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**Trade and Investment News<sup>1</sup>, 2 June 2008**

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## POLITICS

### Number of poor to fall: presidential spokesman

Presidential spokesman Andi Mallarangeng on Thursday said the number of poor Indonesians will fall as a result of the cash assistance policy following the recent domestic fuel prices increase, Antara reported.

"According to studies conducted by the Central Bureau of Statistics (BPS) and the National Development Planning Board (Bappenas), the number of poor people will decline because of the government's direct cash assistance policy (BLT)," Mallarangeng said.

The government is also to use a part of its savings on money that would have gone on fuel subsidies to provide compensation to poor university students in July, Education Minister Bambang Sudibyo said on Friday, Xinhua reported.

Sudibyo said that Rp500,000 is to be given to 400,000 poor university students. "The funds will be disbursed in July. Each university has quota of 9.8% of its total students," he said. "The compensation is for those poor or who have difficulty in financing their study," said Sudibyo.

Information Minister Mohammad Nuh also defended the government decision to raise fuel prices by an average 28.7%, saying that it was necessary to tackle poverty and inflation.

"If the government didn't do anything, inflation would have doubled to 13.2% from an earlier estimate of 6.5% for 2008... And the poverty rate would have increased to 15%," Nuh said.

Nuh said that the price rise would still mean a spike in inflation to around 11.2% this year, but inflation would drop to 5.6% in 2009. The rupiah would remain stable at around Rp9,000 to the US dollar, he said.

The Rp14.18 trillion cash aid program (BLT) to 19.1 million poor families was reaching those in need, despite reports that some poor families were being overlooked.

The government plans to complete the first phase of direct cash assistance (BLT) by mid-June of the 2009 allocation fund of around Rp23.5 trillion.

### KPU: 51 parties pass administrative verification

The General Election Commission (KPU) announced on early Saturday that 51 political parties have passed the administrative verifications for the upcoming 2009 election, with 13 parties failing to pass the verification test, Detikcom reported.

Of a number of parties divided by internal disputes, the National Awakening Party (PKB) passed the verification despite earlier warnings that the KPU would not accept parties with unresolved leadership divisions.

The verification results were announced at midnight on Friday night at the end of a plenary meeting of the KPU that began early in the afternoon.

KPU chairman Abdul Hafiz Anshary said that of the 51, 16 parties had been automatically passed to contest next year's polls, since they have seats in the current House of Representatives. They include PKB.

The result does not necessarily mean that all the parties that passed this stage of the process will be able to contest the polls, with another stage of factual verification to be held from June 7 to 14 at the provincial level and from June 8 to 25 for regency and city level.

### Terrorists to be executed in C. Java

Three men sentenced to death over the 2002 bombings in Bali will face the firing squad in Central Java

province at an unspecified date, a senior prosecutor said Friday, according to Agence France-Presse.

"We have received a letter from the minister of justice and human rights about where the execution will take place. It will be somewhere in Central Java," prosecutor Abdul Hakim Ritonga told reporters.

"No specific time has been determined yet. We are waiting for the appeals process to be concluded by the Supreme Court."

The prosecutor said that due to security concerns, the execution would not be carried out in Bali where the three were tried. Indonesia usually executes criminals in the same province as their trial.

The trio filed a third appeal with the Denpasar court in Bali earlier in May, despite an earlier ruling by the Supreme Court that there would be no more reviews of their convictions. Denpasar court officials said the appeal documents would be forwarded to the Supreme Court.

The three -- Amrozi, Imam Samudra and Ali Ghufron -- were convicted in 2003 for the nightclub bombings that killed 202 people, mostly foreign tourists.

The bombers have not shown any remorse over the attacks, with two saying publicly their executions will bring them martyrdom.

## REGIONS

### Plan to build new coast with mudflow

The Environment Minister has announced plans to dredge a \$730 million, 24 km-long channel to build a new coastline in East Java with the mud from the Sidoarjo mud volcano, *The Sydney Morning Herald* reported.

Conceding that authorities could not stop the devastating torrent, Rachmat Witoelar said that it could be channeled to the coast. There, it could be used to build a new coastline stretching at least 15 km.

Witoelar said he would soon submit the radical proposal to cabinet. All attempts to plug the mud volcano had failed and "it is beyond the capacity of us to stop it", he said.

### Indonesian, US militaries to hold tsunami response drill

The West Sumatra provincial administration will hold a tsunami response drill in cooperation with the US Army and the Indonesian Armed Forces (TNI), West Sumatra Peoples Protection Office division head Ade Edwar said, *The Jakarta Post* reported.

"The drill will be held in Padang from 21-25 July with 95 participants," said Edwar, adding the joint drill will be facilitated by the US Army's Pacific wing.

Edwar said the drill would focus on a command system to respond to the mock disaster, while participants would share their experiences and knowledge.

Indonesia will be represented by 75 participants, while the US Army will send 15 soldiers.

"West Sumatra was chosen as the province for the drill because the risk of disaster is considered to be high and the residents have a high awareness of disaster-related issues," Edwar said.

"We are expecting management reinforcement and development as well as equipment from the US if a real disaster does take place," said Edwar.

## Coastal areas prepare for extreme tides

Jakarta is in a state of alert anticipating a high tide that will likely hit the city next week, causing floods in parts of the city, officials said on Friday.

"We are aware of the situation and have built up higher retaining walls and put sand bags in areas that will likely be hit by the tidal wave," said Wisnu Subagio, head of Jakarta's office of public works in a report from Antara.

High tides last November reached roof-high levels in the hardest-hit areas.

World Bank infrastructure expert Hongjoo Hahm warned Thursday that an exceptionally high tide could hit Jakarta Tuesday and Wednesday. The extreme tide is caused by an 18-year semi-annual tide cycle.

The Meteorology and Geophysics Agency (BMG) in Bali also said high waves could hit there in the next three days.

"We have issued early warnings to all seaports and tourism information centers on the island to remain alert of the high tides," Sutrisno, head of the information division at BMG's Bali office, told *The Jakarta Post*.

In East Nusa Tenggara on Thursday, five meter-high waves in the Rote Strait wreaked havoc on shipping and delayed operations of tugboats from Kupang to several small islands, *Media Indonesia* reported.

Water transportation to several isolated areas of Central Kalimantan was also delayed last week as water in the Kahayan River subsided.

## Police confiscate thousands of logs in Papua

Papua police have confiscated 13,000 cubic meters of illegal logs apparently belonging to PT Kaltim Hutama and PT Centrinco, a police official said Thursday.

According to Brig. Gen. Sunaryono from the National Police, both companies are suspected of causing state losses of close to Rp234 billion.

A report from *Radar Timika* said National Police raided 10 log ponds in Ahiyeri, Sikka, Yare, Goro, Nafuru, Yamor, Hiu, Wammi, Jajap and Waobu in crackdown which began in mid-May.

Six men, including PT Kaltim Hutama director B. Suhardjono and PT Centrinco director Aden Suharjana, have been arrested.

Police charged the suspects with violating law No. 41/1999, which is punishable by 20 years imprisonment.

## ECONOMY

### IMF maintains growth forecast

The International Monetary Fund is maintaining its growth forecasts for Indonesia, saying that steady exports and investment will support the momentum of growth, Milan Zavadjil, assistant director in the Asia and Pacific department, told Reuters in an interview.

"Our overall view is the economy has considerable momentum, that it is quite strong, so we are not going to change our projections for growth," he said.

Zavadjil, in Jakarta for an annual meeting with government officials to discuss the country's economic

progress, said the IMF was projecting the economy to expand by 6.1% in 2008 and 6.3% in 2009. Growth last year stood at 6.3%.

Some analysts believe the decision to hike fuel prices by an average 28.7% will cut consumer demand, the major contributor to growth.

Zavadjil said the fuel price hike was likely to push up inflation and prompt a further interest rate hike, but the overall impact on growth may not be too significant due to strong exports and investment in sectors such as commodities and mining.

He noted that demand for Indonesia's export products remained strong and export performance was buoyed by wide diversification.

IMF country representative Stephen Schwartz said annual inflation is likely to hit around 11.5% by end-2008 due to the fuel price hike but it should ease to around 7.5% by the end of 2009.

"Indonesia is relatively well-positioned to weather a global slowdown, given its reliance on commodity exports, which are expected to remain strong," he said.

Vice President Jusuf Kalla meanwhile said Tuesday that growth could touch 8-9% in 2010 from 6.4% this year spurred in part by infrastructure development.

Kalla said the government would have more room to develop the country's infrastructure by having a lower subsidy bill following the fuel price rises.

"All our subsidies would be reduced. We will, therefore, have extra savings," Kalla told an investment forum. "I can tell you that in 2010 it would be very easy to make it 8-9%."

The fuel price rise also saw a return of confidence in the international bond market, with the government selling Rp8.95 trillion (\$958 million) of bonds, according to a finance ministry statement on Tuesday, reported by Bloomberg.

Overseas investors picked up 70% of the debt, taking foreign holdings to a new record high. "Foreign investors have confidence in Indonesia's long-term economy and debt management system," said Rahmat Waluyanto, Director General of the Debt Management office at the ministry.

Foreign investors held Rp87 trillion of government bonds as of the end of April, compared with Rp86.19 trillion at the end of April, Waluyanto said.

Indonesia's international image was also boosted by an article by respected Bloomberg columnist William Pesek, who wrote that it was time for Goldman Sachs to add Indonesia to its BRIC (Brazil, Russia, India, China) grouping.

He quoted Goldman economist Jim O'Neill, who created the BRIC concept, as saying that if he was to revise the BRIC list, Indonesia would be a contender. "Of them, we would rate Mexico as closer to a BRIC status than Indonesia, but it would not be far behind."

## **BUSINESS BRIEFS**

### **MACROECONOMY**

#### **Govt. raises Rp8.95T from debt sale**

Indonesia sold Rp8.95 trillion (\$958 million) of bonds to finance its budget deficit, the finance ministry said in a statement Tuesday, Bloomberg reported.

The government sold one-year treasury bills and 15-year notes, with overseas investors picking up 70% of the debt, after Indonesia increased fuel prices for the first time in almost three years to prevent the budget deficit from widening.

"Foreign investors have confidence in Indonesia's long-term economy and debt management system," said Rahmat Waluyanto, Director General of the Debt Management office at the ministry.

The government sold Rp1.9 trillion of treasury bills maturing in 2009 at a yield of 10.4465% and Rp7.05 trillion of 9.5% bonds maturing in July 2023 at a yield of 12.87441%.

Overseas investment in Indonesian government bonds rose 0.9% to a record at the end of May 2008 from the previous month, Waluyanto said.

Foreign investors held Rp87 trillion of government bonds as of the end of May, compared with Rp86.19 trillion at the end of April, Waluyanto said.

Bank Indonesia, the central bank, bought some of the treasury bills at the auction for the first time, Waluyanto said, without providing details.

## Govt. records balance of payments surplus

The Government's audited assets rose 31.3% over the past year due largely to the identification of Contracts of Work (CoW) in the oil and gas sector, the Finance Ministry said, *The Jakarta Post* reported.

Government assets rose Rp382.05 trillion (\$41.08 billion) to Rp1,600.21 trillion in 2007 from Rp1,219.96 trillion a year earlier, according to the Supreme Audit Agency (BPK), Finance Minister Sri Mulyani Indrawati said Wednesday.

"The government's assets rose mainly due to the identification of oil and gas companies' contracts of works," Indrawati said, adding that the CoWs were worth Rp232.42 trillion.

The government completed the process of identification of assets in the sector last year, calculating them into its balance of payments.

With the rise in assets, the government recorded a balance of payments surplus of Rp169.25 trillion at the end of 2007, the first surplus in three years. Last year, the government recorded a deficit of Rp110.1 trillion.

## BI sees single-digit inflation in '09

The central bank (BI) expects inflation to ease to single digits in 2009 as any increase in consumer prices in the coming months is likely to be a one-time shock, its new governor said on Wednesday, Reuters reported.

The government raised fuel prices by an average of 28.7%, which analysts said would push inflation in the following months to double digits.

Annual inflation already hit a 19-month high of 8.96% in April on soaring food prices.

"This is just a one-time shock. In 2009, inflation will be in single digit," said new central bank Governor Boediono.

The central bank has said it expects year-end inflation to top 12% this year, nearly double the state budget forecast of 6.5%, due to the government's fuel price hike.

Finance Minister Sri Mulyani Indrawati has said inflation would ease to 5.8% in 2009.

Senior Deputy Governor Miranda Goeltom said Tuesday there is scope for interest rates to rise if inflationary pressures persist, Dow Jones reported.

Bank Indonesia raised its benchmark one-month rate by 25 basis points to 8.25% earlier this month. It was the first rate increase in more than two years.

Annual inflation shot up to 17.89% in October 2005 from 9.06% in the previous month, after the government increased fuel prices by an average of around 125%.

## INVESTMENT

### Foreign investors to build biofuel plant

Foreign investors from the United States, Australia and South Korea have expressed interest in building a biofuel plant with a capacity of two million kiloliters worth \$500 million in Gorontalo province, Gorontalo Governor Fadel Muhammad said, Asia Pulse reported Tuesday.

"They said they were ready to invest (in biofuel in Gorontalo)," Fadel Muhammad said on the sidelines of the Indonesian Regional Investment Forum (IRIF) 2008 in Jakarta.

He said the Investment Coordinating Board (BPPM) had granted a license to the foreign investors to build a plant which would produce biofuel from *jatropha curcas*, maize and oil palm as raw materials.

"In order to meet their need for raw materials we have set aside 50,000 hectares of land for *jatropha curcas*, maize and oil palm plantations," the governor said.

He said his province's maize production capacity reached 750,000 tons annually and it was expected to reach one million tons in 2009.

Besides being exported to Malaysia and the Philippines, Gorontalo's maize production will also be used to produce biofuel, he said.

Pharmaceuticals company PT Kimia Farma and China's Green Food have also agreed to build a biofuel plant from *jatropha curcas*, Asia Pulse reported Wednesday.

Finance director of Kimia Farma Rusdi Rosman said both sides will meet in China on June 25 to discuss further details of the agreement on the \$200 million project.

Kimia Farma president Syamsul Arifin said Kimia Farma and Green Food will soon carry out a feasibility study on the project.

Arifin said a plan is also being discussed to grow *jatropha curcas* in Sumbawa and East Kalimantan to guarantee feedstock for the factory.

### Thaksin interested in Indonesia investment

Thaksin Shinawatra, Thailand's former prime minister, is interested to invest in Indonesia because of its growth and political stability, presidential spokesman Dino Patti Djalar said Wednesday, Antara reported.

"Thaksin was impressed with the growth of Indonesian economy," he said.

"He met President Susilo Bambang Yudhoyono in his private capacity as they both maintain contacts and good relationships".

Dino said in the meeting, Thaksin, who was in Jakarta for a regional investment forum, wanted to invest in sea ports but the location and amount of invested had yet to be disclosed in detail.

## **AOC to build computer monitor factory**

World's largest producer of computer monitors AOC said it plans to build a factory in Indonesia, Asia Pulse reported Thursday.

The US company will select the location of the factory in the last quarter of this year, its general manager for Asia Pacific, Ray Zhuo, said.

"We have enjoyed success in a number of other countries in the world. Now we want to do the same in Indonesia," Zhuo said.

He said his company is surveying a number of areas to determine the right location, adding hopefully a decision could be made in September or October.

## **Humpuss may spend \$200M for ships**

PT Humpuss Intermoda Transportasi plans to spend \$200 million this year to buy seven ships, *Investor Daily* reported on Tuesday.

Humpuss plans to buy three tankers that are the maximum size allowed to pass through the Panama Canal and four smaller tankers, the report said, citing president Agus Darjanto.

The company may borrow the funds or sell bonds, the paper said.

The shipping company's shareholders have approved a plan to sell up to \$150 million in bonds, though the company hasn't decided when it will sell the bonds.

Darjanto also said the company may sell shares in a secondary public offering in September, the newspaper reported.

## **Chandra Asri to spend \$120 million on butadiene plant**

PT Chandra Asri, which operates Indonesia's only naphtha-processing plant, plans to spend \$120 million to build the nation's first factory to produce butadiene, plastics used to make mobile-phone casings, Bloomberg reported Tuesday.

The company has found domestic buyers for at least half of the expected output of between 80,000 metric tons and 100,000 tons a year, finance director Andre Setiawan said. Construction will be completed by the second half of 2011.

"Domestic demand is very high now," Setiawan said. "Customers now have to import butadiene. They have to pay high costs and are required to buy in bulk."

Chandra Asri is controlled by Jakarta-based, publicly traded PT Barito Pacific, owned by Prayogo Pangestu, one of the country's richest men.

### **STATE CONCERNS**

## **Japan-Indonesia FTA to take effect July 1**

A free trade agreement (FTA) between Japan and Indonesia will take effect on July 1 following an exchange of documents in Tokyo on May 25, the Foreign Ministry said Tuesday, reported Kyodo News.

The FTA is the sixth for Japan following those with Singapore, Mexico, Malaysia, Chile and Thailand.

The pact will eliminate tariffs on most bilateral trade between the two countries.

In addition, Japan will accept 1,000 nurses and nursing-care specialists from the Southeast Asian nation over the next two years from July.

It will be the first time for Japan to accept nurses and nursing-care specialists from overseas on a full-scale basis.

Indonesia is also the largest supplier of natural gas to Japan, and the sixth-largest exporter of crude oil to Japan.

## **Indonesia set to become exporter of corn**

Indonesia is optimistic it could become an exporter of corn after recording a steady increase in production in the past five years, an official said, Asia Pulse reported Friday.

The country's corn production has increased by 10-15% annually in the past five years, Agriculture Minister Anton Apriyantono said.

Last year production grew 14% to 13.28 million tons and this year it is expected to rise further by 20% to 16.5 million tons giving a surplus on the domestic supply.

Food Crop Director General Sutarto Alimuso said the productivity is expected to be higher this year by increasing the use of hybrid seeds to be grown over 54% of the plantations from 40% in 2007.

The past five years have also seen a decline in imports of corn to average 961.930 tons annually while exports rose to average 46,380 tons annually.

SOEs

## **Garuda passes key safety audit**

Flag carrier Garuda has passed an international safety audit which should help it shake off a ban from European Union airspace, the company president said Thursday, Agence France-Presse reported.

Emirsyah Satar said the airline been declared fit to fly in an Operational Safety Audit (IOSA) by the International Air Transport Association (IATA). "Garuda Indonesia has now formally become an IOSA operator," Satar said.

Meanwhile, Dow Jones reported that Garuda managed to book a 20% on year increase in first quarter revenue.

Garuda is targeting a doubling of its net profit this year to Rp589 billion (\$63 million) despite skyrocketing fuel prices.

"This year will be quite challenging, but we must double our net profit," Satar said, adding that the company will continue to partly pass on rising fuel costs to passengers and improve operational efficiency to help mitigate the impact of fuel prices on its bottom-line.

The booked Rp258 billion in net profit in 2007 following restructuring of its routes, which resulted in a higher number of passengers and a higher yield per passenger.

The company also took measures to boost its operational efficiency, such as improving airplane utilization.

## Telkom plans \$320M share buyback

PT Telkom said Monday it plans to buy back up to Rp3 trillion (\$322.3 million) worth of shares, or 1.9% of its share capital, Reuters reported.

The amount is lower than the \$500 million figure a senior company official indicated earlier.

Telkom said in a statement it intends to return excess cash to its shareholders and help support the company's share price which has been depressed by a recent fall in the Indonesian stock market.

Telkom's share price has fallen 15.3% since the start of the year, underperforming the Indonesia Composite Index's 10% fall, as investors worried about rising competition in the mobile phone industry.

The company's mobile phone arm, PT Telekomunikasi Selular (Telkomsel), recorded strong growth in the first quarter.

Telkomsel, owned 65% by Telkom and 35% by Singapore Telecommunications Ltd, has more than 50% of the mobile phone market.

The company, which has an \$18.6 billion market capitalization, plans to seek shareholder approval for the plan in a shareholders meeting on June 20.

## State-owned cos invest \$2.2B overseas annually

State-owned enterprises have invested some \$2.2 billion abroad each year, the Indonesian Agency for Outbound Investment Development (InaGoInvest) said in Jakarta on Thursday, Asia Pulse reported.

InaGoInvest director Guspiabri Sumowiguno said that the amount is based on a Bank Indonesia estimate that the capital outflow from Indonesia in the first quarter of 2008 reached \$3.7 billion.

Guspiabri has estimated that 100 to 150 business companies, of which 15% are state-owned enterprises, made investments in other countries, while the rest are national private companies mostly engaged in the sectors of natural resources, manufacturing and services.

The investments include those of state oil and gas company PT Pertamina in Iraq, Russia and Libya, state petrochemical company Petrokimia Gresik in Morocco, and state telecommunications firm PT Telkom in Ecuador, Nigeria and Cambodia.

Sumowiguno also said that overseas investments have good prospects and potential which can contribute to Indonesia's economic development.

"Overseas investment has a high potential of absorbing Indonesian workers, especially skilled ones," he said.

He said companies also have the potential of opening up opportunities for local industrial enterprises to enter the international market.

### PRIVATE SECTOR

## Truck sales jump 167%

Light truck sales more than doubled in four months ending April this year, taking advantage from the expanding mining and plantation sectors, *Bisnis Indonesia* daily said Friday.

Light truck sales soared by 167.6% to 22,204 units from 12,503 in the same period last year, the daily reported, citing data from the automotive industry association Gaikindo.

Japanese manufacturer Mitsubishi retains its long-time lead in the segment with 13,197 trucks, against 8,707 last year.

Mitsubishi said about half of the truck sales went to mining areas in Sumatra, Kalimantan and Sulawesi.

## **Automaker to boost production to meet demand**

Car maker PT Astra Daihatsu Motor (ADM) said it will increase its production by 48% to 225,000 units this year from 152,000 units last year despite the threat of market slump as a result of fuel price hikes, Asia Pulse reported Friday.

Demand for Daihatsu cars has increased, company vice president Sudirman MR said, adding that in April production peaked at 19,200 units.

ADM, which produces multipurpose vehicles, jeeps and pick-up cars, has an annual production capacity of 211,000 units but production could reach as high as 250,000 units, Sudirman said.

He said buyers are currently queuing with some orders fulfilled only after three to four months.

ADM, a subsidiary of PT Astra International, Indonesia's largest automotive company, also exports part of its production, such as the Gran Max pick-up, to Japan.

## **Astra Agro Lestari: sales surge in first four months**

Leading palm oil producer PT Astra Agro Lestari said Friday its sales grew 17.3% in the first four months of the year and prices soared a massive 70.2%, Agence France-Presse reported.

The palm oil giant sold 334,767 tons of crude palm oil more than the same period last year on the back of a 56.7% increase in domestic sales, it said.

Exports over the same period dropped 44.5% to 42,301 tons, the company said, an effect of higher export taxes imposed by the government in June last year.

The surge in sales comes amid soaring global prices for crude palm oil. Astra Agro's average selling price for the January-April period leapt 70.2% to Rp8,102 (87 cents) per kg.

## **Indosat Q1 net profit up 27%**

The second largest mobile phone operator in the country, PT Indosat, reported on Wednesday a 27% rise in its first-quarter net profit, helped by strong growth in the country's mobile phone business, Reuters reported.

Mobile phone subscribers have risen sharply in recent years and are expected to climb to 120 million by the end of this year from around 90 million at the end of 2007. Its revenue climbed 13% to Rp4.27 trillion.

Indosat, around 40% owned by Asia Mobile Holdings in which Singapore's ST Telemedia holds a 75% stake, said its first-quarter net profit rose to Rp613.9 billion (\$65.87 million) from Rp483.9 billion in the same period last year.

Asia Pulse reported that Indosat plans to build more 146 base transceiver stations (BTS) in eastern Indonesia to meet demand.

"By building more 146 BTS, we hope most sub-districts in Sulawesi, Maluku and Papua can communicate by cellular phone," Fadjat Oetomo, head of PT Indosat's regional division for Sulawesi, Maluku and Papua, said.

Currently, Indosat has 635 BTS in eastern Indonesia, mostly located in densely-populated cities, he said.

## **Insurer Cigna reports 147% rise in Q1 net profit**

The net profit of insurance company PT Asuransi Cigna shot up 147% in the first quarter of this year on rising premium income and lower claims, Asia Pulse reported Friday.

Cigna president Ian Cooper said the company posted Rp31.96 billion (\$3.55 million) in net profit in the first three months of this year, up from Rp12.93 billion in the same period last year.

Cooper said premium income surged 50% to Rp163.78 billion year-on-year while claims paid by the company fell to Rp32.71 billion from Rp37.35 billion.

He attributed the improved performance to success in expanding business cooperation with a number of other companies including HSBC, Bumiputera, Nokia and Parastar.

## **Bakrieland shareholders approve acquisition**

Shareholders of publicly listed property developer PT Bakrieland Development approved the management's plan to acquire a 75% stake in PT Alberta Utilities, *The Jakarta Post* reported Friday.

Last April, PT Bakrie Infrastructure, a Bakrieland subsidiary, signed an agreement to buy a 75% stake in Alberta for Rp21.35 billion (\$2.28 million). The agreement was subject to shareholders approval.

"With the approval, the company will be able to build a strong foundation for its infrastructure business, mainly in toll road and water management projects," Bakrieland president director Hiramasyah S. Thaib said in statement.

Alberta owns a 5% stake in East Jakarta-based water operator PT Aetra Air Jakarta (formerly PT Thames Pam Jaya), the majority shares of which are controlled by Singaporean consortium Acuatico Pte Ltd.

The meeting also validated Bakrieland's 2007 financial report, which states the company earned more than Rp782 billion in revenue and Rp134 billion in net profit in 2007. The profit represents a 98.4% increase from the year earlier.

The company aims to earn Rp1.1 trillion in 2008, based on a successful first quarter, which saw a 83.4% increase in revenue from Rp204.3 billion in the same period last year, and a net profit of Rp30.1 billion, or up 116.5% from in the same period last year.

## **BANKS**

### **BRI to set up stand-alone shariah bank**

The country's third biggest bank by asset, PT Bank Rakyat Indonesia (BRI), said Monday it is planning to set up a stand-alone bank for its shariah services in June, Thomson Financial reported.

BRI said it is seeking to accelerate growth in its shariah banking operations, given that stand-alone shariah banking businesses in Indonesia have performed better than the shariah units of conventional banks.

Three existing shariah banks -- Bank Muamalat, Bank Syariah Mandiri and Bank Syariah Mega Indonesia -- hold a combined share of 76% of the market.

Comparatively, the shariah units operated by 74 conventional banks only have a combined market share of 24%. In 2007, the funding provided by shariah units and banks accounted for about 2% of total loans extended by the banking system.

BRI said in a newspaper announcement that under the plan, all the services currently provided by its shariah unit will be transferred to its newly-acquired PT Bank Jasa Arta, which will later be renamed PT Bank Syariah BRI.

Bank Syariah BRI will become the fourth shariah bank in Indonesia.

## **BNI, IDB to form shariah bank**

Bank Negara Indonesia (BNI) and a unit of Saudi Arabia's Islamic Development Bank (IDB) will set up an independent shariah bank in Indonesia by the year-end or early 2009, executives of the two banks said Friday, Dow Jones reported.

BNI's existing shariah division will be spun off to form a new unit, which will be majority controlled by IDB unit Islamic Corporation for the Development (ICD) of the Private Sector, BNI chief executive Gatot Soewondo said. ICD will provide \$500 million in funds for the bank, he said.

The shariah unit currently has Rp2.5 trillion in assets, Soewondo said.

ICD chief executive Khaled al Aboodi said the new bank will be operational by the start of 2009 "at the latest."

After negotiations between BNI and ICD are finalized, two Middle Eastern investors plan to join the shariah bank, the executives said.

Meanwhile, Minister for State-Owned Enterprises Sofian Djalil said the government plans to sell 10% of BNI to strategic investors.

Djalil said the World Bank's International Finance Corp. and ICD have expressed interest in buying the stake in BNI, which is 75% state-owned.

BNI hopes to increase its total outstanding loans this year by 20%, adding Rp17.6 trillion of new credit to its total outstanding loans last year of Rp88 trillion, Soewondo said.

He said the bank hopes to book a net profit of at least Rp2 trillion this year. BNI's net profit last year fell 53% to Rp898 billion.

## **Niaga to announce Lippo merger**

PT Bank Niaga said it will announce its merger with PT Bank Lippo this week as the two banks indirectly controlled by Malaysia's sovereign wealth fund seek to meet foreign ownership rules, Bloomberg reported Wednesday.

The transaction is expected to be completed in September, Niaga's president director Hashemi Albakri bin Abu Bakar said.

The two banks are expected to announce the merger on June 2, officials at the companies said.

"We expect the legal matter to be completed in September, and early next year we will start operating as a merged company," he added.

Merging the banks, set up almost six decades ago, would create a network of more than 600 branches with about \$8.9 billion of assets, the sixth-largest bank in Indonesia.

It will also help Khazanah Nasional Bhd., the Malaysian state investment agency, meet a regulation restricting control of more than one financial services company in Indonesia.

Khazanah owns 88% of Lippo, Indonesia's 10th-biggest lender by assets. Khazanah is also the largest shareholder of Malaysian bank Bumiputra-Commerce Holdings Bhd., which controls Niaga.

## POWER

### **PLN receives \$592M loan from Bank of China**

State power utility PT PLN has received \$592 million in loans from a group of lenders led by Bank of China Ltd. to finance the construction of a generation plant in Java, Bloomberg reported.

PLN signed the agreement Tuesday with the group, which includes BNP Paribas and Societe Generale SA, the utility said in a statement. The loans will be used to finance the construction of a 990-MW coal-fired plant in West Java province, it said.

PLN is building 10,000 MW of new coal-fired generation. The new loans will add to the Rp5.71 trillion (\$611 million) extended by domestic banks and \$615 million from China agreed earlier this year to fund the program.

PLN will pay the loans from the 18 lenders over 13 years, the company said in the statement. The power plant is expected to start operation in the second half of next year.

China National Machinery Industry Corp., or Sinomach, last year won the contract to build the Indramayu power plant, which will have three units of 330 MW each.

### **Semen Gresik sets aside \$574M for power plants**

State-owned cement maker PT Semen Gresik has set aside \$574 million to finance the construction of coal-fired power plants in various areas in the country, Asia Pulse reported Friday.

Corporate secretary Saifuddin Zuhri said the company will built 10 units of power plants with a total capacity of 410 MW including in Tuban, Makassar and Padang and other areas in Java.

The company will soon select the contractors including energy company Truba Alam Manunggal Engineering to build the projects starting in 2010, Zuhri said.

He said this year the company will spend around \$1.2 billion in capital expenditure up from \$1.1 billion previously set.

The spending will include the construction of two cement plants in Makassar and one in Central Java and a number of other power plants.

Zuhri said a number of banks including Standard Chartered Bank and Citibank have agreed to provide loans to help financing the projects.

## OIL & GAS

### **Indonesia to quit OPEC: Minister**

The politicization of the Organization of Petroleum Exporting Countries (Opec) was one reason why the government decided to quit the organization, said Energy and Mineral Resources Minister Purnomo Yusgiantoro, Asia Pulse reported Friday.

One of the most important reasons is the fact that the country has become a net importer of oil, he said, adding that a split among OPEC members was not of benefit to the cartel. He noted that Iran, a major oil producer, is not a member of the group.

Indonesia, which now produces around 970,000 barrels of crude oil per day, imports around 300,000 tons a day.

Vice President Jusuf Kalla said it was hoped Indonesia could rejoin OPEC within five years, Antara reported.

"Our target is that in five years we can be an exporter again given that our oil fields have been explored efficiently and we are saving energy domestically," he was quoted as saying.

"OPEC is a country of oil exporters, later if we start exporting we can join again," he said.

## **Chevron may pump gas from deep sea areas**

Chevron Corp. may start pumping natural gas from Indonesia's deep-sea areas by 2016, Bloomberg reported Thursday.

Fields in the Ganal block off Kalimantan could produce close to 1 billion cubic feet a day at their peak, Steve Green, head of Chevron's Indonesian and Philippine operations, said. That represents 13% of current output in Indonesia.

The project would more than double Chevron's gas output in Indonesia and boost supply to the at Bontang LNG plant in East Kalimantan, helping stem a decline in exports.

"Drilling in waters like that is very high-tech. The machines that can do that are very expensive," John Vautrain, Singapore-based vice president at consultants Purvin & Gertz Inc., said. "Gas even now is relatively low priced versus crude. This is favorable for this kind of drilling."

"There's a very high interest by Japanese, Korean and other new LNG buyers around the world," said Green, managing director of Chevron IndoAsia Business Unit. "It's a great opportunity for Indonesia to develop the project. That's why Chevron is interested."

Chevron will invest \$6 billion to develop the Gehen and Gendalo fields off Kalimantan, BPMigas said in October 2006.

The oil company owns an 80% stake in the Ganal area with Eni SpA holding the remainder.

## **Inpex submits plan for floating LNG terminal**

Japan's Inpex Holding Inc. plans to build a floating terminal to process natural gas from offshore Masela block into liquefied natural gas, an official said Thursday, Dow Jones reported.

"It submitted the plan for development of the block yesterday," Achmad Luthfi, the planning director for official upstream oil and gas regulator BP Migas said.

Luthfi couldn't immediately say how large an investment the Japanese company plans for the project, but an official at Inpex Masela Ltd. in Jakarta said that the total investment could be somewhere between \$5 billion and \$10 billion.

Luthfi said that the floating-LNG plant, the first of its kind in Indonesia, will have a processing capacity of up to 5 metric tons per annum. The facility is slated to commence operation in 2015 or 2016, he added.

Luthfi told Dow Jones Newswires in February the block located in the Timor Sea could have 10 trillion cubic feet of natural gas reserve, twice as large as expected previously.

Inpex Corp. won the bidding to operate the Masela Block in November 1998. Two years later, in drilling its first exploration well, it discovered the Abadi gas structure - the first time gas had been found in the Timor

Sea.

The discovery and future extraction of the gas will help Indonesia meet an ambitious national gas output target of 5.5 trillion cubic feet by 2025.

In 2007, Indonesia produced 1.83 trillion cubic feet of gas. The country has estimated natural gas reserves of 180 trillion cubic feet, half of which are proven.

## **Pertamina, Medco Energi to sell \$579M of gas**

State oil company PT Pertamina and PT Medco Energi Internasional signed \$579 million of contracts to supply gas to local utilities and industries, Bloomberg reported Tuesday.

Pertamina signed two initial agreements worth \$396 million to supply natural gas from an offshore North Sumatran field to PT PLN's power plant in the province and to a local company, oil and gas regulator BP Migas said in a statement.

Deliveries under the eight-year contracts are slated to begin in 2009.

Prices have risen to as much as \$5 a million British thermal units from less than \$3, said BP Migas chairman R. Priyono.

Medco, the country's biggest publicly traded oil company, will sell \$37.46 million of gas to its unit, which operates a methanol plant on an island off Kalimantan. The company will supply 13.6 trillion British thermal units over three years from 2008.

Pertamina signed two other contracts to supply gas to an oil company in East Kalimantan province and a utility in South Sumatra starting this year.

## **Pertamina plans to build \$200M paraffin plant**

PT Pertamina plans to build a \$200 million plant to produce paraffin at its Dumai refinery and benefit from rising prices of the chemical used to make lubricants and candles, Bloomberg reported.

Pertamina may seek partners to construct the plant, which will have a capacity to produce 150,000 metric tons of paraffin a year, president director Ari Soemarno said Tuesday.

The unit is expected to be ready by 2012.

The government aims to get all poor households to use liquefied petroleum gas to fire their stoves instead of the more-expensive kerosene. Pertamina, instead of selling kerosene below cost, can then process the oil into paraffin.

## **Govt. to hold tenders for 25 oil/gas blocks**

The government is offering 25 oil and gas blocks for exploration in an effort to boost the country's dwindling production, a senior energy ministry official said on Thursday, Reuters reported.

The Director General of Oil and Gas, Luluk Sumiarso, said the areas being opened for exploration are spread across the archipelago and have enormous potential for hydrocarbon.

The deadline for submitting applications is July 31.

"The areas have potential for hydrocarbon reserves. We will know after we explore them," Sumiarso said.

## Govt. signs 1st coal-bed methane pact

The government signed its first coal-bed methane, or CBM, production-sharing contract Tuesday and said it intended to sign several more in order to reduce its dependence on oil and sell more of its natural gas deposits abroad, Dow Jones reported.

The first contract was signed with local companies Medco Energi Internasional and Energi Pasir Hitam to develop a deposit in South Sumatra province, the *Financial Times* reported, citing company and government officials.

Medco Energi is owned by the Medco Group and is Indonesia's largest private energy company.

Pudjo Suwarno, general manager of Medco's South Sumatra assets, said the company expects to start producing 5 million cubic feet of methane a year in 2011.

Annual production would peak at 10 times that amount in six years, Suwarno said.

Indonesia's estimated CBM resource of 453 trillion cubic feet is among the largest in the world after the US and China, thanks to its 90.5 billion tons of coal deposits.

Energy Minister Purnomo Yusgiantoro said he has received dozens of proposals for CBM projects.

## MINING

### Adaro to raise at least Rp12T from IPO

PT Adaro Energy, the holding company of Indonesia's second-largest coal producer, plans to raise at least Rp12 trillion (\$1.28 billion) from an initial share sale in what would be the country's biggest ever IPO.

Jakarta-based Adaro will sell as many as 11.14 billion new shares, or 35% of its enlarged capital, president Boy Garibaldi Thohir said.

Dow Jones reported that Adaro will use 91.2% of the proceeds to acquire the Agalia business group - a holding firm for mining interests - and investment company Ariane Investment Mezzanine Pte. Ltd. and repay debt from its units, it said in a statement.

The remaining 8.8% will be used to acquire stakes in local companies and strengthen working capital at investment unit PT Saratoga Investama Sedaya.

Analysts in Jakarta have said the IPO could potentially be Indonesia's biggest this year.

The company produces around 40 million metric tons of coal a year and plans to double production to 80 million tons in five years.

### Bumi reports 89% rise in Q1 net profit

PT Bumi Resources, the largest coal miner in the country, reported an 89% rise in first-quarter net profit, thanks to strong coal prices and higher output, Reuters reported Friday.

The second largest company on the Indonesian Stock Exchange by market value said it is aiming to sell 61 million tons of coal in 2008 and would produce 64 million tons.

The company forecast an average coal price of \$70 a ton in 2008, above last year's average of \$44 a ton.

However Bumi said after adjusting for a 30% minority interest of India's Tata Power in its coal units, the company's net profit rose by 29% to \$103.3 million.

Bumi said its net profit rose to \$151.9 million from \$80.4 million a year ago. Revenue climbed 18% to \$750.4 million.

Bumi also reported that it has secured \$660 million worth of contracts to supply 5 million tons of coal for two Japanese companies this year and next year, Asia Pulse reported.

Bumi president Ari Saptari Hudaja said the price is around \$132 per ton but is still being negotiated with the two unnamed buyers.

The sales value could change because of the benchmark price set for coal with a calorific value of 6,322, he added.

Last year Bumi reported a 22.7% rise in coal sales to \$2.27 billion.

## **Kalimantan Gold reports coal potential**

Kalimantan Gold Corp. Ltd. said reports confirm the potential for exploration and development at coal concessions (KPs) AHC KP and TS KP, in East Kalimantan, Thomson Financial reported Thursday.

It said the AHC KP held by PT Anggek Hitam Coalindo covers 6,066 hectares and is located 65 km west of the Mahakam River.

The TS KP held by PT Tengin Sejahtera covers 4,808 hectares and is located 25 km from the coal producing PT Multi Harapan Utama PKP2B concession area.

On May 16, Kalimantan Gold said it signed an option agreement to acquire a 75% stake in five companies each holding a single coal concession in Indonesia.

To this end, it is working with consulting group PT GMT Indonesia, which is producing the reports as part of the first phase of a six month due diligence period.

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