Indonesian President Susilo Bambang Yudhoyono confirmed Wednesday that Dulmatin, one of the masterminds behind the 2002 bombings in Bali that killed more than 200 people, was among three terrorist suspects shot and killed near Jakarta Tuesday while they were in the process of establishing a new terrorist cell.

Tuesday's shoot-out tightens the noose around the long-established Jemaah Islamiyah—a local affiliate of al-Qaeda—which Indonesia's anti-terrorism police have decimated by arresting or killing hundreds of suspects over the past several years, shortly before U.S. President Barack Obama is scheduled to visit the country this month.

"We can confirm that one of those that were killed was Mr. Dulmatin, one of the top Southeast Asian terrorists that we've been looking for," Mr. Yudhoyono said in a speech in Canberra on Wednesday.

But the way in which Mr. Dulmatin was tracked down is raising concerns that the original bombers behind the 2002 Bali attacks are still seeding other terrorist cells, even as they are gradually picked off by the Indonesian authorities. That could indicate future problems as the terrorists push their goal of creating an Islamic state across much of Southeast Asia, despite deaths of big-name targets such as Mr. Dulmatin and another Bali mastermind, Noordin Mohamed Top, who was tracked down and killed last year after creating another new cell to attack a Jakarta luxury hotel, killing nine people, including the suicide bombers.

"Mr. Dulmatin was a tier-one suspect, and the most dangerous terrorist in Southeast Asia after Noordin Top," said Rohan Gunaratna, head of the International Center for Political Violence and Terrorism Research at Nanyang Technological University in Singapore. "His death means the terrorism threat has been reduced, but it is still significant."

Mr. Gunaratna points to the way many different Islamist groups were involved in founding a new terrorist cell in western Indonesia's Aceh province as a fresh threat to the country's anti-terrorism drive. "The terrorist threat is now multi-layered, but Indonesia's anti-terrorism police, known as Detachment 88, are beginning to deliver a picture of how the different groups now interact," Mr. Gunartna said.

Regional intelligence officials say Indonesian police caught wind of Mr. Dulmatin's scent just as he was helping put into action a new guerrilla unit with the help of other Indonesian Islamist groups, including Kompak and Darul Islam. Sixteen people were arrested and three killed in a police raid on a guerrilla training camp on Feb. 22. Since then five other people have been arrested or killed across the country as a result of information gathered during that raid, culminating in the shoot-out that lead to the death of Mr. Dulmatin near an Internet cafe southwest of the capital, Jakarta.

Mr. Dulmatin, who like many Indonesians goes by only one name and is believed to have been in his late 30s, was one of the most dangerous bombers in Southeast Asia. An electronics specialist, he was recruited by Jemaah Islamiyah and sent to Afghanistan for bomb-making training, intelligence officials say. After the 2002 Bali bombings, he fled to the southern Philippines where he linked up with another al-Qaeda-backed group, Abu Sayyaf. He taught the Philippines-based guerrillas bomb-making techniques, which they used to deadly effect in Manila and other cities, while also instructing
Indonesian visitors on constructing explosive devices.

Philippine police found Mr. Dulmatin's wife and children in the southern Philippines in 2006 and deported them. Then in 2008 Philippine authorities thought Mr. Dulmatin had been killed in a gun battle between the Abu Sayyaf group and the Philippine military, and the authorities exhumed a body then believed to be that of the Indonesian bomb-maker in Tawi-Tawi. It wasn't Mr. Dulmatin, however, and he continued to move around the southern Philippines, evading a tightening military dragnet and shrugging off a $10 million bounty the U.S. government placed on his head—a clear indication of his importance to the terrorist movement in Southeast Asia. Philippine officials say they last heard word of Mr. Dulmatin's whereabouts in late last year.

After the Feb. 22 arrests in Aceh, however, Detachment 88 realized Mr. Dulmatin was back in Indonesia and stepped up efforts to find him. Regional security officials say the Aceh detainees tipped off the police about where Mr. Dulmatin might have been hiding, and they launched a careful surveillance operation before moving in to a capture Mr. Dulmatin and the other suspects around noon Tuesday.

Mr. Dulmatin was tracked to the cafe in the town of Pamulang, where he shot off one round from a revolver before police shot him dead.

Two other suspects were killed while fleeing a house nearby, again after firing shots at police.

Aceh Governor Irwandi Yusuf said Tuesday in Jakarta that members of the terrorist cell traveled to his province from Java, and began recruiting local members last year, the Associated Press reported. Mr. Yusuf said the terrorists planned to send guerrillas to Gaza to fight Israel and they chose Aceh as a staging post because it is the only Indonesian province where Islamic Shariah law is the official state law. He also said the militants were hopeful of finding fresh recruits in Aceh, where secessionists fought for nearly 20 years for independence until signing a peace deal with the government in 2005.

"The want to make Aceh their Southeast Asian base, but they're wrong. The Acehnese people don't support them," the Associated Press reported him as saying.

Mr. Yusuf also said police had told them that 50 militants were still at large in Aceh, some of whom had received training in the southern Philippines.

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