

**THE COORDINATING MINISTRY FOR ECONOMIC AFFAIRS
REPUBLIC OF INDONESIA**

Main Building, Ministry of Finance, Jl. Lapangan Banteng Timur No.2-4 Jakarta 10710

Tel: (021) 351-1178 Fax: (021) 351-1186 Website: <http://www.ekon.go.id>

Trade and Investment News¹, 30 June 2008

Highlights

Politics

- President Yudhoyono opens inter-faith conference with call for dialogue
- An international meeting on toxic waste in Bali failed to reach agreement on dumping

Regions

- New eastern Indonesia military commander tasked with reducing border, sectarian violence
- Govt. plans to cash in on regional profits from oil and gas

Economy

- Credit disbursements defy slowdown with strong outflows to mining, plantations, infrastructure
- New coordinating minister promises immediate implementation of business-friendly policies

Business briefs

Macroeconomy

- Government sets deadline for tax evaders to sign up or be fined
- Tax rate on capital market dividends may be cut to encourage participation

Investment

- Head of investment board says steelmaker ArcelorMittal keen on projects in East Java, Batam
- PT Redland Asia Capital to invest Rp5.2 trillion (\$561 million) on ammonia plant

State concerns

- Govt. to expand plantation forests

SOEs

- Minister says five state firms to IPO this year
- PT Telkom in joint venture with Iranian firm, looks to Middle East expansion

Private sector

- Qatar Telecom to launch tender offer for remainder of Indosat shares
- Vehicle sales in first half expected to be up 50% on year earlier figures

Banks

- Bank Rakyat Indonesia takes over top position for loan disbursement
- Bank Mandiri hopes to collect on more non-performing loans

Power

- State utility PT PLN to borrow \$288.5 million from Bank BNI for Labuan plant

Oil & gas

- Government to introduce mandatory 2.5% biofuel mix in September
- Profit at PT Pertamina may jump by 39% this year

Mining

- Market regulator delays IPO of coal miner Adaro Energy

¹ *This Trade and Investment News is a publication of the Coordinating Ministry for Economic Affairs of the Republic of Indonesia. Readers are welcomed to forward it in its original form but no reproduction is allowed without permission*

POLITICS

President calls for dialogue to end religious violence

President Susilo Bambang Yudhoyono issued an appeal for more dialogue to tackle religious violence on Tuesday at the start of an international inter-faith peace conference in Jakarta, Agence France-Presse reported.

Opening the conference attended by religious and community leaders from 37 countries, President Yudhoyono said religion was too frequently used as a rallying point by belligerents in conflicts. "The fact is that none of the world's great religions teach violence," Yudhoyono said.

Economic or political complaints usually lay at the root of conflict but "these grievances become so much more powerful when mixed with religious fervor," Yudhoyono said.

The leader of the world's most populous Muslim-majority nation praised the muted response of Muslims to the release earlier this year of the anti-Islam film "Fitna" by Dutch parliamentarian Geert Wilders, but said restraint was not enough to achieve lasting peace.

"We need to foster a culture that gives a premium to moderation and tolerance," he said, adding that dialogue also required respect for other religions' sacred traditions.

Foreign leaders who sent addresses to the conference organized by local Muslim mass organization Muhammadiyah, backed Yudhoyono's call for deeper understanding.

No agreement on toxic waste

An international conference on toxic waste ended in deadlock Friday, with no agreement on a ban on toxic waste exports aimed at preventing poor countries becoming dumping grounds for hazardous materials, *The Jakarta Post* reported.

The week-long meeting on the Basel Convention in Bali failed to achieve tougher standards on waste dumping. The Convention governs the cross-border movement and disposal of hazardous waste.

President of the conference of parties to the Basel Convention, Indonesia's environment minister Rachmat Witoelar, noted in a closing statement that a non-binding statement had been adopted proposing member country initiatives to improve capacity on monitoring, detection and control of illegal hazard waste trading and dumping.

"Such initiatives will serve to gather momentum to promote the ratification of the ban and to speed up its entry into force," he said.

Countries opposed to the ban, including Japan, welcomed the statement.

"We have ... taken into account the tremendous development of recycling technology as a means to change the environment when recycled materials are traded," a Japanese delegation statement said.

Japan, which is the top donor to the Basel Convention, has long refused to ratify the ban.

Instead, the Japanese government has promoted the "3-Rs" of recycle, reuse and reduce to deal with toxic waste.

Many parties had hoped the ban would come into force during the Bali meeting, since talks on the issue have been deadlocked for the last 13 years.

Two Nigerians executed in C. Java for drugs

Two Nigerians convicted of drug smuggling were executed by firing squad at the end of international anti-narcotics day on Thursday, Reuters reported.

Samuel Okoye, 37, and Hansen Anthony Nwaolisa, 40, were arrested at Soekarno-Hatta International Airport in 2001, each carrying more than 3 kg of heroin. They were executed near the high-security prison on Nusakambangan Island, where they had been held since their conviction.

Nigeria's government, which asked Indonesia last month for a stay of execution, expressed its regret over the deaths. "This was despite the passionate plea for a stay of execution and commutation of their death sentences," Nigeria's Foreign Ministry said in a statement.

Indonesia has defended the death penalty as a necessary deterrent in a country with a growing drugs problem. The last foreigners to be executed for drugs offenses were two Thai nationals in October 2004.

Another 60 convicts are on death row after being convicted of drug-related crimes, said National Police chief Gen. Sutanto.

US students study Islam at UIN

Students from nine universities in the United States visited the Syarif Hidayatullah State Islamic University (UIN) in Jakarta on Thursday to learn about Islamic teachings and culture from Muslim communities, *The Jakarta Post* reported.

The students came from Chatham University, Cascadian Community College, SUNY Plattsburg, the Institute of International Education, Shoreline Community College, St Edward University, Fairfield University, State University of New York and St Michael's College.

Sixteen students visited the UIN campus on Jl. Raya Ciputat, Tangerang, on Thursday afternoon to learn how Islamic education methods are applied at the university.

"We come to learn about the Islamic education system and methods applied by the Islamic community here because we realize that Islam is very rich in culture," the president of Chatham University Esther L. Barrazone said.

Barrazone said she was very pleased to learn about Islam at UIN and if the current system could be developed into collaboration with the US universities, it would bring progress to Islam itself.

William Christopher, the president of Cascadian Community College, said building an inter-cultural collaboration was a good way to develop ties. He expressed his hopes for more cultural interaction to take place in the future.

REGIONS

Army aims to improve eastern security, prevent unrest

Army Chief of Staff Lt. Gen. Agustadi Sasongko Purnomo expects the new head of the Udayana Military Command to improve border security and prevent sectarian violence in the region, reported *The Jakarta Post*.

The military command oversees Bali, West Nusa Tenggara and East Nusa Tenggara.

"We have to be effective and yet avoid the use of violence in tackling problems," Purnomo said.

Maj. Gen. Hotmangaradja Pandjaitan, the Army's former territorial assistant and a 1977 graduate of the

military academy replaces Maj. Gen. George Robert Situmeang, who served as the Udayana military commander for around seven months.

Situmeang, a 1974 graduate of the military academy, has been promoted to Army Inspector General at Army headquarters in Jakarta.

The Udayana Military Command earlier organized a series of discussions to find acceptable solutions for the problem of Timor Leste refugees, who in the past have crossed the border into Indonesia to escape violence.

Besides dealing with refugees, the Udayana Military Command is also tasked with guarding and preserving the cultural and sociological pluralism of the region as community conflicts are seen as the primary threat to that pluralism.

"We will tighten our security system in border areas and apply a zero tolerance policy in preventing such horizontal violence from happening by conducting continuous monitoring efforts," Pandjaitan said.

Govt. plans to cash in on regional profits

The central government plans to increase its take of profits garnered by regions through commodity trade starting next year in a bid to create a more balanced fiscal management, a ministry official said Friday, *The Jakarta Post* reported.

If the House of Representatives approves the plan, the central government will increase its share of oil and gas profits each by 0.5% to 15.5% and 30.5% respectively.

"It is important to 'share the pain'. We will improve the fiscal imbalance between producing and non-producing regions," Director General of Financial Balance Mardiasmo said.

The plan comes as part of the government's strategy to lower the burden of high energy subsidies on state spending due to soaring global oil prices.

The increased earnings, Mardiasmo said, would be spread to support educational programs in the regions.

The central government will also stop sharing oil profits with oil-producing regions next year if the Indonesian Crude Price (ICP) -- the country's benchmark oil price -- breaches a designated threshold of \$156 per barrel.

If the price is reached, the central government will take all additional gains from the profits.

The government previously said it will revise the existing calculation formula for the DAUs, which account for 70% of local government budgets, so as to create a fairer budget distribution among regions, he said.

State Minister for National Development Planning Paskah Suzetta said regions were not advised to spend their share of the profits in the space of one year.

ECONOMY

Credit expands despite slowdown

An economic slowdown has not put a brake on credit expansion, according to a central banker, with total outstanding credits up by 33%.

In the year ending June 30, banks disbursed Rp284.29 trillion (\$31 billion), increasing the total figure for disbursements to Rp1,145.7 trillion, Asia Pulse reported Bank Indonesia deputy governor Muliawan D

Hadad as telling *Investor Daily*.

Hadad attributed the increase to active development of the infrastructure, plantation and manufacturing sectors.

Based on data from April 2008, 71% of the bank loans were for working capital and investment, he added.

The highest credit increase was recorded for the mining sector, which almost doubled to Rp27.75 trillion from Rp14.9 trillion during the period.

Hari Azhar Azis, deputy chairman of the parliamentary budget commission, said the parliament had agreed to the government's estimate for growth in 2009 to reach between 6% and 6.4%. Inflation will slow to between 5.8% and 6.5% next year, he said, Bloomberg reported.

The upbeat mood was reflected by a projection by PT Semen Gresik, the country's largest cement maker, that its half-year profit could be up by as much as 40% from the Rp700 billion (\$56.03 million) it reported in the first half of last year, Reuters reported.

Dwi Soetjipto, the firm's president director, said cement demand was continuing to grow from the residential and infrastructure sectors.

He said he sees domestic cement sales volume rising 9% in 2008, higher than last year's growth of 6.6%.

Gresik is to spend \$1.5 billion on expansion, including the construction of its own power plants.

The government added to the positive mood with statements from Sri Mulyani Indrawati in her new role as coordinating economics minister and from investment board chief M. Lutfi.

Indrawati, speaking at a handover of the position from previous incumbent Boediono, promised immediate action on policies that have been awaited by the business community for some time.

Indrawati, who also retains her position as finance minister, said the joint positions would require far greater efficiency.

"Decisions have to achieve quick results in order to provide certainty to the public and the business world. For this reason, my priority is to finalize a number of policies the business community has been waiting for immediately," a press release quoted her as saying.

These included regulation of investment services, fiscal benefits for investors, the development of Special Economic Zones including Batam, Bintan and Karimun; and improvement of performance in the logistic sector, the release stated.

She said the presence of Boediono in his new position as governor of Bank Indonesia, would enhance the coordination with her own Ministry of Finance to achieve macroeconomic stability.

Food, energy and infrastructure were the government's priorities, she said, adding that she would continue to press reforms already underway in the department of finance.

M. Lutfi, the head of Indonesia's Investment Coordination Board (BKPM), said UK-based steel giant ArcelorMittal was looking at projects in East Java and Batam.

Lutfi said Indonesia's main drive was to encourage the development of processing industries for Indonesia's wealth of commodities. Using cocoa as an example, he said he was concerned that nearly 50% of Indonesia's cocoa production was refined in Singapore. Tax holidays would be offered to investors in the processing sector, he added.

He named Riau, Bengkulu, Central Java, Central Sulawesi, Gorontalo, Maluku and Papua as priority growth areas. In Papua, areas to be developed for plantations would be carefully mapped and investors would be required to replant other damaged areas.

Asked about Indonesia's investment prospects, he said 2009 would be a challenge. Performance had been strong in the first quarter of this year and enough projects were in the pipeline to put on solid growth this year.

Lutfi also stated that the government would be pouring \$4 billion into infrastructure developments and public-private partnerships were expected to make a strong contribution to economic growth in this area.

Duty-free trade will begin with Japan on July 1 under the terms of the Economic Partnership Agreement (EPA) between the two countries.

Indonesia will allow Japanese commodities grouped in 58% of the country's 11,163 tariff categories to enter its market without import duty while Japan will exempt Indonesian commodities listed in 80% of its 9,275 tariff categories, Asia Pulse reported.

The Indonesia Stock Exchange Composite Index finished the week at 2,332.12, hardly changed over the week from the previous Friday close of 2,371.78, Agence France-Presse reported.

Gains in telecommunications and plantation stocks on Friday helped cushion the market from the impact of a big fall on Wall Street, dealers said.

BUSINESS BRIEFS MACROECONOMY

Govt. sets deadline for tax evaders

The government will fine unregistered taxpayers 20% of their total taxes if they fail to register by the end of this year, as part of efforts to increase tax collections, a legislator said, quoted by Reuters

Indonesia has a population of 230 million, but only four million people are on the tax register and just one third of those actually pay tax.

Parliament is expected to pass a new tax bill in the third quarter in an effort to step up tax collections and tackle widespread evasion by providing incentives for people to be registered and taking stronger measures against tax dodgers.

"Starting next year, unregistered taxpayers will be fined," Melchias Markus Mekeng, the head of a parliamentary commission drafting the new tax law, said.

Mekeng said registered taxpayers will also be exempted from paying a departure tax paid for overseas travel from next year as incentive for people to register as taxpayers.

Under the current scheme, Indonesians and foreigners working in the country have to pay Rp1 million as departure tax at the airport for every overseas trip.

"The departure tax will be lifted in 2011, but in the transition period, starting 2009, people who have a tax ID will be relieved from paying the country's departure tax."

Darmin Nasution, the Director General of Tax, said in an interview in August that he expected the number of registered taxpayers to reach 10 million by the end of 2008.

Indonesia has set a tax revenue target of 609.2 trillion rupiah, or about 70% of the total budget revenue,

this year. The finance ministry has forecast tax revenue will rise by 19% to 723.9 trillion rupiah in 2009.

Govt. proposes to cut tax rate on dividends

The government plans to lower the tax rate on dividends to 15% from 20% in an effort to improve the investment climate and encourage the development of financial markets, the tax chief said, reported Reuters.

The government is keen to develop the country's young financial market by improving regulations and providing tax incentives for people still wary of investing in the stock market.

"We want to attract more people to invest and not only put their money in banks ...The substance of the new tax bill is to improve our investment climate," Darmin Nasution said.

"The discussion is whether a tax rate of 15% would provide a sufficient incentive."

The government is hoping to draw more people to put their funds in the market by cutting the tax rate on dividends which currently is the same as that on bank interest.

The plan is one of a string of measures in a new tax law being drafted by the parliament aimed at tackling widespread tax evasion and providing tax incentives to investors in the country.

The parliament is expected to pass the tax bill in the third quarter. The bill also proposes to cut income tax levels for individuals and corporations in a bid to attract investors to open businesses.

State-run businesses return higher dividends

The government's dividends from state companies have overshoot the target of Rp31 trillion (\$3.4 billion) for this year, an official said, Asia Pulse reported.

The excess will be kept as a stock for the state budget, State Enterprises Minister Sofyan A. Djalil said.

Head of the fiscal policy division of the Finance Ministry Anggito Abimanyu attributed the excess to windfalls recorded by state mining and energy companies with soaring prices of minerals and oil.

Last year state companies posted Rp70 trillion in net profit and this year the profit target figure is Rp105 trillion, the newspaper *Bisnis Indonesia* said.

The target for the government's dividends was earlier set at Rp23.4 trillion but was later raised to Rp31 trillion this year.

The government however, has decided to start reducing the number of state companies from 139 at present to 25 in 2010.

The 14 state plantation companies will be merged into one and 17 construction companies are to be slashed to six, the office of the state minister said.

INVESTMENT

AcelorMittal given two licenses: Lutfi

London-based AcelorMittal, the world's largest steelmaker, has been granted two licenses for operations, says M. Lutfi, the head of Indonesia's Investment Coordination Board (BKPM).

He told a luncheon hosted by foreign journalists on Wednesday that the company had been granted licenses for operations in East Java and Batam.

Asked about the rejection of bids by AcelorMittal and other major international steelmakers for a share in PT Krakatau Steel, Lutfi said Dubai Ports had not been allowed to buy US shipping assets. "I do not see this as an Indonesian problem," he said.

Lutfi said Indonesia's main drive was to encourage the development of processing industries for Indonesia's wealth of commodities.

Using cocoa as an example, he said he was concerned that nearly 50% of Indonesia's cocoa production was refined in Singapore. Tax holidays would be offered to investors in the processing sector, he added.

He named Riau, Bengkulu, Central Java, Central Sulawesi, Gorontalo, Maluku and Papua as priority growth areas. In Papua, areas to be developed for plantations would be carefully mapped and investors would be required to replant other damaged areas.

"We are going to do this responsibly. We are signatories to the Kyoto Protocol," he said, stressing that Indonesia had strong competitive advantage in sectors such as plantations and pulp and paper. "To plant an acacia tree, it will take six years to grow. In Finland, it takes 60 years."

Reminding his audience that Indonesia allowed full repatriation of funds, Lutfi also promised to treat investors better. Where there had been red tape would now be a red carpet, he said.

Asked about Indonesia's investment prospects, he said 2009 would be a challenge. Performance had been strong in the first quarter of this year and enough projects were in the pipeline to put on solid growth this year.

Lutfi, asked about low domestic investment figures in the first five months of the year, said some investment listed as foreign was in fact domestic investment channeled through the British Virgin Islands or Mauritius.

Pulp and paper firms Sinar Mas and Raja Garuda Mas invariably invested from outside the country, he said.

Actual domestic investment fell 68.2% to Rp5.9 trillion from Rp18.6 trillion from January to May compared with the same period a year earlier.

Lutfi also stated that the government would be pouring \$4 billion into infrastructure developments and public-private partnerships were expected to make a strong contribution to economic growth in this area.

Redland to invest \$561 in ammonia plant

PT Redland Asia Capital plans to invest about Rp5.2 trillion (\$561 million) to develop an ammonia plant on Sulawesi, *Investor Daily Indonesia* cited corporate secretary Bill Triandono as saying, Bloomberg reported.

The investment follows Redland's purchase of an 80% stake in PT Panca Amara Utama, which operates the ammonia plant, the newspaper said.

Redland is in talks with a gas producer for the supply of the fuel to produce ammonia, the newspaper said.

Jakarta-based Redland, previously known as PT Palm Asia Corpora, provides general trading, transportation and printing services.

Energizer to relocate plant to Indonesia

US-based Energizer Holdings Inc. plans to relocate its plant from Singapore to Indonesia where demand

for batteries has risen by as much as 10% a year, *Investor Daily Indonesia* quoted an industry ministry official and a company spokesman as saying, Bloomberg reported.

Energizer will make Indonesia its production base for the Southeast Asian region, the newspaper said, citing Budi Dharmadi, the ministry's Director General for Transportation.

The company will invest about \$300 million to build a plant with an annual capacity of 500 million batteries on the outskirts of Bogor in West Java, the newspaper said.

Achmad Widjaya, a spokesman at PT Energizer Indonesia, said the decision to move the plant to Indonesia was based on the country's lower costs of production. In addition, the growth of the Indonesian market was encouraging, he said.

"On the calculations, Energizer has chosen to produce in Indonesia in order to reduce distribution costs," he added.

Qatar interest in tire industry

A group of investors from Qatar led by Qatar Islamic Bank wants to invest in the tire industry in the country, said Alwi Shihab, the special presidential envoy for the Middle East, *Asia Pulse* reported.

Shihab said the investors want to invest in Indonesia as 50% of the Middle East's tire requirement has been supplied by Indonesia.

Chairman of the association of tire producers Aziz Pane said the investors would be shown two local tire factories that recently stopped operations which could be purchased for \$150 million.

Pan Brothers to build new garment factory

Garment maker PT Pan Brothers said it will build a new factory in Boyolali and expand the capacity of its factory in Solo, both in Central Java, with a total investment of \$20 million, *Asia Pulse* reported.

The two factories will have a production capacity of 800,000 pieces a month each, company executive Ludijanto Setijo said, adding construction will start this year and be completed next year.

Pan Brothers also has a garment factory in Tangerang with a production capacity of 800,000 pieces a month, the newspaper *Investor Daily* reported.

Setijo said the entire production of the company is for export, mainly to the United States, Europe, Canada, Japan and Australia.

He said the economic slowdown in the United States is likely to result in a decline in exports producing a 15%-20% downturn in revenues this year.

Alif eyeing financing project valued at \$300M

PT Ijarah Indonesia Finance (Alif) said it is discussing with a Kuwaiti investor plan to finance telecommunications and toll road projects valued at \$300 million in the country, *Asia Pulse* reported.

Company president Herbudhi S. Tomo said Alif is negotiating with the Kuwaiti investment company its share participation in telecommunication and toll road projects.

Herbudhi said his company will serve as a financial consultant for the Kuwaiti company in the financing venture.

The subsidiary of Bank Muamalat, the country first shariah bank, also is considering to launch an initial public offering early 2009, reports said.

Essar commissions steel service center

India's Essar Group on Wednesday said its PT Essar steel plant in Indonesia has commissioned a \$15 million advanced service center at the firm's cold rolling complex near Jakarta, Asia Pulse reported.

The new center, which will have an annual capacity of 300,000 tons, will process hot rolled, pickled, cold rolled and coated steel products, a statement from Essar said.

"This is the only facility in Indonesia to offer pickled, cold rolled, galvanized and service center facility under one roof," Essar said.

Its customers would include manufacturers of automotive equipment, components, white goods, enamel and cookware, precision tubes, electrical stamping, furniture, construction and electrical appliances and panels.

Essar's Indonesia steel plant operates a cold rolling complex with cold rolling capacity of 400,000 tons per annum and galvanizing capacity of 150,000 tons per annum.

Meanwhile the income of steel maker PT Jaya Pari Steel shot up 144% to Rp467 billion (\$50.4 million) in the first five months of this year from the same period last year, Asia Pulse reported.

The company has set this year's sales target at Rp700 billion or an increase of 61.6% from last year, its president Gwie Gunadi Gunawan said.

Gunawan said the sales in the first five months of this year already reached the total amount of sales in the whole of 2007, the newspaper *Investor Daily* reported.

He attributed the increase in the sales value to a 29% increase in the selling prices of its steel products.

STATE CONCERNS

Govt. to expand plantation forests

The government will speed up the development of plantation forests (HTI) in a bid to increase the country's export capacity for pulp, an official of the forestry ministry said, quoted by Asia Pulse

Next year, the government targets expansion of HTI by 9 million hectares and by 15 million hectares in 2012, HTI Director Bejo Santosa said.

The expansion will guarantee supply of feedstock for wood pulp and wood working industries, Santosa told the newspaper *Investor Daily*, saying the country's pulp industry needs around 30 million cubic meters of tree logs a year.

Indonesia already had 30 million hectares of HTI, the paper quoted Santosa as saying.

Until June 2008, the forestry ministry already issued license to 249 companies to operate a total of 6.3 million hectares of HTI to 249 companies.

Rudy Fajar, president of PT Riau Andalan Pulp and Paper, one of the country's largest pulp makers, said Indonesia should take advantage of the increase in the prices of pulp in the world market.

Prices of pulp have surged as supply has been shrinking with the widespread closure of pulp factories in the United States over difficulty in securing feedstock.

HTI expansion could place Indonesia among the five largest producers of pulp in the world, Fajar said.

Oil palm plantation to be turned back into forest

The government said it has decided to turn 42,000 hectares of oil palm plantation into forests in Padanglawas, North Sumatra, Asia Pulse reported.

The plantation was built on a protected forest land by PT Torus Ganda, owned by Darianus Longguk Sitorus, now serving eight years in jail.

The license of the company over the land has been revoked, M. Fauzi, an expert staff of the forestry minister was quoted as saying by the newspaper *Bisnis Indonesia*.

Fauzi said 24 other companies are illegally using protected forest lands in Padanglawas and they are asked to return the land to the forestry ministry, otherwise the government will bring the cases to court.

Indonesia, Greece strengthen air service agreement

Indonesia and Greece reinforced their bilateral air service agreement despite the fact that the European Union has yet to lift its ban on Indonesian airline flights in its air space, a senior official said.

"We agreed today to continue the bilateral air service agreement our two countries initialed on June 2, 2006," Air Communications Director General Budhi M. Suyitno said, Asia Pulse reported.

The air service agreement was signed by Suyitno representing the Indonesia government and by Greek Ambassador to Indonesia Charalambos Christopoulos representing the Greek government.

The director general said the agreement would be enriched further in following meetings where both sides will discuss arrangements on flight rights, assignment of airlines, flight safety regulations, tariffs and flight routes.

Indonesia had previously concluded similar agreements with the Netherlands, France and Germany.

SOEs

Five state-run firms to conduct IPO this year

Five state firms are expected to conduct initial public offerings (IPO) this year, a minister said Thursday. "We hope at least five state firms will conduct IPO this year," State Enterprises Minister Sofyan Djalil said, Asia Pulse reported.

He said the government and the House of Representatives (DPR) were still discussing the privatization of state firms including through IPO.

He added the five state firms were PT Krakatau Steel, Bank Tabungan Negara and three state plantation companies.

Telkom to form venture with Iranian company

PT Telkom plans to form a venture with an Iranian state-run telecommunications company to expand in the Middle East, *Bisnis Indonesia* said, citing the head of the company's board of commissioners, Bloomberg reported.

Partnering with an Iranian state-run company may help Telkom's plan to expand into other Middle Eastern countries, said president commissioner Tanri Abeng, who declined to disclose financial terms of the deal.

Bandung, West Java-based Telkom is Indonesia's biggest telephone company.

Telkom holders OK share buyback

Shareholders of PT Telkom approved the company's plan to use Rp3 trillion (\$324 million) in internal cash

to finance a share buyback program, president director Rinaldi Firmansyah said, quoted by Dow Jones.

"The share buyback will be executed within 18 months starting from today," Firmansyah said, without giving more details.

Indonesia's largest telecommunications company by assets and subscribers is 52.06%-owned by the government.

Garuda, Singapore Airlines start route sharing

Garuda Indonesia and Singapore Airlines (SIA) have signed an agreement under which the carriers will benefit from joint marketing and promotion, code sharing and special rate agreements, *The Jakarta Post* reported.

The memorandum of understanding was signed Friday in Jakarta by Garuda Indonesia president and chief executive officer Emirsyah Satar and SIA chief executive officer Chew Choon Seng.

"The industry has become more competitive and the increasing fuel price has put extra pressure on us, so we have to cooperate to increase efficiency and service (quality)," Satar said.

The airlines will begin the code sharing with an additional daily flight between Denpasar and Singapore starting August 2.

Initially, SIA will assume the role of operator by providing the flight, while Garuda will act as marketer and sell the seats. In the future, the companies will share the services.

Garuda will also benefit from a special arrangement on ticket rates referred to as the special prorate agreement (SPA) for flights between Indonesia and Singapore that continue to Europe, China, India, Japan, the US or Southeast Asia.

SIA is similarly entitled to the SPA for flights between Singapore and Indonesia that continue to Australia or north Asia.

PRIVATE SECTOR

Qatar Telecom in tender offer for Indosat

Qatar Telecom plans to launch a tender offer to buy 44.9% of Indosat, a move triggered by its \$1.8 billion acquisition of 40.8% of Indonesia's second largest mobile phone company, the *Financial Times* reported on Saturday.

The Middle Eastern telecoms group is offering Rp7,388 (\$0.80) a share, a 19% premium on Indosat's Wednesday close of Rp6,200. It would value the 44.9% stake at \$1.95 billion.

Analysts and those close to the deal believe Qatar Telecom is unlikely to end up with much more than 50% of Indosat due to foreign ownership of telecommunications firms.

Nick Cashmore of CLSA in Jakarta noted that "the long-term mobile telecoms story in Indonesia is still very attractive."

The government, which owns the remaining 14.3% of Indosat, has already announced it intends to retain its shares.

Qatar Telecom said earlier in the week that it had completed the purchase of the 40.8% stake from Asia Mobile Holdings, in which it has 25% with the rest owned by Singapore Technologies Telemedia (STT).

STT, a unit of Singapore's Temasek Holdings, was forced to sell its share in Indosat after the anti-monopoly commission said it could not hold shares in both Indosat and the leading cellular operator, Telkomsel.

The tender offer requires approval from Bapepam LK, the Indonesian capital market regulator. Bapepam, which is expected to announce new tender offer regulations next week, said the agency was still studying the offer.

Vehicle sales 1H likely up 50% on year

Sales of new vehicles in Indonesia are expected to grow 50% during the first six months of the year from 188,892 a year ago, an industry official said, quoted by Reuters.

Bambang Trisulo, chairman of the Indonesian car assemblers' association Gaikindo, said he predicts June sales to rise to 45,000 units from 31,000 a year ago.

June sales are expected to slide from 50,699 in May after the government late last month increased subsidized petroleum product prices by an average 29%.

He expected sales for the entire year to rise to 520,000 from 432,000 last year as backlog orders from last year are expected to mitigate the impact of higher fuel prices on sales this year.

"I'm still optimistic that sales can reach 520,000 this year," Trisulo said. Prior to the fuel price hikes, Gaikindo predicted new vehicle sales would reach 550,000.

Meanwhile, Daihatsu Motor Co will add production in Indonesia by 25% this fiscal year to meet growing demand for compact cars sparked by rising gasoline prices, the *Nikkei* newspaper said, according to Bloomberg.

Daihatsu will raise its output of compact vehicles including the Avanza and Xenia models to about 250,000 this fiscal year. The Indonesian unit had already announced the expansion.

Daihatsu's Indonesia operation has scored a success with its small Xenia model, badged by Toyota as the Avanza, and is now exporting its new Grandmax, sold as a pick-up, a goods wagon or a passenger vehicle.

The Xenia/Avanza model sells for less than \$10,000, and low credit rates have produced a boom market for the unit of Toyota Motor.

Indosat accepts \$450M syndicated loan

Second-largest mobile phone operator PT Indosat has agreed to an offer of \$450 million in syndicated loans for capital spending as it seeks to improve its network, Reuters reported.

Indosat, which announced the loans in a statement, plans up to \$1.2 billion in capital spending this year.

ING Bank NV and DBS Bank Ltd are the lead arrangers and bookrunners for the syndicated loans, which mature in five years.

Indosat's subscribers rose 22% to 30 million in the first five months, putting the firm well on track to meet its target to sign up 8 million new users this year. Indosat had 24.5 million subscribers at the end of 2007.

Analysts and industry experts earlier predicted that the total number of cellular phone customers in Indonesia would climb to 120 million by the end of this year, from around 90 million at the end of 2007 on stronger demand.

Agis buys Singapore's Comstar Mobile

PT Agis has agreed to buy Comstar Mobile Pte Ltd, a Singapore-based mobile-phone distributor, for Rp500 billion (\$54 million), Bloomberg reported.

Agis signed the conditional sales and purchase agreement on Wednesday, *Bisnis Indonesia* said, citing Agis president director Jhonny Kesuma.

The company will fund the acquisition using proceeds from a recent rights offer, Kesuma was cited as saying.

Agis is Indonesia's biggest electronics retailer.

Cahaya Kalbar targets 100% income increase

Publicly listed food processing company PT Cahaya Kalbar said it is set to see an increase of 80%-100% in income this year from Rp812.64 billion (\$90 million) last year, Dow Jones reported.

Director Thomas Tony Muksim said the company has expanded production capacity to support plans to increase sales especially sales of palm oil.

The processing capacity of the company's crude palm oil plant has been expanded to 600 tons of fresh fruit bunches of oil palm per day, Muksim said.

The company, which also operates a cacao processing factory, reported sales valued at Rp592.25 billion in the first quarter of this year up from Rp105.15 billion the same period last year and its net profit shot up to Rp35.97 billion from only Rp617 million.

The company exported 63.33% of its production and dispose of the rest on the domestic market, the newspaper *Investor Daily* reported.

Garuda Food plans Rp1T IPO in 2H

PT Garuda Food Putra Putri Jaya hopes to raise Rp1 trillion (\$108 million) via an initial public offering (IPO) planned for the second half of the year, Dow Jones reported

The company will use the IPO proceeds to finance business expansion, *Bisnis Indonesia* cited Garuda Food chief executive Sudhamek AWS as saying.

The report didn't say how many shares Garuda Food plans to sell to the public.

The company, which was established in 1958 in Central Java's coastal town of Pati, produces snack, beverage and instant food. It is known for its "Kacang Garuda" peanut brand.

BANKS

Bank BRI shoots to top lending spot

PT Bank Rakyat Indonesia (BRI), the country's third-largest bank in assets, has taken over the position of top lender from the country's largest bank in assets, PT Bank Mandiri, Asia Pulse reported.

In April the state bank recorded Rp123.05 trillion (\$13.13 billion) in outstanding credits, ending the 10-year superiority of Bank Mandiri with an outstanding credit of Rp122.88 trillion, the newspaper *Investor Daily* reported.

Banking figures issued by Bank Indonesia show that credits disbursed by BRI grew by 32.6% in the first four months of this year, as against a growth rate of 22.51% recorded by Bank Mandiri, also a state bank.

BRI director Sulaiman A Arianto said the fast growth recorded by the bank was attributable mainly to credits for small and medium businesses.

Small and medium-sized enterprises accounted for 83.7% of credits extended by the bank in the first four months of this year, with the corporate sector accounting for the rest, Arianto said.

Mandiri to recover \$322M of loans

PT Bank Mandiri expects to recover Rp3 trillion (\$322 million) in loans from three debtors by the end of this year, *Investor Daily Indonesia* cited president director Agus Martowardojo as saying Thursday, Bloomberg reported.

The repayment may help Bank Mandiri reduce its net non-performing loan ratio to less than 1% by the year end from 1.3% currently, the newspaper said, citing Martowardojo.

Bank Mandiri is Indonesia's biggest bank by assets.

Three foreign investors eye stake in Bank Bukopin

Three foreign investors have been short-listed to acquire up to 25% of publicly listed bank PT Bank Bukopin after five other bidders dropped out of contention, Asia Pulse reported.

Dedy S. Kodir, secretary of the board of commissioners of Bukopin, said the shareholders of the bank have sanctioned a plan to invite strategic investors to strengthen the capital structure of the bank, which is partly owned by the state.

Negotiations are narrowing to prices with South Korean investment firm Actis International, Holland's Rabobank Group and another European investment company, Kodir said.

The prospective buyer would be announced soon, the newspaper *Bisnis Indonesia* cited Kodir as saying.

The government also plans to divest its 18.47% stake in the medium sized bank which had assets valued at around Rp34.47 trillion (\$3.8 billion)

Meanwhile, Bloomberg reported Bukopin corporate secretary Riyanto Bank Bukopin is seeking funds to expand its business. Riyanto declined to comment on the report about a potential stake sale.

"We will make an announcement on the type of fund raising in due time", Riyanto said without providing additional details.

Haga and Hagakita banks merged into Rabobank Indonesia

Netherlands-based Rabobank Group will officially merge Haga and Hagakita, two small banks it has acquired into its subsidiary PT Rabobank International Indonesia on June 30, Asia Pulse reported.

With the merger PT Rabobank Indonesia will have a total asset of Rp11 trillion (\$1.22 billion), a bank official Alimhamzah said, adding the central bank already given its approval for the merger.

The Rabobank Group acquired Haga and Hagakita two years ago from the Djarum Group, one of the country's largest cigarette makers.

Alimhamzah said despite the merger the core business in retail banking of the two units will be maintained.

Last year, Haga reported a net profit of Rp206.88 billion (\$22.3 million), and Hagakita Rp45.06 billion, but Rabobank Indonesia suffered a loss of Rp10.14 billion, the newspaper *Bisnis Indonesia* reported.

POWER

PLN to borrow from Bank Negara for power plant

State power utility PT PLN plans to borrow \$288.5 million from PT Bank Negara Indonesia, the nation's third-largest lender by assets, to build a coal-fired power plant in Banten province, Bloomberg reported.

The loan will fund the construction of the 630-MW Labuan power plant, PLN president director Fahmi Mochtar said.

PLN plans to raise Rp47.9 trillion (\$5.2 billion) this year through loans and bonds to build coal-fired plants.

"This new loan will make it easier for us to look for the rest of our financing needs," Mochtar said.

PLN will repay the loan over 13 years, Mochtar said, declining to specify the interest rate.

The coal-fired plants being built by the state utility are expected to add 10,000 MW to Indonesia's overall capacity.

Most of them will start up in 2010, Rudiantara, vice president of PLN, said in a May 30 interview.

Meanwhile, Reuters reported Fahmi Mochtar as stating that PLN plans to raise Rp3 trillion (\$324.3 million) via bond issues in the third quarter to help fund its spending plans.

"We plan to issue Rp3 trillion worth of rupiah-denominated bonds this year, hopefully in the third quarter," Fahmi Mochtar said.

Separately, one of the underwriters for the bonds said PLN has appointed three securities firms to handle the issuance.

"Trimegah has been appointed as joint lead underwriter together with Danareksa and Indopremier," Agus Priyambada, corporate secretary of PT Trimegah Sekuritas said, referring to PT Danareksa Sekuritas and PT Indopremier Securities.

OIL AND GAS

Govt. plans 10% mandatory biofuel mix by 2010

Indonesia plans to start its mandatory biofuel blending program in September with a 2.5% mix of either bioethanol or biodiesel, a senior industry executive said, Dow Jones reported.

The blend will gradually be raised to 10% by 2010 in a bid to reduce reliance on fossil fuels, said Erwin Duma, biofuel business development manager of PT Molindo Raya Industrial.

Many ethanol plants are being built to meet the targeted production capacity of 4 million kiloliters of bioethanol by 2010. Indonesia currently produces around 160,000 kiloliters a year, while consumption of ethanol for industry and biofuel purposes is currently around 150,000 kiloliters.

When biofuel blends reached 10%, Duma estimates that around 2 million kiloliters of bioethanol will be required every year.

PT Molindo is currently the sole supplier of bioethanol to state-owned oil and gas company PT Pertamina,

which has been tasked by the government to sell biodiesel since 2006.

"Most of the ethanol plants will use cassava as feedstock," said Duma.

PT Molindo is in the midst of constructing two more ethanol plants in Sumatra and Java with a combined capacity of around 100,000 kiloliters a year that will use cassava to make bioethanol.

Duma expects the export price of bioethanol, currently at \$550-\$620 a metric ton, free-on-board, to rise 20%-30% in the second half of the year due to rising international prices of gasoline and feedstock such as molasses and cassava.

Pertamina profit may jump 39%

State oil company PT Pertamina expects this year's profit to jump 39% as crude-oil prices surge to records, Bloomberg reported.

Net income may rise to Rp34 trillion (\$3.7 billion) from Rp24.5 trillion last year, vice president Iin Arifin Takhyan said.

Pertamina will pay Rp11 trillion, or 45% of its 2007 profit, in dividends.

Oil prices in New York more than doubled from a year ago and reached a record \$141.71 a barrel today.

Pertamina aims to boost crude-oil output by 14% to 159,000 barrels a day on average this year, said finance director Frederick Siahaan.

State power utility PT PLN will issue Rp5 trillion of promissory notes to Pertamina to repay part of its Rp12.9 trillion of unpaid dues, Siahaan said.

The notes will mature in five years and yield a rate of 2.5 percentage points over central bank bills.

Pertamina, Talisman to cooperate on oil

State oil firm PT Pertamina and Canadian oil explorer Talisman Energy Inc have agreed to cooperate on recovering more oil from Pertamina's fields, Bloomberg quoted.

The deal was aimed at boosting Pertamina's production as Indonesia struggles to meet rising domestic energy demand.

"The agreement was signed last week to open areas for cooperation between the two companies to jointly identify and evaluate the feasibility for enhance oil recovery projects," Pertamina's spokesman Wisnuntoro said.

"Talisman would provide opportunities for training and development for Pertamina's technical staff," he added. Talisman officials could not be reached for comment.

The Calgary-based company has several upstream oil and gas projects in Indonesia, including in South Sumatra.

Petroservice signs Rp10T deal to supply gas

Oil and gas company PT Prime Petroservice said it has signed a gas sale-purchase deal worth Rp10 trillion (\$1.08 billion) with PT Indonesia Power, a unit of state-owned electricity company PT PLN, Thomson Financial reported.

Petroservice president Faiz Shahab said under the contract agreement, Petroservice unit PT Indogas Kriya Dwiguna will supply 50 million standard cubic feet per day (mmscfd) of liquid natural gas (LNG) to

PLN's three gas power plants on the island of Bali until 2026.

Gas will be taken from the Kangean gas field in the East Java province, he said.

Shahab said that to support the contract, his company will build an LNG refinery and LNG receiving terminal in Pesanggaran, Bali.

Petroservice will start constructing the LNG facilities in the near future and expects to start operating them commercially within the next two-and-a-half years.

MINING

Adaro Energy's IPO approval delayed

PT Adaro Energy, the holding company of Indonesia's second-largest coal producer, may have to delay the country's biggest initial public offering since 1995 as it awaits approval from the country's markets regulator.

Indonesia's Capital Market and Financial Institution Supervisory Agency, known as Bapepam, is still reviewing documents submitted by Adaro, said Nurhaida, the agency's head of financial assessments of real-sector companies.

Lead arranger PT Danatama Makmur said June 9 Jakarta-based Adaro Energy would raise Rp12.25 trillion (\$1.32 billion) selling a 34.84% stake and the coal company had expected to list the shares on the Indonesia Stock Exchange on July 2.

The regulator had sought details of a court case on the ownership of its coal unit and is examining documents.

Investors sought more than six times the 11.14 billion new shares on offer till June 26, and about 81.3% were from overseas, Vicky Ganda Saputra, a vice president at Danatama, said on June 9.

Bapepam had asked Adaro to explain on-going court proceedings in Singapore's Supreme Court on an appeal case regarding unit PT Dianlia Setyamukti's purchase of a stake in PT Adaro Indonesia, which is being disputed by Beckett Pte., a Singapore-based company backed by two Indonesian businessmen.

Coal-seam gas contracts awarded to 2 companies

Indonesia has awarded two contracts to extract gas from coal seams to local companies to tap rising demand for cleaner-burning fuels, Bloomberg reported.

PT Ridlatama Mining Utama will drill in East Kalimantan province and PT Samantaka Mineral Prima won rights for an area in Riau, R. Priyono, chairman of oil and gas regulator BP Migas, said.

Indonesia has around 453 trillion cubic feet of coal-bed methane reserves, double the amount for natural gas.

The government wants industries and power plants to switch to the cheaper fuel as crude-oil prices almost doubled in a year.

The companies will spend \$13 million to explore the areas in the first three years, Priyono said.

Ridlatama will keep 45% of the revenue from the gas produced, while Samantaka will get 40%. The government will take the remaining share of revenue in both the areas.

Coal-seam gas is produced by drilling into coal deposits and pumping water from the well, causing

methane gas to flow from the coal.

The government says it has received proposals from a total of 54 investors to develop CBM reserves, an official said, according to *Bisnis Indonesia*.

Separately, Oil and Gas Director General Luluk Sumiarso said the government will issue a new regulation on development of CBM deposits.

Timah eyes tin acquisition in Australia

PT Timah, the world's largest integrated tin miner, is considering acquiring tin mines in Australia to boost its reserves, the company's chief said.

"We did a survey (for tin reserves) in Darwin last month. It's still at an exploration stage, so it's too early to predict (the reserves)," said Wachid Usman, Timah's president director.

Usman did not say when the acquisition would take place or the investment needed.

Timah has mineable tin reserves of 357,000 tons of tin-in-concentrate. In 2007, the company produced 58,325 tons of refined tin, accounting for 18% of global output.

The company also plans to build seven new small dredges with a total cost of Rp150 billion (\$16.19 million) and one big dredge with an investment of Rp200 billion this year to increase off-shore mining activity, Usman said.

With the new dredges, the company expects to source 50% of its tin ore from off-shore mining by 2009, compared to 20% at present.

"It's getting difficult to mine tin onshore because there are too many problems such as environment and land issues," he said.

Churchill to start mining coal ahead of schedule

Churchill Mining Plc said it will start producing coal at East Kutai at the end of next year, 12 months earlier than previously planned, Bloomberg reported.

Churchill has started talking to investment banks about funding the project and has begun discussions with potential joint-venture partners, the London-based company said in a statement.

"Management continues to set and meet aggressive targets for project development," Julian Emery, a metals and mining analyst at London-based Ambrian Partners Ltd., said.

====***====