPC's business to undertake the last year of their study.

In each aspect of the company's operation, KPC respects human rights. According to the Constitution 1945 (UUD 1945) article 28, freedom to assemble and join an association is given to all employees by establishing some worker/labor unions at the company's site as a communication medium and a means to pass on aspirations.

All employees both male and female have the same rights for safety, health and environmental aspects, career opportunities, training and development, rotation and variation, occupying a particular position in the company, and also benefits from the company.

It becomes an obligation for the contractors and suppliers that are in partnership with KPC to comply with the manpower regulations and standards of safety, health and environmental applied by KPC. It was written in each clause of the agreement between contractor and supplier with KPC. Therefore the rights of employees at any company of KPC's contractors will also be protected.

DISCRIMINATIVE ATTITUDE

As a world class coal mining operator, KPC does not discriminate its employees based on their religion, race or gender. The selection process of employees is based on the candidates' qualities, competencies and experience. With the result that female employees obtain the same benefits as male employees. Until late 2008, no incidences of discriminative attitudes have ever occurred at KPC. Of particular consideration, there is small disparity between the basic salary of males and females.

Table 37 Male and Female Salary Ratio

| | |
|-----------|----------|
| Non Staff | 1 : 0.87 |
| Staff | 1 : 0.91 |

Religious activity is absolutely supported by the company to increase the employees' quality in religious life. Some worship facilities that were built by the company are Mosque Al Kautsar, Al Ikhlas, Baiturrahman, An Nur, Al Falah, Oukimene Church and Catholic Church, and the Temple in Bumi Etam as a house of worship for Hindus. Religious ceremonies are celebrated by respective religion followers and the company assists by giving facilities as well as donations and permission to leave the workplace on days determined by the government.

CHILD WORKERS

KPC also has a policy to only hire employees who have reached the age of 18 years old. In the mine operations history carried out by KPC, the lowest age among KPC's employees until late 2008 was 18 years old. While operating its business, KPC does not employ the child workers under age of 18.

FORCED LABOR

Since the commencement of its operations until late 2008, no cases of forced labor have ever occurred at KPC that go against the regulations of the Department of Manpower. Accordingly, no incidence of this type occurred.

SECURITY PRACTICE

KPC does not provide special training on policy relating to human rights issues. However, in every basic course for security personnel, materials regarding human rights issues are always given.

In regard to corruption acts, during 2008, there have been no corruption acts that were carried out by KPC's employees.

HUMAN RIGHTS PERFORMANCE

LOCAL INHABITANTS

Until late 2008, no occurrence of violence has been made by KPC against the local inhabitants. A good relationship is always built through community programs oriented towards the prosperity of the local community.

HEALTH AND SAFETY

Formal agreement between KPC and Union's representatives regarding health and safety as mentioned in the Collective Agreement 2007–2009 covers:

Rights and Obligations

The company and the employees will adhere to the prevailing Government Laws and Regulations concerning occupational safety and health. Prior to signing an Employment Agreement, the Company will require applicants undergo a pre-employment medical examination at the Company's or a nominated medical facility. The Company will also carry out periodical medical check ups in accordance with the Company's regulations and standards for each type of work. Employees are obligated to undergo a medical check up. All lines of management are obliged to always promulgate Occupational Safety Regulations and Procedures, and Standard Regulations and Procedures. The Company personnel are subject to disciplinary action in accordance with Disciplinary Action Guidelines.

Medical Service

The company provides health facilities for employees and their dependants.

Personal Protective Equipment (PPE)

For work protection equipment is given to the employees while they perform the job. The company provides protective equipment in compliance with occupational health and safety standards. All employees are obliged to wear and maintain occupational safety equipment provided by the company. The safety equipment must be used by the employees, should not be misused and transferred to other persons who are not entitled to it. An employee has the right to refuse to carry out any job that does not meet the company's health and safety requirement, including PPE equipment.

Work Accidents

All employees are obliged to report each accident to their supervisor and likewise the supervisors are obliged and responsible to report each work accident that happens in the area which is under their responsibility. Safety officers are obliged to assist collecting necessary data, so that the benefits section officer may draft a report to the Office of Manpower, PT JAMSOSTEK and Group Life Insurance within less than 48 hours.

Occupational Diseases

The company provides clinic which managed professionally for the employees who are sick in the work place. An employee who is no longer able to work in his old position will be positioned in a position which does not contravene limitations defined by the Doctor. Sickness permission arrangements or continuous sickness permissions are applied for those who can not work. Severance of Work Relations (Pemutusan Hubungan Kerja - PHK) because of health matters is performed after the doctor's decision which states that the employee is no longer able to work will be referred to prevailing Laws and Regulations.

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ABBREVIATION GLOSSARY

| ABBREVIATION | FULL FORM |
|---------------|---|
| AMDAL | Environmental Impact Assessment (<i>Analisa Mengenai Dampak Lingkungan</i>) |
| ANU | Australian National University |
| APBI | Association of Indonesia Coal Mining |
| API | Association of Indonesia Mining |
| B3 | Hazardous and Poisonous Material |
| BOSF | Borneo Orangutan Survival Foundation |
| BPMT | Multiplication Block of Scion/Seeds (<i>Blok Pengganda Mata Tempel</i>) |
| BPPT | Technology Research and Application Agent |
| BTU | Biological Treatment Unit |
| CE | Community Empowerment |
| CEO | Chief Executive Officer |
| CFCD | Corporate Forum on Community Development |
| CMS | Contract and Contractor Management System |
| COC | Code of Conduct |
| COO | Chief Operating Officer |
| CPAR | Corrective/Preventive Action Request |
| CPP | Coal Processing Plant |
| CSSR | Center for Strategic Study of Resources |
| DRD | Region Research Board |
| EPA | Environmental Protection Agency |
| ERA | Environmental Risk Assessment |
| ESD | External Affairs and Sustainable Development |
| FKPL | Environment Caring Community Forum |
| FOB | Free On Board |
| FPE-SBSI | Mining and Energy Federation-Indonesian Labor Union |
| FRA | Fraud Risk Assessment |
| GCG | Good Corporate Governance |
| GERDABANGAGRI | Agribusiness Development Region Action |
| GM | General Manager |
| GPL | <i>Griya Prima Lestari</i> |
| GRI | Global Report Initiative |
| GWP | <i>Gema Wana Prima</i> |
| HKTI | Indonesia Farmer Group Association |
| HR | Human Resource |
| HRCR | Human Resources and Community Relations |
| HRD | Human Resource Division |
| HSE | Health, Safety, and Environment |
| IBL | Indonesia Business Link |
| IPB | Bogor Agricultural University (previously Bogor Agriculture Institute) |
| ITB | Bandung Institute of Technology |
| K3 | Occupational Health and Safety |
| K3L | Occupational Health and Safety and Environment |
| KADIN | Chamber of Commerce and Industry |

| ABBREVIATION | FULL FORM |
|--------------|--|
| KNPI | Indonesian Youth National Committee |
| KONI | Indonesia Sport National Committee |
| KORPPRA | Corps of Coal Mining Employee |
| KPC | Kaltim Prima Coal |
| KSDM | Human Resources Policy |
| KSU | <i>Koperasi Serba Usaha</i> |
| KUKM | Cooperation, Small and Medium Business |
| LBD | Local Business Development |
| LKS | Cooperative Institution |
| LTIFR | Lost Time Injury Frequency Rate |
| MDGs | Millennium Development Goals |
| MEI | Morphoedaphic Index |
| MOD | Mining Operation Division |
| MSD | Mining Service Division |
| MSH-CSR | Multi-Stakeholder for Corporate Social Responsibility |
| NAF | Non-Acid Forming |
| NAG | Net Acid Generation |
| NCSR | National Centre for Sustainability Reporting |
| PAD | Original Region Revenue |
| PAF | Potential Acid Forming |
| PDRB | Domestic Regional Brutto Revenue |
| PID | Processing and Infrastructure Division |
| PJI | Junior Achievement Indonesia |
| PKB | Collective Agreement |
| PKP2B | Contract of Work Agreement for Coal Mining Enterprises |
| PPMI | Indonesia Moslem Worker Brotherhood |
| PW | Regional Associate |
| RUPS | Stakeholders General Meeting |
| SCD | Supply Chain Division |
| SDR | Sustainable Development Report |
| SGS | Societe Generale de Surveillance |
| SML | Environmental Management System |
| SOP | Standard Operating Procedure |
| SPK | Justice Workers Association |
| SP-KEP | Association of Chemical Energy and Mining Worker |
| SP-MSD | Association of Mining Support Division Worker |
| STIPER | Agriculture High School / Agriculture Institute |
| THR | Holiday Allowance |
| TNK | Kutai National Park |
| TPA | Waste Disposal Place |
| UGM | University of Gajah Mada |
| UMSK | Regency Minimum Wage |
| UNGC | United Nations Global Compact |
| Unmul | University of Mulawarman |
| WTP | Water Treatment Plant |



Feedback

Thank you for your willingness reading our sustainable development report. We really appreciate for your attention and appreciation on our report.

To improve our service and the development of our future sustainable development report, please let us know what you think about our report by filling the questionnaire below and send it back to us. Your views, suggestions, and criticisms are very much welcomed.

Tick your answer : **SA** • Strongly Agree **A** • Agree **SD** • Somewhat Disagree **D** • Disagree **SD** • Strongly Disagree

☐ SA

☐ A

☐ SD

☐ D

☐ SD

Statement

1. The report gives useful information about PT. Kaltim Prima Coal's policy, impact, and performance on economic, environment, and social in sustainable context.

☐ SS

☐ S

☐ RR

☐ TS

☐ STS

2. This report provides a good overview on PT. Kaltim Prima Coal's performance which is in line with achieving sustainable development.

☐ SS

☐ S

☐ RR

☐ TS

☐ STS

3. This report is easy to understand.

☐ SS

☐ S

☐ RR

☐ TS

☐ STS

4. The report provides enough detail of information.

☐ SS

☐ S

☐ RR

☐ TS

☐ STS

5. This report is credible enough.

☐ SS

☐ S

☐ RR

☐ TS

☐ STS

6. Useful information is (are):

- a. _____
b. _____
c. _____

7. Less useful information is (are):

- a. _____
b. _____
c. _____

8. Comments on content, design, layout, etc:

- a. _____
b. _____
c. _____

9. Additional comments:

- a. _____
b. _____
c. _____

Your Profile

Name : _____

Age and Sex : _____

Institution/Company : ☐ Government ☐ Industry ☐ Media
☐ NGO ☐ Community ☐ Others

Thank you for your time provided to fill in this questionnaire.

Please send this form back to : External Affairs & Sustainable Development, PT Kaltim Prima Coal, M2 Building, Mine Site, Sengata, Kutai Timur, Kalimantan Timur - Indonesia • Telp. 62 549 52 1451 • Fax. 62 549 52 1701



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