

A light blue map of Southeast Asia, including Thailand, Laos, Cambodia, Vietnam, Malaysia, and Indonesia, is positioned in the background. The text "BANPU Overseas Investment Experience" is overlaid on the map in a bold, italicized, black font.

BANPU Overseas Investment Experience

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August 22, 2013



Outlines

- 1. Introduction - Rationale for overseas expansion**
- 2. Overview of Banpu business**
- 3. Overseas expansion experience: Indonesia and Mongolia**
 - Country information**
 - Business environment**
 - Opportunities and threats assessment**
 - Lessons learnt**
- 4. Conclusion**



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Rationale for overseas expansion

1. As a resource-deficit country and a need to grow in the field of trade, especially exports, we need to go out. In going out, make sure that we can **manage our investment and manage potential risks**
2. Some businesses will benefit, some will face more competition and need to make adjustment. However, **from economic foundation, we can compete to sustain and expand.**
3. **Overcome difficulty of market accessibility.** Through free flows of investment and services, we can have access to concession of land area and to human resources to do businesses, which, if we don't do it, someone else will definitely do.
4. **Reap total benefit for the expansion in aligning with the local country's policies.** Agriculture sector, for example, also offers energy products, such as sugar, palm oil.
5. **More investment opportunity and investment protection.** Accessing to the market without any form of country agreement will be a problem. AFTA alone is not enough. AFTA still lacks elements of liberalization, facilitation, and it does not specify services investment, or investment protection.



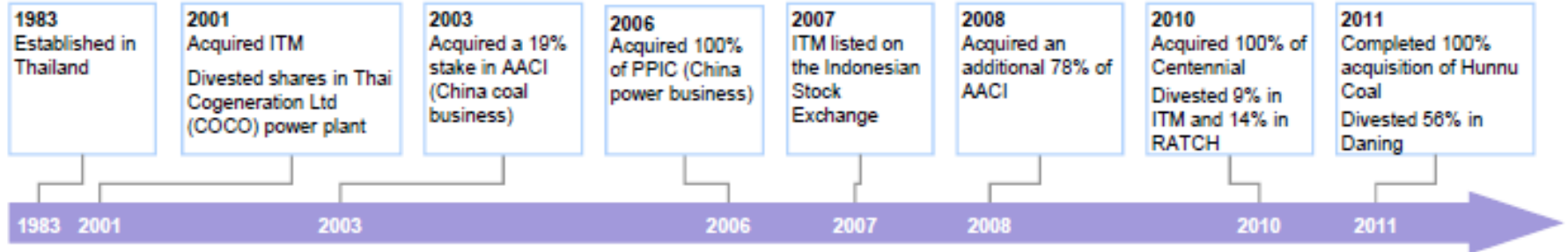
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Overview of Banpu : The Evolution

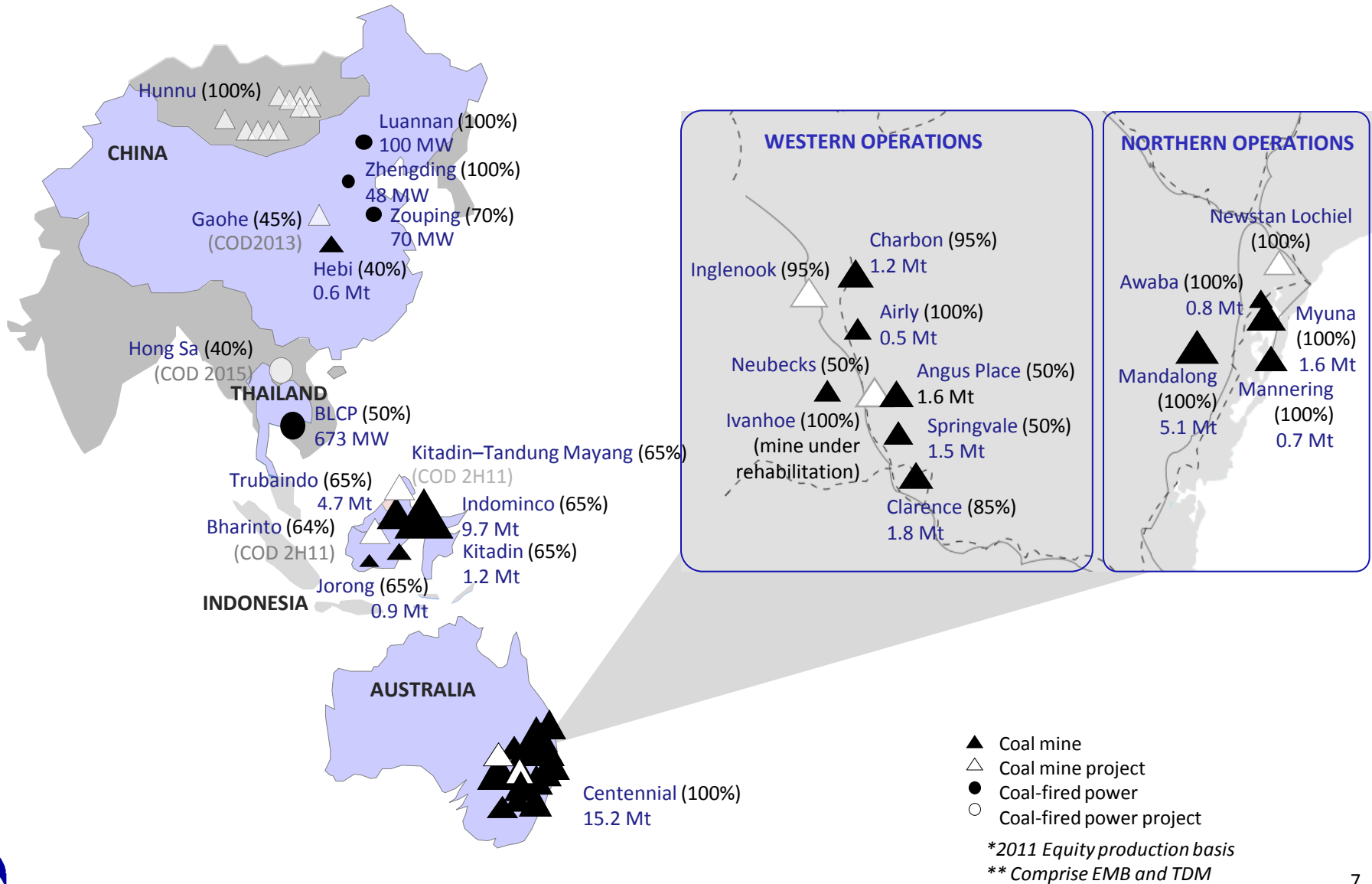
Company historical milestones



Over the last 10 years, Banpu has established itself as a leading coal based energy player in Asia Pacific and consistently delivered superior results



Map of BANPU Group: Current locations



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Geography and location : Indonesia



Area:

Total : 1,904,569 sq km

Country comparison to the world: 15

Land : 1,811,569 sq km

Water : 93,000 sq km

Population :

251,160,124 (July 2013 est.)

Country comparison to the world: 4

Real GDP growth rate:

6.2% (2012 est.)

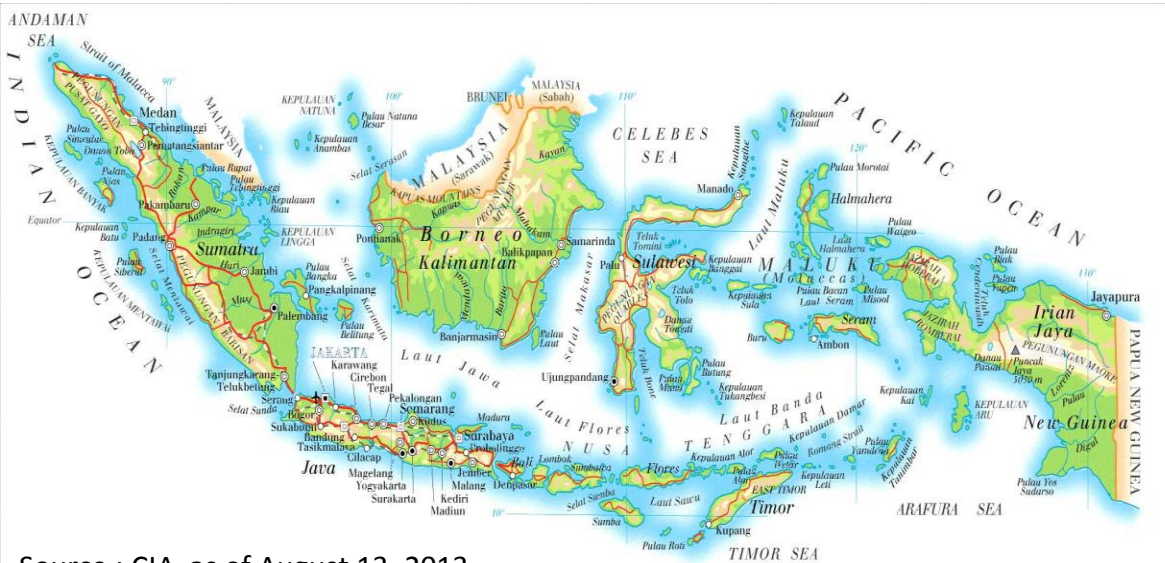
Land boundaries:

Total : 2,830 km

Border countries: Timor Leste 288 km,
Malaysia 1,782 km, Papua New Guinea 820 km

Natural resources:

Petroleum, tin, natural gas, nickel, timber,
bauxite, copper, fertile soils, coal, gold, silver



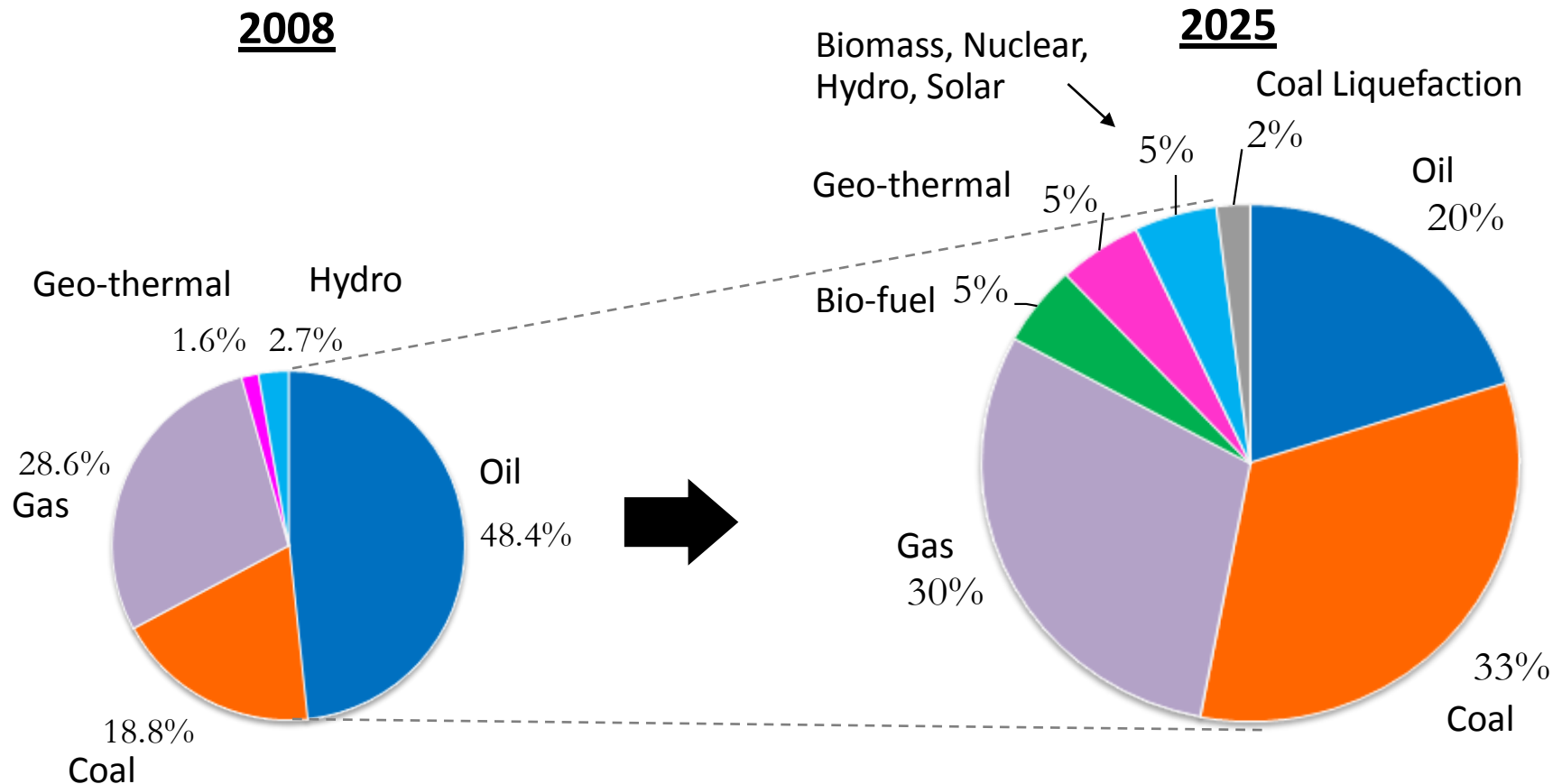
General view of Indonesian coal industry

- **No.1** - largest thermal coal exporter in the world
- **Large coal resources** and reserves but majority is in low to medium quality. Uncertain coking coal potential
- **Most** of coal resources deposit in Indonesia are **within forestry areas**
- **Majority** of coal production came from **big mining companies** which own coal contract of work (CCOW) concession from the Indonesian Government
- Coal will be the important source of the country energy mix. By the National Energy Policy, coal in the energy mix will be increased from **18.8%** in 2008 **to 33%** by year 2025
 - Result in **significant growth** in domestic demand.



The changing face of Indonesian energy mix

Indonesian national energy policy on “Energy Mix” toward 2025 is to increase share of coal usage for domestic use to 33% by 2025. Power sector will be key factors in increasing domestic coal usage.



Law and Regulations : Indonesia

	RECENT CHANGE IN REGULATION	IMPACT AND MITIGATION
FOREIGN OWNERSHIP OF 49%	<ul style="list-style-type: none"> • The government issued new rules in March 2012 barring Foreign companies from owning >49% of certain mines (including coal) • A public company would be deemed as domestic investment company according to Indonesia's BKPM (the Indonesia Investment Coordinating Board) 	<ul style="list-style-type: none"> • Impact evaluation on the worst-case scenario. • Consult with the industry association. • Keep close contact with the Government offices to monitor the situation.
20% EXPORT TAX ON RAW METAL ORE EXPORT	<ul style="list-style-type: none"> • Starting from May 2012, a 20% tax is levied on exports of 65 types of unprocessed metals, including metal ore and gold and excluding coal • Companies without plans to build processing facilities in Indonesia will be banned from exporting • Not applicable to large mining companies operating under Contracts-of-Work (CoW) with the government and unlikely to apply to coal mining companies 	<ul style="list-style-type: none"> • Impact evaluation on the worst-case scenario. • Consult with the industry association. • Keep close contact with the Government offices to monitor the situation.



Environment and Community

- ❖ **Most of the coal resources are within the forestry area**
- ❖ **Environmental evaluation by local and central government and tougher consequence for non-compliance action**
- ❖ **Mine closure plan should be completed before mine operation commences**
- ❖ **Community and CSR issues**



Financial Aspects

- ❖ Infrastructure limitation making higher investment cost
- ❖ Higher production cost due to high fuel price, high stripping ratio etc.
- ❖ Limited mining area and more expensive land compensation
- ❖ Degrading quality and no “low hanging fruit”
- ❖ Tax (Non-tax state revenue, forestry fee etc.)



Culture and Integration

Cultural Management



- Personnel Attitude i.e. Thai vs Indonesian
- Religion i.e. Buddhism, Muslim, Christianity
- Culture and Social Tradition



Culture and Integration

Cultural Management

Different
Culture
Awareness



Cross Cultural Management
& Integration



Localization

- Build up 'BANPU Spirit'

Innovation
Integrity
Care
Synergy



- Implement 'BANPU Spirit' in all operating countries
- Use 'BANPU Spirit' as Behavior Appraisal



Image and Expectation



Government



Customers



Shareholders



Local
Community



Creditors



Trading
Counterparties



Employee



Image and Expectation



Policy

- Good Citizen
- Support Government Policy
- Contribution to community at large
- Communication

How to practically
implement and reflect
them as
BANPU's Image?



Government Relations Program



Tsunami relief to Aceh, Indonesia



Community Development Program

Participated in muslim religious day for all villages around the mining area



Donated for the flooding victims



Career Development Program



Supported the training on environment and oceanic agriculture



Agriculture Demo-plot



Educational Support Program

Computer Lab Donation



Educational Tools for kindergarten



Geography and location : Mongolia

Area: 1,564,116 sq km

Population: 2,869,521 (Dec 2012 estimate)

Capital city: Ulaanbaatar (literally, “Red Hero”) Population:1,2 ml

Real GDP growth: -12.3% in 2012, Nominal GDP-USD10 billion

Corporate tax rate: - 10.0-25.0%

Natural Resources: Coal, copper, molybdenum, silver, iron, phosphates, tin, nickel, zinc, wolfram, gold, uranium, and petroleum

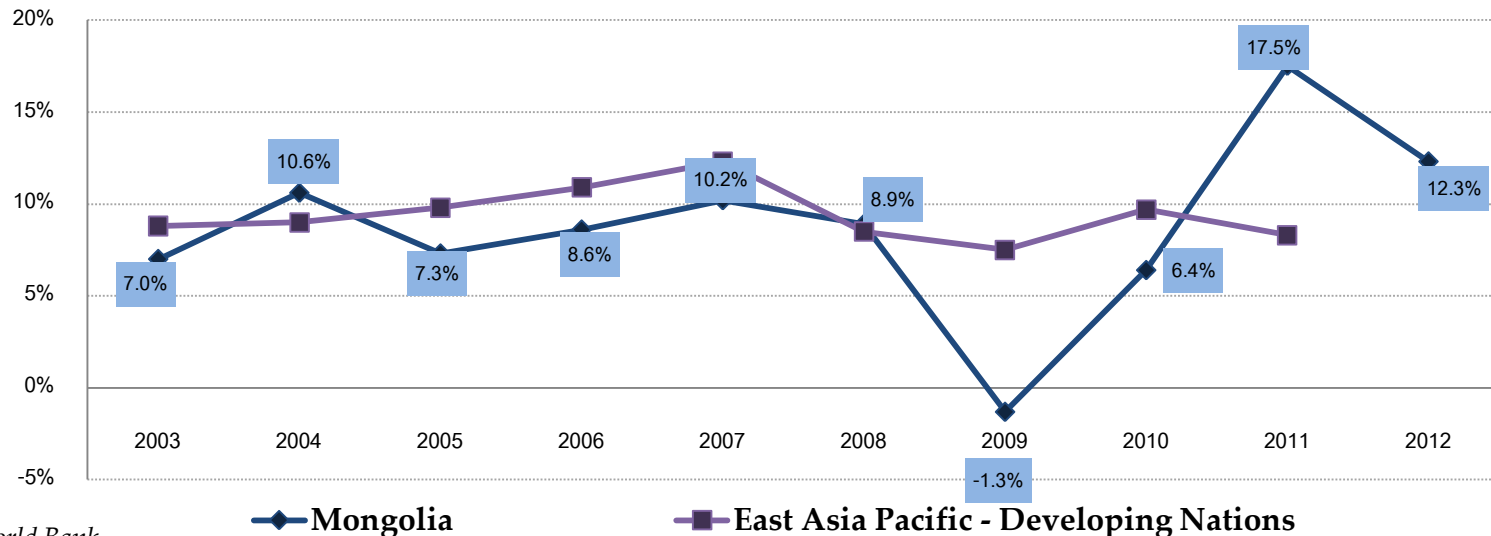


Mongolia's GDP growth prospect has become a magnet for investors

Economic snapshot of Mongolia

Mongolia is a nation rich in mineral resources situated between two of the world's commodity superpowers. It has the advantage of geology and geography and, as a result, has attracted significant investment to the country in recent years. Mongolia has been identified as one of the newest Global Growth Generators [3G countries] which is a classification determined by Citigroup as being countries with the most promising growth prospects for 2010-2050. In the short term, **the World Bank predicts that Mongolia's GDP will grow approximately 25% per annum from 2010 levels to reach USD 12.8 billion by the end of 2015.** Statistics such as these are inevitably attracting attention and an increasing number of investors and industries (not just mining) are rushing to Mongolia.

GDP Growth Annual



Source: World Bank

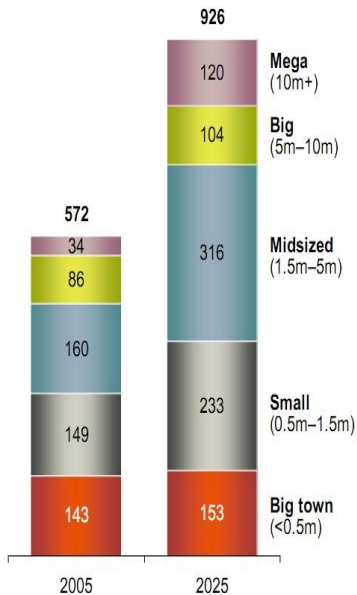


... but the Mongolian economy depends primarily on the China's economic growth

China's growth

- By 2020, Chinese economy is set to be double of 2012 (GDP rises from USD 8 trillion in 2012 to USD 16 trillion in 2020)
- Most of the growth will come from Inland and Northwestern provinces.
- China's set urbanization target to be 65% in 2020 from 52% in 2012.

China's urban population by city size
(Millions of people)

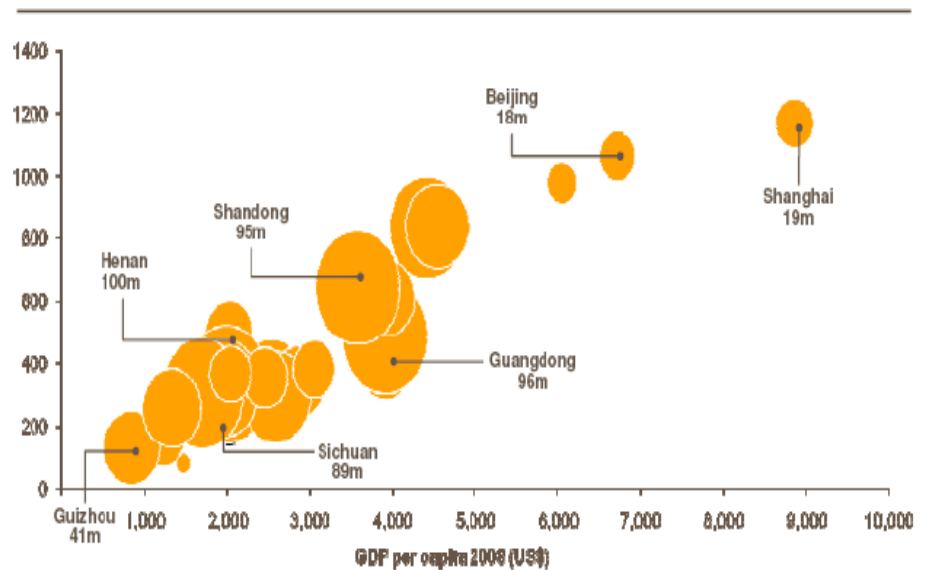


China's expected urbanisation in 2025

221	Chinese cities will have over one million people living in them – Europe has 35 today
5 billion	square metres of road will be paved
170	mass-transit systems could be built
40 billion	square metres of floor space will be built – in five million buildings
50,000	of these buildings could be skyscrapers – the equivalent to constructing up to ten New York cities
5	– the number of times which GDP will have multiplied by 2025

Chinese regional steel intensity

Steel use per capita 2009 (kg)



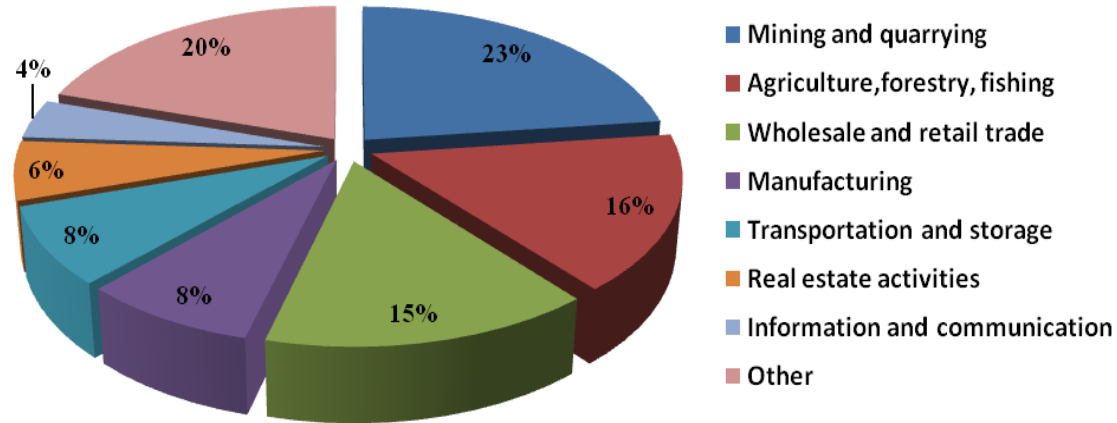
Bubble size reflects population of each of the 31 Chinese provinces

Source: McKinsey Global Institute, March 2009, "Preparing for China's Urban Billion".

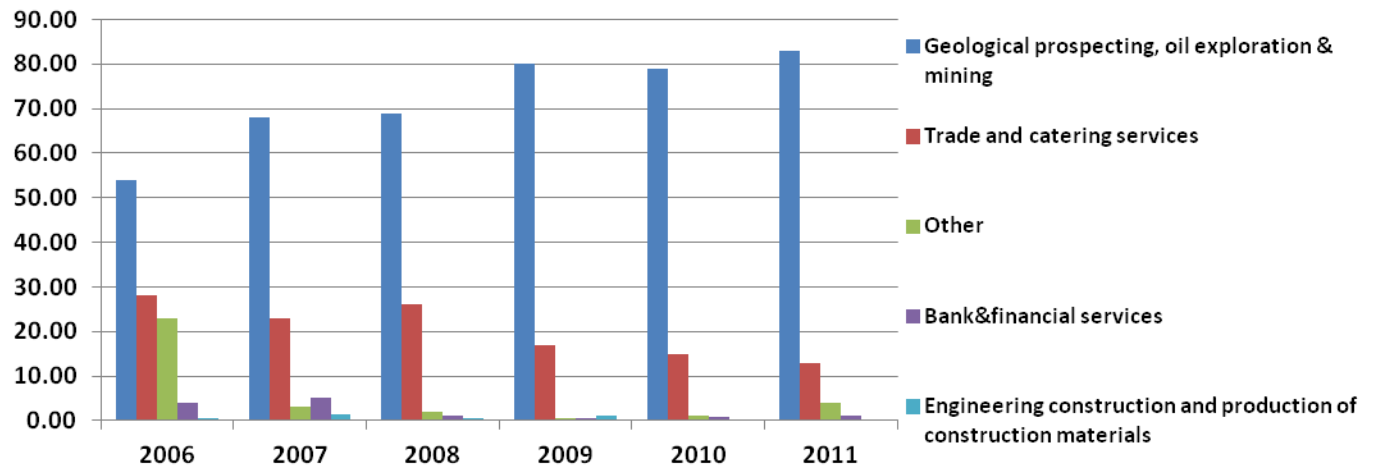


Mining is the key sector to support the economic growth and induce foreign direct investments into the country

INDUSTRIAL COMPOSITION OF GDP



FOREIGN DIRECT INVESTMENT BY SECTORS



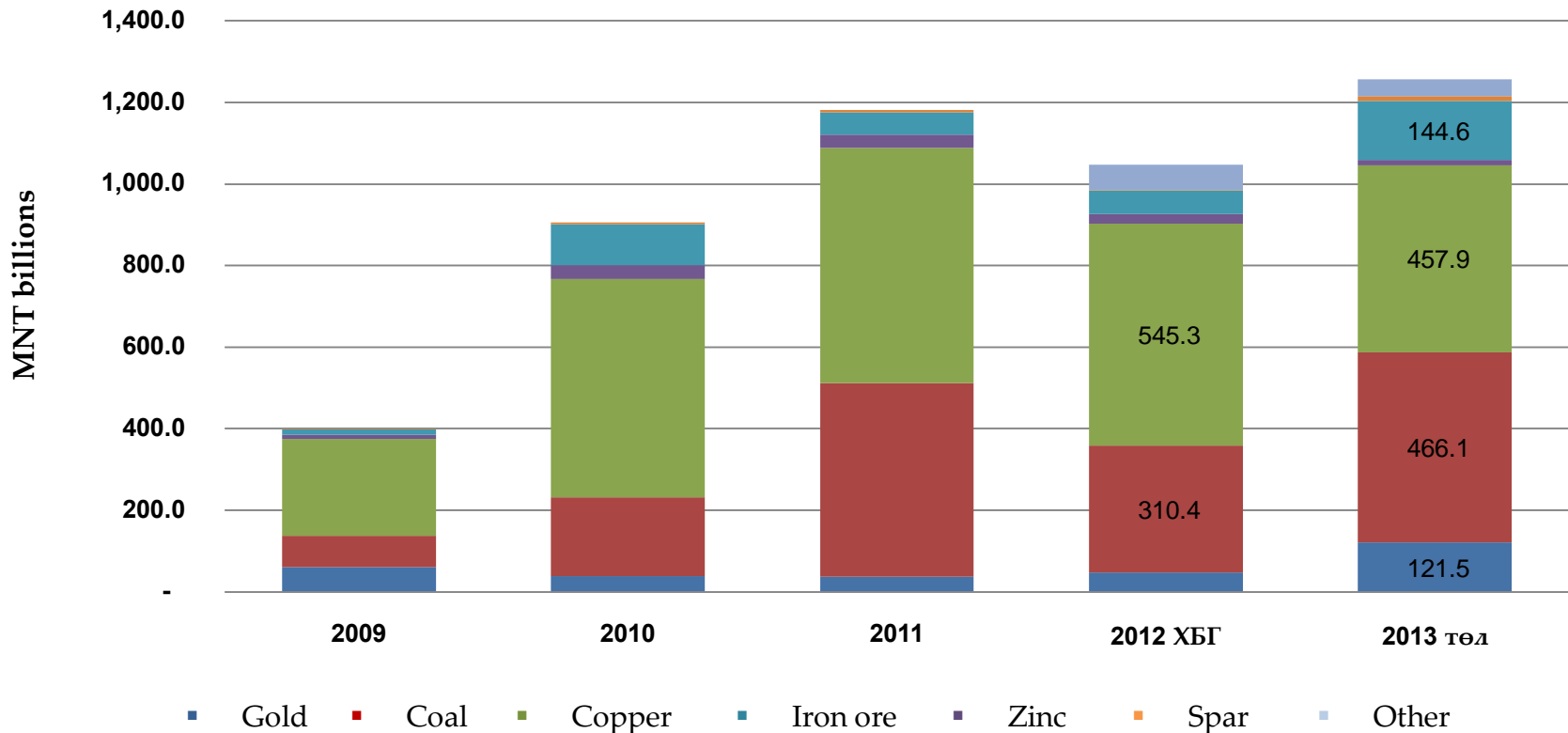
Source: National Development Innovation Committee, National Statistics Office (NSO)



Mining sector in Mongolia contributes significantly to the Government budget

- For Mongolia, mining sector represents 20%-30% of the general government budget
- Coal represents 4%-12% of the general government budget
- Portion of copper and gold were expected to grow significantly following the commercial production of OT

Tax revenue increase from mining sector, by minerals type



Source: Ministry of Finance

Some challenges facing the Mongolia economy

Facing Challenges:

- Poor infrastructure: transportation, electricity, water
- Lack of financial resources: high interests, short term
- Lack of experiences in distributing natural resources to social benefits
- Lack of qualified personnel and equipment
- Insufficient border port capacity



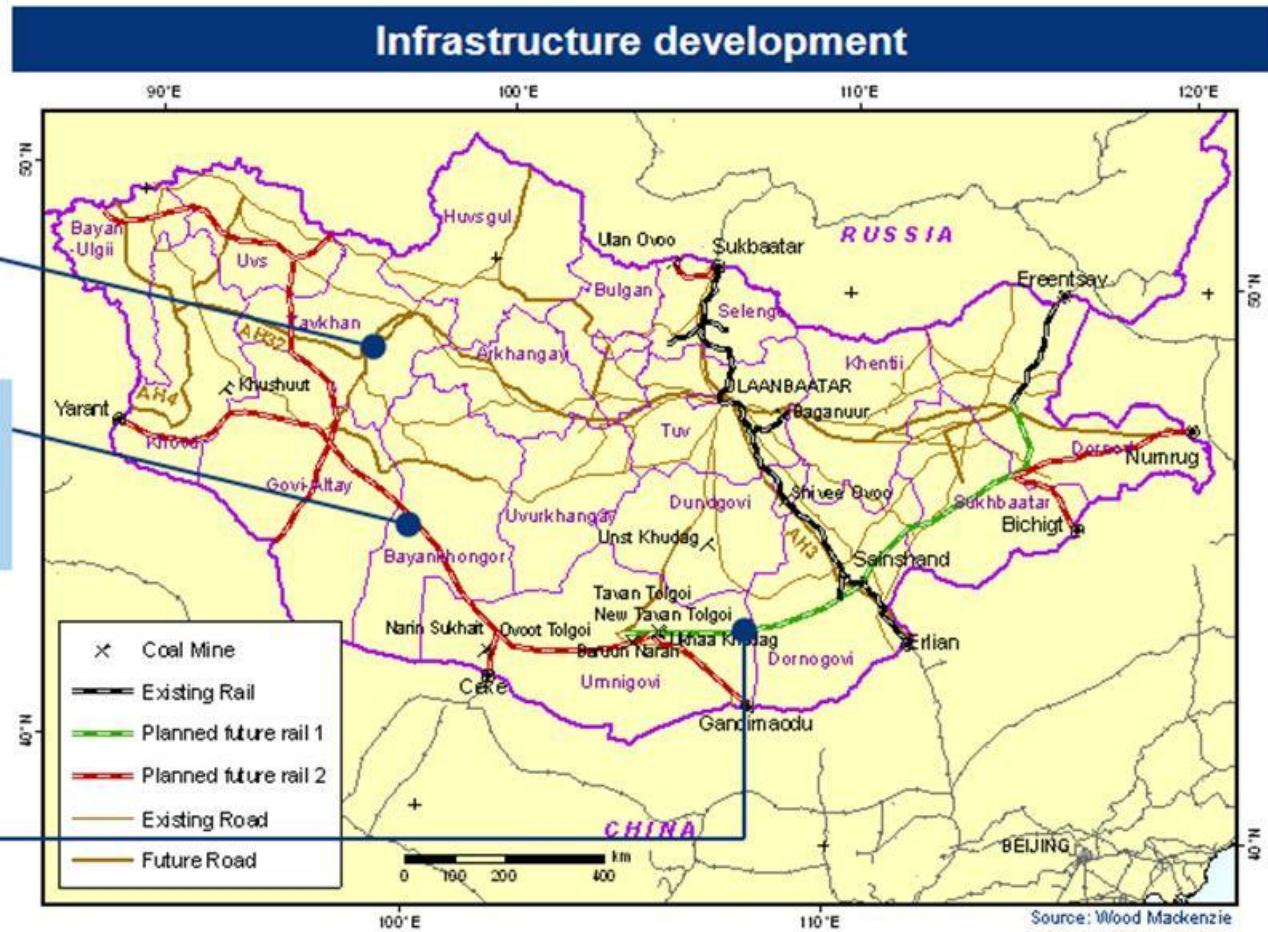
Infrastructure – The Biggest Challenge

Mongolia has around 50,000km of roads, but only 2% are sealed, and most need repair

Major developments to the road network are planned to allow further coal transport

New rail lines should provide additional capacity from Umnigovi province to China and Russia:
[see red lines]

A proposed rail link from Tavan Tolgoi to the existing Trans-Mongolian line will enable exports of Mongolian coal into the seaborne market via Russian ports



Law and Regulations : Mongolia

	RECENT CHANGE IN REGULATION	IMPACT AND MITIGATION
<p>RESTRICTION OF FOREIGN OWNERSHIP IN MINING ASSETS</p>	<ul style="list-style-type: none"> • Sets up a process of approvals for foreign direct investments (“FDI”) into industries of strategic importance to the country, including mineral resources <ul style="list-style-type: none"> ➤ FDI in excess of 5% must register with the Foreign Investment Agency ➤ FDI in excess of 33% must receive Government of Mongolia approval ➤ FDI in excess of 49% and in excess of 100 billion Mongolian Tugrik (c.US\$ 75m) requires approval from the Mongolian Parliament ➤ FDI made by a company with state ownership will require Government of Mongolia approval 	<ul style="list-style-type: none"> • Worst=case scenario is assumed to assess the impact should the law is strictly enforced. • The Government is in the process of evaluation and will propose to the Parliament soon.



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Conclusion : Overseas Expansion in a Nutshell

1. Thorough feasibility study is a must.

- Do not be forced to expand, but go wherever and whenever it makes sense.
- Conduct thorough and unbiased feasibility study
- Closely monitor and comply with all the requirements such as legal, tax, JV agreement, permits and licenses.

2. Live harmoniously with the difference

- Perceive
- Understand
- Respond
- Report

3. PatResCon

- Patience → Do not rush for short-term result and forego long-term benefit
- Respect → the difference and try to merge them together
- Contribution → monitoring and report



Thank you for your attention

