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REPUBLIC OF INDONESIA

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**Trade and Investment News<sup>1</sup>, 31 March 2008**

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## POLITICS

### Indonesia offers to help end Thai conflict

Indonesia and Thailand will step up cooperation to end conflict in southern Thailand, leaders of the two countries said Wednesday (24/3/08) at a joint press conference.

"On the issue of the southern border of Thailand, I thank President Susilo Yudhoyono for Indonesia's kind understanding as well as strong cooperation and support," Thai Prime Minister Samak Sundaravej said, according to a report from Xinhua.

Samak said that his country expected Indonesia could help settle the crisis, while Yudhoyono said Indonesia would be happy to assist.

Thailand has indicated that the country wants to settle the crisis through negotiation and dialogue, and thought Indonesia has the potential to help solve the issue, Indonesian Foreign Minister Hassan Wirajuda told reporters after the press conference.

President Yudhoyono also said that both countries agreed to continue cooperation to combat terrorism.

### Ban 'Fitna' film: House Speaker

House of Representatives Speaker Agung Laksono on Friday (8/3/08) called on the government to ban a film by Dutch lawmaker Geert Wilders from entering Indonesia, web site Okezone reported.

Laksono said that the film would trigger interfaith frictions. He also hoped that the Dutch government and the film's producer would take the film from the Internet, where it was posted late Thursday by British website.

Foreign Ministry spokesman Kristiarto Legowo said the film was misleading and racist. "We also consider the production of the film as an irresponsible action done under the blanket of freedom of the press," Legowo added.

The 15-minute movie, 'Fitna', was released on the internet after the far right Dutch politician had tried for months to get it shown on Dutch TV.

The film intersperses verses from the Koran that apparently condone attacks on non-Muslims with bloody scenes of recent terrorist attacks and hateful speeches by extremists.

An Internet site host, Network Solutions, which had earlier received a booking from Wilders has cancelled the arrangement of posting the film using its service.

Police mounted a guard at the Dutch embassy when news of the film's publication on the internet reached Jakarta. A range of other leaders, including Din Syamsuddin, head of the Muslim organization Muhammadiyah, also criticized the film.

### Vice Foreign Minister to be appointed

Foreign Minister Hassan Wirayuda said on Monday (24/3/08) he will propose the names of candidates to fill the newly created post of vice foreign minister in accordance with presidential regulations No. 20 and No. 21/2008, Antara reported.

"The proposal will be submitted soon," Wirayuda told a working meeting with Commission I on foreign and defense affairs at the House of Representatives (DPR).

Wirayuda said the vice foreign minister's post is not a political position but has been created due to the large workload in the effort to increase international cooperation with other countries.

Ministry spokesman Kristiarto Suryo Legowo said on Sunday the ministry had proposed the new post as part of efforts to complete the reorganization of the ministry and embassies.

Wirayuda said that he is yet to name any candidate for the new post. A number of candidates are rumored as potential deputies.

They are former Indonesian representative at the United Nations (UN) Makarim Wibisono, the current representative at the UN, Marty Natalegawa and Imron Cotan, the current foreign ministry general secretary and former ambassador to Australia.

## **AGO to appeal Suharto foundation ruling**

The Attorney General's Office is to appeal a court's ruling on a civil case against a foundation run by late former President Suharto, while activists called for other foundations operated by the autocrat to also be sued, *Kompas* reported on Saturday (29/3/08).

Attorney General Hendarman Supandji said Friday his office was waiting to receive the formal notice of the decision of the South Jakarta District Court, but he expected an appeal.

South Jakarta District Court on Thursday acquitted Suharto in a civil corruption case but ordered his charitable foundation Supersemar to repay a total of \$110 million in government funds.

The figure is a fraction of the \$1.4 billion that state prosecutors were seeking in damages and stolen funds.

Judges made it clear in their ruling on Thursday that money must be paid by the foundation Suharto set up - not the family of Suharto.

The panel of judges said both Suharto and his foundation had engaged in "actions that ran against the law," but acquitted the former leader, saying he did so in his capacity as an executive of the charity.

According to the judges, Suharto was acquitted because his yearly accountability reports were always accepted by the foundation.

Each year he (Suharto) reported to the foundation and every year his accountability reports were accepted by the foundation and therefore the actions of the first defendant, Suharto, no longer have to be accounted for and he is therefore acquitted," judge Aswan Nurcahyo told the court.

The court ordered the foundation, which was found guilty of misusing the foundation money for investments, not for social and educational purposes, to pay the government \$105.7 million and the equivalent of another \$5 million in local currency.

A lawyer for the foundation said it would appeal the verdict.

Supersemar was funded by state-owned banks, which were obliged by prevailing law to give 2.5% of their profits to the foundation.

## **REGIONS**

### **Economic losses from bird flu estimated at \$450M**

Indonesia has suffered an estimated \$450 million in economic losses since the time its first case of bird flu in poultry was revealed in 2004 until the end of 2007, the country's bird flu committee said in a report from Kyodo News on Monday (24/3/08).

"Since 2004, chickens have died or been culled, demand for chickens and eggs has been decreasing...and the government and farmers have had to spend more money," Bayu Krisnamurthi, executive director of the National Committee for Avian Influenza Control and Pandemic Influenza Preparedness told a press conference.

"For four years, from 2004 to 2007, estimated total losses reached Rp4.1 trillion, not including the loss of job opportunities and the decrease in protein consumption by the public," he said.

In Indonesia, he said, the fatality rate for bird flu in humans is 81.4% with an average of three people being killed by the H5N1 strain of bird flu virus every month.

Of the country's 33 provinces, Jakarta topped the list with 32 deaths, followed by West Java with 31 deaths and Banten with 25 deaths, the official said.

## Malacca Strait joint exercise conducted

The littoral states of the Malacca Straits, including Singapore, Indonesia, Malaysia and Thailand, conducted an inaugural information sharing exercise in Singapore, the country's defense ministry said Friday (28/3/08).

According to a report from Xinhua, the two-day Malacca Strait Patrols Information Sharing Exercise, participated by the four countries' armed forces, was held at the Information Fusion Center in Western Singapore's Tuas Naval Base.

It "validated and strengthened the information-sharing linkages for maritime security amongst the four countries," said a statement by the Defense Ministry.

The exercise employed the latest Internet-based information system, which aggregates shipping databases and relevant real-time maritime information to improve coordination and overall awareness of the situation at sea, to enable timely responses to maritime incidents in the Malacca Strait.

The exercise is part of the Malacca Strait Patrols initiative which comprises the Malacca Strait Sea Patrol, the "Eyes-in-the-Sky" air patrols as well as the Intelligence Exchange Group.

These make up a set of practical co-operative measures which had been effective in enhancing the security of the Straits of Malacca and Singapore.

The Malacca Strait is a critical and strategic waterway in the global trading system. It carries more than one fourth of the world's commerce and half the world's oil.

## ECONOMY

### Budget deficit to be set at 2.1%

A parliamentary committee and the government agreed to raise the budget deficit target to 2.1% of GDP from 1.7% due to soaring fuel subsidies, according to a committee member, while spending on fuel subsidies may have to nearly triple to around Rp130 trillion (\$14.11 billion), Finance Minister Sri Mulyani Indrawati said.

The parliamentary budget committee and the government also agreed to revise upward the average oil price assumption in the state budget to \$95 a barrel from \$65 a barrel in the original budget assumption to reflect real global prices, committee member Rama Pratama said on Tuesday (25/3/08), Reuters reported.

The agreements are subject to approval by a plenary session, with a vote expected to be held in coming

weeks.

"The working committee has agreed to set the deficit at 2.1% or about Rp94.5 trillion (\$10.29 billion). That is our agreement with the government," Pratama said.

On Monday, the finance minister said fuel subsidy spending may have to rise if the government revises its average oil price in its 2008 budget to \$95 per barrel.

"If we assume an oil price at \$95 dollar per barrel, with 37 million kilolitres of oil products we have to subsidize, then the (oil subsidy) figure might have to be increased to Rp130 trillion," Indrawati said.

Meanwhile a UN Economic and Social Commission for Asia and the Pacific (ESCAP) report predicts the economy will remain robust this year but inflation will pose a serious threat, *The Jakarta Post* reported Friday.

"In terms of inflation, there is a lot of concern due to high oil and food prices," ESCAP officer Nobuko Kajjura said.

In a survey conducted in December, ESCAP predicted the economy would grow by 6.2% this year, with the inflation rate reaching 6.4%, within range of the 6.2-6.8% target set by the government and the central bank.

The country's economy, the report said, was expected to remain strong as it would mainly be driven by private consumption and supported by higher domestic and foreign investments.

Nobuko said, however, the country's inflation rate could rise should global food and crude oil prices continue to increase.

The World Bank will also revise downward its Indonesian economic growth rate projection for 2008 to 6.0% from 6.4% due to the US economic slowdown, Asia Pulse reported.

The bank said the move will not affect the government's effort to achieve the target of reducing the poverty rate.

"That is still favorable growth. The projected growth rate of 6.0% is chiefly caused by improving macroeconomic policy, particularly fiscal policy. The drop is fairly slight as it falls to 6.0% from 6.4%," World Bank Country Director for Indonesia Joachim von Amsberg said.

Amsberg said there were three strategic steps to speed up the creation of more jobs, namely improving the investment climate, providing easy access to education and introducing an effective and efficient social security network.

"If Indonesia wants to achieve a growth rate of more than 6.0%, it must rely on the high level of investment both from the government and private sector," he said.

On the investment front, US-based paper and pulp giant International Paper said it plans to invest more than \$4 billion in a pulp factory and industrial forest, the *Post* reported.

Director General for Forest Product Management at the Forestry Ministry Hadi S. Pasaribu said a pulp factory would have the capacity to produce 1.5 million tons of pulp per year.

It would be supported by 500,000 hectares of plantation forest in Central Kalimantan and Papua.

And PT Indocement Tunggul Prakarsa, the country's second largest cement producer, will build a new cement plant with a an annual production capacity of 3 million tons at a cost of \$300 million, company spokesman Aldo Yuliardy said.

The Indonesia Stock Exchange composite index closed the week at 2,477.59, up 154.02 points or 6.6% during the week. The rupiah was trading at 9,213/9,218 to the dollar.

## **BUSINESS BRIEFS**

### **MACROECONOMY**

#### **Lawmakers, govt. set higher budget deficit**

A parliamentary committee and the government have agreed to raise the budget deficit target to 2.1% of GDP from 1.7% due to soaring fuel subsidies, a committee member said on Tuesday (25/3/08), Reuters reported.

The committee and the government have also agreed to revise upward the average oil price assumption in the state budget to \$95 a barrel from \$65 a barrel in the original budget assumption to reflect real global prices.

The agreements are subject to full parliamentary approval, with a vote expected to be held in coming weeks.

"The working committee has agreed to set the deficit at 2.1% or about Rp94.5 trillion (\$10.29 billion). That is our agreement with the government," commission member Rama Pratama said.

The finance minister said on Monday the government may have to nearly triple its planned 2008 fuel subsidy spending to around Rp130 trillion (\$14.11 billion).

The original budget allocated Rp45.8 trillion for oil subsidies with a global oil price assumption of \$65 per barrel, whereas the oil price is hovering around \$100 a barrel currently.

*Bisnis Indonesia* quoted Minister of National Development Planning Paskah Suzetta as saying that the higher deficit will force the government to seek \$2.9 billion in program loans, higher than the \$2.1 billion initially expected.

The loans are expected to come from various institutions, including the World Bank, the Asian Development Bank and the Japan Bank for International Cooperation.

The government won't increase the amount of bond issues to avoid an oversupply of state paper in the market, he said.

### **INVESTMENT**

#### **International Paper to invest \$4b in pulp factory**

A giant US-based paper and pulp company, International Paper, plans to invest more than \$4 billion in a pulp factory and industrial forest, Antara reported on Monday (24/3/08).

Director General for Forest Product Management at the Forestry Ministry, Hadi S. Pasaribu, said the pulp factory would have the capacity to produce 1.5 million tons of pulp per year.

"They are planning to establish a 500,000-hectare plantation forest to support the pulp factory," he said.

Pasaribu said Central Kalimantan and Papua had been chosen as the investment locations despite a lack of supporting infrastructure because no similar businesses operated there. He said the company planned to use 25% of its forest for biodiversity conservation.

"They plan to allocate a further 25% of the forest to be managed in partnership with the community or small-scale domestic enterprises. The company will manage the remaining 50%," he said.

The government offered International Paper two options: to develop a new forest or to acquire existing forests owned by other companies.

International Paper is currently rated among the three largest pulp and paper producers in the world. They operate two factories in Brazil and Canada.

## **Indocement to build new plant**

PT Indocement Tungal Prakarsa, the country's second largest cement producer, will soon build a new cement plant with an annual production capacity of 3 million tons, Asia Pulse reported Monday (24/3/08).

The project, to be built either in Java or Tarjun, South Kalimantan, is estimated to cost \$300 million, company spokesman Aldo Yuliardy said.

The project, which will be the 12th factory of the company, is planned to meet growing demand for cement, Yuliardy said.

The company, which is 65.12% owned by Germany's Heidelberger Zement Ltd, now has an annual production capacity of 17.1 million tons. It sold 3.8 million tons of cement on the domestic market and exported 10.7 million tons last year.

The announcement coincided with a statement from the country's largest cement firm, PT Semen Gresik, that it achieved 87% rise in fourth-quarter net profit last year, boosted by a building boom and more efficient operations, Reuters reported.

"Our sales this year will be largely inline with the overall industry, hopefully we can reach 7% sales growth assuming (more) infrastructure projects will kick off and consumer purchasing power increases," president director Dwi Soetjipto said.

## **Saipem may spend \$390M on Karimun port**

Saipem SpA may spend \$390 million to build a port on Karimun Island, says *Kontan* newspaper, citing Karimun regional secretary Taufiq Ilyas, Bloomberg reported Thursday (27/3/08).

The Indonesian unit of the oil-drilling services company plans to sign an agreement on April 3 with the Karimun government to build on a 140 hectare plot of land, Ilyas was cited as saying.

## **KS Oils buys 20,000-hectare plantation**

India's KS Oils Ltd said on Wednesday (26/3/08) it has acquired 20,000 hectares of palm plantation in Indonesia, where it will invest 2.3 billion rupees (\$57.5 million) over a period of three years, Reuters reported.

The plantation will yield 80,000 metric tonnes annually, a statement said. Earlier, the firm had said it planned to set up a 15,000-acre plantation in Indonesia.

### **STATE CONCERNS**

## **Govt. urges UN action on high oil price**

The government will ask the United Nations to take measures to tackle the impact of crippling oil prices

that are hurting many nations, President Susilo Bambang Yudhoyono said on Thursday (27/3/08), Reuters reported.

"The extraordinary oil price rise will affect many countries, especially their budgets," he said.

"I am preparing a letter to UN Secretary General Mr. Ban Ki-moon with the hope the UN will take an initiative. I really expect that the UN to take proactive steps," Yudhoyono said, without elaborating on what he expected the United Nations to do.

The price of crude oil has soared in recent months and US crude futures rose as high as \$107.70 a barrel on Thursday.

Yudhoyono's administration has pledged not to increase domestic oil prices ahead of elections in 2009, although there are growing concerns over ballooning fuel subsidies.

## **Bulog to handle rice exports**

As Indonesia moves into a surplus rice-growing nation, the government has appointed state procurement agency Bulog as the sole agent allowed to export rice in a bid to control exports, the trade minister said on Friday (28/3/08), Reuters reported.

"We will only allow rice exports if there is a surplus in domestic production and domestic consumption is met. Bulog will be the one allowed to export," Mari Pangestu told a news conference.

Pangestu said the government had also ruled out the possibility of applying an export tax on rice but did not elaborate.

Indonesia regained self sufficiency in rice last year with a surplus of 1 million tons last year, Asia Pulse reported Monday.

Indonesia first gained rice self sufficiency in 1984 but became the world's largest importer several years later.

Director General of Food Crops Sutarto Alimoeso said this year the country's production is expected to rise again by 5% to 61 million tons.

## **President warns employers against lay-offs**

President Susilo Bambang Yudhoyono warned employers across the country Wednesday (26/3/08) against resorting to layoffs whenever disagreement arose between them and their workers, *The Jakarta Post* reported.

"Employers and workers need each other," the president told members of the Indonesian Employers Association (Apindo) at the opening of the organization's congress at the State Palace.

"Every time massive layoffs occur, I cannot sleep, as many people gather outside the palace and a barrage of text messages floods my mobile phone to protest the dismissal," the president said.

He called on both employers and employees to forge partnerships to avoid conflicts that could lead to layoffs, strikes and demonstrations.

Apindo chairman Sofyan Wanandi, who was re-elected for a second term to head the organization, said the congress was aimed at enhancing the partnership between employers and employees and workers' organizations.

"Politicizing and old paradigms to segregate businesspeople and workers should be left behind. It's time for a new paradigm. We realize that without workers business will not grow and businesspeople can't do

anything," he said.

## **Govt. to name ports allowed to serve foreign ships**

The Transport Ministry will name 25 ports this week which will be allowed to serve ships engaged in international shipping, reducing the number from 141 at present, Asia Pulse reported Tuesday (25/3/08).

The decision is aimed at reducing room for smuggling or illegal trading, said Sea Transport Director General Effendi Batubara.

Indonesia has 977 general seaports and 141 of them are still open for ships serving international shipping.

The country also has 565 special ports which are almost all open for international ships.

The 25 ports are located in various islands - two in Sulawesi, five in Java and Sumatra each, four in Kalimantan and Papua each and one each in East Nusatenggara, Bali, Maluku and Batam.

Exports or imports via the remaining 166 general ports will have to be made via the 25 ports, said Batubara.

## **RI wins \$100M in grants for forest protection**

The government has reaped \$100 million cash in grants from the international community to implement forest protection projects in an effort to sink below producing a million tons of carbon emissions per year, *The Jakarta Post* reported Friday (28/3/08).

Forestry minister MS Kaban said his ministry would issue a regulation to secure the implementation of Reduction Emission from Deforestation and Degradation (REDD) projects.

"Just wait a few weeks and we will announce a regulation on REDD projects," he said.

Kaban said the money would be distributed to regions eligible to perform pilot activities for REDD projects.

He did not specify names of areas that would host the projects, although he included as possibilities Papua, Aceh, Kalimantan and Maluku provinces.

REDD projects represent one of many measures to cut greenhouse gas emissions adopted during the UN climate change conference in Bali last December.

"We expect to have eight or nine REDD pilot projects this year," Kaban said.

A study by the government showed that with the price of carbon at about \$10 per ton, REDD would generate up to \$2 million annually through carbon trading.

## **Japan lends for health research, double tracking**

Japan's foreign ministry said it signed off on loans worth 60.7 billion yen (\$607 million) to Indonesia for projects including expanding the medical research department of the University of Indonesia, Agence France-Presse reported.

The money will also go to lay another rail track in Java, a ministry statement said.

Earlier in the week, it also promised another 22.08 billion yen in low-interest loans to Indonesia.

SOEs

## Govt. to sell 40% of Garuda

Indonesia intends to sell up to 40% of flag-carrier Garuda Indonesia this year if parliament approves and market conditions are favorable, officials said Friday (28/3/08), the *Financial Times* reported.

Said Didu, secretary of the state-owned enterprises ministry, said the government's privatization committee had recommended the sale after the airline's return to operating profitability and its debt restructuring.

"Parliament is discussing the matter," Didu told the FT. "We're waiting for the decision of the government and parliament and then we'll assess market developments."

In January 2007, Jakarta said it wanted to make \$300 million from selling a 49% stake in Garuda to a strategic investor. Since then, Garuda's finances have improved thanks to the sale of non-core assets.

Operating profit in 2007 was Rp259 billion (\$28 million), after losses of Rp400 billion in 2006. This year's predicted profit is Rp590 billion, on a 23% revenue rise to Rp16 trillion.

Garuda, which defaulted on \$1.1 billion of debt in the 1997-98 financial crisis, has an in-principle agreement to reschedule its remaining \$836.1 million of debt to 2017 from 2006. The deal is due to be signed in the next three months.

## Semen Gresik posts 2007 net profit of \$196M

Cement maker PT Semen Gresik said its net profit in 2007 rose 37.04% to Rp1.8 trillion (\$196 million) from a year earlier on higher demand for its product, Asia Pulse reported Tuesday (25/3/08).

Sales rose 10% to Rp9.601 trillion, PT Semen Gresik president director Dwi Soetjipto said.

He said Semen Gresik had set itself the target of raising its domestic sales by 6% this year.

"The company now holds a 44.2% share of the national cement market. We hope we can at least maintain our present market share this year," he said.

He said the company was planning to raise its annual production capacity to 17.87 million tons this year from 17.1 million tons previously. "In 2009, we will increase the production capacity to 18.5 million tons a year."

The country's cement industries now had an annual production capacity of about 47 million tons while its annual cement consumption was estimated at 36 million tons, he said.

Meanwhile Dow Jones Newswires reported that Gresik has been meeting investors to gauge their appetite for a high-yield bond.

It quoted people familiar with the situation as saying that the company is keen to raise up to \$500 million to help finance construction of cement and power plants, and it has tapped JPMorgan Chase & Co. to sell the planned bond.

Earlier, Standard & Poor's Ratings Services assigned a BB foreign and local currency corporate credit rating on Semen Gresik.

## Jamsostek books higher income from investment

State-owned workers insurance company PT Jamsostek reported an increase of 23.62% in investment to Rp60.07 trillion (\$6.5 billion) last year from Rp48.59 trillion in the previous year, Asia Pulse reported

Wednesday (26/3/08).

The company earned Rp6.54 trillion in income from the investments in 2007, up from Rp6.2 trillion in 2006, it said in an un-audited financial report for 2007.

The investment included Rp51.89 trillion under old age security program with the largest part of Rp25.38 trillion in bonds, and Rp20.15 trillion in bank deposits and Rp11.99 trillion in share portfolio.

The financial report said the company had assets valued at Rp61.33 trillion by the end of 2007, up from Rp49.62 trillion a year before.

Its net profit in 2007 totaled Rp896.9 billion, up from Rp722.9 billion in 2006.

## **Semen Padang posts 47.7% jump in net profit**

PT Semen Padang, the country's oldest cement maker, posted a net profit of Rp358 billion (\$39 million) in 2007, up by 47.72% from a year earlier, Asia Pulse reported Wednesday (26/3/08).

Sales in 2007 jumped 115.84% to 6.447 million tons compared with 2006 when the figure was 5.56 million tons, the company's president director, Endang Irzal, said.

PT Semen Padang has set its sales target for 2007 at 6.44 million tons.

He said the 2007 sales outstripped the company's production of 5.47 million tons as it also sold cement from PT Semen Gresik Group.

"PT Semen Padang sold 960,000 tons more than its production thanks to its synergy with PT Semen Gresik Grup," he said.

## **Kimia Farma 2007 net profit up 18.6%**

State-owned pharmaceutical company PT Kimia Farma said on Thursday (27/3/08) its net profit last year rose to Rp52.19 billion from 43.99 billion a year earlier aided by stronger sales, Thomson Financial reported.

The company said sales grew 8.2% to Rp2.37 trillion, while operating profit rose 10.8% to Rp77.50 billion.

The government owns 90.03% of Kimia Farma.

## **PT PAL seeks loans to build 14 ships**

State-owned shipbuilding company PT PAL Indonesia said it is seeking a loan of \$60 million to finance the construction of 14 ships for delivery this year, Asia Pulse reported Tuesday (25/3/08).

The company will need \$70 million to finish the construction of the 14 ships, said company president Harsusanto.

"Two of the ships, the construction of which was financed with company funds, were delivered earlier this year and the rest are still under construction," said Harsusanto.

He said the company is negotiating with state-owned Bank Negara Indonesia on the proposed loan.

PT PAL is also building two corvettes at a price of \$530 million for the defense ministry.

Harsusanto said the company hopes to post Rp1.4 trillion (\$152.6 million) in income this year, up from Rp1.2 trillion last year.

## PRIVATE SECTOR

### **Mixed fortunes for cigarette makers**

Indonesia's second and third-ranked cigarette makers reported strong returns for last year, but top-ranked PT HM Sampoerna saw a minimal rise in net profit and PT BAT Indonesia recorded a loss.

PT Gudang Garam, the second-biggest maker of cigarettes, said Friday (28/3/08) its net profit rose 42.5% last year, aided by stronger sales and a drop in interest expenses.

The company posted net profit of Rp1.44 trillion for 2007, compared to Rp1.01 trillion the year before, Thomson Financial reported.

Operating profit rose 15.5% to Rp2.53 trillion as sales increased 7% to Rp28.16 trillion.

Interest charges fell to Rp335.21 billion from Rp602.35 billion. This led to a fall in net non-operating expenses to Rp323.84 billion from Rp586.90 billion.

PT HM Sampoerna on Thursday said its net profit in 2007 rose 2.5% from the previous year as sales edged up slightly.

The company posted a net profit of Rp3.62 trillion, compared to Rp3.53 trillion a year earlier. Sales rose to Rp29.79 trillion from 29.55 trillion.

The company said its operating expenses fell to Rp3.21 trillion from 3.28 trillion a year earlier. Operating profit widened to Rp5.58 trillion from Rp5.18 trillion.

However, the company posted other net expenses of Rp232.28 billion against other net income of 165.39 billion in the previous year.

It therefore recorded flat pre-tax profit at Rp5.35 trillion, compared to Rp5.34 trillion a year earlier.

Philip Morris International Inc, a member of Altria Group Inc, owns 97% of HM Sampoerna.

The third largest cigarette maker, PT Bentoel Internasional Investama reported a 65% increase in net profit to Rp241 billion on a 53% rise in income to Rp4.6 trillion.

The three companies produce mainly clove flavored cigarettes, which dominate the market.

PT BAT Indonesia, a producer of pure tobacco cigarettes, performed poorly, posting a net loss of Rp34.21 billion down from Rp62.12 billion despite a 13.12% increase in income to Rp1.55 trillion.

### **Indosat sets coupon for Rp1T bonds**

The country's second-biggest telephone company PT Indosat said Friday (28/3/08) it has set an annual coupon of 10.25% to 10.80% for Rp1.08 trillion worth of bonds the company plans to issue, Thomson Financial reported.

The bonds will have two series - 'A' bonds with a tenor of five years will carry a fixed rate of 10.25%, and 'B' with a tenor of seven years will carry a fixed rate of 10.80%.

The company said it will also issue five-year shariah bonds.

The shariah bonds will be offered from April 3 to 7, followed by a listing on the Indonesian Stock Exchange on April 10.

The entire proceeds will be used to finance capital expenditure, it said.

Singapore Technologies Telemedia, through its 75%-owned subsidiary Asia Mobile Holdings (AMH), owns about 41% of Indosat.

## **Humpuss Intermoda net profit rises 59.2%**

Shipping company PT Humpuss Intermoda Transportasi said Wednesday (26/3/08) its net profit rose 59.2% last year, aided by a turnaround in non-operating income, Thomson Financial reported.

The company posted net profit of Rp240.01 billion, compared to 150.67 billion in 2006.

Sales fell 7.8% to Rp780.04 billion and operating profit dropped 10.8% to 199.99 billion.

But it recorded net non-operating income of Rp63.55 billion, after booking non-operating expenses of 42.86 billion the year before.

Financial charges fell slightly to Rp73.21 billion from 89.69 billion, but "other income" surged to Rp155.88 billion from 9.52 billion.

As a result, its pre-tax profit rose to Rp263.54 billion from 181.41 billion.

## **Ramayana 2007 Profit Rises 17%**

PT Ramayana Lestari Sentosa, the country's biggest store operator by value, said net income last year rose 17% on higher sales, gains in foreign-exchange and marketable securities, Bloomberg reported Saturday (29/3/08).

Profit rose to Rp366.8 billion (\$40 million) from 312.6 billion a year earlier, the retailer said in a statement to the Indonesia Stock Exchange on Friday (28/3/08). Sales rose 9% to Rp4.89 trillion.

Jakarta-based Ramayana made a foreign-exchange gain of Rp11.2 billion, compared with a loss of Rp22.6 billion the previous year. It booked Rp30.7 billion in gains from sales of equity stocks, bonds and other marketable securities, after a gain of Rp4.6 billion.

## **BANKS**

### **Kookmin to sell BII stake to Maybank**

South Korea's Kookmin Bank will sell its 14% stake in Bank Internasional Indonesia (BII) to Malayan Banking (Maybank), a top executive said on Thursday (27/3/08), a move analysts say may signal Kookmin's retreat from Indonesia, Reuters reported.

Maybank, Malaysia's biggest lender, on Wednesday offered \$1.5 billion for 56% of BII from Singapore state investor Temasek and Kookmin for a double-digit premium to its last traded price.

Maybank also said it would offer to buy out the bank's minority shareholders for \$1.2 billion.

Kookmin had been competing with Maybank, HSBC and Bank of China for Temasek's 42% stake in the sixth-largest bank in Indonesia, according to sources.

"(It was) no surprise news we didn't win. We knew the pricing was rich," Donald MacKenzie, Kookmin chief financial officer, said.

"We had no intention to overbid. We are selling it to Maybank and our 14% goes along with Temasek's 42%."

In a note to the stock exchange, Kookmin said no formal decision had been made on the stake sale.

Temasek and Kookmin stand to gain five-fold on their initial investments in BII, with the South Korean bank receiving 350 billion won (\$354.9 million) for its stake.

## **Bank Mega net profit more than triples**

Medium-sized bank PT Bank Mega on Tuesday (25/3/08) said its net profit in 2007 more than tripled from a year earlier, driven by strong growth in net interest income and fee-based income, Thomson Financial reported.

Bank Mega posted a net profit of Rp520.72 billion in 2007 against Rp151.70 billion in the previous year.

Interest income rose to Rp3.21 trillion from 2.97 trillion earlier, while interest charges dropped to Rp1.95 trillion from 2.29 trillion a year earlier. As a result, net interest income surged to Rp1.39 trillion from 745.52 billion a year earlier.

The bank said the surge in net interest income was mainly driven by significant loan expansion. At the same time, it said the cost of funds declined in line with the fall of the central bank's benchmark BI rate.

The bank's assets grew 12.7% last year to Rp34.8 trillion.

## **Bank Ekspor Indonesia to issue Rp1T bonds**

PT Bank Ekspor Indonesia (BEI) said Wednesday (26/3/08) that it will issue a combined Rp1 trillion (\$109 million) in bonds on May 16 maturing in one, three and five years, Dow Jones reported.

The state-owned export-financing bank said that it will commence the bond offering May 9, and list the bonds on the Indonesian Stock Exchange on May 16.

The bank hasn't decided the amount and coupon of each tranche.

PT Trimegah Securities and PT Indo Premier Securities are the co-lead underwriters of the offering.

BEI is one of local issuers braving the current bearish sentiment in the local bond market, amid the lingering global effects of the US subprime mortgage woes.

Analysts expect total local bond issuance this year to fall to around Rp20 trillion from around Rp30 trillion last year.

### **POWER**

## **Bank Mandiri to provide \$333M credit for power projects**

PT Bank Mandiri said it hopes to disburse Rp3 trillion (\$333 million) in credit to finance construction of a number of power generating projects this year, Asia Pulse reported Wednesday (26/3/08).

Realization of the credits for four power project is waiting for legal formality, corporate director Abdul Rachman said.

The state bank already started disbursing credits for a 200-MW coal-fired power plant project of PT Bukit Pembangkit Innovative in Lahat, South Sumatra.

Bank Mandiri will provide 50% of the total cost of around Rp1.64 trillion of the project under an loan agreement signed last month.

Bukit Pembangkit, which is owned by state-owned coal mining company PT Bukit Asam, also has received loans from PT Bank Ekspor Indonesia for the project.

## 60 MW plant planned for Pontianak

Bank Bukopin and four regional development banks pledged Tuesday (25/3/08) to syndicate a loan to PT Equator Manunggal Power for the construction of a 60 MW coal-fired power plant in Pontianak, West Kalimantan, *The Jakarta Post* reported.

The project, which will cost Rp545 billion (\$59.9 million), is aimed at reducing the power deficit in the area.

Bukopin director of commercial affairs Mikrowa Kirana said the five banks would provide a total loan of Rp365 billion, which would be used to develop the plant and purchase coal.

He said Bank Bukopin would loan Rp135 billion and Bank Jatim of East Java, Rp100 billion. The remaining funds will come from Bank DKI of Jakarta, Bank Kaltim of East Kalimantan and Bank Kalbar of West Kalimantan, which pledged Rp75 billion, Rp45 billion and Rp10 billion, respectively.

The other Rp180 billion needed to proceed with the project will be financed by Equator's own internal account.

## OIL & GAS

### Japanese firms to spend \$6B on refinery, LNG projects

Three Japanese investors agree to cooperate with state-owned oil and gas company PT Pertamina to invest \$6.5 billion in oil refinery and liquefied natural gas (LNG) projects, *Asia Pulse* reported Friday (28/3/08).

Mitsui Oil Exploration Co. will team up with Pertamina to modify the old Cilacap oil refinery in Cilacap, Central Java to cost \$1.9 billion expanding its processing capacity from 348,000 to 410,000 barrels of crude oil per day.

In cooperation with Itochu Corp. Pertamina will expand the daily processing capacity of its oil refinery in Balikpapan from 260,000 to 280,000 barrels and that of the Balongan refinery in Indramayu from 125,000 to 250,000 barrels to cost around \$3.2 billion, a Pertamina official said.

"We also plan to build an LNG plant in Senoro, Central Sulawesi at a cost of \$1.4 billion in cooperation with Mitsubishi Heavy Industries", vice president for communications Wisnuntoro said.

Construction of the Senoro LNG project, which also involves PT Medco Energi Internasional, has been delayed over gas price disagreement. Pertamina and Medco are to supply gas for the plant.

The project will have an annual production capacity of 35 cargoes (1.925 million tons) and aims to be operational in 2011.

### Japan agrees to extend LNG contract

Indonesia and Japan have agreed to extend the liquefied natural gas (LNG) supply contract until 2011 after the latest negotiation in Japan, *Antara* reported Friday (28/3/08).

"The negotiation has been made and the gas price has also been agreed," Energy and Mineral Resources Minister Purnomo Yusgiantoro was quoted as saying.

Purnomo was in Japan to accompany the negotiating team. The negotiation involved state-run oil and gas company PT Pertamina and six gas companies in Japan.

Purnomo said earlier that the LNG price which had been negotiated was over 10 US dollars per-mmbtu (million metric British thermal unit).

He said Indonesia and Japan at present had long term contract of LNG for 10 years with deliveries agreed at 3 million tons a year for the first five years and 2 million tons a year for another five-year term.

## **Pertamina wants majority stake in Natuna venture**

State-owned oil and gas company PT Pertamina said it wants to have a majority share of 40% in the Natuna D-Alpha block, Asia Pulse reported Wednesday (26/3/08).

The remaining 60% will be split by three multinational companies indicating interest in the venture to develop the giant gas deposit of 40 trillion cubic feet in the South China Sea, Riau, an official said.

Deputy chief of the Oil and Gas Regulating Agency (BP Migas) Abdul Muin said Pertamina will be the lead operator, adding construction may take around 10 years and "is therefore expected to be operational by around 2018."

The government handed over the project to Pertamina after it said ExxonMobil had failed to carry out its contract, a position which Exxon denies.

The gas has a very high carbon dioxide content of 70%, making the project will technology-intensive and expensive.

Royal Dutch Shell Plc, StatOil and PTT Thailand have all indicated their interest in taking part in the venture, which is estimated to cost \$50 billion.

## **Barito to wrap up acquisition of Star Energy**

PT Barito Pacific will soon wrap up its acquisition of oil company Star Energy Mining, priced at Rp10 trillion (\$1.09 billion), a report said Tuesday (25/3/08).

The acquisition will boost the share price of Barito Pacific, which was quoted at 27.8% higher to Rp320 per share on Monday, the newspaper *Investor Daily* said.

The paper quoted a company source as saying Barito, which is owned by tycoon Prajogo Pangestu, will control 40% of Star Energy.

Star Energy is the largest shareholder of the Kakap Block off Natuna. It has a daily output of 7,500 barrels of crude oil and 50 million cubic feet of gas, all of which is exported to Singapore.

## **Apexindo secures \$57.7M worth of drilling deals**

Rig operator PT Apexindo Pratama Duta said Thursday (27/3/08) it has obtained three drilling deals with a combined value of \$57.7 million, Thomson Financial reported.

The first deal is a three-year extension, worth \$53.1 million, of a contract with Total E&P Indonesia, a unit of France's Total, for its swamp barge rig Raissa.

The contract is for a drilling project in the Tunu field in the province of East Kalimantan.

The extension is an option agreed by the two companies when they signed the original five-year contract, and therefore the value of the extension is below the current market value, said Agustinus Lomboan, Apexindo's finance director.

The second deal, worth \$2.4 million, is a contract with affiliated company PT Medco E&P Indonesia for an exploration well drilling project in the Merangin Block in the province of South Sumatra.

The third deal, worth \$2.2 million, is a five-month contract with VICO Indonesia for a drilling project in Nilam in East Kalimantan.

Oil and gas company PT Medco Energi Internasional is the majority owner of Apexindo.

## MINING

### **Mittal eyeing iron ore deposits**

The world's largest steel maker, Mittal Steel Company NV, is eyeing iron ore mines in Indonesia, an official said, Asia Pulse reported Friday (28/3/08).

Mittal plans to invest up to \$500 million in its project including a steel plant, said Bambang Setiawan, secretary of the Directorate General of Mineral, Coal and Geothermal.

Setiawan said he had told visiting Mittal officials that the largest iron ore reserves are found in West Kalimantan, South Kalimantan, Central Sulawesi and Southeast Sulawesi.

Mittal has to cooperate with local holders of the mining authority or acquire the mines, he said.

### **Inco to spend \$212M this year**

Publicly listed nickel producer PT International Nickel Indonesia (Inco) said it will spend around \$212 million this year, Asia Pulse reported Friday (28/3/08).

Inco president Arif S. Siregar said \$60 million of the expenditure will be for project construction, \$70 million for routine expenditure, \$42 million for environmental reclamation and \$29 million for other costs.

Siregar said the company, which more than doubled its net profit to \$1.173 billion in 2007 from \$513 million in the previous year, would not need loans to finance the spending.

The subsidiary of Canadian-based Inco Ltd is building a \$280 million dam on the Larona river in Karebbe to feed a company's hydropower plant.

It also plans to build a new nickel smelter in its mining concession in Soroako in South Sulawesi to cost around \$1.1 billion.

This year, the company's production is forecast to peak at 79,000 tons of nickel from 76,748 tons last year.

### **Adaro sets aside \$150M for coal miner**

Second largest coal producer in the country PT Adaro Indonesia said it will set aside \$150 million to acquire a coal mining company, Antara reported Thursday (27/3/08).

Adaro hopes to raise fund to finance the acquisition from an initial public offering it plans to launch in September, president Boy Garibaldi Thohir said.

Adaro, which produced 34.28 million tons of coal last year, will sell up to 30% of its shares worth around \$500 million in the IPO, Thohir said.

He said the company will use \$200 million of the fund to refinance debts, reducing its debt of around \$750

million at present to \$550 million.

The rest will be used to finance expansion by its subsidiaries and to finance the acquisition of the unnamed coal mining company.

The company has named Morgan Stanley, DBS Vickers Securities and UBS Securities as the underwriters for the IPO.

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