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REPUBLIC OF INDONESIA

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**Highlights**

**Politics**

- Russia is to provide a \$1 billion loan to help boost Indonesia's defense systems
- Indonesia, Japan leaders meet

**Regions**

- The Free Aceh Movement no longer a threat, says Aceh commander
- Japan, Norway, Denmark to fund anti-piracy radar system

**Economy**

- Economic partnership agreement signed with Japan
- Capital market stabilizes after US subprime mortgage concerns

**Business briefs**

**Macroeconomy**

- Agreement with Japan to see wide cuts to tariffs
- Bank Indonesia confident rupiah to return to 9,000 to dollar

**Investment**

- Japan plans \$7 billion in investments in next five years
- Toyota Motor Corp to expand operations

**State concerns**

- USAID program to boost cocoa quality
- Rail link to be built to Jakarta airport

**SOEs**

- Air carrier Merpati Nusantara to replenish fleet

**Private sector**

- Telecommunications major Indosat reports 54% profit hike in first half
- PT Astra International reports 41% boost in first half net profit

**Banks**

- Bank BNI adds 20% to net profit in first half
- Bank Mega to expand lending by 60% this year

**Power**

- State utility PLN signs agreements on new power plants

**Oil & gas**

- Japan to buy more LNG from Indonesia
- Russian firms to commit \$3-4 billion on oil exploration

**Mining**

- State brokerage Danareksa retains overweight position on coal stocks
- Malaysian firm backs new joint venture for tin mining

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## POLITICS

### **\$1 Billion Loan for Russian Arms**

Indonesia has received a \$1 billion loan from Russia to buy military helicopters and submarines from the country, Xinhua reported on Tuesday (21/8/07).

The Defense Ministry will use the loan to buy 10 MI-17 helicopters, five MI-35P helicopters, two submarines, 20 infantry vehicles and weapons systems for four Sukhoi jetfighters already in service with the Air Force.

The arms purchase will take place between 2007 and 2010, the ministry's secretary general, Lt. Gen. Sjafrie Sjamsoeddin, said.

The Indonesian delegation expressed interest in buying six more Sukhois -- three SU-27SKMs and three SU-30MK2s -- during the meeting of Indonesian and Russian defense officials in Moscow on Monday.

Indonesia, which has only four Sukhois, is eager to have at least a squadron of the jets.

The Sukhoi purchase is estimated to cost \$355 million but the deal will be separate from the \$1 billion loan.

### **Germany to Assist in Defense**

Indonesia and Germany have agreed to step up their defense cooperation through a number of activities, including information exchange and joint military exercises, cooperation in dealing with terrorism and separatism, as well as conducting joint patrols in the Malacca Strait, an Indonesian Defense Ministry official said on Thursday (23/8/07), according to Antara.

"We are studying a number of proposals, including the wish to station Indonesian naval officers in the German warship participating in the United Nations Interim Force in Lebanon," the ministry's secretary general Sjafrie Sjamsoeddin said after a meeting with German Defense Minister Peter Elekenboon.

According to Sjamsoeddin, the two defense ministries would soon prepare the signing of a memorandum of understanding on the formation of a working group to speed up information and personnel exchange within the frame of defense research and development activity.

During the meeting, the two defense ministries agreed to establish cooperation in the field of defense technology, he said, adding that Germany expressed support for Indonesia's plan to overhaul its Nenggala 209 submarine.

### **Indonesia, Japan Leaders Meet**

Indonesia signed an economic partnership agreement with Japan on Monday (20/8/07) during the visit of Japanese Prime Minister Shinzo Abe, *Business Times* reported.

Indonesia and Japan also committed themselves to taking part in a new framework on climate change after the current Kyoto Protocol ends, saying that by 2050, they want to see global emissions cut from the current level.

On the health front, Abe announced at a joint press conference that Japan would give 1.7 billion yen (\$15 million) to help fight bird flu in Indonesia.

Yudhoyono added that both nations would collaborate in fighting bird flu. "I have offered Prime Minister Abe a bilateral cooperation in developing vaccines from the strain of virus in Indonesia," he said at the conference.

## UN Hopes President to Attend General Assembly

United Nations Secretary General Ban Ki-moon has expressed hope that President Susilo Bambang Yudhoyono will attend the 62nd UN General Assembly from September 23 to October 3 in New York, Antara reported.

Indonesia's permanent representative to the UN, Adiyatwidi Adiwoso, said Tuesday (21/8/07) that the UN chief had repeatedly told him to encourage Yudhoyono to attend the session.

"The UN chief has asked me several times to ask President Yudhoyono to attend the UN General Assembly, and I said I would convey it to the president," Adiwoso said.

He added that in his latest meeting with Ban Ki-moon, the former South Korean foreign minister said, "The main thing is that your president must be present."

With its main agenda on climate change, the UN General Assembly session, to be opened by Ban Ki-moon on September 25, will be attended by more than 100 state/government leaders.

Adiwoso has yet to confirm whether the Indonesian president would attend.

He said Ban Ki-moon's hopes for Yudhoyono's attendance is connected to Indonesia's role in international efforts to deal with climate change. Indonesia is scheduled to host an international meeting on climate change in Bali on December 3-14, where more than 180 countries are expected to participate.

## Indonesia Presses Malaysia over Maid Abuse

The government on Wednesday (22/8/07) upped the pressure on Malaysia to take swift action against abusive employers after the death of an Indonesian maid working in Kuala Lumpur, Agence France-Presse reported.

The beaten body of 24-year-old Kunasir was found in mid-August. Police are currently investigating a Malaysian couple for her murder.

"We need the Malaysian government to take swift action on this case. This cannot go on as there are just too many cases where our people have been mistreated," said A.M. Fachir, the Indonesian deputy chief of mission in Kuala Lumpur.

In another recent case, an Indonesian maid climbed out of the window of a high-rise apartment in the Malaysian capital to escape an abusive employer.

Fachir pointed to another case of an Indonesian maid who escaped violent employers four years ago. The abusers were charged by police but have not yet been tried in court, while the maid remains in limbo in Kuala Lumpur, Fachir told a press conference.

He said the law seemed to be weighed against domestic workers, citing a recent case where a maid caught stealing \$800 was jailed for seven years.

"But serious cases involving Malaysian employers have yet to be tried and many times forgotten," he said.

Indonesia is also pressing Saudi Arabian authorities to pursue murder charges against a family that killed two maids and severely injured two more after accusing them of using magic against their son.

## UNHCR Asked to help N. Korean Defectors

Indonesia has sought assistance from the UN High Commissioner for Refugees (UNHCR) to help five North Korean defectors who entered the compound of the Indonesian embassy in Vietnam on Tuesday (22/8/07), Antara reported.

"This afternoon (Wednesday), we talked with the UNHCR to help resolve this problem," Foreign Affairs Ministry spokesman Desra Percaya said.

The dissidents' identities were still unclear as they did not bring any legal documents with them. They only held a piece of paper that said they were North Korean refugees, who wanted to go to a free country.

## Tommy Suharto Faces New LawsUIT

State prosecutors filed a civil lawsuit Wednesday (22/8/07) against Hutomo Mandala Putera, or Tommy, the youngest son of former President Suharto, in a new attempt to recover money linked to a land exchange scam in the 1990s, Agence France-Presse reported.

The suit targets a company, GBS, in which Tommy was a commissioner, as well as its president and a former chairman of the national logistics agency Bulog.

Tommy was jailed for 18 months in 2000 in connection with the swap, in which GBS acquired prime land owned by Bulog in return for swampy land in North Jakarta. The scheme caused state losses of Rp95.4 billion (\$627,906 at the time).

He is also a suspect in a separate criminal case that involves a state clove monopoly he used to head.

## REGIONS

### GAM No Longer Enemy: Commander

Former separatist group the Free Aceh Movement (GAM) is no longer an enemy of the Indonesian Armed Forces (TNI), chief of the Iskandar Muda regional military command Maj. Gen. Supiadin AS said on Wednesday (22/8/07), demanding that both sides maintain peace.

"I ask former GAM rebels and the TNI to unite, maintain peace and create security stability for the sake of the Acehese people's prosperity," he said, according to Antara news agency.

Supiadin said Aceh is in the process of moving to lasting peace, and the TNI would always be committed to maintaining peace in the province by supporting the government in creating prosperity.

"As professional soldiers, the TNI will continue to make policies that would maintain peace and security in the province," he said.

The government and the GAM signed a landmark peace deal in Helsinki on August 15, 2005 to put an end to three decades of bloody conflict in the country's westernmost province.

### Anti-Piracy Radars to be Funded

The government will install radars in the waters of Bangka Belitung province to prevent piracy and for navigational control as part of a wider program to stop piracy, *Bangka Pos* reported.

"We will install them in early 2008, so that they will be operational by early 2009," the Transport Ministry's director of navigation and sea communication Yuri Gunadi said on Wednesday (22/8/07).

Three countries have agreed to fund the installation of radars: Japan will fund the installation of radars in the southern part of the Malacca Strait. It will give Indonesia \$16 million.

Norway has agreed to fund the installation of radars in the northern part of the Malacca Strait, while Denmark would fund those for eastern Sumatra, Sunda Strait, and Makassar Strait.

## Foreign Minister Urges Papuans to Return from PNG

Papuans living in PNG have been encouraged to return home where they are promised a better life, Foreign Affairs Minister Hassan Wirayuda said in an interview with the BBC on Friday (24/8/07).

Greater economic opportunities were now available in Papua, given the province's special autonomy status accompanied by generous funding from the national government in Jakarta, he said.

The Indonesian government would make funding available to continue facilitating the voluntary repatriation of Papuans from PNG.

There are about 20,000 Papuans still residing throughout PNG, who sought refuge across the border at the height of clashes between Indonesian soldiers and pro-independence guerrillas in the early 1980s.

"They (West Papuans) must now return and make use of the opportunity to build Papua. Special autonomy status had been granted to the province. Not only does it have its own power and authority to govern, very generous revenue sharing for the province had made it instantly rich, much more than any of the other provinces," Wirayuda said.

Under the Special Autonomy Law granted for Papua in 2001, the Indonesian government concedes to Papua province up to 70% of revenue from mining and petroleum and 80% of forestry and fisheries revenue earned from that province. This is additional to government grants, income tax revenue, semi-government business earnings and loans.

The law also gave greater rights and control of the province's affairs to the local people, a situation Wirayuda said was conducive for the prosperity and advancement of Papuans.

## ECONOMY

### EPA Deal 'a Landmark': Official

The economic partnership agreement signed on Monday (20/8/07) by Japanese Prime Minister Shinzo Abe and Indonesian President Susilo Bambang Yudhoyono represents a landmark for Indonesia, an official quoted by *The Straits Times* said.

The newspaper commented that while the EPA is widely seen as strengthening Japan's bargaining power over Indonesia's energy exports, it also represented a challenge to exporters to strive harder to make bigger inroads into the Japanese market.

Japan is already Indonesia's largest trading partner, although more than half of exports are composed of oil and gas. Bilateral trade stood at \$27 billion last year.

"The EPA opens the door to bigger exports to Japan. It's up to us to seize the opportunities," said Asianto Sinambela, an Indonesian Foreign Ministry's senior official.

The EPA will remove more than 90% of tariffs on Indonesian exports, simplify Customs procedures and provide for cooperation in investments, ease access to Japan's labor market and initiate more than 90 capacity building programs to assist exporters penetrate the Japanese and other international markets.

Economist Umar Juoro said the capacity building programs were an important aspect: "This EPA element could prove to be more important than tariff cuts, as it would empower us economically," he said.

Following the signing of the EPA, Japan corporations announced that they will pump in \$7 billion into sectors like energy, oil and gas, machinery and automobiles over the next five years.

The stock market stabilized after global concerns over US subprime mortgages, with the Jakarta Stock Exchange composite index closing the week at 2,143.11, 12.3% up on the week, nearly making up the 13.5% fall the previous week. The rupiah ended the week at 9,405/9,415 to the US dollar.

Commenting on the mid-term outlook for the benchmark interest rate, Finance Minister Sri Mulyani Indrawati said Friday that should average 8% next year compared to the current level of 8.25%.

"The BI rate is forecast at 8% in 2008 while the US Fed fund rate is seen at around 5.25% because of global inflation risks," Indrawati said.

## **BUSINESS BRIEFS**

### **MACROECONOMY**

## **Indonesia, Japan Sign EPA**

Indonesia and Japan on Monday (20/8/07) signed a broad-ranging economic pact and agreed to jointly tackle climate change and bird flu issues.

President Susilo Bambang Yudhoyono and visiting Japanese Prime Minister Shinzo Abe signed the Economic Partnership Agreement (EPA) after a closed-door bilateral discussion, reported *Business Times*.

The pact will do away with more than 90% of trade tariffs, simplify customs procedures, provide for cooperation in investments, and seek to eliminate anti-competitive activity.

It will also ease Japan's strict labor market, with a new scheme allowing Indonesian nurses and care workers to work as expatriates in Japan.

About 80% of Japanese tariffs on Indonesian goods, including footwear, textiles and wood products, will be lifted as soon as the pact is implemented. The remaining 10%, which include foodstuffs like bananas and pineapples, will be removed gradually within three to 10 years.

Japan is Indonesia's largest trading partner. Indonesian exports to Japan last year totaled \$21.7 billion, about half of which were fuel such as LNG and coal.

Some 58% of Indonesian tariffs on Japanese imports will go when the pact comes into force. Another 35% of tariffs that are already low or which are levied on items where there is little trade will gradually be abolished within three to 10 years.

It is hoped that, as well as trade, the EPA will boost investment from Japan. Japanese economic official Masakazu Toyoda told an Indonesia-Japan business forum on Monday that the lower cost of imported materials will make Indonesia a more attractive production and export site.

Japanese interests have already announced some \$500 million in new investments in the automotive industry, which will benefit from the scrapping of the 15% tariff on Japanese steel used in the industry.

In energy cooperation, Jakarta has agreed to supply Japan with LNG. Indonesia is the top exporter of LNG to Japan, supplying more than 12 million tons or 22% of the latter's total LNG imports last year. It is also Japan's No. 2 coal supplier.

However Yudhoyono has indicated that domestic needs would be fulfilled first. Mines and Energy Minister Purnomo Yusgiantoro said on the sidelines on Monday that Indonesia could only confirm extending contracts of 3 million tons per year, a sharp drop from the current 12 million tons.

## **BI Governor Sees Rupiah at 9,000/Dollar**

Bank Indonesia (BI) has intervened to support the rupiah and expects the currency to stabilize at about 9,000 per dollar in coming weeks, Governor Burhanuddin Abdullah said on Wednesday (22/8/07).

The rupiah has been hit hard in recent weeks as investors continued to shun high-yielding but riskier emerging market assets, such as the rupiah, because of concern about US credit market problems.

The rupiah was trading at 9,405/9,415 to the dollar on Friday (24/8/07). It has lost almost 5% against the dollar this year.

"We have intervened... in a bid to stabilize (the rupiah). I think the possibility is that a new equilibrium will be reached in the coming weeks. I think it will continue to be at around 9,000 levels," Abdullah was quoted as saying by Reuters.

The central bank has said it is comfortable with the rupiah in a range of between 8,500-9,500 to the dollar.

The state budget does not give a forecast for the year-end rupiah rate, but it has predicted the currency will average 9,100 per dollar this year and next year.

## **Exports Predicted to Rise 12.65% in 2008**

The government projects a 12.65% increase in exports in 2008, higher than this year's target of 9.95%. Exports are forecast to reach \$119.2 billion in 2008, up from \$111.87 billion predicted this year, Antara reported on Tuesday (21/8/07).

The import target is set at \$92.1 billion, up from this year's target of \$81.15 billion, Bank Indonesia (BI) data show.

A 14.1% increase in exports of non oil/gas commodities will be the main driver for strong growth in the country's export earnings in 2008.

Exports of oil and gas are expected to decline with growing domestic requirements.

Manufacturing products are predicted to be the largest contributor, accounting for 83% of the country's export earnings in 2008, followed by mining commodities accounting for 13%, with farm commodities making up only 4%.

Exports of manufactured products are predicted to rise 13.2%, higher than this year's target of 8.3%.

## INVESTMENT

### Japan to Invest Up to \$7b Over 5 Years

Japan is planning investments worth up to \$7 billion in Indonesia over the next five years, a business representative said Monday (20/8/07).

"More than 800 billion yen or \$7 billion of total investment is planned over the next five years," Fujio Mitarai, chairman of the Japan Business Federation (Nippon Keidanren), said in a speech delivered in front of visiting Japanese Prime Minister Shinzo Abe and Indonesian President Susilo Bambang Yudhoyono, according to Agence France-Presse.

He said sectors planning the investment included "energy, including oil and gas, and machinery, including automobiles."

About 62% of Japanese investment in Indonesia is through the manufacturing sector. Japan is one of Indonesia's top investors.

### Toyota Ready to Expand in Indonesia - Chairman

Toyota Motor Corp is ready to expand its business in Indonesia as it expects new car sales in the country to exceed 500,000 units in 2010, rising from a projected 400,000 units in 2007, its chairman said Monday (20/8/07).

"To support the business expansion plan, we have urged the Indonesian government to improve facilities at the Tanjung Priok port, which include road access to the port," Toyota chairman Fujio Cho told participants of the Indonesia-Japan business forum.

He said that growth in car sales in Indonesia would be supported by an improvement in the nation's economy.

"Efforts by President (Susilo Bambang) Yudhoyono and his team to reform the country's economy are highly respected," he said.

Toyota Motor owns 95% of Indonesia's largest car manufacturer PT Toyota Astra Motor. The remaining 5% is held by PT Astra International.

Astra International director Prijono Sugiarto told Dow Jones Newswires on the sidelines of the business gathering that Toyota Motor is spending about \$300 million until 2008 to expand its production of Daihatsu cars in Indonesia to 211,000 units in 2008, from 155,000 units expected this year.

### Indonesia, Singapore to Meet Again on SEZ

The government looks set to develop Special Economic Zones (SEZs) in the Batam, Bintan and Karimun islands, after issuing regulations relating to implementation of the SEZs early last week.

Coordinating Minister for the Economy Boediono said officials from Indonesia and Singapore will meet in Bali on August 29 to discuss progress of the SEZs and other pending issues.

"We will discuss training programs and joint investment promotion as agreed previously," Boediono said Wednesday (22/8/07), according to *The Jakarta Post*.

Indonesia and Singapore agreed in June last year to develop SEZs in the three islands of the Riau Islands province, which is a strategic location in the vicinity of Singapore; the region's trade hub.

In the latest follow-up, the government on August 20 issued regulations for each SEZ, which will consist of free-trade zones (FTZs) and ports.

Government regulations stipulate that the SEZ for Batam will cover Batam island, as well as the nearby smaller islands of Tonton, Setokok, Nipah, Rempang, Galang and Galang Baru.

The SEZ for Bintan will cover the Galang Batang, Maritim, Senggarang and Dompok Darat industrial zones, as well as Lobam Island. The SEZ for Karimun will affect most parts of Karimun Island and Karimun Anak Island.

The SEZs will be effective for 70 years, with their respective management agencies to be set up by next year at the latest.

Manpower and Transmigration Minister Erman Suparno, meanwhile, expects investment growth in the SEZs ahead to create some 30,000 jobs.

Boediono, said income tax breaks for industries in the SEZs would be considered differently to import duty exemptions, as they are in FTZs.

#### STATE CONCERNS

### **USAID Cocoa Project to Boost Output, Prices**

Cocoa farmers are receiving help both in terms of supply and demand for their beans under a comprehensive three-year program sponsored by the US Agency for International Development, a senior official said Thursday (23/8/07).

The program was first rolled out two months ago in Sulawesi, which produces 75% of the country's cocoa output. The target is to teach 3,000 cocoa farmers better crop management practices and pest control technologies in the first year, according to David Anderson, who heads the agency in Indonesia.

"This is just the beginning. We will train 20,000 farmers over three years, so the impact will be much greater," he was quoted as saying by Dow Jones Newswires.

Collectively, the farmers own about 15,000 hectares of land, producing 0.6 metric tons of cocoa beans per hectare. With better cultivation skills, the land could yield 33% more, or 0.8 tons of cocoa a hectare, said Anderson. This means about 12,000 tons of cocoa could be harvested by 2010, when the cocoa trees mature.

On the demand side, Blommer Chocolate Co, one of the largest US manufacturers of chocolate, and its primary cocoa supplier, PT Olam Indonesia, have pledged support to the program by agreeing to purchase the beans at a premium of about 25% over the prevailing market value of cocoa beans.

There are plans to extend the program to 5,000 cocoa farmers in Aceh in the near future, said Anderson.

## **Govt. to Build Railroad to Jakarta Airport**

The government plans to build a railway line linking Jakarta with the main Soekarno-Hatta International Airport in an effort to ease the city's traffic problems, the railroad operator's chief said on Wednesday (22/8/07).

PT RaiLink, a joint venture firm between state-owned railway company PT Kereta Api and state-owned airport operator PT Angkasa Pura II, expects to wrap up the 18-km railroad by 2009 and predicts it will be used by some 9 million passengers a year, the company's president director, Masjraul Hidayat, told Reuters.

The Rp1.7 trillion (\$180.2 million) project is part of the government's ongoing efforts to ease traffic in the city.

"We expect to carry around 20% to 30% of passengers traveling to and from the airport. According to our recent survey, there were about 30 million passengers traveling via Soekarno-Hatta airport in 2006," Hidayat said.

He said RaiLink is still considering options to finance the projects. He did not elaborate.

SOEs

## **Merpati to Lease Six More Boeing 737-300s**

State-owned airline company Merpati Nusantara Airlines will lease six more aircraft, strengthening its fleet to 37 units before the end of the year.

The additional Boeing 737-300s will serve domestic routes, especially in the less developed eastern part of the country, Merpati general manager Irvan Harijanto was quoted as saying by Antara on Tuesday (21/8/07).

He said the additional aircraft would allow Merpati to resume service on routes closed earlier due to financial problems.

In 2004, Merpati stopped flights on several domestic routes, especially in eastern Indonesia, for efficiency reasons.

Commercial director Jaka Pujiono said two of the aircraft had already arrived and three more are expected this month.

PRIVATE SECTOR

## **Indosat H1 Net Profit Jumps 54%**

The country's second largest mobile phone firm, PT Indosat reported on Wednesday (22/8/07) a 54% rise in first-half net profit and forecast full year revenue and net profit would grow more than a fifth.

"We are optimistic of having more than 20% revenue growth this year," Indosat president director Johnny Swandi Sjam was quoted as saying by Reuters. The company's revenue was Rp12.24 trillion (\$1.3 billion) last year.

"Revenue from our cellular service could grow at least 25% this year," he added.

Separately, finance director Wong Heang Tuck said Indosat's net profit may increase by more than 20% this year. The forecasts would signal revenue of nearly Rp14.7 trillion this year and net profit of Rp1.7 trillion.

However, Sjam said he expects the firm's average revenue per user from the mobile business would fall 5% to 10% this year.

Indosat posted a net profit of Rp845.1 billion (\$89.56 million) in the January-June period, compared to Rp548.8 billion a year ago.

Its revenue climbed by about a third to Rp7.69 trillion in the first half, driven by a 20% rise in the number of its mobile phone subscribers.

The company's mobile phone customers grew to 20 million by the end of June from 16.7 million at the end of 2006.

## **Astra Posts 41% Rise in H1 Net Profit**

Indonesia's largest automotive company PT Astra International reported a boost in net profit to Rp2.62 trillion (\$277.7 million) in the first half of this year, a 41.07% increase from Rp1.86 trillion in the same period last year, Asia Pulse reported.

Car sales, which rose to 104,280 units from 83,301, were the main contributor to the improvement, accounting for 28% of the net profit, a company official said.

Astra Head of Investor Relations Richard Santosa said its agribusiness subsidiary PT Astra Agro Lestari was also a major contributor, accounting for 19% of the net profit, followed by motorcycle and financial sector for 17% each and heavy equipment sales for 12%.

Earlier, its heavy equipment subsidiary PT United Tractors reported net income of Rp8.19 trillion in the first six months of this year, up 18% from the same period last year.

## **Sinar Mas to Enter Mobile Market**

PT Sinar Mas Telecommunications plans to become the 10th mobile-phone operator in the country, where competition has forced companies to slash call rates.

The company plans to build a network capable of serving 1.4 million users by the end of the year, director Ubaidillah Fatah told Bloomberg News. Sinar Mas aims to attract 700,000 users this year, starting services next month.

Mobile-phone companies including Hong Kong billionaire Li Ka-shing's Hutchison Telecommunications International Ltd have slashed prices to lure consumers in Indonesia, where mobile phone users are forecast to jump 25% to 100 million in the next two years. PT Telkomsel, the country's biggest mobile operator, said in June the price war was crimping revenue.

Telecommunications companies expect demand for mobile services to increase as economic growth boosts incomes in the country, where 37 million people earn less than \$18 a month. About a third of Indonesia's 235 million people have access to phone services.

## BANKS

### **BNI H1 Net Profit Up More Than a Fifth**

The country's third largest lender, Bank Negara Indonesia (BNI), reported on Thursday (23/8/07) a 21.6% rise in its first-half net profit, driven by strong growth in lending and lower non-performing loans.

The bank's outstanding loans grew 29.3% to Rp78.25 trillion (\$8.33 billion) from a year ago, outperforming some rivals, as lower interest rates boosted lending.

Net profit at state-owned BNI climbed to Rp1.02 trillion in the January-June period, against Rp837.5 billion a year ago. The rise in its net profit came despite the bank's net interest income falling 10.5% to Rp3.32 trillion.

BNI's net non-performing loans fell to 5.4% by the end of June from 11.25% in the same period last year.

The figure remained, however, above the 5% guidance issued by the central bank. Bank Indonesia (BI) expects the banking sector to post loan growth of about 18% this year, although some analysts sees the industry achieving 20% growth in loans.

The government and BNI jointly raised Rp8.1 trillion from a secondary offering of a stake in the bank earlier this month.

### **Bank Mega Eyes 60% Rise in Lending This Year**

Publicly listed Bank Mega is optimistic lending will grow by 60% this year on the back of a surge in demand from corporate borrowers.

The bank's outstanding loans grew by about 10% as of the end of June to Rp11.5 trillion (\$1.21 billion) from the same month in 2006, president director Yungky Setiawan said Monday (20/8/07), according to *The Jakarta Post*.

With the new demand, particularly from corporate borrowers, total lending is expected to jump to about Rp17.6 trillion by the end of December, or an increase of about 60% from Rp10.99 trillion at the end of 2006, he said.

Director for credits Daniel Budirahaju said Bank Mega is currently processing credits of nearly Rp9 trillion, about Rp2 trillion of which had been agreed upon. He said the bank would set aside 45% of total credits for corporations, about 40% for consumers and about 15% for the commercial sector.

With increases in both loans and third-party funds, Bank Mega is optimistic about achieving its target of increasing net income by nearly 400% to Rp750 billion in 2007 from Rp151.7 billion last year.

In the first half, it booked a net income of Rp271.6 billion, an increase of about 280% from Rp71.36 billion in the same period last year.

### **Hana Bank to Buy Majority Stake in Bank Bintang**

Bank Bintang Manunggal said South Korea's Hana Bank will buy 61% of its equity from the founding shareholders. The International Finance Corp, a unit of the World Bank, will also purchase a 19% stake, Hana Bank said in a statement.

A sales purchase agreement for the stock is scheduled to be signed next month, Thomson Financial reported on Wednesday (22/8/07).

The remaining shares will be retained by the bank's founders, PT Trisetijo Manunggal Utama and businessman Bambang Setijo. The value of the transaction was not given.

Bintang Manunggal was established in July 1989 and had assets of Rp244.86 billion at the end of December 2006.

Following the acquisition, the new shareholders will raise Bank Bintang's capital base, or tier-one capital, to Rp150 billion from Rp34 billion at present, the company said.

## POWER

### PLN Signs for New Power Plants

State electricity firm PT Perusahaan Listrik Negara (PLN) signed an agreement with a consortium headed by Japan's Marubeni Corp to purchase power from a new power plant, Reuters quoted the energy minister as saying on Monday (20/8/07).

Purnomo Yusgiantoro told reporters that the consortium would construct a \$750 million power plant and supply electricity to PLN for 4.363 US cents per kilowatt hour for 30 years. Commercial operation is expected to start by August, 2011.

The deal was signed in the presence of Japanese Prime Minister Shinzo Abe and Indonesian President Susilo Bambang Yudhoyono.

Marubeni controls a 32.5% stake in the consortium, Korea Midland Power Co holds 27.5% and two local firms, Tripatra Engineers and Construction and Samtan Co, hold 20% each.

Last year, PLN picked a consortium led by Marubeni to build a 600-MW coal-fired power plant in Cirebon, West Java. The project is expected to be completed in 2010.

Separately, PLN's president director Eddie Widiono said it had agreed to buy power for 4.64 US cents per kilowatt hour from the planned Sarulla geothermal power plant.

Last year, PLN awarded a contract to a consortium of Medco, Ormat Technologies and Itochu Corp. to build a 330-MW geothermal power plant in Sarulla in North Sumatra at a cost of \$800 million.

Medco has a 62.25% stake in Sarulla, Itochu 25% and Ormat 12.75%.

PLN on Monday also signed a preliminary power purchase agreement with PT Paiton Energy Company, which will build an additional 800-MW coal-fired power plant at its existing facility in East Java, Dow Jones Newswires reported.

The Ministry of Energy and Mineral Resources said Paiton Energy will invest \$720 million in the project expansion. The additional electricity will help PLN provide power to Java, Madura and Bali islands.

Indonesia has said it wants to add 24,000 MW of electricity by 2013 from projects estimated to cost \$30 billion. PLN has a monopoly over power supply in Indonesia and has 24,000 MW of generating capacity, but most of its plants are ageing, so daily output is far below capacity. Some 30% of the plants use oil products such as diesel and fuel oil.

## OIL & GAS

### Japan to Buy More LNG from Indonesia

Indonesia plans annual shipments of up to five million tons of liquefied natural gas (LNG) to Japan after their current contracts end in 2010, despite the country's plan to sell more of its gas domestically.

State-owned oil and gas company Pertamina, which handles sales of the country's LNG, will ship about two million tons of the total five million tons from the Senoro LNG plant in Central Sulawesi, which is expected to come on stream by 2010, the company's deputy president director, Iin Arifin Takhyan, told *The Jakarta Post* on Thursday (24/8/07).

Takhyan said the other three million tons would be provided by other LNG plants.

Under current contracts, Indonesia ships 12 million tons a year to Japan.

Takhyan, who heads the negotiation team for the extension of LNG export contracts with Japan, said with Indonesian gas production limited due to a lack of new finds and aging fields, it was important for the government to prioritize the domestic gas market.

However, he said Pertamina was still open to more negotiations on the amount of gas that would be exported and at what price.

### Russian Firms to Pump \$3-4b into Indonesia

Two Russian oil and gas companies are planning to sign cooperation pacts with Indonesian counterparts, pledging investments of \$3-4 billion to explore for oil, *Business Times* reported on Wednesday (22/8/07).

The agreements are intended to be sealed when Russian President Vladimir Putin visits Indonesia early next month.

Didie W Soewondho, who heads the Indonesian Chamber of Commerce's (Kadin) Russia committee, said: "These are new investments from new investors. It is not a case of long-time companies in Indonesia adding to their current investment here."

Both sides are still negotiating some terms, he was quoted as saying in a *Bisnis Indonesia* report, adding that one of the areas being considered for exploration is in Papua province.

Russia's ambassador to Indonesia, Alexander Ivanov acknowledged that his country was hoping to secure cooperation agreements in the exploration and exploitation of oil, gas and other energy, as well as in the high tech and telecommunication sectors, during Putin's visit.

The Russian leader's delegation is expected to include about 100 Russian businessmen, who will take part in a business forum aimed at promoting partnership between the two countries in the sectors of oil and gas, telco, fisheries, commodities trading, manufacturing, finance and defense.

### Mitsubishi Buys Medco Stakes Indirectly

Japan's Mitsubishi Corp has purchased about 19.97% of Indonesia's largest listed oil and gas player, PT Medco Energi Internasional, in an indirect acquisition, *Business Times* reported on Saturday (25/8/07).

It is paying \$352 million for a 39.4% stake in Encore Energy, which holds about 50.7% of Medco Energi. Encore is a private holding company controlled by the Panigoro family, who will retain the remaining 60.6% of the firm.

Contacted by local media, Medco president director Hilmi Panigoro said: "Rather than being on our own, it is better that we ally ourselves with a Japanese investor."

On Monday, Mitsubishi and Medco signed an agreement with state energy firm Pertamina to build a \$1 billion liquefied natural gas (LNG) plant at Senoro in Central Sulawesi. Mitsubishi, the majority shareholder with 51% of the project, will be the sole buyer of the facility's LNG.

## Elnusa to Tie up Oil Deals, Equity for New Refinery

Elnusa, a subsidiary of state-owned Pertamina, is hoping to sew up crucial term crude supply deals with Iran and Saudi Arabia in September, to underpin a proposed new grassroots refinery in Java, a top official involved in the project told *Platts Commodity News* Thursday (24/8/07).

The 300,000 barrel a day refinery, planned at the Bojonegara port in Banten province, was conceptualized on the basis of an Iranian offer of refinery investment and term supply of heavy crude, sealed with a memorandum of understanding in March 2005 on the sidelines of an OPEC meeting in Isfahan.

More than two years on, the project is now preparing to seal the supply of about 150,000-200,000 b/d of Iran's Soroush and Nowruz crudes, and an equal amount of Saudi Arabia's Ratawi crude at concessional rates on a term basis, the official said, speaking on condition of anonymity.

Participants at the Riyadh meeting next month will include Pertamina, PT Medco Energi Internasional, a joint venture of the Banten provincial government and two South Korean companies, plus their likely Middle Eastern partners in the project – the National Iranian Oil Refining and Distribution Company and Saudi Arabian company Mabas.

The meeting will aim to finalize the joint venture's equity distribution and project structure, in addition to the crude supply agreements, the official said. Once the critical agreements are in place, the signing of a final shareholder deal and site selection is hoped to be completed by the end of this year.

## MINING

### Coal Miners Kept Overweight: Danareksa

State brokerage Danareksa said Tuesday (21/8/07) it is keeping its "overweight" rating on the stocks of coal miners PT Bumi Resources and PT Tambang Batubara Bukit Asam, supported by their robust fundamentals and bright earnings prospects, Thomson Financial reported.

It said the recent slump in share prices in the wake of turmoil in the US subprime mortgage market, provides good upside potential for equities investors.

Danareksa has a target price of Rp11,200 for Bukit Asam shares and Rp3,050 for Bumi Resources. On Tuesday, Bumi was trading at Rp2,400 while Bukit Asam was at Rp5,100.

"Although the (current) valuations look high from an historic perspective, they are justified," Danareksa said in a client note, pointing to the strong global demand for coal from Indonesia and elsewhere. "We reiterate our view that the outlook for both the global and domestic coal markets remains positive," it said.

Danareksa said China's move to become a net importer of coal, combined with supply problems from South Africa and Australia, will create a tight market, pushing up prices which will benefit local producers.

## MSC to Transfer Koba Tin Stake for New Joint Venture

Malaysia Smelting Corp (MSC) and Metal Resources Capital have agreed to form a joint venture that will produce tin in Indonesia, *Metal Bulletin News* reported on Wednesday (22/8/07).

MSC will transfer its stake in PT Koba Tin to a joint venture with Metal Resources as it looks to develop in Indonesia, where both Koba Tin and Metal Resources are based.

MSC signed an agreement with Metal Resources under which it will transfer the entire paid-up share capital in Bemban Corp, the parent company of Kajuara Mining Corp, which owns a 75% stake in Koba Tin, to a new company to be incorporated in Singapore.

Metal Resources will in turn transfer its exclusive rights for several tin exploration concessions in Indonesia to a foreign capital investment company to be incorporated in Indonesia, which will become part of the venture.

New shares issued to Metal Resources will not exceed 40% of the enlarged share capital of the new company and the parties plan to list the new company on a recognized stock exchange, MSC said.

The strategic alliance will enable MSC to safeguard its position in Indonesia where Metal Resources will play a significant role in procuring the extension of Koba Tin's contract of work for a period of not less than ten years, it said.

The alliance will also allow MSC to forge better ties with Indonesian authorities and capitalize on Metal Resources' local knowledge as it develops in the future, MSC said.

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