

Recent Issues on the SOE Restructuring

Will IRC increase our national mining companies' competitive advantages?

Recently, the government proposed a plan to consolidate PT Aneka Tambang, PT Tambang Batubara Bukit Asam, PT Timah and PT Freeport Indonesia into one holding company called Indonesia Resources Company (IRC).

The ministry expects that IRC will have a debt capacity of up to US\$ 10 billion. The increase of the debt capacity will come from the total value of the consolidated entity, expected at about US\$ 8 billion.

"In the future, this company will be as big as BHP Billiton, which is able to acquire other mining companies", said The State Minister of SOE's, Sofyan Djalil.

has expressed some doubts over the plan, since it may disrupt the SOE Privatization Program.

The unit has served the Ministry for 9 years since the economic crisis. Its liquidation may mean the Ministry loses experienced human resources with expertise in privatization strategies and market timing.

There is suspicion that the actual reason of the liquidation is disharmony between several units under the Ministry.

loans to that sector. The government intends to establish the new bank by the end of December 2007.

However, these plans seem to be in opposition to the Indonesian Banking Architecture (API), which requires a single presence entity for all banks in Indonesia.

The State Minister of SOEs, Sofyan Djalil said that the reason for

SOE Privatization Plan for 2008

Company	Privatization Plan
Asuransi Jasa Indonesia	IPO 30% new shares
Krakatau Steel	IPO 30% new shares
Bank Tabungan Negara	IPO 30% new shares
Semen Baturaja	IPO 35% new shares
Sucofindo	IPO 30% new shares
Surveyor Indonesia	IPO 30% new shares
Waskita Karya	IPO 35% new shares
Bank Bukopin	Placement 18.4%
Djakarta Lloyd	Divestment 49%
Sarinah	Divestment 49%
Industri Sandang	Divestment 100%
Sarana Karya	Divestment 100%
Inti	Divestment 49%
JIEP	Divestment 50%
SIER	Divestment 50%
Rekayasa Industri	Divestment/IPO 4.97%

Government Ownership in Mining Companies	
Companies	%
PT Aneka Tambang Tbk	65.00
PT Tambang Batubara Bukit Asam Tbk	65.02
PT Timah Tbk	65.00
PT Sarana Karya	100.00
PT Pertamina	100.00
PT Freeport Indonesia	9.36
PT Indonesia Asahan Aluminium	41.12

source: State Ministry of SOEs

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However, the consolidation may raise questions about each mining company's flexibility in making strategic decisions, due to rigid government bureaucracy.

The Minister said that the consolidation needs to be done carefully and gradually, considering three of the mining companies are publicly listed.

Liquidation of the Restructuring and Privatization Unit

The State Ministry of SOE's plans to liquidate its Restructuring and Privatization Unit. The aim is to increase the ministry's efficiency. However, the media

The Ministry had proposed 2 alternatives in executing the liquidation plan. The first alternative is liquidating the unit after the end of the Ministry Master Plan 2005-2009. The second alternative involves a change in the Ministry's organizational structure; this may take up to six months.

The Ministry states that whichever alternative is chosen, the liquidation would not disrupt the current privatization program.

Issues on establishing a new Indonesian Development Bank

The government plans to establish a new state-owned bank focusing on infrastructure development. Its aim would be to boost long-term

establishing the new bank would be to speed up long-term development loans for infrastructure, electricity, toll roads and other long-term projects. According to the Minister, this special purpose bank would be better placed to provide such funding than commercial banks, as it will naturally match its long-term profile with long-term sources of funding.

In the preliminary stage, the Minister expects that the government needs to inject Rp 5 trillion for the bank's capital.

With the formation of the new bank, the government would no longer need state-owned banks such as BNI to finance its long-term projects.

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The Newsletter Editorial Staff

Editorial Board

Muhammad Hanif
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Managing Editor

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Editorial Team

Driya Amandita

Erisa Habsjah

Reporters

Alex Hartono Gunawan

Endah Tri Utami

Evi Fidiasari

Flabianus Andreanto

Peter Paulus Sutedia

Editorial Office

Gedung Danareksa

Jl. Merdeka Selatan 14

Jakarta 10110, INDONESIA

Phone: (62—21) 350 9888 ext 6243

Fax: (62)(21) 350 1355

E-mail:

soenewsletter@danareksa.com

Our newsletter welcomes any article contribution from our readers regarding SOEs. Please contact us at our email address indicated above



Danareksa Events

Public Expose on the Bond Issuance of Obligasi II Danareksa Tahun 2007

Held by PT Danareksa (Persero)

Date : Wednesday, August 1, 2007

Venue : Grand Ballroom, Four Seasons Hotel

Launching and Public Expose on the Danareksa Mawar Agresif Mutual Fund

Held by PT Danareksa Investment Management

Date : Friday, August 3, 2007

Venue : Gedung Danareksa, Jakarta

SOE RESEARCH

Recent Development

SOE CORPORATE ACTION

Wika signs deal for Algerian project

Wijaya Karya has signed a contract with Japan's COJAAL (Kajima, Taisei, Nisimatsu, Hazena, and Tekon) consortium to build 57 bridges in Algeria worth US\$50.4 million. The signing of the contract took place on 22 June 2007, which, at the same time, marks the commencement of the construction of the Highway East-West Motorway connecting West Algeria to East Algeria. In this project, Wika will supply 705 precast concrete girders of various heights between 1.8-2 meters. In the future, the Company will build 4 precast concrete factories around Algeria. Currently, the Company has 7 such factories in Indonesia with total production capacity of 1mn tons, controlling about 60-65% of the market.

The first factory will have an investment cost of about Rp 75 bn and is scheduled to start production in October 2007. Besides Algeria, Wika also previously cooperated with Singapore's Yongnam Holdings Ltd in the construction of a train system connecting strategic places in Dubai, UAE. The project began in December 2006 and is expected to be completed in March 2008. Wika targets revenues from overseas contracts of US\$60mn in 2007. Up to June the Company had achieved over US\$50mn.

Meanwhile, the Company is also mulling the idea of borrowing from banks, probably from state-owned banks, to finance an airport project. According to President Director A. Soetjipto, such loans would be used to fund 70-75% of the total costs with the remainder coming from internally generated cash. The capital participation in the project is still in the discussion and feasibility study stage. In the Rp 1.7 tn project, Jasa Marga and Wijaya Karya each own 30%, and RailLink, the tender winner for the airport project, has a 40% stake.

In the blueprint, the dual rail will span 27 km from Duri Station to the airport. There will also be a toll

road directly to the airport. RailLink and the two state-owned companies signed a cooperation memorandum last week; the cooperation relates to the capital participation, and the feasibility study is scheduled to be completed by August.

Danareksa & Pegadaian: Bonds Issuance and Listing Plans

Danareksa has issued Rp 500 bn of new bonds (series II/2007) with a coupon rate of 10.375% - 10.875%. This coupon is still higher than the time deposits rate, at around the 7.35% level. Danareksa appointed Danareksa Sekuritas, Trimegah Securities and Citigroup as the underwriters. The proceeds will be used to repay its freely transferable loan agreement (FTLA) which will mature on December 15, 2007, and its long term debt of Rp 215 bn.

Danareksa's management also expects the company to be listed on the Jakarta Stock Exchange in the future. Danareksa Acting President Director, Wahzahry Wardaya, said that Danareksa is strong enough fundamentally for a listing. Nevertheless, the decision is dependent on the government as the current shareholder in Danareksa.

Perum Pegadaian also issued bonds. It offered Rp 600 bn of bonds with 9.7% - 10.10% fixed and floating interest rates. Pegadaian's management reported that its net profit for the first semester of 2007 reached Rp 245 bn, up 25% from last year. The bond is in two series; the first is series A with a fixed coupon rate of 9.7% - 10.10% for 10 years. Pegadaian also offers a floating coupon rate for the second to the tenth years at the 1 month Central Bank rate (SBI) plus 1% premium. Perum Pegadaian has achieved a AA rating on its bonds from Pefindo. Like Danareksa, Perum Pegadaian also plans an Initial Public Offering (IPO) on the Jakarta Stock Exchange in 2009 after it has fulfilled all of the requirements and obtained approval from the Minister of SOE.

Pusri to develop coal gasification

PT Pupuk Sriwijaya (Pusri) will build a semi commercial coal gasification factory of 50 tons capacity. After the feasibility study has been completed, the factory will start to be built at the end of the year and is estimated to be able to produce 75 Million British Thermal Units (MBTU) of gas. If the factory is a success, Pusri will build another similar factory.

To undertake this project, Pusri is collaborating with the Energy & Mineral Resources Department (Research and Development Unit of Coal and Mineral Technology) and 2 Japanese companies, Ishikawajima - Harima Heavy Industries Co Ltd (HHI) and Sojitz Corporation. It needs about US\$ 100 mn - 120 mn of total funds, where HHI shall provide funds of about US\$ 50 mn - 60 mn. This factory will be built at PT Pupuk Kujang, West Java, because gas production from that factory will be used. It shall also be integrated with the fertilizer plant (integration of lignite gasifier into the fertilizer plant).

The coal gasification factory will use fluidised bed technology (Tigar technology). Production costs for the semi commercial factory are US\$4 for each MMBTU of gas, or more expensive than natural gas for a fertilizer plant. But this is still cheaper than the gas price for industry of US\$5 per MMBTU.

PLN: issued US\$1 Billion of international bonds and certified its assets

Through its subsidiary Majapahit Holding BV, PT PLN issued two types of international bonds. The first was a US\$500 mn bond with a 10 year tenor, 7.25% per year coupon and priced at 99.127%. The second was a US\$500 mn bond with a 30 year tenor, 7.875% per year coupon and priced at 98.586%. Funds from the bonds issuance are planned to be used to finance the 10,000 Megawatt ((Mw) generator development program.

The bonds have no special collateral. The bonds were offered to prospective investors in some of the world's major financial centres such as Hong Kong, Singapore, London, Boston, and New York. These international bonds have been assigned a B1 rating by Moody's and a BB- rating by Standard & Poor's. The offering was quite a success, as shown by the successful book building process at 5 times oversubscription.

The total funds required to finance all PLN projects stand at around US\$8 bn. Danareksa Sekuritas and UBS AG were the Joint Global Coordinators and Joint Lead Managers. UBS AG was also the sole Bookrunner. Also, going forward, PLN plans to issue more bonds such as domestic bonds, domestic syariah bonds and international bonds.

Moreover, PLN also plans to use asset guaranteed loans in order to obtain funding from the banking sector. This has already been agreed to by the government. As stated by the SOE minister, Sofyan Djalil, this funding will be sought should the source of funding from China fail to transpire.

Semen Gresik to hold extraordinary shareholders' meeting

PT Semen Gresik Tbk plans to hold an extraordinary shareholders meeting at the end of September to obtain approval for a bonds issuance. Semen Gresik will issue US\$200-300 mn of bonds to finance its working capital in connection with new cement factory development. Shareholders will also discuss the company's restructuring plans. The Ministry of SOE has agreed with the company's idea to build a new factory, as well as the restructuring and financing scheme for expansion.

Semen Gresik plans to obtain funding of US\$92.1 mn to develop two new plants and an electricity generator, for its routine working capital, and to repair its IT system. The estimated cost for the two new factories is US\$650 million, at a cost of US\$140 per ton (based on capacity of 5 mn tons).

(please turn to page 2)

Danareksa Analysis - to be published in the Jakarta Post, Thursday, August 2, 2007

Where is the Domestic Bond Market Heading?

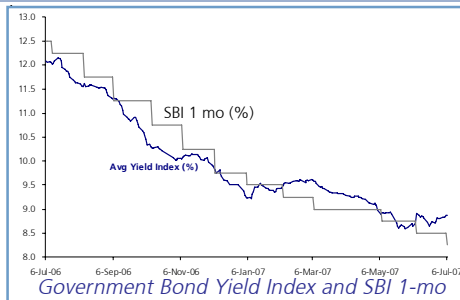
by Budi Susanto

The Indonesian bond market in recent weeks has been stable for both government and corporate bonds. But going forward, expectations of monetary policy carried out by Bank Indonesia will influence the direction of the bond market.

Bearish mood on global markets

The sudden increase of interest rates in some countries at the beginning of June 07 has changed the trend of global bond markets. Bond prices, both sovereign and corporate, came under pressure as investors required higher real yields due to higher inflationary expectations. Being more integrated globally, the Indonesian bond market experienced a significant correction, especially among the government bonds.

Nonetheless, there is a strong belief that Bank Indonesia will lower its reference interest rates (BI-rate) to the level of 7.5% either this year or next year at the latest. Therefore, we expect an increase in the real yields of domestic bonds. But increasing real yields in the domestic bond market might not be warranted given that Indonesia's economic fundamentals are still solid. Right now, the government bonds' 10-year Yield to Maturity stands at 9.04% to provide a term premium of 79bps. It was 50bps above the average in the one-half years since the beginning of 2006.



We expect it to remain so for a two or three year period ahead. Accordingly, we believe that bond prices may have upside in the near term if interest rates are cut further.

There are two possible directions that Indonesian bonds can take in the near future: 1) a continuation in the increase in real yields or 2) the end of the recent correction in bond prices in 2H07. Where the domestic bond market heads will depend on the level of investors' required real yields (this applies to both domestic and global investors).

We believe the long rally in the domestic bond market was mainly driven by the huge appetite of foreign investors for domestic bonds. Massive capital inflow into the Indonesian capital markets boosted rupiah bond prices. This dragged yields down at the same time. At the end of May 07, foreign investors' ownership in government bonds amounted to Rp83.5 trillion or 18.6% of the total outstanding amount of Rp448.4 trillion. In addition, we also note that in line

with the total Rp29.7 trillion of government bond issuances from January to May 07, foreign holdings in government bonds increased by Rp28.6 trillion in the same period. Or put simply, foreigners were the prominent players in the government bonds primary market in the first five months of 2007.

As global inflation worries and the US sub-prime mortgage meltdown affected foreign investors' accepted level of risk, they unsurprisingly required higher yields. The latest developments in some of the developed markets were also driven by foreign investors' move away from emerging markets, including Indonesia. The demand for bonds in secondary trading subsequently weakened given the absence of foreign participation in the Indonesian bond market. Thus, the increasing bond yields over the last two months reflects the true required yields of the domestic investors.

Outlook in 2H07

Going forward, Bank Indonesia's policy on interest rates has been playing a very important role in determining where the bond market is headed. A full-year rally during the period of June 06-June 07 was driven by expectations of declining interest rates. If that continues to be the case, yields may

need to go lower, and that will push bond prices to the level of two months ago, assuming the term premium is not going anywhere from the current level. And we are cautiously optimistic that the projected return might finally represent the reasonable real yields for the domestic investor.

In the short run, the news fuelling expectations of an additional rate cut is likely to be manageable inflation. This, in turn, sends a positive signal to bond investors concerning the potential upside of bond investments. But in the longer term, robust economic growth, stability in economic fundamentals and potential ratings upgrades from rating agencies like Moody's Investor Service are the factors supporting the outlook of the domestic bond market.

In conclusion, we believe the domestic bond market will eventually adjust when the Central Bank cuts interest rates below 8%. We expect the government bonds' average yield to decline from 8.82% in June 07 to 8.22% in December 07. The decline in bond yields provides investors with potential upside in bond prices in 2H07. If such a scenario materializes, we estimate the bond market will book a 15.4% total return. As such, we think the Indonesian bond market will be one of the better performing bond markets.

Recent Development *(continued from page 2)*

SOE COOPERATION

Pelindo and Samudera Indonesia to Build a Container Terminal



PT Pelabuhan Indonesia IV and PT Samudera Indonesia Tbk have agreed to build a container terminal at Palaran Pelabuhan Samarinda, East Kalimantan. The amount of investment for building the port infrastructure will reach Rp 380 billion. The President Director of Pelindo IV Djarwo Suryanto said that this is the first joint port development together with a national investor in Indonesia. The

new port is expected to be completed in 24 months.

The Development and Marketing Director of Pelindo IV Max K. Lumempouw said that the port development would be beneficial since Pelindo is able to gain 53-55% from the net profit of that infrastructure. "Plus ten percent from gross profits," he added.

Garuda to cooperate with Korean Air



The President Director of PT Garuda Indonesia, Emirsyah Atar, is planning to have a meeting in Seoul with the CEO of Korean Air to

strengthen the relationship between both companies. Emirsyah Atar is joining President Susilo Bambang Yudhoyono's group in their 3-day Presidential visit to South Korea.

The cooperation is in the form of "code sharing" through the Seoul-Denpasar-Jakarta route in tourists from both countries. Earlier, the Civil Airlines Safety Authority of South Korea asked seven foreign airlines, including Garuda Indonesia, to increase their flight safety standards. Six foreign airlines are categorized in the "not secured" category by the South Korean government; they are Progress Multi Transportation (PMT) Air, Royal Khmer Airlines from

Cambodia; Iran Air, Sakhalinsk Airlines, Vladivostok Air, and Dalavia Far East Airways from Russia.

The seven airlines are on the list because they did not comply with South Korea's safety standards, especially in using substandard spare parts. The South Korea Department of Transportation is planning to make a safety review list of the airlines with a high risk of accident. However, the South Korean authority has already made an "on the spot" assessment of Garuda in regard to its flight to Seoul. The results were positive and Garuda is allowed to operate in the country.

Change in Management of SOEs

There were significant changes in the managements of some SOEs in July 2007. Presented below are some of the key changes.

Top Management

Previous		New	
Name	Position	Name	Position
PT Kereta Api Indonesia (KAI)			
Makbul Sujudi Sumadilaga	Technical Director	Darmawan Daud	Technical Director
Amien Abdurachman	Human Resource & General Affairs Director	Joko Margono	Human Resource & General Affairs Director
PT Dirgantara Indonesia			
Edwin Soedarmo	President Director	Budi Santoso	President Director
Rudhy M. Mokobombang	Vice President Director	Budi Wuraskito	Aircraft Integration Director
Iwan W. Soemekto	Trade and Business Development Director	Frans Iskandar Ralie Siregar	Finance & Administration Director
Mohamad Mochajan	Technology Director	Budiman Saleh	Aero Structure Director
Budi Wuraskito	Operation & Production Director	Andi Alisyahbana	Engineering & Development Director
Hidayat Hassan	Finance Director	Dita Ardoni Jafri	Aircraft Services Director
PT Danareksa (Persero)			
Soedarjono	President Commissioner	N/A	President Commissioner
Lin Che Wei, CFA	President Director	Wahzary Wardaya	The Caretaker of the President Director
PT Bank Negara Indonesia, Tbk (BNI)			
Effendi	Commissioner	Effendi	Independent Commissioner
PT Merpati Nusantara Airlines			
Nursatyo	Trade Director	Jaka Pujiyono	Trade Director
ID Nyoman Suwinadja	Technical Director	Hotland Siagian	Technical Director
Capt. Harry Inonu Pardjaman	Operational Director	Abhi Widya	Operational Director
Prasetyo	Finance Director	Guntur Aradea	Finance & Administration Director



Hotasi Nababan was born in Manila, May 7th 1965. He has one son from his wife Eveline Maria. He graduated from ITB in 1988 with a degree in Civil

Engineering, and obtained two master degrees in Civil Engineering and Technology Policy from MIT (Massachusetts Institute of Technology) in 1993.

The latest news is that Hotasi was appointed "again" as the president director of Merpati Nusantara Airlines (MNA) on 20 July 2007, shows that the government appreciates the efforts made by Hotasi in the previous period. Hotasi joined MNA, after being appointed as Director in May 2002.

Before working at Merpati, he worked at MWRA (Boston, USA) from 1990 to 1992. Then he worked at Garuda Indonesia from 1992 to 1994. His last position before he joined MNA was as President Director of GE Lokomotif Indonesia where he worked during 1994-2002. At that time, his memorable comment was "if it fails it is mine alone but if it is successful then it's ours". If anyone asks why he quit GE Lokomotif Indonesia and chose to work at MNA his reason is "merah putih" (red-white). This means he prefers to serve his country.

From the employees' point of view, Hotasi is viewed as being a hard worker and something of a perfectionist. Nonetheless, he still has the humility to accept criticism from other people in the company. Such leadership skills are hoped to bring Merpati to a brighter future. One of the employees that used to work with him said that Hotasi's house is in the office because he is needed to visit Merpati's branch offices even at weekend. Hotasi also has a reputation as a perfectionist. He is very concerned with the smallest details and always participates in meetings held by Merpati.

Hotasi is also known as an activist in many organizations. He has been the Chairman of the Civil Engineering Students Unity at ITB, and the President of Alumni Indonesian Society Massachusetts Institute of Technology (AIS-MIT).

Sources: www.sinarharapan.co.id
www.kompas.com
www.swa.co.id



What's on The SOE Executive Club (BEC)

Next BEC Seminar

Held by BUMN Executive Club

Topic : The Implementation of the SOE Holding: Strategy, Direction, and Policy

Date : Friday, August 31, 2007

Venue : Planet Holiday Hotel, Batam

Keynote Speakers : The Representative from Temasek Holding (Singapore) and the Representative from Petronas (Malaysia)

Corrections for the June edition

Recent Development: Bio Farma and Kalbe

Farma undertake market expansion (p.2)

Stated: " Kalbe Farma, the other SOE pharmacy company, has spent US\$ 3 million.... "

Should be written: " Kalbe Farma, the other pharmacy company, has spent US\$ 3 million..... "

Danareksa Event : Festival Piano Indonesia (p.4)

Stated: " July 2 and 5, 2007 at Taman Ismail Marzuki, Jakarta "

Should be written: " July 2 and 5, 2007 at Pusat Perfilman Usmar Ismail, Jakarta "

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