



# Press Release

**ANTAM'S FIRST QUARTER 2007 NET PROFIT SURGES 719% TO RP1,073 BILLION (US\$119M)**

## For Immediate Release

**Jakarta, April 30<sup>th</sup> 2007** – PT Antam Tbk (ASX - ATM; JSX, SSX - ANTM) announces unaudited consolidated net profit of Rp1,073 billion (US\$119 million) and earnings per share (EPS) of Rp562.62 for the first quarter of 2007.

President Director, Dedi Aditya Sumanagara said:

**“We are delighted with our first quarter results. We are creating huge profits from these unprecedented high nickel prices. However, we recognize the increase is also due to the commercial operations of our new ferronickel smelter, FeNi III which boosted nickel output by 61% to 4,353 tonnes. The timing of our expansion couldn't have been better. We're going to concentrate on cost reduction and growth investment and look forward to a fantastic 2007.”**

## Net Sales

Antam's net sales increased 324% to Rp2,386 billion (\$260 million), more revenue than Antam has ever made in a single quarter before, and more than the annual revenues Antam earned per year from 2003 and earlier. The Rp1,823 billion surge in revenues is largely due to increased ferronickel and nickel ore sales volumes and prices.

All of Antam's products had higher, and in most cases significantly higher sales revenues. The biggest contributor to the increase in revenues was ferronickel, which earned an additional Rp866 billion, or 440%, resulting in Rp1,063 billion of revenues. Nickel ore contributed an additional Rp860 billion, or 355% increase, resulting in Rp1,102 billion of revenues. Gold sales increased 110% to Rp143 billion, while sales of silver, the byproduct of gold production, rose 150% to Rp20 billion. Bauxite ore revenues rose marginally to Rp47 billion.

Nickel ore and ferronickel contributed 46% and 45% of first quarter revenues, with gold, bauxite ore and silver contributing 6%, 2% and 1% respectively. Iron sands (run by Antam's subsidiary Antam Resourcindo) and precious metals refinery services both contributed negligible amounts to Antam's net sales. The contribution of Antam's ferronickel increased from 35% in the first quarter of 2006 and as a result Antam increased sales from processing activities, a key strategy of the company to increase value creation.

A greater share of revenues came from abroad, as Antam's exports contributed 97% of net sales up from 89% in 2006. Antam's ferronickel, which is basically 20% nickel and 80% iron, is exported in the form of

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high or low carbon shot and ingot, to stainless steel mills in Europe and North Asia. In the first quarter, almost half of Antam's net sales were from four customers. Two of Antam's long term ferronickel customers accounted for the largest portion of net sales, with Rp540 billion from Yieh United Steel Corp. of Taiwan and Rp420 billion from Posco of Korea. Mitsui & Co. Ltd of Japan bought Rp103 billion of Antam's saprolite nickel ore and Standard Bank London (Singapore) bought Rp103 billion of Antam's gold. As well, in first quarter Antam was able to find new customers in China for an additional 2 million wmt of nickel ore. In a tender held in February, over 80 companies participated and 3 winning bidders were selected for the one year contracts.

## **Production and Sales Volumes**

### **Ferronickel**

The most important volume increase in the first quarter of 2007 is the 61% increase of nickel contained in ferronickel production, which jumped 61% to 4,352 tonnes or 22% of the 20,000 tonne target for 2007. The increase is almost entirely due to the new ferronickel smelter, FeNi III, which was handed over to Antam in January 2007 from the contractor after a three year construction and ramp up period. FeNi I and FeNi II produced 2,685 tonnes, almost the same as the 2,655 tonnes produced in first quarter 2006. Antam is confident of being able to achieve the target of 20,000 tonnes despite not achieving 25% of the target in the first quarter. Despite some setbacks during the

ramp up period in 2006, FeNi III smelter is running stable at 36MW, which is 85% of capacity and is the optimal level of utilization in the first one or two year of commercial operations.

Antam's ferronickel sales volumes increased 112% to 3,345 tonnes or 17% of the 20,000 tonne target for 2007. The result is due to difficulties in securing a ship sailing directly to Europe. Antam expects to soon hire a ship on a yearly contract, dedicated to Antam's European deliveries.

### **Nickel Ore**

Antam's saprolite production increased significantly and more than expected in the first quarter of 2007. The main reason for the 158% increase to 1,735,424 wet metric tonnes (wmt) is because of 2,050,000 wmt of additional ore exports agreed to in contracts arranged after Antam held a tender in February 2007. All of the ore will be exported to the three Chinese companies that won the tenders. Antam's initial production target for saprolite was 3,800,000 wmt. The new target for saprolite production is 5,850,000 wmt, and in the first quarter Antam achieved 31% of the new target.

Initially Antam was calling the ore for sale to China limonite due to the low nickel content, which is around 1.5%. However, the ore is more appropriately called saprolite due to its iron content which is below 25%. The actual grade of nickel is less important than the level of iron in determining whether it is called limonite or saprolite. The Chinese will use this low grade saprolite ore to feed into blast furnaces to produce a pig

iron product containing small amounts of nickel, for sale to Chinese stainless steel mills. These new sales agreements have boosted Antam's saprolite sales significantly and are a source of new value creation.

Antam's saprolite sales jumped 221% to 1,801,929 wmt in line with the additional sales contracts.

Antam's limonite production came to a halt in the first quarter of 2007 as Antam contract with QNI came to an end. Antam did ship 126,529 wmt of limonite from stocks remaining at the now closed Gebe mine. Antam has a limited 300,000 wmt target for limonite production and sales in 2007.

There is a risk that Indonesia passes mining legislation which prevents the export of raw materials, and would therefore limit or prevent Antam's ore export program. Antam does not view this as a significant risk as the potential ban on ore exports will likely be implemented in stages and in synch with Antam's plans to stop exports around 2010.

### **Gold and Silver**

Antam's gold and silver production increased 65% to 770kg (27,181oz) and 72% to 6,199kg (218,825oz) respectively. The gold production was 26% of Antam's target of 2,980 kg. Antam produced 99,428 wmt of gold-bearing ore from the Pongkor mine, or 26% of the target of 385,719 wmt. The improved gold production (silver is a byproduct) is due to the benefits of the redesign of the mine which began in 2006 in order to deal with soft wall conditions and lower than ex-

pected grades.

Antam's gold sales increased 81% to 746kg (26,334oz), while silver sales decreased 12% to 5,202kg (183,631oz).

### **Bauxite**

Antam's bauxite production increased 37% to 436,522 wmt, or 29% of the 1,500,000 wmt target. Sales, made mostly to China and Japan, decreased 16% to 312,812 wmt, achieving 21% of the 1,500,000 wmt target.

### **Achieved Selling Prices**

The average achieved selling prices of Antam's products all increased in the first quarter, in line with the trend in global commodity markets.

The average achieved selling price of nickel shot up 158% to US\$15.80 per pound, on the back of resilient strong demand for stainless steel around the world and in particular China, which results in continuing strong demand for nickel. This, in combination with low inventories, limited to no supply growth in the near future and a weakening US dollar has created a very strong nickel price. Most analysts consider the average annual nickel price will remain historically stronger till the end of the decade. Antam's ferronickel prices of are slightly below the average spot nickel price over the same period (of US\$18.70 per pound) as Antam uses a trailing one month average when calculating its nickel price.

The average achieved selling price of Antam's saprolite jumped 57% to US\$65.55 per wmt as limonite increased 61% to US\$22.97. Antam's ore

prices are calculated in consideration of grades, moisture content, a trailing three month average of the spot nickel price and a discount as the nickel is being sold in unprocessed ore. Antam's ore prices have not kept pace with the spot nickel price as Antam has been selling ore so lower grades and due to price pressure from other ore suppliers.

Antam's average achieved gold price jumped 19% to US\$655.52 per ounce, while silver increased 184% to US\$13.37 per ounce.

Antam's average achieved bauxite price increased 27% to US\$16.47 per wmt.

### **Cost of Sales/Production Costs**

Like with Antam's revenues, most components of Antam's cost of sales increased. Due to increased production volumes as well as generally increasing production costs, a trend that continues throughout the mining business, Antam's cost of sales increased Rp506 billion, or 134% to Rp884 billion. Antam's production costs increased 102% to Rp923 billion, a lesser rate than cost of sales, due to the proportionally lower ending inventories in 2007, which therefore did not lower cost of sales to as much a degree.

The top five contributors to the Rp466 billion increase of production costs were mining services which increased Rp129 billion, materials used which increased Rp116 billion, royalties which increased Rp50 billion, depreciation which increased Rp53 billion and sala-

ries, which increased Rp40 billion.

### **Materials Used**

The largest production cost component was materials used, which moved up from second place last year, as it increased 138% to Rp200 billion. Materials used was 22% of total production costs and 88% of total materials used is attributed to the Pomalaa nickel facility. Materials used is mostly comprised of raw materials, including nickel ore, which is used as feedstock to smelt into ferronickel and other consumables such as limestone and anthracite. Raw materials, the largest part of which is nickel ore, cost Antam Rp138 billion in the first quarter of 2007. The increase in materials used is due to increased production volume and higher priced nickel ore. Antam buys nickel ore from a neighboring deposit called East Pomalaa, which is owned by PT Inco. This ore became more expensive as the price is linked to the international spot price of nickel, the average of which increased 173% from the first quarter 2006 to an average of US\$18.70 per pound in the first quarter of 2007.

### **Mining Services**

Antam's second largest cost component was for mining services, which were 21% of total production cost, up from fourth position and 13% in 2006. Mining services, mostly used for excavation of nickel ore cost Antam Rp190 billion a 211% increase over 2006. Of the total cost, Pomalaa accounted for 87% or Rp163 billion, while Kijang, Antam's bauxite mine, accounted for 13% or Rp24 billion. The increased cost of

mining services is attributed to higher production volumes and higher operating costs, such as fuel, which are passed on to Antam. In the first quarter of 2007, Antam purchased Rp80 billion of services from PT Minerina Bhakti for nickel ore excavation and Rp10 billion PT Minerina Cipta Guna for bauxite excavation.

Antam used mining services to lower overhead costs and to reduce the cost of labor and pension obligations and are a key element as Antam focuses on moving into processing activities. The contractors mentioned above are two of Antam's three main mining contractors and are related parties, in that they are owned by Antam's pension fund, although the terms are on par with what could be obtained from a third party.

Like in first quarter 2006, Antam conducted no toll smelting for ferronickel.

### **Fuel Used**

Fuel used, the third largest cost component, rose 37% to Rp130 billion, mostly in line with higher ferronickel production volumes. Fuel was the largest cost component in the first quarter of 2006, at 20% of total costs. In 2007, fuel accounted for a 14% share of production costs. Pomalaa accounted for 98% of the total fuel used cost, due to the large power generation required to process nickel ore into ferronickel. In first quarter of 2007, Pomalaa produced 4,352 tonnes of nickel contained in ferronickel and used approximately 40-50 million litres of fuels, of which substantially all the less expensive Ma-

rine Fuel Oil rather than Industrial Diesel Oil. No longer subsidized, the fuel prices for industry in Indonesia are now more aligned to the international price of crude oil.

Antam will lower costs in the future by switching from expensive diesel and heavy fuel oil to less expensive natural gas, hydropower or coal. A decision on which of the three fuels is expected in 2007.

### **Labor**

Dropping from third position, the fourth largest cost component, accounting for 11% of production costs is labor, which increased 63% to Rp103 billion, due mostly to larger bonuses in line with improved company income. The biggest costs within the labor cost component includes Rp30 billion for pension health, Rp18 billion for bonuses and Rp11 billion for Business Unit allowance (similar to a remote-site allowance). Three quarters of the labor cost is attributed to Antam's nickel division.

Antam has been able to keep raising pay and improving benefits and training for the work force in order to 'incentivize' and promote improved productivity. However, cost increases have been reduced by reducing the size of permanent employees 10% from 3,056 to 2726 (including employees of Antam's subsidiaries).

### **Depreciation**

Antam's fifth largest cost component is depreciation which increased 129% to Rp94 billion, due mostly to the depreciation of the new ferronickel smelter,

FeNi III, which became commercially operational at the end of 2006. Pomalaa, Antam's ferronickel facility, accounted for 75% of depreciation. Antam paid around US\$320 million for the smelter a 102MW power plant and financing. The cost of the smelter alone was US\$171 million. Antam depreciates plants, machinery and equipment for their expected useful lives, which is anywhere from three to eighteen years. Ferronickel smelters will run for about ten years before needing a full overhaul. In the first quarter Antam's depreciation for plant, machinery and equipment from Pomalaa was Rp67 billion.

### **Royalties**

The sixth largest expense is for royalties Antam must pay the government based on the value of ore it has extracted and sold. Due to the huge jump in commodity prices, as well as production volumes, Antam's royalties jumped 312% to Rp66 billion. Antam pays 3.25% for silver, 3.75% for bauxite and gold, 4% for limonite nickel ore and 5% for saprolite nickel ore. Close to 90% of Antam's royalties are attributed to the nickel division. Royalties are collected by different levels of the government with 80% going to regional and provincial governments and 20% of the royalty going to the central government.

### **Transportation**

Substantially all of Antam's transportation cost, Antam's seventh largest, is from Antam's Pomalaa nickel operations, for the transporting of ore to and from the excavation site and to and from the jetty and

for loading the nickel ore in preparation for shipping. The transportation cost increased 119% to Rp35 billion

### Gross Profit

Antam's net sales increased at a greater pace than the cost of sales, resulting in a 711% increase of gross profit to Rp1,501 billion, resulting in a wider gross margin of 63% compared to 33%.

### Operating Expenses

Antam's operating expenses increased 109% to Rp77 billion, representing a small segment of Antam's overall costs. The main reasons for the increase were the 56% increase in general and administration expenses to Rp53 billion and due to the exploration expense increasing from Rp0.2 billion to Rp21 billion. General and administration expenses increased due to the 50% increase to Rp24 billion for salaries and benefits for employees, commissioner and directors as well as Other expenses.

### Operating Income

With a comparatively smaller increase of operating expenses, Antam's operating income surged almost 10 times, or 863%, to Rp1,424 billion, resulting in a wider operating margin of 60% compared to 26%.

### Other Income, Tax and Net Income

Antam's Other Income increased 192% to Rp108 billion due to a 123% increase to Rp98 billion of other, one-off types of income, and a foreign

exchange gain of Rp17 billion, compared to a foreign exchange loss of Rp7 billion in 2006.

Antam's profit before income tax increased 728% to Rp1,532 billion and following deduction of the 30% income tax and a negligible amount for minority interests, Antam's net income increased 719% to Rp1,073 billion. Antam's net margin of 45% widened significantly compared to the 23% of first quarter 2006.

### Cash Costs [note: cash costs are preliminary figures, subject to a slight revision]

Due to the reasons explained above, most of Antam's costs increased along with most of the other players in the industry. Yet aside from ferronickel, Antam remained a low cost producer of its products. Compared to the same period last year, the cash cost for saprolite remained level at US\$15.87 per wmt (there was no limonite production), the cash cost for gold decreased 22% to US\$266.03 per ounce and the cash cost for bauxite increased 31% to US\$9.18 per wmt. Compared to the average of full year 2006 the cash cost of saprolite and gold decreased. The main reason for the reduction in gold cash costs is increased production after the redesign of the mine. More cash cost data will be made available in the future as it is collected from the business units and analyzed.

### Ferronickel Cash Costs

Antam's average ferronickel cash costs meanwhile increased 20% to US\$4.49 per pound, placing Antam near the top end of the industry cost

curve. The increase could be seen as disappointing by some shareholders who have been expecting once FeNi III became commercially operational that, due to economies of scale, Antam's ferronickel cash costs of production would decrease. However, the increase is not due to problems with the smelter, but mostly due to the cost of nickel ore, which Antam now buys from third party to supplement its own supplies, and which is priced in relation to the international spot price. On the other hand some shareholders may view the results as not only satisfactory but perhaps even surprising, as the international spot price of nickel shot up to never seen before heights in the first quarter, so it would follow that Antam's ferronickel cash cost would increase at a far greater pace. However, Antam is able to mix the ore it sources from Inco with stockpiles of less expensive ore and therefore reduce the impact of the higher priced Inco ore. It is unlikely Antam will be able to maintain this level of cash cost if the nickel price remains high, as there is limited remaining stockpiles of less expensive ore.

Antam sources plus or minus 1 million wmt of nickel ore from a deposit called East Pomalaa under a three year contract signed in 2003 with PT Inco, which lasts from mid-2005 until mid-2008. While initially this ore was less expensive than Antam's ore, the recent steep price increases have made the ore more expensive. Had it not been for the sharp increase of the price of Inco ore, Antam's ferronickel cash costs would have decreased. It is likely Antam will allow the cash cost to rise slightly rather than ceasing

to use the ore from PT Inco. Antam does this in order to reduce depletion of Antam's reserves and because once nickel prices come down Antam will be positioned to again source lower cost ore.

In the first quarter Antam used 145,291 wmt of Antam-sourced ore and around 200,000 wmt of Inco ore.

Antam calculates that if the average spot nickel price in 2007 is US\$15 per pound, when consuming 800,000 wmt of the ore from PT Inco, the cash cost could rise to an average of US\$5.13 per pound. If the average spot nickel price in 2007 is US\$20 per pound, consuming the same quantity of ore from PT Inco, then Antam's cash cost could rise to an average of US\$5.68 per pound. As Antam is using slightly lower grades, in 2007 Antam will need about 1.65 million tonnes of saprolite to make 20,000 tonnes of nickel contained in ferronickel. If Antam only used ore from the roughly 2.5 million wmt reserves at Pomalaa, the cash cost of producing ferronickel would decrease to US\$3.80 per pound. If Antam only used ore from the Mornopo mine (North Maluku) the cash cost would decrease to US\$4.18 per pound and if Antam used a combination of 1 million wmt of ore from Pomalaa deposit and 650,000 wmt of ore from Mornopo the cash cost would decrease to US\$3.98 per pound.

Antam views this as a good problem to have, as while it is unfortunate that ferronickel cash costs are increasing, Antam knows that the price Antam charges for ferronickel is increasing at a greater pace and margins are widening.

### **Cost reduction**

Antam has taken most of the measures it can to lower costs, but through labor force training and size reduction, Antam hopes to further improve efficiency and productivity. Where possible, Antam will use the least costly yet high quality parts, machinery and equipment. The next major cost reduction will come when Antam converts to a less expensive energy alternative by 2009, with a goal of achieving a ferronickel cash cost of US\$3.50 per pound. Hopefully this year Antam will be able to decide whether to convert to natural gas, hydropower or coal.

### **Assets**

Antam's total assets increased Rp2,185 billion, or 36%, to Rp8,177 billion (US\$890 million) due mostly to increased cash, as well as larger trade receivables and inventories. Antam's current assets increased 128% to Rp4,213 billion, while, due to depreciation of fixed assets, Antam's non-current assets decreased 5% to Rp3,964 billion.

### **Current Assets**

#### **Cash and Cash Equivalents**

Antam's current assets increased Rp2,371 billion due largely to cash and cash equivalents, which increased Rp1,510 billion, or Rp285%, to Rp2,039 billion.

Antam's cash and cash equivalents were 86% in time deposits and increase from 51% in 2006. Spread out fairly evenly amongst 13 banks, more than the 9 banks of 2006, Antam's

time deposits were 98% US dollars. A decrease compared to 2006, Antam's US dollar time deposits earned 0.61% to 1.50%.

### **Trade Receivables**

Antam's current assets also increased due to larger trade receivables and inventories. Trade receivables with third parties increased 153% to Rp827 billion. Accounting for over half of these receivables were valued high quality ferronickel and nickel ore customers Yusco (Rp197 billion), Razno-import Limited (Rp189 billion) and Queensland Nickel Pty. Ltd. (Rp95 billion). Mostly owed by 14 reliable companies, and currently due or due within 30 days, management considered only Rp5 billion of receivables doubtful.

### **Inventories**

Inventories increased 71% to Rp1,049 billion and were the third largest contributor to increasing current assets. The Rp436 billion increase in inventories is mainly due to higher product inventory of ferronickel, gold and silver and to larger supply inventory. States at the lower of cost or net realizable value, Antam's product inventory were due to larger volumes and higher production costs, with ferronickel increasing 126% to Rp302 billion, while gold and silver increased 39% to Rp94 billion. Antam's supplies are valued at cost and rose 229% to Rp441 billion. The increase is mainly due to higher costs of nickel ore, which Antam purchase from PT Inco and uses as feedstock to produce ferronickel, as well as larger supplies of the nickel ore. The ore from PT Inco is priced

per wet metric ton and is determined by the international spot price for nickel, the average of which increased 173% in the first quarter of 2007 compared to the same period in 2006.

Although Antam's inventory increased significantly, due to the huge jump in sales revenues, inventory turn over increased from 0.98 times to 2.27 times.

### **Non-Current Assets**

Antam's non-current assets decreased Rp186 billion, or 5%, due mostly to the Rp378 billion, or 10% decrease of fixed assets, due to depreciation. The 42% increase of deferred exploration and development expenditure to Rp394 billion, as Antam ramps up its exploration and development program, nor the 71% increase of deferred tax assets were enough to offset the reduction in fixed assets. Depreciation of fixed assets for the years ended March 31, 2007 was Rp95 billion, higher than the Rp42 billion over the year ended March 31, 2006.

### **Deferred Exploration and Development Expenditure**

Antam's deferred exploration expenditure rose mostly due to work at Antam's bauxite deposits of Tayan, the site Antam's most advanced project, the Chemical Grade Alumina project. Increases were also recorded for nickel exploration at Kendari, near Pomalaa Southeast Sulawesi and Sangaji, within the Buli tenement on Halmahera island, North Maluku. Another major increase in deferred exploration was at Obi

island, the site of a potential project to process the ores into a sponge iron (similar to pig iron), which also contains nickel. Antam's largest deferred development expense came at Kijang where Antam is exploring the possibility of building a smelter grade alumina facility with Chinese partners and at Mornopo, the location of Antam's most production nickel ore mine.

### **Financial Structure**

Antam's financial structure improved as the company's assets were largely financed by Antam's retained earnings, which grew 100% to Rp4,378 billion on the back of surging cash flows. Antam lowered its long term debt net of current maturities by 50% to Rp890 billion.

### **Current Liabilities**

#### **Taxes Payable, Accrued Expenses**

Antam's current liabilities increased by 196% to Rp1,147 billion. The Rp760 billion increase was mostly due to the Rp354 billion or 600% increase of taxes payable on the back of 728% profit before income tax. The second largest contributor to higher current liabilities was the Rp223, or 124% increase in accrued expenses due mostly to the new Rp148 billion accrued expense for raw material purchases. Another significant increase in accrued expenses was the Rp113 billion, or 528% increase, for exploitation. The raw material purchases were for nickel ore from PT Inco to be used to produce ferronickel. In recognition of the high cost of nickel ore from PT Inco, which is priced in relation to the

spot price of nickel, Antam manages the source of ore it uses as feedstock in order to better control resulting cash costs.

### **Working Capital and Liquidity**

Antam's working capital more than doubled to Rp3,066 billion from Rp1,455 billion. However, as the rate of increase of current liabilities was greater than current assets, Antam's liquidity decreased to 3.67 times from 4.76 times, although Antam was more than capable of covering current

### **Non-Current Liabilities**

#### **Pension and Post-Retirement Obligations**

Antam's non-current liabilities decreased 32% to Rp1,674 billion and mostly consisted of Antam's pension and other post-retirement obligations and investment loans. As elsewhere in the world, Antam's pension and other post-retirement obligations are increasing as the size of its pensioners grow. However, as Antam's profitability has increased, so to have pension obligations. In full year 2006, Antam raised the benefits of its current and future pensioners. Antam's obligation increased 21% to Rp708 billion as at the end of March 31, 2007.

### **Debt Reduction**

Due to the early repayment of Antam's bond, which was issued in 2003 and provided a large portion of the funds to build FeNi III smelter, Antam lowered its long term debt net of current maturities by Rp906 billion to Rp890 billion. On 29 December 2006, Antam refi-

nanced its bonds with an unsecured US\$71 million loan from BCA, an unsecured US\$50 million loan from Bank Mandiri and US\$50 million from internal cash flow. Although initially a floating rate, during the first quarter Antam secured a fixed rate for two years from June 2007 to June 2009 at 6.61% p.a. for the US\$71million loan from BCA and 6.75% p.a. for the US\$50 million loan from Bank Mandiri. Both loans will mature in 2011. Antam further decreased its debt by repaying the remaining US\$26 million of the October 2003 BCA US\$30 million investment credit facility.

### **Leveraging Up and Capital Expenditures**

At the end of the period Antam's long term debt was 17% of equity and 11% of assets. Antam was Rp1,149 billion net cash. The financial structure was certainly ready for leveraging up and making investments. However, Antam is a prudently managed company and values a strong stable financial position. The average annual gearing ratio over the past decade is about 40:60. While Antam realizes the potential benefits of acquiring cheap debt to improve return on equity and lower the weighted average cost of capital, it is standard practice to not pre-finance projects in the mining industry. Antam will acquire financing only when the company is certain a project will advance.

Antam's has budgeted capital expenditures of Rp931 billion for 2007. Of this amount Antam plans to spend Rp273 billion on routine capex, of which the largest amount, Rp133 billion will be spent on the nickel division. Antam has also budg-

eted Rp127 billion to develop strategic alliances and Rp521 billion for development projects. The largest amounts of this category are the Rp139 billion allocated to further the Tayan Chemical Grade Alumina project, Antam's next major expansion, and the Rp108 billion for nickel exploration.

However, as Antam is currently looking for acquisitions and in particular for gold, it is possible Antam's capital expenditures could be far greater. At the same time, due to the constant delays and the complications in getting mining project built, which is common in the mining sector, it is possible Antam's capital expenditures will only amount to half of the budgeted figure.

Antam made no significant capital expenditures in 2007. In fact Antam had net capital expenditures of -Rp35 billion due to the effect of foreign exchange gains.

### **Cash Flows**

Antam's cash flows surged in the first quarter of 2007, which resulted in Antam's cash and cash equivalents strengthening 285% to Rp2,039 billion from Rp529 billion.

### **Cash Flows from Operating Activities**

Due to increased sales volumes of nickel, nickel ore and gold due to increased production and high demand, together with higher prices, Antam's receipts from customers increased 243% to Rp2,460 billion (US\$268 million), far outpacing the 86% increase of

payments to suppliers to Rp692 billion, the 30% increase of payments to commissioners, directors and employees to Rp137 billion or the Rp482 billion payments of tax, which was twice the size of 2006. Antam's net cash provided from operations surged 7400% to Rp1,200 billion (US\$131 million).

### **Cash Flows used in Investing Activities**

As Antam's concentrated on debt reduction as it readies for the next growth investment, Antam's net cash flows used in investing activities decreased 44% in the first quarter to Rp66 billion. The main factor was lower payments for fixed assets, which dropped 64% to Rp35 billion. Antam also received Rp40 billion from dividends from the PT Nusa Halmahera gold joint venture operated by Newcrest, compared to dividends of Rp7 billion in 2006. While cash flows used for exploration and development remained basically stable at Rp29 billion, Antam made a new investment to capitalize the Tayan joint venture company, PT Indonesia Chemical Asia of Rp13 billion and Other Payments increased from Rp1 billion to Rp27 billion. These increased cash out flows were not enough to offset the overall reduction in investing cash flows.

### **Cash Flows used in Financing Activities**

Antam used Rp247 billion in financing activities in the first quarter of 2007. In March 2007 Antam repaid the remaining balance of the unsecured BCA investment credit facility first made available to Antam in October 2003 to help finance the