

27 March 2017

### **Sale of IndoMet Coal:**

On 14 October 2016, BHP Billiton completed the sale of the Group's 75 percent interest in IndoMet Coal to its equity partner PT Alam Tri Abadi (Adaro).

### **Overview:**

IndoMet Coal comprised seven coal contracts of work covering a large metallurgical coal resource in Central and East Kalimantan, Indonesia. The resource was discovered by BHP Billiton in the 1990s.

Initial approvals were granted in 2006 for the Haju mine and in 2007 for the Lampunut mine.

In 2010, a 25 percent interest in IndoMet Coal was sold to Adaro, a subsidiary of the Indonesian listed PT Adaro Energy TBK. BHP Billiton retained 75 percent and held management responsibility.

The 1mtpa Haju Mine commenced production in August 2015.

In parallel with developing and commencing operations at the Haju Mine, BHP Billiton conducted various feasibility studies on the long-term investment and commercial viability of developing and operating IndoMet Coal which concluded that there was not an adequate business case to support a major development of IndoMet Coal by BHP Billiton, resulting in the full sale to Adaro.

Below we set more details about our approach.

### **Risk assessments**

- BHP Billiton adopted a cautious approach to developing IndoMet Coal. It conducted an extensive Environment and Social Impact Assessment and separately conducted a High Conservation Value assessment, which was used to inform the IndoMet Coal Biodiversity Strategy.
- In addition, prior to the commencement of the small 1mtpa Haju Mine, a formal Environmental and Social Impact Assessment (**AMDAL**) process was undertaken consistent with Indonesian law but which additionally:
  - identified key environmental and social impacts so that appropriate management and monitoring plans could be developed;
  - engaged NGOs to identify environmental and social impacts and opportunities and, where possible, include them in plan development; and
  - involved extensive community and government engagement to seek local support and licence to operate for the project.
- Additional risk assessments covering various scopes and disciplines (including health, safety, environment and community) were conducted during BHP Billiton's ownership of IndoMet Coal and informed the strategies and controls that were implemented during each project phase.

### **Consultation process**

#### **A. Haju and Lampunut:**

- Through BHP Billiton's Indigenous Peoples Policy Statement, BHP Billiton commits to the 2013 ICMM Position Statement on Indigenous Peoples and Mining that sets out standards for engaging with Indigenous Peoples with respect to new operations or major capital projects that are located on lands traditionally owned by or under customary use of Indigenous Peoples and are likely to have significant adverse impacts on Indigenous Peoples.
- The 2013 Position Statement's requirements apply to new operations or major capital projects for which permitting and approvals had not commenced prior to May 2015.
- In relation to Haju and Lampunut, those projects received the majority of official approvals (for example mining tenure, AMDAL, forestry permits) prior to both the agreement of the Position

Statement by ICMM in 2013 and the effective date of adoption of the Position Statement by ICMM Member Companies in May 2015.

B. Engagement processes adopted at IndoMet Coal:

- Nevertheless, IndoMet Coal worked closely with directly affected villages and had extensive engagement systems including community consultation workshops and development programmes. Engagement activities included:
  - a range of formal community consultation meetings;
  - close engagement with the Dayak Council (the tribal governing body for local Indigenous communities);
  - extensive and frequent informal engagement with local communities and individuals (including Indigenous communities);
  - anthropological studies and investigations;
  - between 2012 and 2016, IndoMet Coal conducted 35 formal communication sessions with local communities and 900 informal community meetings;
  - environmental and social impact assessments (including the AMDAL process described above);
  - incorporating community feedback from these consultation processes into project designs;
  - undertaking cultural heritage clearances (in conjunction with local communities) prior to land clearing and construction work;
  - implementing a range of community development programmes, developed in consultation with local communities; and
  - implementation of grievance mechanisms and compensatory action processes.
- These communication processes were implemented consistently in the Haju area for over 10 years.
- In 2005, IndoMet Coal commissioned a series of community based participatory rural appraisals which were undertaken by anthropologists and development NGOs. This process resulted in the development of village based community consultation forums known as HAPAKAT.

C. Application of the 2013 ICMM Position Statement to future projects within IndoMet Coal:

- Prior to the decision to sell IndoMet Coal, BHP Billiton analysed the 2013 ICMM Position Statement on Indigenous Peoples and Mining to assess whether it could be effectively implemented in Indonesia. That analysis showed that significant differences existed between the 2013 ICMM Position Statement and Indonesia's regulatory system, where Indigenous Peoples' rights are not based on self-identification and are only enlivened if recognised by the State.
- Consistent with implementing the commitments of the ICMM Position Statement, BHP Billiton's plan for addressing these differences in future IndoMet Coal projects focused on:
  - Reviewing the community engagement and consensus-building work done by IndoMet Coal to consider how it exceeded local requirements and substantially complied with the 2013 ICMM Position Statement commitments.
  - Considering any additional steps IndoMet Coal could take (for future projects in Indonesia), which were identified through further analysis of the 2013 ICMM Position Statement and the Indonesian regulatory framework. For example, IndoMet Coal:
    - investigated the type of consent that it could seek from the Indigenous local community in accordance with Dayak traditional law;
    - was committed to reviewing its Complaints and Grievance procedure to ensure it was participatory and inclusive for Dayak peoples.

### **Malnutrition in the local community**

- At the time BHP Billiton sold its remaining share of IndoMet Coal to Adaro, the total disturbed area of the Muara Tuhup Port, Haju Mine and Lampung early works was approximately 300 hectares.
- BHP Billiton is not aware of any evidence that the development of IndoMet Coal had caused malnutrition in children, by materially decreasing access to food, or that traditional trees for medicine or cultural practices could not be sourced.
- There are a number of other coal mines in close proximity to the Haju Mine that have disturbed much larger areas of forest.
- Much of the land area covered by IndoMet Coal's coal contracts of work were also covered by active timber concessions. Under the terms of the mining concession IndoMet Coal had no control over the activities of the timber concession holders.

### **Transfer to Adaro**

- BHP Billiton developed IndoMet Coal in line with BHP Billiton's sustainability values and to international standards. This covered exploration, design, construction and operation.
- BHP Billiton carried out extensive joint-venture partner due diligence when it sold an initial 25 percent interest in IndoMet Coal to Adaro in 2010.
- All of the studies, infrastructure designs, procedures and strategies prepared for IndoMet Coal were transferred to Adaro.
- Over 75 percent of the IndoMet Coal workforce who developed and executed these systems transitioned to employment with Adaro.
- We believe we have provided Adaro with the systems and procedures, information, capacity and expertise required to enable IndoMet Coal to continue to operate consistently with international standards.