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REPUBLIC OF INDONESIA

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## POLITICS

### 10 arrested as police break terrorist cell

The National Police's Detachment 88 anti-terrorist squad found 20 makeshift bombs and arrested a total of 10 suspected terrorists in Palembang, South Sumatra, including a Singaporean national.

Police said some of the 50-kg bombs were packed with bullets to maximize blast impact and were going to be used at locations in Sumatra.

A report from Agence France-Presse stated that some of the bombs also contained ball bearings, and some may have been aimed at targets in Jakarta.

The Singaporean suspect, who goes by a series of aliases, including Abu Hazam, had allegedly trained in Afghanistan where he was believed to have met Osama bin Laden.

The *Kompas* daily said the suspect, identified by police only as MH, 35, had met Bin Laden several times. He is said to have been a student of JI bombmaker Azahari Husin, who was killed in 2005.

"The suspect gave training in assembling bombs to people in Palembang related to terrorist acts in Indonesia," National Police spokesman Insp. Gen. Abubakar Nataprawira said, adding that he was arrested on June 28.

Nine of the ten arrested men were flown to Jakarta Thursday morning, where they were to be charged with violating anti-terrorism laws. They face a maximum penalty of death if found guilty.

An AFP reporter saw the men -- wearing balaclavas, blindfolds and handcuffs -- being transferred onto police buses.

They were escorted by masked and heavily armed plain-clothes officers to a police headquarters on the southern outskirts of the city.

Nataprawira confirmed the arrests and the recovery of explosives, but would not confirm how many, saying the investigation was ongoing.

The arrests of the suspects, which began last Saturday in Sekayu, South Sumatra, appear to have foiled a major attack in Sumatra.

### Poll date moved to boost voter turnout

The date for the legislative elections has been pushed back to April 9, 2009, in a bid to increase voter turnout, the General Elections Commission (KPU) announced Thursday, *The Jakarta Post* reported.

The national polls to elect new members of the House of Representatives and local legislative councils were originally scheduled for April 5, 2009 -- the Sunday before Easter, in the middle of the Chinese New Year celebrations.

"We are afraid if we go ahead with the original schedule, voters from ethnic Chinese or Christian communities could not fully take part in the elections," KPU chairman Abdul Hafiz Anshari said Thursday.

He said the decision to move the date of the elections was made after consulting the House and President Susilo Bambang Yudhoyono.

Anshari said the KPU had received many complaints from the public over the original schedule.

## REGIONS

### **Anak Krakatau still dangerous despite downgrade**

Despite the downgrading of Mt. Anak Krakatau's alert status, tourists are being strongly advised to stay away from the volcano in the Sunda strait off Java as it sporadically still spews red-hot rocks and toxic gasses, Antara reported.

"We are still strongly advising tourists not to climb Mt. Anak Krakatau," head of the Volcanology and Geological Disaster Mitigation Center Surono said on Friday.

Surono said that after the volcano's activity decreased recently, its status was lowered from alert II to alert III. Tourists however are still not allowed to ascend the volcano, except up to two km from the crater.

"We have also established coordination with the managers of tourist facilities, like hotels, in the area in warning guests not to ascend the mountain at all," he said.

### **Bibit Waluyo elected as new Central Java Governor**

The Central Java General Elections Commission (KPUD) has named Bibit Waluyo and Rustriningsih, nominated by the Indonesian Democratic Party of Struggle (PDI-P), as the Central Java governor and vice governor, as elected in the June 22 vote.

During the final vote count at the KPUD on Tuesday, Bibit and Rustriningsih were established as the winners with 6,084,261 votes.

The tally means they won 43.44% of the total 14 million votes.

"Based on Election Law No. 12/2008, winning more than 30% of the vote achieves a final result in the election," Central Java KPUD head Fitriyah said.

The pair won a majority of votes in 29 of the province's 35 regencies and cities.

In second place were Bambang Sadono and Muhammad Adnan, nominated by the Golkar Party, with 3,192,093 votes. Third were Sukawi Sutarip and Sudharto, Democratic Party and Prosperous Justice Party, with 2,182,102 votes, followed by Muhammad Tamzil and Rozaq Rais, United Development Party and National Mandate Party, with 1,591,243 votes, and Agus Soeyitno and Kholiq Arif, National Awakening Party, with 957,343 votes.

Central Java Governor Ali Mufiz expressed satisfaction with the election process in the province.

"There were no reports of disturbances. Everything ran smoothly," he said.

In response to the issue of the 45% of eligible voters who refused to exercise their right to vote, Mufiz said that could not be used to measure the success of an election.

"The participation rate is of course part of the consideration, but from a legal aspect, it must be observed from the process of implementing the law."

## ECONOMY

### **Full-year growth at 6% to 6.2%: BI**

A Bank Indonesia (BI) official says growth this year is expected to come in at between 6.0% and 6.2%, Bloomberg reported.

Hartadi A. Sarwono, deputy central bank governor in charge of monetary policy, said the picture for the full-year was benign, Bloomberg reported.

"We still see some indicators showing economic activity, though at the same time we see some external and domestic pressures because of high inflation rates and food commodity prices," he said.

Bank lending was growing by over 30%, with most used for working capital. "Loans for investments have also increased faster than in the previous quarter," he added.

Economic news during the week was dominated by the release of inflation figures, which showed year-on inflation at a 21-month high of 11.03% in June, using new calculations by the Central Bureau of Statistics (BPS) that reduced the weighting of food in the index.

As expected, Bank Indonesia raised its benchmark interest rate for the third month in a row to 8.75%.

The trade surplus jumped to \$3.20 billion in May from \$1.59 billion in April, thanks to higher values of crude palm oil exports.

**Indicators:**

	<b>April</b>	<b>May</b>	<b>May 08/ May 07</b>	<b>Cumulative 2008</b>
<b>Total exports</b>	\$10.97 billion	\$12.89 billion	31.41%	\$57.48 billion
<b>Non-oil &amp; gas exports</b>	\$8.49 billion	\$9.67 billion	20.68%	\$44.40 billion
	<b>May (y-o-y)</b>	<b>May (m-o-m)</b>	<b>June (y-oy)</b>	<b>June (m-o-m)</b>
<b>Inflation</b>	10.38%	1.41%	11.03%	2.46%
	<b>Full year 2005</b>	<b>Full year 2006</b>	<b>Full year 2007</b>	<b>First quarter 2008</b>
<b>GDP growth</b>	5.60%	5.5%	6.3%	6.28%
	<b>April</b>	<b>May</b>	<b>Growth (m-o-m)</b>	<b>Growth (y-o-y)</b>
<b>Tourist arrivals</b>	459,100	508,955	10.85%	13.86%

Source: Central Statistics Agency

**BUSINESS BRIEFS**

**MACROECONOMY**

**Inflation higher, but below estimates**

The annual inflation rate rose to a 21-month high of 11.03% in June as the full impact of a fuel price increase kicked in, putting pressure on the central bank to raise interest rates again but surprising the stock exchange, which had expected a more severe rise, Reuters reported.

The Central Agency of Statistics (BPS) earlier announced that it was altering the base year for its consumer price index starting with the June data, to reflect changes in buying patterns, as well as reducing the weighting of food in the index.

The annual rise in June, which was the highest since September 2006 when the CPI rose 14.55%, was calculated using the new method.

The rise in the consumer price index (CPI) reported on Tuesday compared with the 12.7% increase forecast by analysts in a Reuters poll and a 10.38% gain in May.

Year-end inflation rate could hit 10% to 11%, higher than the government's previous forecast of 6.5%, Finance Minister Sri Mulyani Indrawati said Tuesday, Thomson Financial reported.

Indrawati said the impact of the fuel price hike on inflation would normally fade after two months, but said inflationary pressure during the rest of the year may come from non-fuel factors such as the school holidays from mid-June to July, and the seasonal rise in food prices.

## **BI raises benchmark rate to 8.75%**

Bank Indonesia raised its benchmark interest rate for the third month in a row to 8.75% on Thursday after record oil and food prices drove inflation to the fastest in almost two years.

The central bank said it would maintain a "measured" monetary policy and use a combination of monetary tools to ease inflation, suggesting no aggressive rate increases in the near term, Reuters reported.

The expected rate decision did not have any significant market impact.

Indonesia's interest rate is lower than the level of inflation even after the rate hike. But analysts said this should not be too worrying as domestic inflation is seen as more supply-side driven which makes it unnecessary to aggressively raise interest rates.

"BI is not only using the interest rate policy but also intervening in the market to support the rupiah," said economist Helmi Arman of Bank Danamon. "As inflation is cost push and not demand pull, aggressively raising rates will be like giving a stomach-ache medicine to cure a headache."

"I think BI is on the right track to minimize cost push inflation by maintaining the stability of the rupiah and gradually raising rates. A gradual rise of interest rates can also help limit the pressure on the rupiah."

A. Tony Prasetyantono, chief economist at state-owned Bank Negara Indonesia (BNI), said the decision was the optimum choice, Antara reported.

In view of the current situation, other countries, including European nations would do the same, he said.

The rise in the BI Rate would have a positive impact on the rupiah's exchange rate to strengthen at Rp9,200 per dollar. In addition, it would also help ease inflationary pressure, he said.

## **May trade surplus \$3.20B on higher exports**

The trade surplus jumped to \$3.20 billion in May from \$1.59 billion in April, thanks to higher values of crude palm oil exports, the Central Statistics Agency said, quoted by Dow Jones.

The trade surplus was slightly lower than the \$3.27 billion recorded in May last year, but beat economists' median forecast of \$2.04 billion.

Including imports to bonded zones, where imports are processed into export goods, Indonesia recorded a \$1.23 billion trade surplus, swinging from a \$530 million deficit in April. The agency said crude palm oil exports rose by \$1.29 billion in May from April.

Exports in May rose 17.5% from a month earlier, and 31% from a year earlier to \$12.89 billion. Imports gained 3.3% on month, but jumped 50% from a year earlier to \$9.69.

## **Tourist arrivals up nearly 14% in May**

The number of foreign tourists in Indonesia rose nearly 14% in May from a year ago, the statistics bureau said on Tuesday, helped by higher arrivals in Bali, Reuters reported.

The number of foreign tourists in Indonesia rose to 508,955 in May from 447,000 a year ago. Tourist arrivals in Bali rose 23.72% to 167,342 from a year ago.

"There are a lot of positive things happening to us, one of them is the travel warning being lifted by the US," said Yanti Sukamdani, chairman of the Indonesian Hotel Association.

"We expect to be able to attract more foreign arrivals in the peak season of June-September to meet the 7 million target but we also acknowledge lack of flights will be one of the problems."

Foreign tourist arrivals climbed to 5.51 million in 2007 from 4.87 million in 2006, but fell short of the government's target of 6 million.

## INVESTMENT

### **Saudis plan Rp600B rice estate investment**

A consortium of 15 Saudi Arabian investors is ready to take part in the Merauke Integrated Rice Estate (MIRE), injecting at least Rp600 billion (\$65.04 million) into the region, an official says, *The Jakarta Post* reported.

The Agriculture Ministry's Secretary General, Hasanuddin Ibrahim, said each investor wanted to open about 5,000 to 10,000 hectares of land in Merauke, Papua.

"To open the land, investors need about Rp8 million to Rp10 million per hectare. So an investor needs to invest Rp40 billion for every 5,000 hectares of land they want to open," he said after the signing of a memorandum of understanding with the State Logistics Agency (Bulog).

Merauke Integrated Rice Estate is a program designed to make Merauke regency in Papua province an integrated rice production complex for supplying the staple food to eastern areas of the archipelago.

The government has provided 1.6 million hectares of land for the program.

The ministry earlier said investment would also be channeled for the construction of 700 km of roads in the regency, 1,500 km of connecting roads to West Papua, three ports and irrigation systems. The projects are expected to start by the end of this year.

In addition to investment in the agriculture sector, investors from Saudi Arabia are also interested in investing in Indonesia's tourism, food-processing and energy sectors.

Earlier, Agriculture Minister Anton Apriyantono said the country is set to place itself in the ranks of major rice suppliers of the world.

Apriyantono said to support the ambition, 1.6 million hectares of rice fields will be opened in Merauke, Papua involving a consortium of investors from Saudi Arabia. This project will cost around \$15 billion.

He said he has discussed the plan with a delegation from the Saudi chamber of commerce and industry as a follow up to his meeting with the Saudi agriculture minister on the sidelines of the food summit in Rome last month.

### **Total Bangun awarded \$144M project in Jakarta**

Construction company PT Total Bangun Persada said it has won Rp1.3 trillion (\$144 million) contract to build property projects in Jakarta, Antara reported.

Under the contract, Total will build three apartment towers and a podium to be completed in 24 months, independent commissioner Michael V. Haribowo said Tuesday.

Total will build the first phase of the Kemang Village project of nine towers that will also include a hotel and office buildings and schools, owned by the Lippo Group, Haribowo said.

He said the company already has a Rp1.6 trillion contract to build the first phase of Central Park at Podomoro City in Jakarta.

The project owned by the Podomoro Group will have a building with total floor space of 650,000 square meters and is to be completed in August next year, the newspaper *Bisnis Indonesia* said.

## **Indofood to build two sugar refineries**

Publicly listed food giant PT Indofood Sukses Makmur will invest Rp1.2 trillion (\$128 million) to build two sugar refineries in Pati, Central Java and in Ogan Komering Ulu, South Sumatra, Asia Pulse reported.

The two factories, to be operated by its subsidiary PT Lajuperdana Indah, are expected to be operational in 2010, Indofood director Thomas Tjhie said, according to *Bisnis Indonesia*.

Tjhie said the Ogan Komering refinery will have a processing capacity of 8,000 tons of sugarcane per day and the one in Pati 3,000 tons.

He said Bank Rakyat Indonesia has pledged a loan of Rp992.49 billion and Bank DBS Indonesia Rp175 billion for the project.

Indonesia still relies on imports for part of its domestic consumption of sugar.

## **Eterindo to acquire two oil palm plantations**

Publicly listed bio-diesel producer PT Eterindo Wahanatama will spend Rp206.45 billion (\$22.8 million) this year to acquire oil palm plantations in East and West Kalimantan, Asia Pulse reported.

The acquisition will be financed with funds raised from the sales of its shares worth Rp180.14 billion (\$19.63 million) in chemical company PT Petrowidada and shares valued at Rp108.33 billion in PT Eternal Buana Chemical Industries, a company official said.

Company president Immanuel Sutarto said his company needs at least 24,000 hectares of oil palm plantations to supply feedstock for a bio-diesel factory with an annual capacity of 120,000 tons.

PT Anugerah Inti, a subsidiary of Eterindo, has an annual production capacity of 30,000 tons of bio-diesel and 20 tons of specialty plasticizer. The bio-diesel capacity will be expanded to 100,000 tons by the end of 2009.

The company also has a bio-ethanol plant and part of the fund will be used to expand its capacity.

## **Singapore property co increases stake in Modernland**

Property Company Singapore AA Land Pte Ltd has increased its stake in PT Modernland Realty to 43.34% from 29.8% through the conversion of a bond into shares.

The 13.54% stake was worth Rp295 billion (\$37.5 million) in conversion of 75% of the total bond value of Rp394.9 billion issued by Modernland to AA Land.

The remaining 25% of the bond debt would be repaid by Modernland in cash or through conversion into shares again in 2013, the newspaper *Investor Daily Indonesia* cited Modernland corporate secretary Dani Prasetyo as saying.

Modernland reported an income of Rp53.5 billion in the first quarter of this year, an increase of 133.6% from the same period last year, Prasetyo said. (Asia Pulse)

## Trade minister promotes Batam, Bintan and Karimun in Japan

Trade Minister Mari Pangestu arrived in Tokyo on Monday to attend an investment seminar in which she will promote the Free Trade Zone (FTZ) in Batam, Bintan and Karimun (BBK) in Riau Islands province, Asia Pulse reported.

"Promoting the FTZ in BBK among Japanese investors is a must because our Economic Partnership Agreement (EPA) with Japan is to go into effect on July 1. We have to support the accord's implementation with promotions," she said.

In addition to the FTZ in BBK, the minister said, she would also promote the potential of Indonesia's creative economy in the Japanese market.

Pangestu admitted that Japan's economic slowdown would significantly affect the flow of its investment to Indonesia but the EPA was expected to enhance the two countries' economic cooperation.

The Indonesian government was also making continuous efforts to improve the investment climate to encourage foreign investors, she said.

Singapore, she said, had committed itself to increasing its investment in small and medium scale businesses in Indonesia.

Meanwhile, Singaporean Trade and Industry Minister Lim Hng Kiang who had also come to Tokyo for the investment seminar said the Indonesian government had already made some changes to improve the investment climate, especially for Singaporean businessmen.

However, he said, some of Indonesia's legislation still needed to be revised such as the taxation and manpower laws.

## Arcelor Mittal eyeing cable maker

Publicly listed cable maker PT Jembo Cable Company is included in the list of companies, the world's largest steel maker Arcelor Mittal wants to acquire, a report said.

Mittal will buy Jembo at a premium price including through the secondary market, a company source told the newspaper *Investor Daily*.

The good performance recorded by Jembo in the first half of the year has pushed up its share price and attracted buyers, the paper reported.

It said a number of local and foreign investment managers have also indicated interest in the Jembo shares.

## Stock market rules tightened

The Capital Market and Financial Institutions Supervisory Agency (Bapepam-LK) issued a new regulation increasing the requirements for short selling and margin trading to reduce snowballing market crashes, *The Jakarta Post* reported.

In a margin trade, investors borrow money from brokers to acquire shares, while in a short sell, an investor sells a share that he does not own in an attempt to profit from the share's decline in value.

Security firms can lend shares belonging to their clients, but failure to return the shares will result in a fine for the investor.

The two transactions are commonly performed in the market, but in the past, heavy risk taking, where investors have borrowed beyond their financial means, has resulted in market slumps, as happened on January 22 this year when the Indonesian Stock Exchange index fell 7%.

The regulation, issued on Monday night, states that security firms must have a minimum Rp5 billion in working capital and must seek approval from the IDX before conducting a short sell or a margin trade.

Under the new regulation, to receive financing to conduct either of the two mechanisms, a private investor must have a minimum net wealth of Rp1 billion, earn more than Rp200 million a year and have a margin trading account in a securities firm.

To perform a margin trade, an investor must shelter a minimum of Rp200 million as collateral, or 50% of the value of the transaction.

In addition, the loan may only amount to a maximum 65% of the sheltered collateral. If the investor wishes to borrow more, he must raise the collateral value within three days to match the percentage threshold.

If the collateral amount is not secured, the securities firm or broker must sell the acquired shares to match the 65% of collateral requirement.

To perform a short trade, an investor must shelter collateral equivalent to 135% of the value of the transaction, with similar requirements for securities firms as with margin trades.

## STATE CONCERNS

### **New tender offer regulations issued**

The government issued a new regulation stating that an investor must purchase 50% or more of another company, or be proven to have a direct or indirect controlling stake in another company, before a tender offer is compulsory, the chairman of capital markets regulator Bappepam-LK said, Dow Jones reported.

"Any investor that can be proved directly or indirectly to be controlling a company (following an acquisition of a company) must make a tender offer," even if the stake purchased is below 50%, Fuad Rahmany said.

Previously, investors owning a 25% stake must make a tender offer. When buying a company, investors must leave 20% of the purchased company's shares on the market, Rahmany said.

He said that the purchaser can issue new shares, or leave 20% of existing shares in the hands of the public.

When making a tender offer, shares should be priced at the average of the shares' highest market price during the acquisition process and the shares' 90-day high, Rahmany said.

## SOEs

### **Antam to team up with India's Jindal to produce steel**

State-owned mining company PT Aneka Tambang (Antam) has said it will build a nickel smelter and stainless steel plant this year, in cooperation with Jindal Stainless Ltd from India, Asia Pulse reported.

Antam and Jindal are still conducting a feasibility study on the \$700 million project to be built in Kendari,

Southeast Sulawesi, Antam president Alwin Syah Lubis told the newspaper Investor Daily.

Antam will have a 55% share and Jindal a 45% share in the project, which is to have a capacity to produce 20,000 tons of ferronickel and 250,000 tons of stainless steel a year.

Jindal started business in the stainless steel industry in the country four years ago, when it acquired Maspion Stainless Steel in Gresik, East Java. It already has a production capacity of 50,000 tons of stainless steel in Indonesia.

## Krakatau Steel returns to profit

State-owned steelmaker PT Krakatau Steel returned to profit last year on the back of stronger sales revenue, the company said, quoted by Reuters.

Krakatau Steel reported a net profit of Rp313.81 billion (\$34.07 million) in 2007, compared to Rp135.40 billion loss a year earlier.

Sales revenue climbed 22.8% to Rp14.84 trillion, while operating profit was Rp793.10 billion last year, compared to a Rp216.64 billion loss in 2006.

Krakatau chairman Taufiequrrahman Ruki said the firm, which had total assets of Rp11.12 trillion as of last year, was likely to launch an initial public share offering in November or December. Other sources have said it may offer only 5% to 10% of its shares to establish a reasonable price.

## Telkom cooperates with eight global operators

The largest telecommunications company in the country, PT Telkom, hopes to earn extra income of \$67 million this year through cooperation with eight global telecommunication operators, Asia Pulse reported.

Executive general manager of PT Telkom Sarwoto Atmosoetarno said the state-owned company has expanded cooperation with foreign major operators to face future challenges in global telecommunications.

Cooperation is vital with advancing technology and growing competition, Atmosoetarno said.

He said Telkom together with eight global operators -- Asiakomnet, Inaccess, Shine Town, Starhub, Sunvone - all based in Singapore - Korea Telecom, Taiwan Fixed Network and Telecom Italy Sparle -- have created a synergy for the same goals.

He said around 70% of Telkom international service is in phone conversation and the rest in data and Internet service.

### PRIVATE SECTOR

## Qtel share in Indosat limited to 49%

The shareholding of Qatar Telecom (Qtel) in Indonesia's second largest telecommunications company, PT Indosat, will be limited to 49%, Minister for Communications and Information M. Nuh said on Friday, *Bisnis Indonesia* reported.

Nuh said the decision had been made based on a decision by stock market authority Bappepam-LK. The head of the authority, Ahmad Fuad Rahmany, said the shareholding is limited by the Negative List on foreign investment.

Qtel currently owns 40.81% after buying out the share of a unit of Singapore's Temasek Holdings, which was found to have breach anti-monopoly rules. It had offered to buy remaining shares in Indosat as required under stock market regulations.

It booked sales of Rp201.3 billion with a net loss of Rp57.8 billion last year.

## **Austindo may raise Rp1.5T from IPO**

PT Austindo Nusantara Jaya Agri, a unit of the Austindo Group, plans to raise Rp1.5 trillion (\$163 million) from an initial public offering in the second half of this year, *Bisnis Indonesia* reported, without naming its sources.

The company is trying to capitalize on high commodity prices, the newspaper reported on Tuesday.

The company has named Morgan Stanley and PT Mandiri Sekuritas to manage the initial share sale, the report said.

The Austindo group, owned by George and Shakon Tahija, has interests in mining, plantations, financial services and health care.

## **Excelcomindo buys back bonds**

PT Excelcomindo Pratama, a unit of Telekom Malaysia Bhd., bought back \$122 million of \$250 million of bonds to help reduce interest costs, Investor Daily Indonesia cited Johnson Chan, senior vice president for corporate finance and treasury at the company as saying, quoted by Bloomberg

The company obtained a Rp3 trillion (\$325 million) loan from PT Bank Central Asia to repurchase the debt, the report said.

Jakarta-based Excelcomindo is Indonesia's third-biggest mobile-phone operator.

## **Bakrie Sumatera to increase stake in Agri Resources**

Shareholders of PT Bakrie Sumatera Plantations, an Indonesia's third-biggest publicly traded plantation company, agreed to a proposal to take control of Agri Resources BV, Bloomberg reported.

Bakrie Sumatera will spend \$41 million to increase its stake in Agri Resources to 51% from 25%, president director Ambono Janurianto said.

Agri Resources has a total of 29,000 hectares of palm oil plantation in South Sumatra and Jambi provinces.

Bakrie Sumatera expects to have an output of 350,000 metric tons of crude palm oil this year, up from 180,000 tons last year.

### **BANKS**

## **Bank Mandiri buys 51% of consumer credit co**

State-owned bank PT Bank Mandiri bought 51% of consumer financing company PT Tunas Financindo Sarana to expand Mandiri's consumer credit business, Agus Martowardojo, the bank's president director said on Tuesday, Dow Jones reported.

Mandiri and Tunas Financindo signed a sale-purchase agreement last Friday, Martowardojo said. He didn't say how much Mandiri paid for the stake.

Mandiri aims to gain a 20% to 30% share of the market in each sector in which it operates, including consumer banking, corporate banking and services to small and medium enterprises.

Tunas Financindo's main business is providing credit to buy motorcycles.

Mandiri has said it aims to buy a mid-sized bank this year as part of its development plans, but is still searching for a suitable candidate. Mandiri expects its assets to grow to Rp400 trillion.

Martowardojo said in the year to December 2007 Tunas Financindo's total income from credit for motorcycle purchases was Rp2.04 trillion.

## Bank Mayapada plans rights offer next year

PT Bank Mayapada Internasional, a lender, plans to raise as much as Rp1 trillion (\$108 million) selling new shares to its investors next year to improve its capital structure, *Bisnis Indonesia* quoted president director Hariono Tjahjarijadi as saying on Wednesday, Bloomberg reported.

The share plan will depend on the macro economic conditions next year, the newspaper reported.

The bank doesn't expect any new investors to buy shares, the report said, without elaborating.

## OIL AND GAS

### President launches massive Total gas fields

President Susilo Bambang Yudhoyono inaugurated on Friday a massive new gas operation off East Kalimantan by French giant Total, the company said, Agence France-Presse reported.

The first phase of the Sisi-Nubi gas fields off the Mahakam Delta went on stream in November and is scheduled to reach peak production of 350 million cubic feet (10 million cubic meters) a day by the end of the year.

Total, which operates Sisi-Nubi with INPEX and state energy monopoly Pertamina, is the largest gas producer in Indonesia.

The massive offshore project has been highly anticipated as Indonesia seeks to cash in on surging prices for oil and gas.

The Sisi-Nubi fields will expand the existing Mahakam block, enabling Total to hold output at around 2.6 billion cubic feet per day into the next decade, according to the company.

### End oil price blame game: Yudhoyono

President Susilo Bambang Yudhoyono issued an impassioned plea on Wednesday for oil powers and consumer nations to stop the blame game over oil prices and join forces to calm the raging market, Agence France-Presse reported. He said either oil production must increase or consumption must fall.

"This is time for producer countries, not only OPEC and Saudi Arabia but also Russia and Venezuela, to sit together with consumer nations, with the US, China, India, and not to blame each other," Yudhoyono said in a speech.

"They need to make calculations about to what extent they can step up their production. If it's not possible they have to have commitment to reduce oil consumption."

His comments came as world oil traded near record levels in Asia after OPEC's president talked of uncertainty surrounding future investment in energy facilities to boost crude output.

"This is an urgent matter for international community because the oil price can't be allowed to skyrocket to \$200 per barrel," Yudhoyono said.

He said Indonesia, as the largest economy in Southeast Asia, would make its case at the G8 summit in Japan next week. It will be the first time Indonesia has taken part in a meeting of the rich industrialized powers.

"I have already sent a letter to the Japanese prime minister. I hope there will be a serious discussion during this occasion to find a solution to the oil and food crisis," he said.

Indonesia is Asia's only member of the Organization of the Petroleum Exporting Countries (OPEC) but Jakarta is planning to pull out at the end of the year as falling production has turned it into a net importer.

It was one of the first Asian countries to raise domestic fuel prices, announcing a 28.7% average rise in May as oil prices passed \$120 a barrel.

The move was seen as essential to rein in ballooning oil subsidies but it has been deeply unpopular and sparked widespread protests, even though Indonesians continue to enjoy some of the lowest fuel prices in the region.

## **Ratu Prabu to acquire three oil companies**

Publicly listed company PT Ratu Prabu Energi said it plans to invest \$150 million to acquire three oil companies to strengthen its new business in the energy sector, Asia Pulse reported.

The company, known as PT Arona Bina Sejati when it operated in the wooden furniture industry, wants to acquire oil and gas fields in Java and Papua, its president Burhanuddin Bur Maras said.

Maras said the company has received loan pledges from Bank Mandiri, Bank Niaga and Bank Syariah Mandiri to finance the acquisition expected to be completed in the third quarter of this year.

The company also plans a rights issue on July 14 to sell 1.37 billion new shares worth around Rp686 billion to pay for the acquisition of 99.9% of PT Lekom Maras and its subsidiary, the newspaper *Investor Daily* said.

Maras said his company already produces up to 2,000 barrels of oil per day that is expected to increase to 5,000 barrels in 2009.

## **Kuwait's Petrogulf makes oil find off Seram**

Kuwaiti oil services firm Gulf Petroleum Investment Co (Petrogulf) said crude oil had been discovered in a block it was helping explore on the island of Seram, Reuters reported.

It said in a statement on a stock exchange website that output from a testing well was producing 640 barrels per day and that another well had been dug to find out more about the size of the field.

The discovery was made around 4 km from producing fields in Seram.

Petrogulf said it had asked the Indonesian government for permission to begin production and export from the new fields which it shares with a Chinese firm, which controls 51%; Kuwait's state-owned KUFPEC, which controls 30%; Petrogulf, which controls 16.5% and an Australian firm.

## **Prime Petroservices plans IPO**

PT Prime Petroservices said that it plans to sell 1.78 billion shares to the public via an initial public offering in August. The shares represent 30% of its total equity, Dow Jones reported.

To encourage interest in the sale, the company said it will issue four warrants for every five shares bought. Each warrant can be converted into one share within three years at a price to be determined later.

Prime has named PT Recapital, PT Madani Securities and PT Ciptadana Securities as underwriters for the planned issue.

Prime's businesses include oil and gas engineering, procurement and construction services, providing drilling and work-over rigs, and providing offshore oil storage using floating storage and offloading units.

It said it booked Rp32.28 billion in net profit in 2007, quadrupling from Rp8.19 billion a year before.

## **Federal clinches oil pipeline deal**

Federal International (2000) said it has secured, through business associate PT Geolink Nusantara, a build, operate and own project for an oil pipeline in East and Central Java, Singapore's *Business Times* reported.

The engineering and procurement company, which supports the energy and utility sectors, said that the project is expected to generate for the Federal group revenue of about \$14 million over the contract period of 33 months.

The total project is valued at \$29 million, it said. The project involves a pipeline from Banyu Urip to Mudi and two oil storage tanks for PT Pertamina EP Cepu.

Federal will be involved in managing the project and procuring materials for it. Planning started in May and is scheduled for completion by January next year.

The company completed a 16-km East Java gas pipeline for PT Pertamina in January this year.

Federal says that it has changed its business model and its activities now include research and development and the design and manufacture of oil and gas-related equipment.

## **Poor farmers boosted by bioethanol boom**

Cassava farmers in Lampung are reaping the benefits of bioethanol factories springing up in the area, *The Jakarta Post* reported.

Bioethanol refineries, including PT Medco Energy, PT Acida Tama, PT Madusari Lampung Indah (MLI) and PT Sungai Budi, have flourished in the area, lifting production capacity to between 180,000 liters and 60 million liters annually.

Thanks to their presence, the production of cassava has surged significantly. In June, the price of cassava at the farmer level reached Rp500 per kilogram, compared to between Rp150 to Rp200 per kilogram previously.

The only company obtaining its supplies of cassava from farmers earlier was PT Sungai Budi, the biggest tapioca flour mill in Lampung.

"Growing cassava now is more lucrative than coffee or oil palm. A number of oil palm farmers have replaced their crops with cassava now," said a farmer in Tulangbawang, Ferdi Gunsan.

With a production capacity of 50 million liters of ethanol annually, MLI is currently operating around 1,600 hectares of cassava farms. It aims to manage 4,000 hectares of cassava farms by extending the partnership system to farmers in East and South Lampung.

To meet supply needs, MLI needs at least 4,000 hectares of cassava farms yielding between 60 to 100 tons per hectare, the company said.

While the main cassava farming area in Lampung spans an area of 3,000 hectares, other farms are spread throughout Southeast Sulawesi and Java, while farms cover less than 1,000 hectares.

## MINING

### **Govt. plans to renegotiate mining contracts**

Indonesia, where the world's largest gold mine and second-biggest copper deposit are found, may renegotiate its contracts with miners to comply with a new mining law, Bloomberg reported.

Contract terms such as exports of metal ores may be revised, Energy Minister Purnomo Yusgiantoro said.

The law, which would ban exports of metal ores and regulate coal output, may come into effect by the end of the year, he said.

The new law would require the companies to build smelters to turn the ore into metals before exporting them, increasing the value of the end-product.

Miners may have five years to meet any revised contract terms, Yusgiantoro said, without giving details.

The government stands to receive a bigger share of revenue from tapping its mineral resources if finished products were exported instead of low-value ore concentrate.

Coal producers that have signed mining contracts with local administrations would have to seek the approval of the central government for their annual production plans, Yusgiantoro said.

Indonesia aims to secure domestic coal supplies, with plans to add 20,000 megawatts of generating capacity by 2010 to meet rising demand.

### **Bayan to rise about \$694.5M from IPO**

Coal producer PT Bayan Resources will raise up to Rp6.4 trillion (\$694.5 million) from an IPO, according to Reuters calculations based on the offer price range announced on Wednesday, Reuters reported.

A total of 833 million shares, including 333 million new shares and 500 million from existing shareholders, are being offered for sale. The proceeds will be used to help finance expansion plans at a time of record high coal prices.

After the IPO, the public will hold 25% of the company's total capital. PT Trimegah Securities will underwrite the IPO.

Bayan Resources is the holding company of coal miner Gunung Bayan. Its production target of nine million tons of coal makes it a relatively small player in Indonesia.

"Last year we did 4.7 million tons, this year we are targeting nine million tons and within two years we are aiming to double what we achieve in 2008," Bayan's president director, Eddie Chin Wai Fong, said.

Strong demand for coal, particularly from China and other Asian economies, has pushed prices to record peaks this year, prompting miners to increase production.

## Dayaindo Resources plans to invest \$450M

Energy company PT Dayaindo Resources International plans to invest \$450 million in the next three years to acquire a coal mining company and expand its logistics business, *Bisnis Indonesia* said, quoting president director Sudiro Andi Wiguno.

The company is in talks with several banks to finance the expansion plan, the newspaper said.

The expansion is expected to start in the second half of this year.

## Bank Mandiri to lend \$195M to Timah

PT Bank Mandiri, Indonesia's largest financial service company by assets, agreed to lend Rp1.8 trillion (\$195 million) in a one-year loan to PT Timah, *Bisnis Indonesia* cited Riswinandi, the bank's corporate director, as stating.

The loan will be drawn down in several stages this year, the report said.

The loan will be used to boost Timah's operation, the paper reported, citing M. Krishna Syarif, finance director of the company.

## Antam takes stake in Oxiana gold project

PT Aneka Tambang (Antam), seeking diversification in mining, will pay \$66.5 million for a 10% interest in Australia-listed Oxiana Ltd's Martabe gold and silver project, Oxiana said, quoted by Reuters.

Antam, which has the option to acquire a further 10% in the mine in North Sumatra for another \$66.5 million, is also embroiled in a takeover tussle for a zinc mine in the same region.

The transactions require approval from the boards of Oxiana, Antam and the Indonesian government authorities.

Oxiana, which has its roots in copper and gold mining in Laos, is spending \$310 million to dig a giant open pit mine at Martabe, which it estimates will yield 200,000 ounces of gold and two million ounces of silver a year starting in 2010.

Under the sale, Antam will contribute a proportionate share of development costs for the mine based on its stake, according to Oxiana.

Antam, 65%-owned by the government and capitalised at \$3.3 billion, is primarily a nickel mining and production company, though it has recently sought to branch out into other minerals.

Antam also has an option to buy a further 5% of the Martabe mine if Oxiana decides to expand the annual production rate by the equivalent of a half-million ounces of gold, Oxiana said.

Oxiana is set to complete a merger with Australian miner Zinifex pending a shareholder vote on July 18. The merged group, renamed Oz Minerals Ltd, would be the world's second-largest producer of zinc, used as an anti-corrosive in galvanised steel making.

## Adaro IPO gets go ahead

The stock market regulator (Bappepam-LK) approved on Friday the initial public offering of PT Adaro Energy after a two-week delay, *Bisnis Indonesia* reported.

"Bappepam-LK has issued an effective statement on the IPO of Adaro Energy," Vicky Ganda Saputra, vice president of investment bank PT Danatama Makmur, the underwriter of the deal, told the daily.

"The process of the public offering has fulfilled all conditions and regulations of the capital markets," she said, adding that the IPO would now commence on July 16.

PT Adaro Energy, the holding company for PT Adaro Indonesia, the country's second largest coal mine, will release 34.83% of its shares at an offer price of Rp1,100 per share.

On June 9, Saputra said investors were seeking more than six times the 11.14 billion new shares on offer, and about 81.3% were from overseas.

Adaro expects to achieve Rp12.25 trillion (\$1.33 billion) from the IPO, making it the largest IPO on the Indonesia Stock Exchange since the \$1.6 billion gained by PT Telkom in a listing in 1995 on both the local and New York stock exchanges.

The regulator had sought details of a court case on the ownership of Adaro Energy's coal unit. Court proceedings are on-going in Singapore's Supreme Court on an appeal case regarding PT Dianlia Setyamukti's purchase of a stake in PT Adaro Indonesia, which is being disputed by Beckett Pte., a Singapore-based company backed by two Indonesian businessmen.

## **MTD gets concession to operate coal terminal**

Malaysia's MTD Group has secured an international coal terminal project in West Java, marking its first foray into the port business, Malaysia's news agency Bernama said, quoted by Dow Jones.

The group, via its Indonesia affiliate PT Cigading International Bulk Terminal or CIBT, has been awarded a 32-year concession by PT Krakatau Steel to develop, run and operate an international coal terminal at the port of Cigading in West Java, Bernama said.

"We aspire to be a full-fledged infrastructure development company, not just involved in toll roads, offices, property development and construction design," said MTD's group managing director, Azmil Khalid.

"We want to go into things like power production and port operations, which are also part of infrastructure development," Khalid said.

He added construction of the coal terminal is expected to begin in the third quarter, with operations scheduled for next year.

## **Bukit Asam to raise coal price for power plant by 13%**

PT Tambang Batubara Bukit Asam, the company that controls more than a quarter of Indonesia's coal reserves, has raised prices for a power plant in Banten province by 13%, Bloomberg reported.

Starting Tuesday Bukit Asam began charging Rp617,900 (\$67) for every metric ton of coal it sells to the Suralaya power plant in Banten, up from Rp544,750 a ton, it said in a statement filed to the Indonesia Stock Exchange.

Record prices for coal burned by power stations prompted Bukit Asam to increase the amount it charges its biggest customer for the third time this year.

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