Mining Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Cost position
The analysis covers the assessment of the company's cost position advantages, which are measured by, among others, COGS/ton and Gross Profit Margin (GPM). As mining product is generally a commodity, where the price is directly affected by supply and demand condition in the global market, the ability of the company to manage production cost efficiently will create a stronger cushion against any price fluctuation.

Diversification
The analysis covers the examinations on the company's ability to diversify its outputs, markets (local/export), customers, and mining locations. Products differentiation, capability to obtain long-term contracts with various customers, as well as having several mining locations will ensure the company's stream of revenue and disperse its business risks.

Operating Management.
The analysis covers reviews on the company's labor structure in terms of the accessibility of skilled labor force and labor productivity. Moreover, capability of a mining company to cope with labor issues, environmental and safety regulation will be thoroughly examined. Condition and utilization of mining equipment and the integration of technological improvements will also become important factors to be examined to measure the company's degree of efficiency in its operational activities. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company's ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company's competitiveness. The analysis is helpful to measure operating efficiency.

Quality of Reserves and Replacement Strategy.
The analysis covers the assessments of the company's proven and probable reserves and its replacement strategy, which will play an important role for the company's business performance and credit quality.

FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection And Liquidity
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which
include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

**Financial Flexibility**

The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.

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