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**INDONESIAN COMMERCIAL NEWSLETTER**

MONTHLY REPORT

APRIL 2006

**PT DATA CONSULT**  
BUSINESS SURVEYS AND REPORT

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## INDONESIAN COMMERCIAL NEWSLETTER

APRIL 2006

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## FOCUS

### OVERVIEW OF ECONOMIC CONDITION IN FIRST QUARTER OF 2006

The oil fuel price hikes in October, 2005, brought on economic ills in the forms of high credit interest rates, falling purchasing power and soaring inflation that dampened growth recorded in various sectors of the economy. However, in the first three months of 2006, there was obvious progress made. Some semblance of stability has been recorded in interest rate although at a higher level and the rupiah has regained strength to hover around the level of 9,000 per U.S. dollar. The government, therefore, expressed optimism that the Inflation could be kept below two digit in 2006.

#### *Rupiah strengthening and stable*

After crossing the level of 10,000 per dollar toward the end of 2005, the rupiah rallied in the past three month and in April hit the psychological level of 9,000 to 8,995 per dollar on April 12.

**Table - 1**  
Rupiah exchange rate with U.S. dollar

Date	Selling rate	Buying rate	Middle rate
13-Apr-06	9,510	8,510	9,010
12-Apr-06	9,495	8,495	8,995
11-Apr-06	9,490	8,490	8,990
3-Apr-06	9,545	8,545	9,045
27-Mar-06	9,595	8,595	9,095
20-Mar-06	9,630	8,630	9,130
13-Mar-06	9,745	8,745	9,245
6-Mar-06	9,697	8,697	9,197
20-Feb-06	9,730	8,730	9,230
13-Feb-06	9,730	8,730	9,230
30-Jan-06	9,895	8,895	9,395
23-Jan-06	9,915	8,915	9,415
16-Jan-06	9,870	8,870	9,370
9-Jan-06	9,960	8,960	9,460
2-Jan-06	10,295	9,295	9,795

Source: Bank Indonesia (BI)

The rupiah upward move was shored up by growing foreign exchange reserve lately which has hit an all time high of US\$ 41.1 billion enough to finance imports for 4.5 months and foreign debt repayments. Toward the end of March 2006,

## Focus

the country's foreign exchange already hit a new record at more than US\$ 40 billion. The rise in foreign exchange (Forex) reserve was attributable to an increase in current account surplus and capital account.

**Table - 2**  
Monetary indicators and forex reserve

No	Items		28-Feb-06	31-Mar-06	
			Week IV	Week IV	
1	Primary money (Rp. Billion)		229,141.00	233,878.00	
	Such as :	Money in circulation	131,157.00	135,005.00	
	Such as :	Bank giro reserve balance in Bank Indonesia	97,663.00	98,544.00	
2	Net foreign exchange reserve ) (Rp. Billion)		179,968.00	213,530.00	
3	Net domestic assets (Rp. Billion)		49,173.00	20,348.00	
	Such as :	Net claim to the government	255,470.00	209,557.00	
		Such as:	Government bonds)	263,621.00	263,621.00
	Such as :	Bank Indonesia liquidity assistance)	560	560	
		Such as :	Net claim to bank rescue agency BPPN)	94	94
	Such as :	Liquidity credit)	11,496.00	11,372.00	
		Such as :	Board of Logistics (BULOG)		
	Such as :	Open market operation	-148,380.00	-142,637.00	
4	Memorandum Items' : Forex reserve (IRFCL - SDDS) – in million of US\$		35,525.10	40,081.60	

Source: Bank Indonesia

### ***Exports continues to rise but shifting to primary commodities***

Current account surplus rose to follow an increase in exports in 2005. Exports in January 2006 rose significantly year-on-year while imports declined.

Noteworthy, however, in the past several years, there has been changed in the composition of the export commodities shifting to primary commodities in domination. The increase of more than 18.75% in exports in 2005 was largely attributable to exports of primary commodities such as mining products and farm products including coal, rubber, etc.. Exports of the two commodities surged boosted by rising prices in the world market.

Exports of mining products such as coal in 2005 shot up 57.87%, metal ore 66.58% and non iron metal 45.7%. Strong growth was also recorded in the exports of farm products. Exports of cacao, coffee, and spices rose 29.35%,

raw rubber, increased by 18.4% and crude palm oil (CPO) by 12.99%. Exports of raw rubber and CPO have grown sharply in the past five years.

Exports of vegetable oils grew by an average of 30.2% annually in the past several years to reach US\$ 4.76 billion in value in 2005 or almost the same as the export value of garments of US\$ 5,11 billion. In 2000, exports of vegetable oil was valued at only US\$ 1.65 billion as against garment export value of US\$ 4.73 billion. Similarly, a strong growth was recorded in the exports of rubber rising in value by 27.2% annually in the 2000-2004 period.

Meanwhile, the contribution of the manufacturing sector to the country's exports has declined. The decline was caused by failure in market competition and limited capacity as there has been no realization in the plan to replace old and inefficient machines. Finished wear still leads in export value but the growth has been sluggish. Sluggish growth has also been recorded in the export of yarns, woven fabric and other textile products. A strong growth was recorded only in the exports of motor vehicles rising by more than 40% in 2005.

Other indicators of a decline in the competitiveness of the country's manufacturing sector is shrinking imports of industrial basic materials needed to produce export commodities. In 2005, imports of industrial basic materials dropped 7.69% as against an annual growth of 0.69% on the average in 2000-2004 period.

### ***Inflows of short term capital shore up rupiah***

Inflows of short term capital ((portfolio investment) used to buy cheap shares has pushed up the composite index (IHSG) of the Jakarta Stock Exchange (JSX) to new records in the first months of 2006.

In January, 2006, the IHSG hit a new record of 1,261 when the rupiah began to regain strength and upward trend of the key interest rate of Bank Indonesia (BI rate) was held to standstill. The IHSG rose further to 1,330 following an government announcement canceling plan to raise the electricity tariff. On April 1, 2006, the IHSG shot up to the level of 1.417 on positive sentiment with the policy of the U.S. largest pension fund company California Public Employees' Retirement Systems (Calpers) putting Indonesia in the list of its investment destinations.

The inflows of short term capital are sensitive to market condition and reversal is likely any time. When there is negative market sentiment. The government, therefore, need to handle the situation cautiously and continue efforts to create a condition that makes the country an attractive and potential investment destination to prevent capital outflows.

**BI rate stays at 12.75%**

Bank Indonesia has succeeded in exercising its role to maintain monetary stability keeping the inflation within a manageable level. The macro economic condition, therefore, has remained under control. The policy adopted by the central bank has prevented unbridled increase in interest rate despite the 100% hikes in the price of oil fuels in October, 2005 that sent the inflation rate skyrocketing. Following the increases in prices, the BI rate began to scale up from 8.75% in September, 2005 to 12.75% in November, 2005, as part of the efforts by the central bank to control inflation. Since then the BI rate was maintained at the same level of 12.75% p.a. The central bank maintained the rate although there was still heavy pressure by the end of 2005 that could force an increase in the interest rate with the soaring prices of crude oil in the world market.

The success of the central bank to prevent the key interest rate from rising for 6 months helped save the business sector from bankruptcy as when the monetary crisis hit the country in 1997/1998.

**Table - 3**  
Developments of BI rate,  
July 5, 2005 – April 18, 2006

Period	BI Rate
5-Apr-06	12.75%
7-Mar-06	12.75%
7-Feb-06	12.75%
9-Jan-06	12.75%
6-Dec-05	12.75%
1 Nov 2005	12.25%
4-Oct-05	11.00%
6-Sep-05	10.00%
9-Aug-05	8.75%
5-Jul-05	8.50%

Source: BI

The central bank has also succeeded in preventing a big bang in the rupiah movements by allowing only the local currency to regain strength gradually until it reached stability at the level of 9,000 to the dollar. The central bank drew strong protest from the business sector when it raised the interest rate to 12.75% but its tight money policy has prevented further diving of the rupiah.

The policy of the central bank, however, has not touched on the very fundamental matter, the real sector, which remained in the doldrums. Without progress made to revive the real sector it would be difficult to maintain rupiah and inflation stability in long term.

### ***Prospects in second semester of 2006***

Stability in macro economy in the past three months has encouraged the banking sector. Pessimism is prevailing that banks could decide to cut interest rate. There has been indication that the BI rate would be reduced although not immediately. Despite the resurgence in the prices of crude oil in the world market the government's decision to cancel plan to raise the electricity tariff put a brake on inflation. Therefore, there is no cause for concern that the interest rate will rise again.

However, not all types of loans will have their interest rate cut amid the tendency of banks to offer lower interest rates. Immediate cut is expected only in the interest rates on consumer credits, motor vehicle credits, and housing credits. The interest rate on investment credits is expected to remain unchanged until the BI rate is reduced.

A cut in the interest rate on consumer credits is expected to boost the retail sector. The retail sector has suffered a heavy blow in the past five months following the October's fuel price hikes. The condition is worse for the sector with Bank Indonesia tightening regulation on credit card by increasing installment minimum limit. A cut in interest rate on consumer credit will also have a positive impact on the sector.

The property sector is also expected to revive after being in the doldrums in the first quarter of 2006. The prospect of a cut in the interest rate on housing credits will boost the sector especially property companies building low cost houses. The interest rate on housing credit (KPR) is expected to be cut in June 2006 barring any resurgence in the prices of oil in the world market. Revival of the property sector will lead to recovery of building material market and construction service business.

Following the property sector, the construction and infrastructure sectors will have the greatest opportunity to come in line. The government plans to resume construction of a number of large projects shelved before such as toll road projects. Realization of the projects, however, will also depend on the efficiency of the bureaucracy in preparing work including disbursement of project funds. Tighter control by the government will tend to slow down implementation of the projects.

The automotive industry, which suffered a setback in sales in the first quarter of 2006, is expected to recover soon as banks began to offer credits for the purchases of cars and motorcycles.

In 2006, the prices of various primary commodities are expected to remain high such as those of coal, iron ore and non iron metals and farm commodities like CPO. CPO is expected to be the main export commodity in the agribusiness sector. Despite new stumbling block with the recent rise in import duty slapped by India, one of the largest markets for the country's CPO, the country hopes to expand market to the United States where demand for CPO is increasing.

### ***Revamping the real sector***

Progress made in increasing direct investment in the real sector will determine success in reviving the business sector, a fact long known but difficult in implementation. The government has good opportunity to create a conducive business climate at present if it is a little more serious in handling non economic factors hampering effort toward economic recovery such as political instability, security problem, legal certainty although much progress has been made in creating political stability and improving security.

Corruption is still a big problem, a factor causing high cost economy. Much headway has been made in bringing corrupters to justice but the government needs to move faster and act firmly in the campaign to eradicate rampant corruption in the country. The anti corruption drive is more an euphoric campaign. Many big suspects managed to get away after a lengthy court proceedings. The result of the anti corruption campaign is insignificant in comparison with the damage caused by corruption in causing high cost economy.

Other non economic factors hampering economic development concerns legal certainty. Much of the legal uncertainty has been inherited from the previous regime, the New Order regime. Low enforcement is weak.

Without the non economic factors, the country's economic condition could have improved easily. The problem surrounding the real sector should have been sorted out with economic aspects such as the case with textile industry. The textile industry, which is still a major export earner for the country should be given priority in restructuring program. The government has to find way to keep the industry afloat. Banks should not generalize the condition of textile companies by branding them all ailing industry. Selection could be made. Ones which deserve bank loan should be given loans to allow them to continue operation and expand business.

\* \* \*

# INDUSTRY PROFILE

## CEMENT INDUSTRY IN INDONESIA

### Current Issues

Foreign control of cement industry in the country has become a hot issue in public debates in the past several years triggered by long dispute involving the government and Mexican cement giant Cemex S.A. over control of the country's largest cement maker PT Semen Gresik. Cartel issue was raised arousing nationalist sentiment that discourage foreign investors. Investors hesitated to invest to build new factories or expand existing capacity especially with the 100% hike in oil fuel prices in October, 2005.

After a fast growth in 2003-2005 period, observers predict that the existing cement factories, without capacity expansion, will not be able to meet fast growing domestic requirement by 2009-2010. By that years, the construction sector, which the largest consumer of cement, is forecast to grow 8% a year. Demand for cement, therefore, will rise necessitating expansion of production capacity.

It is no wonder that toward the end of 2005, many foreign investors indicated interest in building new cement factories in the country, and existing producers plan capacity expansion by building new production facilities.

The interest, however, was somewhat dampened by the government's decision to raise fuel prices in October, 2005, sending the prices of building material sky high and further weakening the purchasing power of the people. As a result demands for houses and other property fell sharply putting a brake on the rising trend of cement consumption.

The unexpected change forced all factories to make recalculation revising their expansion plans especially as the existing capacity is still more than enough to meet domestic requirement at present. Producers have to find right answer to question: whether new project is still feasible in the next five years.

Fear of cartel among foreign controlled cement companies remains a disturbing issue. Cartel is feared to hurt the interest of the people. After the government liberalized cement market, observers are worried that the prices of the building material could rise out of control. In addition, any time the domestic market could experience shortage in cement supply if the foreign owners choose to exports all or most of their cement production with the government has no control over them.

## Industry Profile

Competition in the cement industry has frequently been in the spotlight, a focus of attention especially from the competition watchdog, the Anti Business Monopoly Commission (KPPU), which has several times slapped sanctions on cement factories allegedly practice unfair competition. Last time KPPU punished state-owned PT Semen Gresik accused of restricting distributors and intervening in setting cement selling prices.

The oligopolistic characteristic of the market with only a few players in the cement industry, the tendency toward creating cartel is very likely to prevent themselves from killing each other. The general consumers will be hurt if the factories collude with each other to raise the cement prices. The fear, however, might prove unfounded. The fact is since the government liberalized the market, the producers have complained about tight competition in the market.

This report is compiled using data from in-depth studies of cement industry and analysis of issues surrounding the industry including the problems hampering its expansion. The report presents accurate data, information, results of analysis and market intelligence.

### **Economic background: Construction sector sensitive to changes in economy**

After reeling under the impact of the monetary crisis in 1997/1998, marked with a Gross Domestic Products (GDP) contraction, the country's economy began to regain strength in 2000. The interest rates begin to fall enabling the property and construction sector to recover from a heavy slump.

A substantial growth of more than 5% was recorded in the country's economy in 2004 and the interest rate declined to 13% from 18% in the previous year. In 2004, the property sector was booming. New housing, apartment and shopping center projects emerged and development was brisk as if the condition had returned to what it was before the crisis hit the country.

Demand for cement, therefore, surged again. The government resumed construction of a number of major infrastructure projects, especially toll roads which were earlier shelved for financial difficulties.

The following table shows the interrelationship between economic growth and that of the construction sector. The construction sector is sensitive to GDP growth. When the country's GDP fell 13%, the construction sector shrank by 36% and on the contrary when the GDP rose 5% the construction sector surged by 8%.

## Industry Profile

**Table – 1**  
GDP in construction sector and country's GDP  
on constant prices.

Year	GDP in construction sector (%)	Country's GDP (%)
1996	12.76	7.98
1997	7.36	4.70
1998	-36.44	-13.13
1999	-1.91	0.79
2000	5.64	4.92
2001	4.58	3.83
2002	5.48	4.38
2003	6.67	4.88
2004	8.17	5.13
2005*)	9.0	5,60

Source: Data Consult, BI, BPS, processed

### Structure of Cement Industry

#### *Type of cement and uses*

Indonesia produces various types of cement. The main type is OPC (ordinary Portland Cement) or Portland Cement of Type I (CP I). Other types include special ones and mixed cement, for certain uses in relatively small quantity.

Those categorized in the special types are Portland Cement of Type II (CPI II), Portland Cement of Types III (CPI III), Portland Cement of Type V (CPI V) and OWC (Oil Well Cement). Those categorized as Mixed Cement are PPC, *fly ash cement*, and Super Masonry Cement (SMC) and Masonry Cement.

The government has set standards for the quality of cement products as given in SNI 15-2049-2004, which is the standard for portland cement of the I, II, II,IV, and V types. Standards for other types of cement have also been set by the government.

#### *Types of Cement*

*Portland Cement of Type I* or Ordinary Portland Cement (OPC) is a cement type with standard quality used widely for general construction such as building

## Industry Profile

constructions which do not need specifications such as house buildings, high rise buildings, bridges and roads.

*Portland Cement of Type II* is a type of cement more resistant to sulfates. Portland Cement of Type II is used such as for port pier, dam and bridge constructions and heavy foundation of buildings in soil having moderate content of sulfates.

*Portland Cement of Type III* is used for constructions needed high early pressure after pouring a cement foundation in a fast process, such as in road, bridge and airport construction.

*Portland Cement of type IV* is used for constructions that need low hydration heat such as large dams, thick concrete buildings or buildings in dry areas.

*Portland Cement of type V* gives better protection against corrosion from water or soil containing sulfates larger than 0.20% such as sea water, ground water and water in mining sites. This type of cement is used for constructions of pools processing waste from chemical factories, sea building, etc..

*Oil Well Cement (OWC)* is used for oil and natural gas well constructions of certain depth. OWC is different from other types of cement as it will become hard if it is used for oil wells under high temperature.

Mixed Cement is a mixture of cement almost the same types and produced from limestone as an additive to mixture of crusts and gypsum in the final process of grinding. This type of cement is suitable for light and medium construction (semi permanent) such as houses and low cost buildings.

*PPC (Portland Pozzolan Cement)* is a mixture of cement using pozzolan as the material. It is suitable for sea beach buildings or buildings in swampy areas, dams and waterworks, that need resistance to sulfates and low hydration heat.

*White Cement (Cement Putih)* is produced in the country only by PT Indocement Tunggal Prakarsa. It used mainly for terrazzo tiles, or for ceramic products and other decorative ornaments.

### *Composition of the products*

Most cement factories in Indonesia produce Portland Cement of Type I or ordinary Portland Cement, which accounts for 88% of the country's total production of cement. Other types, mixed cement accounts for 11.6%, and the rest are made up of OWC, PC type II and Type V.

## Industry Profile

**Table – 2**  
Composition of cement production by types

Types of cement	Composition (%)
PC of Type I	88 %
Mixed Cement	11.6%
PC of Type II	-
PC of Type V	-
OWC	0.5 %
White Cement	-

Source: Data Consult

### ***Semen Gresik Group the biggest cement producer***

The monetary crisis that jolted the country in 1997/1998 opened the door wide for world's cement giants to expand their operations to the country by acquiring shares of existing cement factories. Before the crisis, all cement factories in the country were owned by the government and Indonesian private companies. Before, 1980, there were only state-owned cement companies in the country.

Cement producers still owned by the state are PT Semen Gresik, PT Semen Baturaja, and PT Semen Kupang. The last two companies are small in capacity. Semen Gresik is a holding companies after it acquired PT Semen Padang and PT Semen Tonasa in 1995 before it became a publicly listed company later. PT Semen Gresik and its subsidiaries have a total annual capacity of 17.12 million tons or 37.2% of the country's total production capacity.

#### ***PT Semen Gresik Tbk.***

PT Semen Gresik was established in 1953 with factory in Gresik, East Java. It started operation in 1957 with an annual capacity of 250,000 tons using wet process. The company later expanded its capacity by building new production facility in Gresik and Tuban. Now its factories still operational are located in Tuban called Tuban I, II and III with a total production capacity of 8.2 million tons per year.

PT Semen Gresik, apart from being a holding company, operates in cement bagging industry and distribution business and limestone mining. It also is an operator of and an industrial estate. Altogether it has six subsidiaries including PT Kawasan Industri Gresik, which operates the industrial estate, heavy equipment PT United Tractors Semen Gresik, cement bagging company PT

## Industry Profile

Industri Kemasan Semen Gresik in Tuban, and two cement producers PT Semen Padang and PT Semen Tonasa .

Its main income, however, comes from its cement factories. In 2003, cement industry contributed 90% to its total income.

The oldest cement factory in the country is owned by PT Semen Padang, which was established in 1910. Originally it belonged to a Dutch company before it was nationalized in 1958 to become a state company. Now it has four factories altogether with an annual production capacity to 5.24 million tons.

PT Semen Tonasa in Makassar, South Sulawesi, has three factories altogether with an annual production capacity of 3.48 million tons. Semen Tonasa and Semen Padang make PT Semen Gresik the largest cement producer in the country.

### *Dispute with CEMEX*

When the crisis was at its height in 1998, major cement producers including PT Semen Gresik, PT Indocement, and PT Semen Cibinong faced financial problem because of large debt in foreign exchange. Debt restructuring, therefore, was needed handled by the Indonesian bank rescuing agency BPPN, which took over the non performing debts. As a consequence the agency took control of some of the shares of the indebted companies. Later the shares were offered to foreign investors. As a result, PT Indocement fell to the hand of Heidelberger Zement from Germany, PT Semen Gresik was 25.53% owned by Cemex of Mexico, and PT Semen Cibinong is controlled by the Holcim Group, which later renamed the company with PT Holcim Indonesia.

The acquisition of part of PT Semen Gresik by CEMEX is not going as smooth as is in the case of Indocement and Semen Cibinong. The dispute came after the government failed to honor put option agreement in the contract which allows the Mexican cement giant to buy more stake and become a majority shareholder of Semen Gresik whenever it wants.

Cemex brought the case to an international arbitration court. The case remains unsettled until now. Lately Cemex seems to give up relying on its legal battle and indicates its agreement to out of court settlement. Early March, Cemex announced its plan to sell its stake in Semen Gresik and opted to build a new cement factory as suggested by the government.

The move by CEMEX is seen by observers as the best way serving the interests of both sides as the price of Semen Gresik now has climbed to a peak level. Cemex bought the stake only at US\$ 1.38 per share in September 1998. Now the price at the Jakarta Stock Exchange is more than doubling at around US\$

## Industry Profile

2.83. In early April, 2006, Cemex Asia Holdings offered to sell its 25.53% stake in PT Semen Gresik at US\$ 500 million or US\$ 3.3 per share.

### *PT Semen Cibinong Tbk/ PT Holcim Indonesia Tbk.*

The first privately owned cement factory in the country is that of PT Semen Cibinong, which was established in 1971. The company became a public company in 1977. In 1993, it acquired the factory of PT Semen Nusantara in Cilacap adding the number of its factories to 4 units in Narogong, Bogor (West Java) and two units in Cilacap, Central Java, altogether with an annual production capacity of 9.7 million tons making it the third largest producer in the country in 2005.

In 2001, as a result of financial problem in the wake of the monetary crisis in 1997/1998, the majority stake of PT Semen Cibinong were acquired by Holcim Participations (Mauritius) Ltd.(Holmau), one of the world's cement giants. In 2004, the stake was transferred to its parent company Holderfin BV, which changed the name of Semen Cibinong with PT Holcim Indonesia Tbk.

### *PT Indocement Tunggal Prakarsa Tbk.*

PT Indocement was established in 1975 by the Salim Group, then was billed the biggest conglomerate in the country. Its first factory was built in Citeureup, Bogor. Later in 1985, a number of other cement factories built by the company group were put under the management of PT Indocement Tunggal Prakarsa (ITP).

After the completion of its 12<sup>th</sup> production facility in 2002, its production capacity rose to 15.65 million tons a year. Nine of the factories are located in Citeureup, Bogor, 2 units are in Palimanan, Cirebon also in West Java, and another unit is Tarjun, Kotabaru, in South Kalimantan.

PT Indocement is one of the subsidiaries of the Salim Group, taken over by BPPN in compensation of a debt of the conglomerate. BPPN later offered the asset to foreign investor. Now it is 65.14% controlled by the German-based Heidelberg Zement.

### *PT Semen Andalas Indonesia*

Another world's giant Lafarge from France made its presence in the country earlier in 1982 through PT Semen Andalas Indonesia in cooperation with IFC. Its factory was located in Lhok Nga, Aceh with an annual capacity of 1.4 million tons. In 2004, the factory was virtually demolished by earthquake tsunami. Lafarge plans to rebuild the factory this year. With Andalas out of business, its

## Industry Profile

cement customers mainly in northern part of Sumatra are supplied by Lafarge's cement factory in Malaysia.

### *PT Semen Bosowa Maros*

Now the only Indonesian private company operating in cement industry is PT Semen Bosowa Maros with factory in Maros, South Sulawesi. The company is a subsidiary of the Bosowa group, a medium conglomerate controlled by H. Muhamad Aksa Mahmud, a businessman from South Sulawesi.

Its factory started operation in 1998 with an annual production capacity of 1.8 million tons.

### *PT Semen Kupang*

PT Semen Kupang started operation in 1984 with an annual production capacity of 270,000 tons. The factory is important to supply cement for eastern Indonesia, therefore it is maintained although it is not efficient with the small capacity. Now the company its capacity has been expanded to 570,000 tons a year.

Financial problem, however, forced the company to stop operation in February, 2005. During the crisis, the company had a non performing debt to state owned Bank Mandiri. Later the debt was converted into equity making Bank Mandiri a 59% owner of the company.

The problem, however, was not entirely resolved with the debt restructuring. After PT Semen Kupang built its factory with a loan of Rp1259 billion from Bank Mandiri it was not getting healthier. The company continued to be in the red. The process of production was hampered and finally it stopped operation. Until now it is not known how the problem surrounding the company is to be solved.

### *PT Semen Baturaja*

The factories of Semen Baturaja are located in three different areas - in Baturaja, Palembang and Panjang, Lampung. The one in Baturaja produces clinker as it is close to lime stone mines as source of feedstock and coal mines as source of fuel. The clinker it produces is sent by train to Palembang and Panjang to be processed and mixed with gypsum to turn out cement. The cement will then be packed in a packing plant. Palembang and Panjang are chosen as they are close to the market.

When it came on line in 1986, Semen Baturaja had only an annual production capacity of 500,000 tons, but in 2000, its capacity was expanded to 1.25 million tons until now.

## Industry Profile

**Table – 3**  
Cement factories and shareholders

Producers	Status	Location	Shareholders	Production Cap. (‘000 p.a.)	
				2004	2005
<b>BUMN :</b>					
Semen Gresik Tbk., PT	BUMN-public company	East Java	- 51.01% owned by state - 25.53% by Cemex Asia Holdings (Mexico) - 23.46% public	8,200	8,200
Semen Padang, PT	BUMN-public company	Padang, West Sumatra	99.99% owned by PT Semen Gresik	5,440	5,440
Semen Tonasa, PT	BUMN-public company	South Sulawesi	99.99% owned PT Semen Gresik	3,480	3,480
Semen Baturaja, PT	BUMN	South Sumatra	100% owned by state	1,250	1,250
Semen Kupang, PT	BUMN	West Nusa Tenggara	- 39.25 % owned by state - 59 % by Bank Mandiri - 1.75% by Reg. Adm.	570	570*)
<b>SWASTA :</b>					
Indocement Tungal Prakarsa Tbk, PT	Public company	West Java / South Kalimantan	- 65.14% owned by HC Indocement GMBH (Heidelberger/Germany) -13.03% by PT Mekar Perkasa -21.83% by public	15,650	15,650
Holcim/Semen Cibinong Tbk., PT	Public Company	West Java	- 77.33% owned by Holderfin BV (Holcim/Swiss) +0.9% by Holpac - 11.53% by other foreign investors -10.24% by Indonesian public	9,700	9,700** )
Semen Andalas Indonesia, PT	PMA	A c e h	- 88% owned by Cementia Holding Lafarge (France) - 12% by IFC	1,400	- ***)
Semen Bosowa Maros, PT	PMDN	South Sulawesi	100 % owned by Bosowa Group (Aksa Mahmud)	1,800	1,800
<b>Total</b>				<b>47,490</b>	<b>46,090</b>

Note: \*) Semen Kupang has stopped operation for financial problem since 2005

\*\*) In 2005, PT Holcim temporarily stopped operation of one of its factories having an annual production capacity of 1.5 million tons in Cilacap reducing its effective production capacity to 8.2 million tons per year.

\*\*\*) The factory of PT Semen Andalas was destroyed by tsunami in December 2004

PMA : Foreign investment company

PMDN: Domestic investment company

Source: Data Consult, processed

## Industry Profile

### Production Capacity down

The annual production capacity of the country's cement industry grew fast from 27.33 million in 1996 to 47.49 million tons in 2004. The highest increase was recorded between 1996 and 2002 to follow the operation of a number of new factories.

Although the growth of domestic consumption was slowed by the crisis in 1998, the country's installed capacity has continued to climb with the operation of new producers such as PT Semen Bosowa Maros in Maros, South Sulawesi with an annual production capacity of 1.8 million tons. Almost at the same time Semen Gresik started the operation of its third production unit in Tuban called Tuban III (October), followed by the fifth units of Semen Padang called Indarung V (November), each with an annual capacity of 2.3 million tons.

In 2000, PT Indocement completed the construction of its 12<sup>th</sup> production unit in Tarjun in Kalimantan with an annual capacity of 2.45 million tons. In 2001, the unit II of Semen Baturaja with an annual capacity of 600,000 tons started operation bringing the company's total capacity in 2002 to 1.2 million tons.

Kupang has also expanded its production capacity from 270,000 tons to 570,000 tons. The company has operated at full capacity and 52% of its production is disposed of on the domestic market and the remaining 48% is exported. In the period from 2002 to 2004, no increase in the country's cement production capacity. In fact the capacity declined in 2005 with Semen Andalas in Aceh destroyed by tsunami in December, 2004.

**Table - 4**  
Production capacity of cement industry, 1996 – 2005

Year	Designed capacity ('000 tons p.a.)		
	Clinker	Cement	Growth (%)
1996	24,995	27,330	
1997	30,945	33,620	23.0%
1998	40,245	45,070	34.1%
1999	43,470	46,970	4.2%
2000	43,470	46,970	0.0%
2001	43,780	47,140	0.4%
2002	44,425	47,490	0.7%
2003	44,425	47,490	0.0%
2004	43,340	47,490	0.0%
2005*)	42,690	46,090	-2.9%
Average growth			6.6%

Note \*) The factory of PT Semen Andalas was destroyed by tsunami in December, 2004. A new factory is to be rebuilt in that location this year by its owner Lafarge.  
Source: ASI, Data Consult

### **Most cement factories are located in Java**

Factories in Java account for 30.4 million tons or 64% of the country's total production capacity of 47.49 million tons. Sumatra's production capacity is 7.89 million tons, Sulawesi 5.28 million tons, Kalimantan 2.45 million tons and Nusa Tenggara 0.57 million tons a year.

Most producers are located in Java and Sumatra as the two islands are the largest and second largest consumers of cement in the country and also rich with deposits of cement material such as limestone.

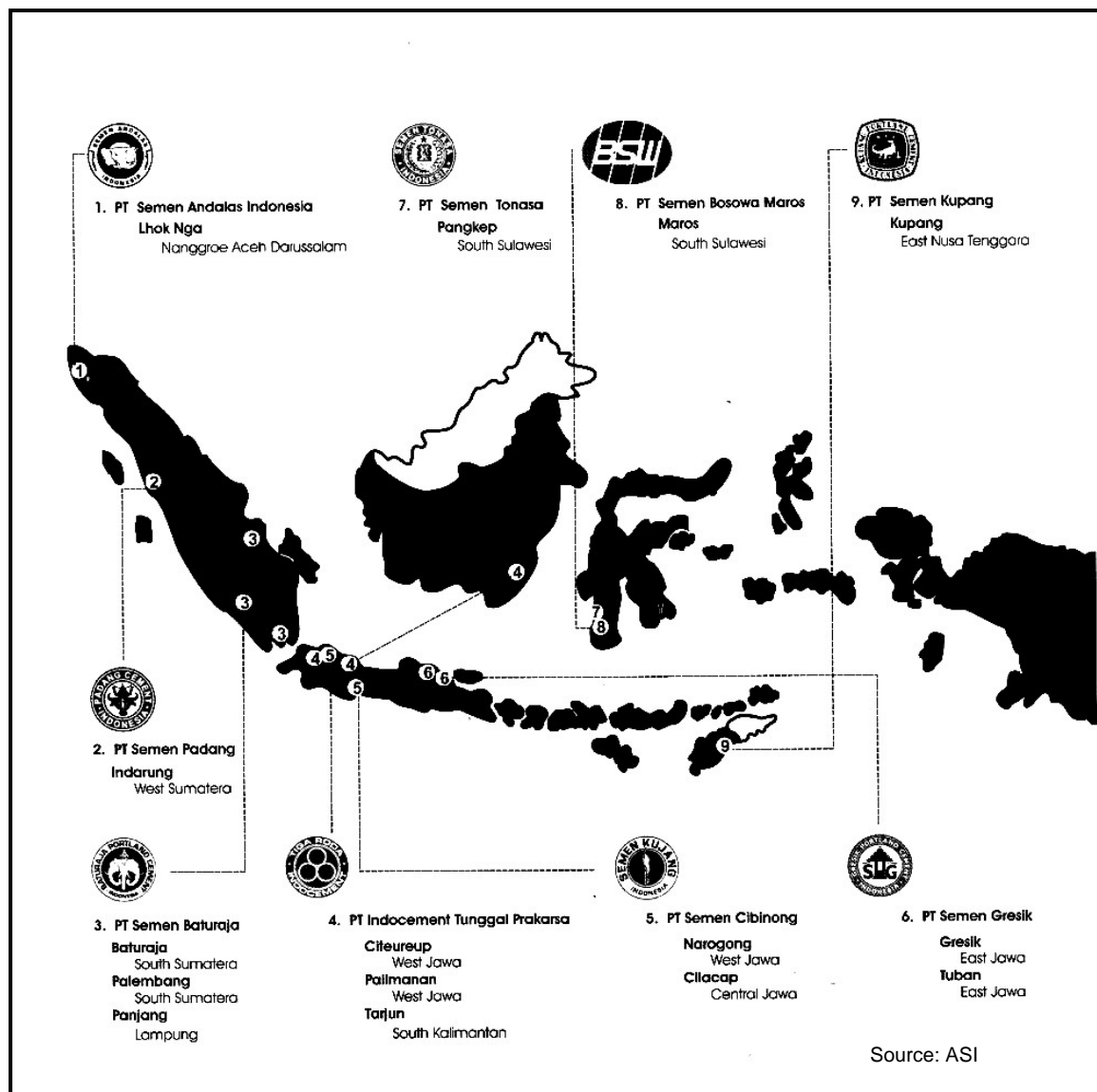
The country's largest producer the Semen Gresik Group has factories located in three regions - PT Semen Padang in West Sumatra supplying cement for Sumatra, PT Semen Gresik has factories in East Java supplying cement for Java and NusaTenggara and PT Semen Tonasa in South Sulawesi supplying cement for eastern Indonesia.

PT Indocement also has cement factories in different areas - Cibinong, Bogor of West Java, and Palimanan, Cirebon, producing cement for western Indonesia and partly eastern Indonesia. Its cement factory outside Java is found in Tarjun, South Kalimantan. The factory in Tarjun was originally owned by a Korean company PT Kodeco and the only factory in Kalimantan. Kalimantan is a new developing area and its cement consumption grew fast in the last five years.

PT Holcim the third largest cement producer, has cement factories in Narogong, West Java and Cilacap, Central Java. These areas are the main markets for Holcim products.

In Sulawesi there are two cement plants operated by PT Semen Tonasa and PT Semen Bosowa Maros. The factories serve not only Sulawesi area but also other areas in Eastern part of Indonesia.

## Cement factories and locations in Indonesia



The following table shows locations of cement factories by provinces and production capacity.

Some of the old factories may no longer be in operation such as Indarung I of Semen Padang. Indarung I started operation in 1913, but the factory which operated with the wet process is no longer operational as it is no longer efficient. Now Semen Padang operates only its unit II, III, IV and V. Indarung I is used only to produce cement of special type in limited quantity.

## Industry Profile

**Table – 5**  
Cement factories and locations in Indonesia

Provinces	Name of companies	Locations	Start-up	Capacity ('000 tons p.a)
Aceh	1. PT Semen Andalas Indonesia *	Lhok Nga	1982	1,400*)
West Sumatra	2. Semen Padang	Indarung	1910	5,440
South Sumatra	3. Semen Baturaja	Baturaja	1980	1,250
<b>Total Sumatra</b>				<b>8,090</b>
West Java	4. PT Indocement Tungal Prakarsa Tbk	Citeureup	1975	10,500
	5. Semen Cibinong Tbk.	Palimanan	1985	2,700
Central Java	5. Semen Cibinong Tbk.	Narogong	1975	5,600
		Cilacap	1977	4,100
East Java	6. Semen Gresik	Gresik/ Tuban	1957	8,200
<b>Total Java</b>				<b>30,400</b>
South Kalimantan	4. PT Indocement Tungal Prakarsa Tbk.	Tarjun	2000	2,450
<b>Total Kalimantan</b>				<b>2,450</b>
South Sulawesi	7. PT Semen Tonasa	Pangkep	1968	3,480
	8. PT Semen Bosowa Maros	Maros	1997	1,800
<b>Total Sulawesi</b>				<b>5,280</b>
East Nusa Tenggara	9. PT Semen Kupang	Kupang	1984	570
<b>Total Nusa Tenggara</b>				<b>570</b>
<b>Total Indonesia</b>				<b>47,490</b>

Note: \*) The factory of Semen Andalas was destroyed by Tsunami  
 Import Cementex. Malaysia (Lafarge Group)  
 Source : ASI, Data Consult

### **Production growth slowing again**

Cement production has continued to increase since 1996, but not as fast as the production capacity. In 1997-1998, for example, production capacity expanded by more than 20% annually, but production increased only by 11% in 1997. The production even declined 18% in 1998.

The country's cement production has increased by only 4.1% annually in the past 10 years as against expansion of production capacity by 6.6%. The crisis did not cause serious setback in production as producers managed to increase their exports to make up for a decline in sales on the domestic market. Production grew significantly faster in 2003 through mid 2005 to follow growing demand in the country. During that period cement requirement rose with the revival of the property sector marked with the brisk development of shopping malls, apartments and real estates.

In 2005, increase in production slowed growing only by 2.1% as one of the country's major producers PT Semen Andalas was hit by tsunami, which destroyed its factory. That year consumption continued to rise by 4.2%.

In the first quarter of 2006, production growth was estimated to be zero as a result of the 10% hikes in the prices of oil fuels. The fuel price hike in October, 2005 resulted in a slump hitting the property market and many property projects were shelved. Demand for cement, therefore, declined. From the property sector.

Meanwhile, cement factories suffered an increase in production cost. The increase in the price of industrial diesel oil forced PT Semen Cibinong (Holcim) to stop operation one of its Cilacap factories, which has an annual capacity of 1.5 million tons. The company plans to use electric power from PLN as it has become cheaper than oil fuel.

It is estimated that cement consumption in the country will rise again only in the second half of this year after the government's ambitious program in infrastructure development has been implemented, The improvement in macro economic condition in Mach is expected to lead to a cut in interest rate and boost development of the property sector.

Bowing to the public demand including from the business sector, the government has also decided not to raise the electricity tariff. The decision is expected to boost the business sector and prevent further weakening of the purchasing power of the people. The strengthening of the rupiah and stability in the oil prices, are expected to revive the property sector and as a result demand for cement will increase.

## Industry Profile

With production at 33.92 million tons the capacity utilization of the country's cement industry was 74% in 2005.

**Table – 6**  
Production of cement in 1996 - 2005

Year	Designed capacity ('000 tons p.a.)		Production ('000 tons)			
	Clinker	Cement	Clinker	Cement	Capacity utilization (%)	Growth (%)
1996	24,995	27,330	22,246	24,646	90	
1997	30,945	33,620	25,218	27,505	82	11.6%
1998	40,245	45,070	22,433	22,341	50	-18.8%
1999	43,470	46,970	27,025	23,925	51	7.1%
2000	43,470	46,970	30,119	27,789	59	16.2%
2001	43,780	47,140	33,880	31,099	66	11.9%
2002	44,425	47,490	33,248	30,720	65	-1.2%
2003	44,425	47,490	32,629	30,647	65	-0.2%
2004	43,340	47,490	34,886	33,230	70	8.4%
2005	42,690	46,090	34,004	33,917	74	2.1%
Average growth rate 1996 - 2005						4.1%

Source: ASI, Data Consult, processed

### **Semen Gresik Group produced 15.99 million tons**

Cement production in 2005 grew slower than in the previous years. However, producers could still increase their production in 2005 with the exception of PT Semen Andalas and PT Semen Kupang.

The country's largest producer the Semen Gresik Group produced 15.99 million tons in 2005 followed by PT Indocement Tunggal Prakarsa with 10.63 million tons. Cement plants of PT Semen Gresik in Tuban utilized almost full capacities (96% of their capacities). The same situation occurred at PT Semen Padang which utilized 93 % of its capacity

PT Semen Andalas has virtually been scrapped until new factory has been built and start operation. According to plan, construction of its new factory will start in 2006. Currently, the government allows PT Semen Andalas to import cement from Malaysia, supplied by an affiliate under Lafarge.

Lafarge plans to rebuild the factory in the same location this year. The government, therefore, licenses PT Semen Andalas to import cement from affiliate in Malaysia.

## Industry Profile

The decline in supply of cement in Sumatra following the destruction of Semen Andalas, prompted PT Semen Padang in West Sumatra to increase its production. In 2005, Semen Padang raised its production to 5.1 million tons from 4.6 million tons in 2004.

PT Semen Kupang stopped operation in February, 2005 as it could not make up for the increase in production capacity with the rise in the prices of iron sand, coal, gypsum, diesel oil and cement sacks. Mismanagement was suspected to have been behind the poor performance of the company which is burdened with Rp500 billion debt. In 2005, its production totaled only 69,000 tons as against production capacity of 570,000 tons.

**Table - 7**  
Cement production by companies

('000 tons)

Name of companies	2002	2003	2004	2005	% Utilization
PT Semen Andalas	1,117	1,123	1,236	*)	-
PT Semen Padang	5,013	4,522	4,600	5,112	93 %
PT Semen Baturaja	757	821	914	894	71 %
PT Indocement Tunggal Prakarsa	9,369	9,044	10,232	10,635	67 %
PT Semen Cibinong (Holcim Indonesia)	4,118	5,120	5,411	5,648	69 %
PT Semen Gresik	6,560	6,432	7,194	7,913	96 %
PT Semen Tonasa	2,618	2,261	2,419	2,698	77 %
PT Semen Bosowa	1,070	1,251	1,132	949	52 %
PT Semen Kupang	98	72	92	69	12 %
<b>Total</b>	<b>30,720</b>	<b>30,646</b>	<b>33,230</b>	<b>33,918</b>	

Note: \*) Stop production in 2005

Source: ASI, Data Consult processed.

### ***Most factories produce portland cement of type I***

Most cement factories in Indonesia produce portland cement of Type I. Other types they produce include Mixed Cement by PT Semen Padang, PT Indocement, PT Semen Gresik, PT Semen Tonasa and PT Semen Bosowa. This type of cement is cheaper in price and it is suitable for buildings with light construction.

## Industry Profile

Mixed cement, however, is not produced regularly as demand for which is small. In 2005, PT Semen Padang was among the main producers of cement other than PC of type I and mixed cement. PT Indocement, which is known as a producer of white cement, did not produce it in 2005.

**Table - 8**  
Production of cement by types, 2005

(000 tons)

Names of company	PC Type I	Mixed Cement	White Cement	OWC	PC Type II	PC Type V	Total
PT Semen Andalas							
PT Semen Padang	4,687	406		17	0	2	5,112
PT Semen Baturaja	894						894
PT Indocement Tunggal Prakarsa	8,010	2,625					10,635
PT Semen Cibinong (Holcim)	5,648						5,648
PT Semen Gresik	7,512	401					7,913
PT Semen Tonasa	2,364	334					2,698
PT Semen Bosowa	770	179					949
PT Semen Kupang	69						69
	29,954	3,945	0	17	0	2	33,918

Source: ASI, Data Consult

### Technical Aspects

#### ***All Cement Plants use Dry Process***

There are two methods of producing cement namely wet process and dry process. The differences between the two processes lies in the mixing process and grinding of the basic materials before being sent to rotary kiln where it is heated. In the dry process, mixing and grinding are in dry condition, and in the wet process the basic materials are mixed and ground in wet condition.

The wet process needs greater largest energy as it needs more calories for drying and heating up to a temperature of 1450 °C. Factories needing the wet process such as those of Semen Padang are no longer used as they are no longer efficient.

At present, all cement producers operate only their dry process cement plants and close their wet process plants. The Indarung I, the oldest cement plant of

## Industry Profile

PT Semen Padang using wet process, was still operated in 2005 only to produce other type of portland cement in small quantities.

Roughly the dry process of producing cement is as follows.

### *Preparations of materials*

Basic materials in the form of clay, silica, and iron sand are dried first in a drying equipment to reduce the water content to as low as 2%-3%. After that together with the limestone, which is already pulverized, the mixture is sent to basic material silos.

### *Grinding of Basic Materials*

From the storage places, after being weighted to have a proportion quantity the basic materials are fed to the grinding machine where at the same time they are dried. After being pulverized the materials are put into mixing silos where the materials are mixed homogenously before being sent to the kiln feeding silos.

### *Burning:*

From the feeding silos, the materials are fed to early heating machine and then to the rotary kiln to be heated at a temperature of 1.350°C - 1450°C. Clinker will be turned out after being cooled down.

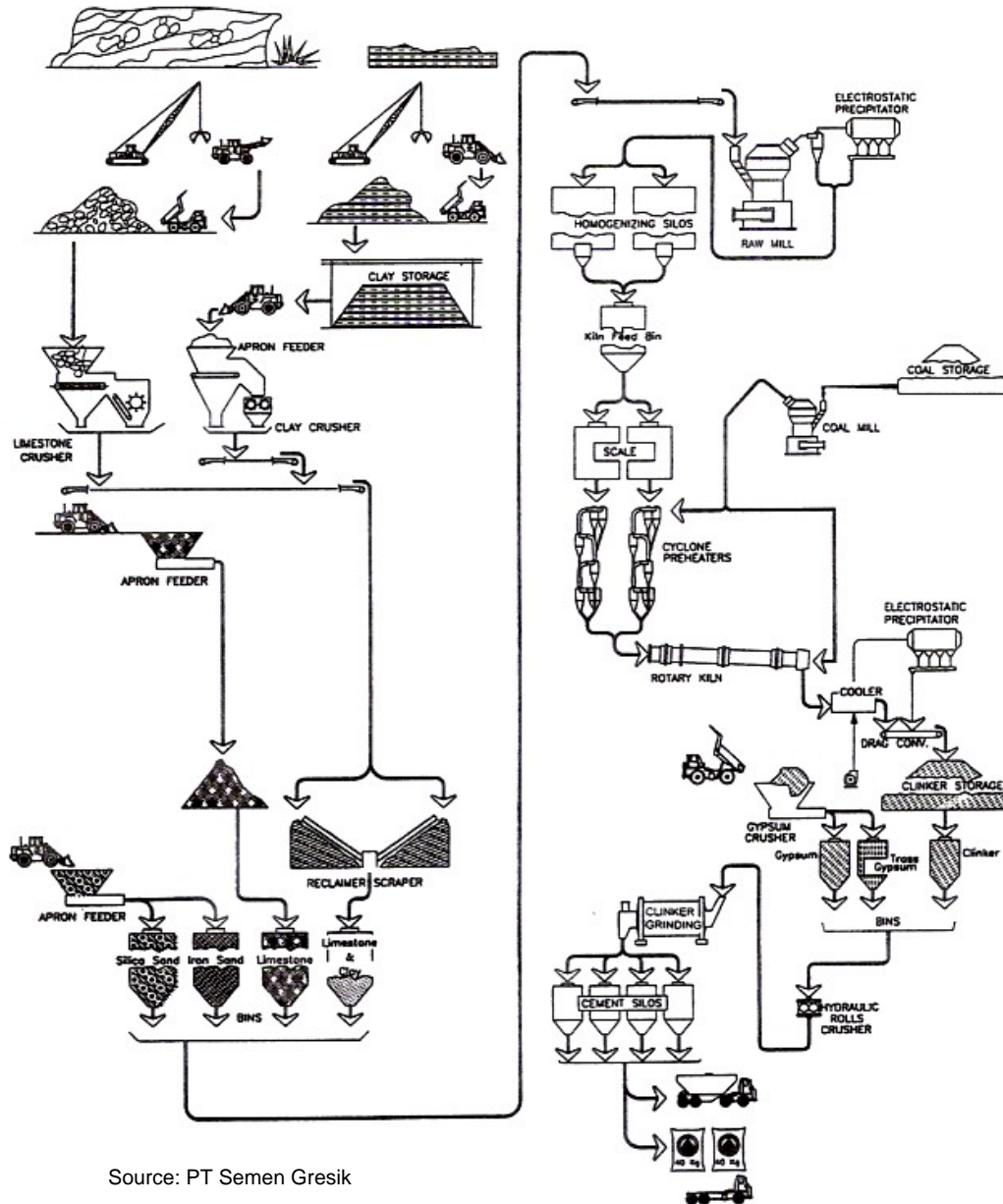
### *Final Grinding:*

In the final grinding, the clinker mixed with gypsum is ground together to turn out cement. The end product is then moved mechanically to storage silos.

### *Bagging and Transportation :*

Cement is filled into sacks made of kraft paper by a bagging plant. Each is around 40Kg-50kg in weight. The cement in sacks is loaded into trucks, railway trains or ships to be sent to market or distributors and retailers in the regions.

Diagram of dry process of cement production



Source: PT Semen Gresik

**Economies of scale more than 1.5 million ton p.a.**

Most cement producers have more than one factory in one location. Generally expansion units have larger production capacity as larger capacity factories are more efficient.

## Industry Profile

In the 1980's a cement factory would reach economy of scale if they had production capacity from 500,000 – 1 million tons a year, but now a factory will be feasible only when they have an annual production capacity of 1.5 million tons.

Many cement factories in Indonesia built after 1996 have an annual capacity of more than 2 million tons or 7,500 tons per day to reach new economic of scale in cement industry. See the following table.

**Table - 9**  
Production capacity of cement factory units

Names of company	Start-up	Factory unit	Production capacity (000 tons/ year)
1. PT Semen Andalas Indonesia *	1982	Lhok Nga	1,400*)
2. Semen Padang	1980	Indarung II	660
	1984	Indarung III	660
	1989/ 1994	Indarung IV	1,620
	1998	Indarung V	2,300
	1996	Unit XI- Citeureup	2,500
4. PT Indocement Tungal Prakarsa Tbk	2000	Unit XII- Tarjun	2,450
5. Semen Cibinong Tbk.	1975	Unit 1	600
	1977	Unit 2	600
	1992	Unit 3	1,500
	1998	Unit 6	2,500
	1997	Unit 5 CC-2, Cilacap	2,600
6. Semen Gresik	1994	Tuban I	2,500
	1997	Tuban II	2,500
	1998	Tuban III	2,500
7. PT Semen Tonasa	1980	Tonasa II	590
	1985	Tonasa III	590
	1996	Tonasa IV	2,300
8. PT Semen Bosowa Maros	1998	1 unit	1,800

Note : \*) The factory was destroyed by tsunami

Source: Data Consult

### ***Contractors and technology providers***

New generation cement factories of the Semen Gresik Group use the technology of leading U.S. engineering company F.L.Smith-Fuller Engineering, which has built many cement factories.

In 1991, Fuller Engineering entered Indonesia when it won a US\$ 105 million contract for the procurement of machines for cement factory of Tuban I of PT Semen Gresik with an annual production capacity of 7,800 tpd (ton per day) or 2.5 million tons per year. The factory which started operation in 1994 cost around Rp 645 billion.

After succeeding in supplying machines for Tuban I, the U.S. companies was asked by PT Semen Gresik to supply the technology for its other factories in Tuban.

Semen Gresik subsidiaries PT Semen Padang and PT Semen Tonasa also use the technology of Fuller Engineering in building their new factories. Three of four factories of PT Semen Padang still in operation were built with the technology of the U.S. company.

Fuller is also involved in the construction of the cement factory in Tarjun, South Kalimantan, formerly owned by PT Kodeco, later acquired by PT ITP. The main machines of the factory which has a daily capacity of 7,500 tons were supplied by Fuller.

In 1996, Fuller was the main supplier of cement factory machines and equipment for PT Semen Bosowa Maros valued at US\$ 65 million. PT Semen Bosowa named Daewoo Corp as the main contractor for the turn key cement project. Earlier PT Semen Bosowa signed a contract with Fuller but for some financial problem, the project was handed over to Daewoo Corp but Fuller remained as the main supplier of the machines and technology.

Fuller was also involved in the procurement of machines and technology for the construction of factories of PT Semen Tonasa (Unit IV), PT Semen Cibinong in Narogong and PT Semen Nusantara in Cilacap, which was later acquired by PT Semen Cibinong.

## Industry Profile

**Table - 10**  
Cement factories built with the technology of Fuller Engineering

Customer	Location	Year	Capacity	Scope of works
P.T. Semen Gresik	Tuban I	1990	7800 tpd	Production line
P.T. Semen Gresik	Tuban II	1997	7800 tpd	Production line. Engineering and equipment provided by Fuller
P.T. Semen Nusantara	Cilacap	1997	7800 tpd	Production line Subcontracting for all process design and major equipment supply provided by Fuller
P.T. Semen Gresik	Tuban III	1998	7800 tpd	Production line (Tuban III)
P.T.Semen Cibinong	Narogong	1998	7800 tpd	Expansion cement production line (Kiln no. 6). Sub contracting for all process design and major equipment supply provided by Fuller
P.T. Semen Bosowa	Maros	1997	5500 tpd	production facility

Source: Data Consult, processed

Other contractors which have been involved in the construction of cement factories in the country include Kawasaki Heavy Industry from Japan, and Daewoo Corp. and Hyundai Heavy Industry from South Korea. Kawasaki Heavy Industry built the XI factory of PT Indocement Tungal Prakarsa (ITP) in Citeureup in 1996 with a production capacity of 7,500 tons per day or 2.5 million tons per year. Earlier Kawasaki took part in the construction of the first factory of Semen Baturaja in 1980.

In 1992, Hyundai Heavy Industry (HHI) became the contractor for the third factory, a turn-key project of PT Semen Cibinong in Citeureup with an annual

## Industry Profile

capacity of 1.5 million tons . Later HHI took part in the construction of a cement factory of PT Semen Bosowa Maros and one of PT ITP in Citeureup in 1997

**Table - 11**  
Cement factories built by Hyundai Heavy Industry

Cement companies	Scope of works	Year	Main contractor
PT Semen Cibinong	Cibinong Cement Ph. III Expansion Plant 1,500,000 tons annually	1992	Turn-key project (HHI main contractor)
PT Indocement, Indonesia	Ball Mill Shell (4.7m x 14mL) for Cement Grinding	1996	Kawasaki Heavy Ind. Ltd., Japan
P.T Semen Bosowa Maros	Roller Mill(500 tons/day for Limestone Grinding(LM59.42)	1997	Fuller
	Roller Mill (45 tons/day) for Coal Grinding (LM26.30)	1997	Fuller

Source: Data Consult

### **Basic Materials**

The composition of basic materials is different depending on the quality of the materials (the quality of limestone depend on calcium content) and types of cement to be produced (limestone is used more for Masonry cement than for OPC). The intermediate product of cement is clinker that has to mix with gypsum to produce cement.

On average, approximately 960 kg of clinker and 40 kg of gypsum are used to make one ton of Ordinary Portland Cement (OPC). Clinker is composed of limestone making up 80%, clay accounting for 15% , silica accounting for 4% and iron sand 1%.

**Table – 12**  
Composition of basic materials

Types of basic material	Composition
Composition of clinker:	
- Limestone	80 %
- Clay	15 %
- Silica	4 %
- Iron sand	1 %
Composition of Portland Cement	
- Clinker	96 %
- Gypsum	4 %

Source: Data Consult

## Industry Profile

Indonesia has large reserve of limestone, found almost in all parts of the country. The largest reserves are found in West Sumatra. In Java limestone deposits are found in West Java in the regencies of Bogor, Sukabumi, and Cirebon. In Central Java, the largest deposits are found in the regencies of Grobogan, Wonogiri, Kebumen and Cilacap. In East Java, deposits are found in Tuban, the island of Madura, etc..

Generally cement factories are built near the deposits of the main basic material. Large deposits especially in areas having adequate infrastructure, in Java have been claimed by cement factories. Many other deposits in Java are yet untapped as road infrastructure is not available.

A factory generally has limestone deposits enough to feed it for 50-75 years.

### Deposits of limestone in Indonesia



## Industry Profile

*Cement industry consumed 5.5 million ton of coal*

Cement industry is a big consumer of energy. Therefore, the availability of energy with reasonable prices is a determinant factor for the feasibility of a cement factory project. For example, Indocement needs 1.8 million tons of coal and 1.3 billion kwh of electricity a year to produce 11.3 million tons of clinker.

The soaring prices of oil fuels forced all cement factories to change their fuel with coal. However, now the price of coal has shot up and coal will need high handling cost including storage cost. The fact that many cement factories located far from coal mines or suppliers becomes a major factor added to production cost.

In 2005 total coal consumption was 5.5 million tons or increased for more than 16% than that in 2004.

**Table – 13**  
Coal consumption of cement factories

Names of company	2003	2004
Semen Bosowa, PT	251,007	169,851
Indocement, Tarjun, PT	269,564	368,413
Indocement, Citeureup, PT	800,923	1,184,564
Indocement, Cirebon, PT	313,497	385,945
Semen Andalas, PT	168,000	185,340
Semen Baturaja, PT	94,005	129,081
Semen Cibinong, PT	885,643	811,581
Semen Gresik, PT	715,172	1,063,638
Semen Padang, PT	692,392	454,214
Semen Tonasa, PT	577,777	783,865
Semen Kupang, PT	5,640	12,817
<b>Total</b>	<b>4,773,621</b>	<b>5,549,309</b>

Source: Energy and Mineral Resources Ministry

Energy is needed not only in the process of burning as a cement factory also needs large supply of electric power for operation. Many cement factories, therefore, build their own power plant.

The increase in the oil fuel price has forced PT Holcim to stop the operation of its Cilacap factory as its power plant uses oil fuel.

### Investment Plans

#### ***Semen Gresik Group to build new cement plant***

Lately cement market is declining but observers said it was only a temporary setback. They believed demand for cement will increase in mid and long terms.

The potential market is still a major factor attracting investment in cement industry. It is not easy, however, to take advantage of the potential market amid the tight competition. Under the present condition when the market is declining, producers continue to seek expansion with the good mid and long term prospects. They don't want to get too late when the market has revived as once they lose the market foothold it would take time and will cost a lot of money and energy to regain it.

Any additional capacity or construction of new factories will result in tighter market competition, especially as new factories will most likely be built with larger production capacity with the increase in the economic scale of factory now more than 1.5 million tons in annual capacity. Getting late in entering the market will mean tougher days ahead to secure a market share.

There have been 17 companies holding the license to build new cement plants. In 1997, BKPM issued more than 10 licenses for new factories, but until now none of the licensees has implemented its project. PT Semen Grobogan, for example, planned to build a factory in Semarang with an annual production capacity of 2.3 million tons. It was quite serious in implementing its project but the monetary crisis forced to shelve its project. Similarly, PT Semen Gombang had a plan to build one in the regency of Kebumen in Central Java, but the same financial problem forced the subsidiary of the Medco Group to put off its plan.

Source at the industry ministry said there are four licensees looking set to carry out their projects namely PT Mega Bukit Barisan in North Sumatra, PT Lebak Harapan Makmur in Banten, PT Balocci Makmur in South Sulawesi and PT Semen Batam in Batam each with an annual production capacity of 1.5 million tons. No date, however, has been given when construction will start for the four projects.

A Chinese company, China Kenyon T & D said it will team up with PT. Teknowell Indonesia to build cement factories in West Sumatra at a cost of Rp 250 billion. The two partners plan to build five units of cement factory in five areas in West Sumatra each with an annual production capacity of 250,000 tons or altogether with a total production capacity of 1.25 million tons. The cement factories will be built in the regencies of Pasaman Barat, Dharmas Raya, Solok, Pesisir Selatan and 50 Kota each to cost around Rp 50 billion.

## Industry Profile

Additional capacity both from new and expansion units is more possible by the existing producers such as PT Indocement Tunggul Prakarsa Tbk, which plans optimization of its 8<sup>th</sup> factory with a cost of US\$ 20 million. With the optimization project, the company will have an additional capacity of 600,000 tons in 2006.

The Semen Gresik group is preparing feasibility study for a new cement factory with an annual capacity of 2.5 million tons. The location is yet to be decided. The project will cost an estimated Rp 3.5 trillion – Rp 3.6 trillion (US\$ 350 million-US\$ 400 million). The plan for capacity expansion is urgent as both PT Semen Gresik and PT Semen Padang are already operating at more than 90% of their respective capacity that they could not meet any increase in demand expected in the coming years.

PT Semen Andalas, before its factory in Aceh was destroyed by tsunami late 2004, planned to build a cement factory near Medan, but later it changed the plan with one to rebuild a factory in the same location in Aceh most likely with a higher production capacity.

The cost of building a cement factory in a location where infrastructure is not yet available, is around US\$ 145 per ton capacity. The cost for one in area already having infrastructure is around US\$ 100-120 /ton capacity. That means the cost of building a factory with an annual capacity of 2.5 million tons is around US\$ 250 million to US\$ 300 million.

### ***Exports slowing down***

In 1998, cement exports rose in the wake of the monetary crisis. Producers increased exports to make up for a decline in sales on the domestic market. Meanwhile, production capacity was already expanded. Exports were more profitable with the fall of the rupiah as Indonesian export commodities including cement became more competitive in international markets.

In 1999, cement and clinker exports totaled more than 9 million tons making the country the second largest exporter of cement in the world.

Cement exports started to climb in 1998. Earlier cement exports were regulated by the government. Exports were allowed only when there was surplus on the domestic market. Starting 1998, exports were allowed but priority in supply remained for domestic consumption

Cement exports slowed down in 2005 due to the increase of domestic demand in 2004 and 2005 before the government raised the fuel price in October 2005.

## Industry Profile

**Table - 14**  
Domestic sales, exports and imports of cement,  
1996 - 2005

Year	Sales ('000 tons)					Import of cement ('000 tons)
	Domestic Sales	Export			Total Sales	
		Clinker	Cement	Total Export		
1996	24,033	0	0	0	24,033	1,402
1997	26,037	30	771	801	26,838	1,410
1998	18,965	1,293	3,127	4,420	23,385	109
1999	18,817	3,940	5,108	9,048	27,865	0
2000	22,307	3,552	4,903	8,455	30,762	24
2001	25,700	3,707	5,750	9,457	35,157	44
2002	27,173	4,184	3,791	7,975	35,148	60
2003	27,528	4,270	3,073	7,343	34,872	11
2004	30,192	4,673	2,946	7,619	37,810	17
2005	31,472	3,407	3,289	6,696	38,168	n.a

Source: ASI, BPS, Data Consult

The largest countries of destination for the country's cement exports are Bangladesh, Singapore and Sri Lanka, in Asia and Nigeria and Ghana. In Africa. Other countries of destination include Australia and New Zealand to which exports have also increased from year to year.

**Table - 15**  
Exports of clinker and cement by countries of destination,  
2003 - 2004

Countries of destination	('000 tons)	
	2003	2004
Bangladesh	1,901	2,062
Singapore	723	529
Nigeria	1,135	738
Malaysia	640	371
Sri Lanka	248	457
Vietnam	216	64
Cambodia	177	47
Taiwan	166	59
Madagascar	240	172
Mauritius	113	374
USA	-	616
New Zealand	49	305
Australia	93	331
Other countries	1,643	1,494
<b>Total</b>	<b>7,344</b>	<b>7,619</b>

Source: BPS/Data Consult

## Industry Profile

After foreign giants took control of major cement producers in the country the cement companies are no longer free to export cement. Exports are controlled by the foreign giants in line with their global strategies.

Generally the multinational companies already have their respective market foothold supplied by their factories in various countries. Their subsidiaries in Indonesia are not free to export cement to a certain country where they already have factories. Exports, therefore, are regulated by the head office not by the producers.

### Demand Aspects

#### ***Domestic Consumption reached 31,47 million tons***

Domestic consumption of cement has continued to increase after the crisis in 1998. In 2002, domestic consumption already reached the level recorded before the crisis hit the country. The consumption continued to climb until 2005 especially with the revival of the construction industry marked by the emergence of new shopping malls, apartments towers and new housing complexes.

Following the October's oil fuel price hikes, the property sector was hit by slumps resulting in a decline in demand for cement. It is estimated that the property and construction sectors could not yet fully recover until the second half of 2006. Demand for cement, therefore is expected to rise again in the second semester of this year.

Indonesia's per capita consumption of cement is relatively low compared to per capital consumption in other ASEAN countries. Currently, Indonesia's per capita consumption is around 143 kg per year, almost the same as in 1997. Malaysia's per capita consumption was 450 kg in 2004 and that of Thailand was 417 kg and Vietnam's per capita consumption was 298 kg. Therefore, the country is still a highly potential market.

**Table – 16**  
Consumption of cement, 1996 - 2005

Year	Domestic Consumption ('000 tons)	Growth	Per Capita Consumption (Kg)
1996	25,435	-	128
1997	27,447	7.9%	141
1998	19,075	-30.5%	96
1999	18,817	-1.4%	94
2000	22,331	18.7%	110

## Industry Profile

Table – 16 cont'd

Year	Domestic Consumption ('000 tons)	Growth	Per Capita Consumption (Kg)
2001	25,744	15.3%	125
2002	27,233	5.8%	130
2003	27,539	1.1%	130
2004	30,208	9.7%	140
2005	31,473	4.2%	143

Source: ASI, Data Consult

### **Consumption in Java and Sumatra totaled 26.6 million tons or 83,1%**

Java and Sumatra, where economic development is brisker, are the largest and second largest consumers of cement by islands.

In 2005, cement consumption in Java totaled 19.65 million tons and in Sumatra totaled 6.95 million tons or respectively 62.5% and 20.6% of the country's total consumption of 31.47 million tons.

**Table - 17**  
Consumption of cement by area

Region	Province	2004	2005	Share%
<b>Sumatra</b>		<b>6,294</b>	<b>6,495</b>	<b>20.6%</b>
	Aceh	417	461	1.5%
	North Sumatra	1,689	1,783	5.7%
	West Sumatra	558	560	1.8%
	Riau	908	786	2.5%
	Riau Island	587	628	2.0%
	Jambi	266	258	0.8%
	South Sumatra	716	781	2.5%
	Bangka			
	Belitung	168	204	0.6%
	Bengkulu	262	282	0.9%
	Lampung	723	752	2.4%
<b>Java</b>		<b>18,789</b>	<b>19,655</b>	<b>62.5%</b>
	Jakarta	3,540	3,652	11.6%
	Banten	1,768	2,109	6.7%
	West Java	4,971	5,223	16.6%
	Central Java	3,544	3,560	11.3%
	Yogyakarta	592	600	1.9%
	East Java	4,373	4,511	14.3%
<b>Kalimantan</b>		<b>1,455</b>	<b>1,571</b>	<b>5.0%</b>
	West Kalimantan	343	366	1.2%

## Industry Profile

Table-17 cont'd

Region	Province	2004	2005	Share%
	South Kalimantan	296	376	1.2%
	Central Kalimantan	122	149	0.5%
	East Kalimantan	694	680	2.2%
<b>Sulawesi</b>		<b>1,755</b>	<b>1,738</b>	<b>5.5%</b>
	South east Sulawesi	196	174	0.6%
	South Sulawesi	844	894	2.8%
	Central Sulawesi	263	255	0.8%
	North Sulawesi	378	344	1.1%
	Gorontalo	74	71	0.2%
<b>Nusa Tenggara</b>		<b>1,443</b>	<b>1,461</b>	<b>4.6%</b>
	Bali	717	789	2.5%
	West Nusa Tenggara	380	365	1.2%
	East Nusa Tenggara	346	307	1.0%
<b>East Indonesia</b>		<b>474</b>	<b>550</b>	<b>1.7%</b>
	Maluku	211	251	0.8%
	Papua	262	299	1.0%
<b>Total Indonesia</b>		<b>30,208</b>	<b>31,470</b>	<b>100.0%</b>

Source: ASI, Data Consult

Kalimantan, Nusa Tenggara and eastern Indonesia have recorded a high annual growth in cement consumption in the past 5 years. The annual growth averaged 13.86% in Kalimantan and 22.7% in eastern Indonesia per year.

**Table - 18**  
Average growth of cement consumption  
by regions, 2001 - 2005

Area	Average growth (%)
Sumatra	6.68
Java	7.32
Kalimantan	13.86
Sulawesi	6,6
Nusa Tenggara	10.66
East Indonesia	22.74
Total Indonesia	7.24

Source: ASI, Data Consult

## Industry Profile

### ***Consumption for the housing sector increased***

Based on data available from cement producers and traders, the housing sector is by far the largest consumer of cement in the country, accounting for 82.7% of the country's total consumption.

There was a change in the cement consumption pattern after the 1997/1998 crisis in the country. Before the crisis, there were many giant projects financed by the government and the private sectors needing large supply of cement. After the crisis, the number of large projects is fewer.

In 2004-2005, demand for cement rose following the revival of the property sector marked by many housing projects built by both developers and individuals. Consumption for the housing sector, therefore, increased compared with that for infrastructure projects.

**Table – 19**  
Cement consumption by user sectors

User sectors	1997		2005	
	000 tons	(%)	000 tons	(%)
Ready Mix	3,376	12.3	441	1.4
Construct.	4,748	17.3	283	0.9
Housing	14,877	54.2	26,028	82.7
Others	4,446	16.2	4,721	15.0
Total	27,447	100.0	31,473	100

Source: ASI, Data Consult

### ***Characteristics of consumption***

Loyalty to brand among cement consumers is high in certain areas. For example, Tiga Roda of Indocement has premium prices in West Java, Banten and Jakarta mainly because of high loyalty of consumers. In East Java, Semen Gresik has loyal consumers allowing it to maintain market domination with high price facing other brands. Such characteristics are shown for cement sold in sacks that show the brands.

Cement quality has been standardized in the country by the government, therefore, there is no significant difference in the quality of all brands. Nevertheless, consumers tend to keep loyalty to a certain brand., and producers continue to spend large money to advertise their products.

## Industry Profile

Construction workers also play importantly in determining the loyalty of consumers or project owners to a certain brand. The workers could influence the consumers especially small consumers into using a certain brand they want.

Contractors or owners of large projects, however, have little loyalty to brand. They are more interested in the prices, system of payment, availability and other related factors. They will use one offering cheaper prices as the know the quality is more or less the same. Therefore, competition could involve all brands as long as they all meet the specifications and payment terms demanded by the buyers.

Consumers in area near a cement factory usually have high loyalty to the brand used by the factory. The loyalty is also caused by the fact that cement could not be kept too long before being used as the quality could decrease. Cement needs special place to keep it from being damaged such as by wet or damp environment. Factories and distributors, therefore, use large storage facility such as silos for cement in bulk and warehouses for cement in sacks. With such characteristics cement factories closer to market will have an advantage in lower operating cost and distribution costs.

### Marketing Aspects

#### ***The market is dominated by three large groups***

The market structure in the country is still oligopolistic with only a few producers. The market is dominated by three large groups namely the Semen Gresik (SG) Group, PT Indocement Tunggul Prakarsa, and Holcim Indonesia. The Semen Gresik group which also includes Semen Padang and Semen Tonasa has a market share of 45.3% ( Semen Gresik 25.1%, Semen Padang 12.3% and Semen Tonasa 7.9%).

The closest rival of the SG Group is PT Indocement Tunggul Prakarsa (PT ITP), which has a market share of 29.7 %, followed by PT Semen Cibinong or PT Holcim Indonesia, which has a market share of 15.2%.

**Table – 20**  
Cement producers and market share by areas

Area	SAI	SP	SB	ITP	SC	SG	ST	SBM	SK	Total %
Total Sumatra	17.3%	48.2%	12.3%	14.0%	7.3%	-	-	0.8%	-	100%
Total Java	-	3.8%	0.5%	36.8%	21.3%	35.8%	0.2%	1.7%		100%
-Jakarta	-	11.4%		45.2%	27.5%	14.2%	0.4%	1.3%		100%
-Banten	-	5.1%	4.5%	43.6%	18.4%	23.8%		4.6%		100%
-West Java	-	2.1%		52.3%	19.9%	25.7%				100%

## Industry Profile

Table-20 cont'd

Area	SAI	SP	SB	ITP	SC	SG	ST	SBM	SK	Total %
-Central Java	-	3.1%		36.4%	29.1%	30.6%	0.7%			100%
-Yogyakarta	-			9.8%	47.3%	42.8%				100%
-East Java	-			12.7%	9.5%	73.7%		4.1%		100%
Total Kalimantan	-	0.2%		30.0%	6.7%	23.0%	36.5%	3.6%		100%
Total Sulawesi	-			11.4%			67.5%	21.0%		100%
Total Nusa Tenggara	-			30.0%	2.3%	29.1%	23.2%	10.8%	4.7%	100%
Total Ind Timur	-			14.5%		14.9%	64.5%	5.8%	0.2%	100%
Total Indonesia	3.6%	12.3%	2.8%	29.7%	15.2%	25.1%	7.9%	3.2%	0.2%	100%
Total(000 ton)	1,124	3,877	896	9,334	4,793	7,903	2,482	992	69	31,470

Source: ASI, Data Consult

The SG Group and Indocement, which have a number of factories outside Java have wide marketing coverage selling their products almost in all parts of the country. Other producers generally have limited marketing coverage to area around their factories. For example, PT Semen Andalas Indonesia (PT SAI) distributed its production only in northern part of Sumatra, Riau, and Riau islands. PT Semen Baturaja (PT SB) and PT Semen Kupang (PT SK) also distribute their production in around the areas where their factories are located.

PT Semen Bosowa Maros (PT SBM) has relatively wide marketing coverage although it has only one factory in South Sulawesi. Its marketing areas cover eastern Indonesia, and Java and Sumatra in western part of the country.

**Table - 21**  
Marketing areas of cement producers

Provinces	Sumatra	Java	Kalimantan	Sulawesi	Nusa Tenggara	Eastern Indonesia	Total Indonesia
PT SAI	100%	-	-	-	-	-	100%
PT SP	81%	19%	-	-	-	-	100%
PT SB	89%	11%	-	-	-	-	100%
PT ITP	10%	77%	5%	2%	5%	1%	100%
PT SC	10%	87%	2%	-	1%	-	100%
PT SG	-	89%	5%	-	5%	1%	100%
PT ST	-	2%	23%	47%	14%	14%	100%
PT SBM	5%	33%	6%	37%	16%	3%	100%
PT SK	-	-	-	-	99%	1%	100%

Source: Data Consult

### ***Distribution systems***

Distribution system is crucial in cement marketing as cement needs large space and it could not be kept too long, therefore it needs certain storage facility.

Large supply of cement will need distribution infrastructure to guarantee that delivery is as scheduled and the quality could be maintain during transportation.

Consumers would not want to have to keep cement too long before being used as it will could cause damage or decrease in quality. The quality of cement could easily be affected. It could easily turn hard if kept too long especially under damp environment.

Supply and availability of supply to project being built is also important. Delay in supply when the process of mixing cement with other concrete materials like gravels and sands is taking place, could reduce the quality of a building. Therefore, both factories and distributors need adequate and effective distribution facility and systems.

### ***Distribution Channel***

In general, the system of distribution of cement in Indonesia is more or less the same made up of main and regional distributors, sub-distributors, retailers and wholesaler outlets. PT Semen Gresik has 18 distributors supported by sub-distributors in heir respective areas. In the Jabotabek area, PT Semen Gresik has 12 sub-distributors.

One of the largest distributors of PT Semen Gresik is PT Variasi Usaha, which also handles the transport of more than 40% if Semen Gresik production.

Distributors play a vital role in marketing of cement, therefore factories generally have tight rules in distribution. A cement factory has contracts with its distributors to guarantee their loyalty. In order to secure control over its distributors Semen Gresik a set conditions to be followed by the distributors in their contracts.

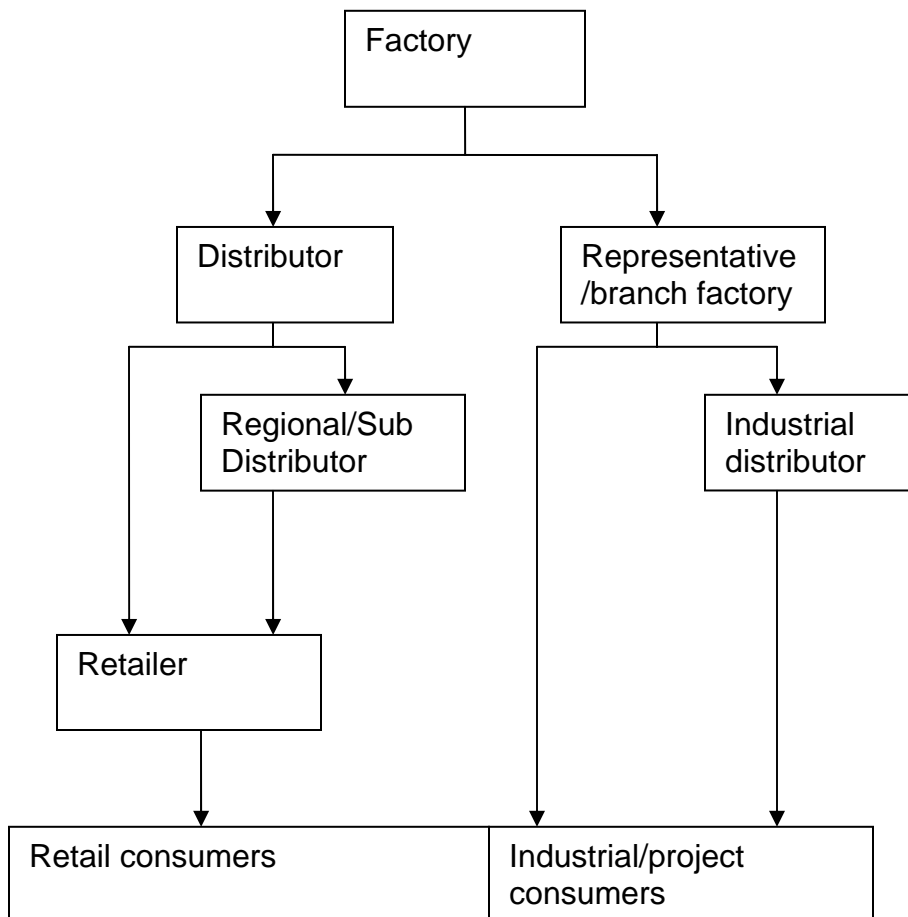
A cement factory has a special section to deal with large consumers like industrial projects. It will decide whether supply is to be made through the head office or representatives. Some factories name a special distributors to deal with large consumers. However, the decision is based on a recommendation from the representatives. The factory will studies cement procurement for the consumers

## Industry Profile

to set the prices and system of distribution. If the consumers are considered potential for long term interest, factories usually offer special treatment in price and procurement.

### Diagram

Distribution system of cement for retailers and projects/industry



### *Distribution facility*

To facilitate distribution, many cement factories use supporting facilities such as special ports, fleets of land transport, sea transport for bulk and cement in sack, bagging plants and bulk storage.

## Industry Profile

Packing plant is important for wide marketing coverage. For example, PT Semen Tonasa has a number of packing plants such as in Makasar, Palu, Banjarmasin, Samarinda, Bitung, Ambon, and Bali. Each plant has bagging capacity of 100 tons per hour. PT Semen Padang has its packing plants in Medan, Batam, Jakarta in addition to one in Teluk Bayur, Padang.

PT Semen Gresik, however, has no packing plant other than the one in its factories as distribution to Central Java, East Java and Jakarta is made over land in sacks. The transport of its cement in sack is handled by its own subsidiary PT Varia Usaha, which is also its distributor.

PT Semen Gresik arranges the process of the shipments of its cement in sacks and set the cost, but its distributors control the shipments of its cement in bulk and set the cost of shipment.

PT Indocement has since 2003, directly controlled its cement shipments in sack through its subsidiary PT Dian Abadi Perkasa. In order to facilitate shipment, it uses online cement delivery monitoring and tracking system that could monitor all transactions and the implementation of shipment.

In cement marketing, delivery time is especially more crucial. Buyers will not want delivery to be too early or too late as cement could easily be damaged if not properly put in storage facility.

PT Semen Baturaja is facing distribution problem. It now relies on the railway for transport. However, with limited carrying capacity of the railway in South Sumatra, Semen Baturaja has to restrain itself from increasing its output. The factory has the capacity and basic materials and fuels are available in abundance but transport problem has come in the way of Semen Baturaja to expansion.

### ***More than 80% of cement production is sold in sacks***

Cement is sold in bulk and sacks of 50 kg or 40 kg. The consumers and distribution system of cement in bulk and sacks are different.

More than 80% of cement production is sold in sacks, which require larger distribution cost. Cement sack has extra cost in the packaging material and the transport cost is more expensive.

A cement producer has to offer its product at a cheaper price in area not traditionally its market area to attract buyers. For example, Semen Gresik's product in sack is sold at lower price than that of Indocement as Jakarta has been known to be the market area of Indocement with its Tiga Roda brand.

## Industry Profile

There had been cases of false Tiga Roda brand used for cement produced by other companies in Jakarta.

**Table - 22**  
Total cement supply by type of packaging in domestic market. 2005

Name of company	Sack (000 tons)	Bulk (000 tons)	Total (000 tons)	Sack (%)	Bulk (%)
PT Semen Andalas	939	186	1,125	83%	17%
PT Semen Padang	3,263	613	3,876	84%	16%
PT Semen Baturaja	791	104	895	88%	12%
PT Indocement Tunggal Prakarsa	7,759	1,577	9,336	83%	17%
PT Semen Cibinong (Holcim)	3,605	1,189	4,794	75%	25%
PT Semen Gresik	6,116	1,787	7,903	77%	23%
PT Semen Tonasa	2,359	123	2,482	95%	5%
PT Semen Bosowa	576	416	992	58%	42%
PT Semen Kupang	n.a	n.a	n.a	n.a	n.a
	25,408	5,995	31,403	81%	19%

Source: ASI, Data Consult

### ***The government has no more control over the price***

The government has no more control over the price of cement since 1999 when cement trade was liberalized. The price is let to be dictated by the market. That year it happened that demand for cement plunged triggering price war with producers or distributors undercutting each other in price.

The price war recedes when demand increased, but price disparity is often sharp in among the regions. For example, in Jakarta the highest price was Rp 40,000 per 50-kg sack in 2005 with the lowest at Rp 38,000. The highest price was recorded in Papua at Rp 50,000 per sack and the cheapest was in East Nusa Tenggara, where PT Semen Kupang is located.

In Jakarta, the price of Tiga Roda cement of Indocement is higher than those of other brands of Semen Kujang of PT Holcim Cement and Semen Gresik. The price of Semen Padang in Jakarta is much lower - as low as Rp 2,000 below that of Tiga Roda. Semen Gresik in 50-kg sack is sold in Jakarta at Rp 38,500 – Rp 39,000 as against Tiga Roda 's price of Rp 39,000 – Rp 41,000 per sack. Despite the higher transport cost, Semen Gresik has to maintain lower price in Jakarta to be remain competitive facing the market leader Tiga Roda. In Surabaya, however, Semen Gresik is the market leader sold at Rp 39,000 – RP 41,000. per sack.

## Industry Profile

**Table - 23**  
Cement retail price - January 2006 (Rp/bag @ 50 kg)

No.	Areas	Retail price (Rp/sack)	
		Low	High
1	D.I. Aceh	41,250	41,900
2	North Sumatra	34,000	35,000
3	West Sumatra	35,000	35,000
4	Riau	38,000	39,000
5	Riau Islands	35,000	37,500
6	Jambi	39,000	39,000
7	South Sumatra	38,500	40,000
8	Bangka-Belitung	36,000	44,000
9	Bengkulu	41,000	41,000
10	Lampung	36,000	39,000
	Total Sumatra		
11	Jakarta	38,000	40,000
12	Banten	38,000	40,000
13	West Java	38,000	39,000
14	Central Java	38,750	40,000
15	D.I.Y.	36,500	37,700
16	East Java	37,800	39,000
	Total Java		
17	West Kalimantan	38,000	40,000
18	South Kalimantan	41,000	45,000
19	Central Kalimantan	46,000	46,000
20	East Kalimantan	36,000	38,000
	Total Kalimantan		
21	Southeast Sulawesi	34,000	35,000
22	South Sulawesi	31,000	33,000
23	Central Sulawesi	35,000	35,000
24	North Sulawesi	40,000	45,000
25	Gorontalo	39,000	42,000
	Total Sulawesi		
26	Bali	33,750	40,000
29	Maluku	42,500	42,500
30	Papua	55,000	55,000

Source: Data Consult

### ***Competition and Strategies***

After the liberalization of the market to follow the issuance of the anti-monopoly law in 1999 recommended by the International Monetary Fund (IMF), there is no more regulations on cement allocation, distribution and prices. The market is marked with tighter in competition. Some competitors seek to at least maintain their market foothold and others seek to grab a larger market share. Despite the

## Industry Profile

oligopoly free competition is sharp as reflected by the price fluctuations and ambitious promotion campaigns.

Success in keeping low production cost is determinant in success in market competition. In a bid to keep production cost at the lowest possible level to be competitive in market, most cement producers have chosen dry process, which is more energy efficient and use coal as cheaper energy source, and find more efficient systems of distribution.

Price competition takes place mainly among distributors as they deal directly with retailers and consumers. Factory prices are relatively stable since 2000 after the market liberalization. For example, in West Java and Jakarta the price of Tiga Roda of Indocement is higher than that of Semen Gresik although they are equal in quality. Tiga Roda enjoys stronger demand on loyalty factor. In East Java, Semen Gresik is the market leaders and its price is higher than that of Tiga Roda also on the loyalty factor.

In East Java PT Semen Gresik adopts a tight rule to be followed by its distributors, which are allowed only to sell cement to retailers or regular buyers. The factory controls and set the prices to be followed by its distributors to prevent competition among themselves. The policy is successful in preventing competition among its distributors but it is opposed by the Commission for Business Competition Control (KPPU) as it is seen as an illegal practice violating anti monopoly law. Semen Gresik has to pay a fine for that.

In fact similar practice is covertly committed by other cement factories, but they do it more covertly. PT Indocement is the majority shareholder of its distributor PT Dian Abadi Perkasa, which is named to distribute its product in the country with the support of online cement delivery monitoring and tracking system, which allows it to monitor and control distribution and set stocks

### ***Barrier to entry***

Many prospective investors dropped their investment plans in cement industry because of barrier to entry that could not be easily overcome by new investors. The stumbling blocks include the high industrial scale difficult access to distribution networks, large capital requirement and time needed to win loyalty of consumers.

### ***Economies of Scale***

With the increase in production costs as a result of the oil fuel price hikes the profit margin is smaller amid the tight competition, a new factory has to be larger in production capacity to be feasible. Meanwhile, the present production capacity is not yet fully utilized. Therefore, multinational companies are the

## Industry Profile

likeliest new investors to risk building new factories in the country . Those having coal mines, however, could also be potential investors in cement industry.

### *Access to distribution networks*

Each producer has to establish their own distribution networks as it will determine success in their marketing drive. Therefore, new players in the business area could also come from among distributors. New players could also make entry through cooperation with the existing producers, which already have distribution networks.

PT Semen Gresik once had agreement with PT Semen Gombang on the marketing of Gombang cement in sack with the Semen Gresik brand. The agreement, however, failed to become a reality as the plan to build factory by Semen Gombang was cancelled. PT semen Andalas in the first years of its operation also had such cooperation with PT Semen Padang. Semen Andalas used sacks with the Semen Padang brand for its imported cement.

### *Large capital required*

A cement factory is considered reaching an economic scale when it has an annual production capacity of 1.5 million – 2.5 million tons with an investment of US\$ 130-145 per ton capacity. A new factory, therefore, will need an investment of around US\$ 200 million – US\$ 350 million. The amount is quite large that few investors could afford to build new factory.

### *Brand loyalties*

A new producers need to launch intensive promotional drives as it is not easy to attract consumers which already built up loyalty to a certain brand. Therefore, a new producer has to be ready to sell its product at a cheaper price.

### ***Cement companies reported better financial performances***

Cement producers in 2005 were generally better financially than in the previous year. An increase in cement prices and sales contributed to increase in profit.

The burden in the increase in production cost is largely carried by consumers by raising the selling prices.

PT Semen Gresik reported Rp 936 billion in net profit in 2005 or a 80% increase from the previous year. The company succeeded in sorting out its financial problem brought on by the monetary crisis. It is now financially healthy. Its share

## Industry Profile

price has continued to rise. On April 13 the price of its share was recorded at Rp 25,500 per (US\$ 2.83), up from US\$ 1.28 when Cemex acquired part of its shares from the government in November 1998.

PT Semen Gresik is preparing a new investment in a new cement factory, which is estimated to cost US\$ 350 million for one with an annual production capacity of 2.5 million tons. Semen Gresik already sets aside US\$ 100 million from its own reserve. The company needs capacity expansion as its factories already operate at high gear almost exhausting their production capacity.

PT Indocement also reported excellent performance with net profit climbing to Rp 739 billion in 2005 from Rp 116 billion in 2004. Currently Indocement is operating only at around 67% of its capacity. The more than five-fold increase in profit when capacity utilization is relatively low shows that the company has operated with high efficiency.

Indocement, therefore, still has idle capacity to use to meet growing demand without spending much fund in new investment for new facility. Indocement, however, still has problem to be sorted out namely large debts in foreign exchange which carry the risk of loss in exchange rate.

PT Holcim Indonesia also had a better going in 2005 posting an operating profit of Rp 119 billion although it still reported a net loss of Rp 334 billion mainly because of large payment for loan interest. The loss was much smaller than Rp 533 billion in 2004.

A substantial improvement in performance was also recorded by PT Semen Baturaja in 2005 when it reported Rp 17.48 billion in net profit as against only Rp 4.13 billion in 2004.

**Table - 24**  
Financial performances of cement companies  
2004-2005

(Rp million)

Description	Semen Baturaja	Indocement	Holcim	Semen Gresik
<b>2005</b>				
Income	442,206	5,592,354	3,017,599	7,504,000
Cost of goods sold	312,962	3,572,455	2,618,457	n.a.
Operating cost	52,102	805,944	280,215	n.a.
Operating profit	77,142	1,213,955	118,927	1,451,000
Net profit/loss	17,482	739,686	(334,081)	936,000

## Industry Profile

Table – 24 cont'd

Description	Semen Baturaja	Indocement	Holcim	Semen Gresik
<b>2004</b>				
Income	385,367	4,615,507	2,368,489	6,067,558
Cost of goods sold	289,203	3,092,419	2,196,901	4,005,287
Operating cost	39,083	686,852	241,571	1,104,434
Operating profit/loss	57,080	836,237	(69,983)	957,837
Net profit/loss	4,135	116,023	(533,130)	520,590

Source: Company's financial reports

### Supply and Demand Projection

Cement factories are facing a dilemma in their plan to expand capacity. Almost all cement producers have plan to expand their production capacity either through increasing the capacity of existing factories or by building new production facilities. Some of the producers already secured the license to build new facility and have carried out feasibility studies. Realization of their plans, however, is not as easy as expected. Early 2004, when consumption and production rose sharply, optimism was high and industrialists thought that the country needed to expand capacity. They said with an annual increase of 8% in consumption, the present production capacity would not be enough to meet domestic requirement in 2009. It will take three years to build a cement factory, therefore, to forestall shortage in supply in 2009, many producers have planned new investment to build new factories.

When the oil fuel price rose and the property sector was in the doldrums early 2006, investors reconsidered their plan to invest in cement industry. With consumption growing at a snail pace, there is oversupply and larger idle capacity although no expansion in production capacity. Worse still is that a new factory now will need a larger annual production capacity of more than 2 million tons to meet the economic scale.

Before the oil fuel price hikes in October, 2005, cement consumption grew by 8% annually in the country. However, in the past year, cement consumption grew more sluggishly, slower than previously predicted. Assuming that the economy will expand only by 5.5% - 6% annually cement requirement is forecast to rise only by 4%-6% a year in the next 10 years.

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The slow down in consumption will affect plan to build new factories or to expand the production capacity.

### *Low scenario*

Using a scenario of low consumption growth of 4% annually, with assumption that cement exports (not including clinker) will average only 3.5 million tons a year, the country will need an additional production capacity of 2.5 million tons only in 2011. With that additional capacity the factories could operate at 92% of their installed capacity in 2012. In 2015, the country will need additional capacity of 7.5 million tons.

**Table - 25**  
Supply - Demand Projection on scenario of low consumption  
growth of 4% a year

(000 tons)

Year	Existing Capacity	Additional capacity	Domestic requirement	Export	Production	Capacity utilization
2006	46,090		32,731	3,500	36,231	79%
2007	46,090		34,040	3,500	37,540	81%
2008	46,090		35,402	3,500	38,902	84%
2009	46,090		36,818	3,500	40,318	87%
2010	46,090		38,291	3,500	41,791	91%
2011	46,090	2,500	39,822	3,500	43,322	94%
2012	48,590	2,500	41,415	3,500	44,915	92%
2013	51,090		43,072	3,500	46,572	91%
2014	51,090	2,500	44,794	3,500	48,294	95%
2015	53,590		46,586	3,500	50,086	93%

Source: Data Consult

### *High scenario*

Using a scenario of higher consumption growth of 6% per year with assumption that cement exports (not including clinker) will average 4 million tons a year, the country will need additional capacity of 2.5 million tons in 2009. With that addition, factories could operate at 95% of their installed capacity in 2010. The additional capacity needed will rise to 17.5 million tons with capacity utilization of 95% in 2015.

## Industry Profile

**Table - 26**

Supply - Demand Projection on scenario of higher consumption  
growth of 6% a year

('000 tons)

Year	Existing Capacity	Additional capacity	Domestic requirement	Export	Production	Capacity utilization
2006	46090		33,360	4,000	37,360	81%
2007	46090		35,362	4,000	39,362	85%
2008	46090		37,484	4,000	41,484	90%
2009	46,090	2,500	39,733	4,000	43,733	95%
2010	48,590	2,500	42,117	4,000	46,117	95%
2011	51,090	2,500	44,644	4,000	48,644	95%
2012	53,590	5,000	47,322	4,000	51,322	96%
2013	58,590	2,500	50,162	4,000	54,162	92%
2014	61,090	2,500	53,171	4,000	57,171	94%
2015	63,590		56,362	4,000	60,362	95%

Source: Data Consult

The two assumptions show the difference in the time considered right to start embarking on new investment in cement industry.

Based on the assumption that the consumption will grow by 6%, the country will need additional capacity of 2.5 million tons in 2009. That means that work has to start in 2006 as it will take three years to build a new cement factory. However, if the consumption growth is only 4% based on the low growth scenario, the additional capacity will be needed only in 2011, therefore, the project will be feasible in 2008 and work has to start that year.

It should be noted that based on the low scenario, the market is available only for three factories each with an annual capacity of 2.5 million tons by 2015. Meanwhile, there are more than 10 companies seeking expansion or planning new factories. The problem is that if all of the companies are to carry out their projects there will be large excess capacity. Many investors, therefore, have chosen to put off plan to build new factories in the country.

However, if the high growth scenario is to be the reality, those putting of their plan in 2006 will lose the opportunity to gain from an increase in demand for cement and the opportunity will be grabbed by importers or foreign suppliers.

### **Conclusion And Recommendations**

*Cement industry needs new investment*

The country's cement industry is one of a number of economic sectors that have recovered amid lingering economic recession in the wake of the monetary crisis.

## Industry Profile

Cement producers have succeeded in easing their debt burden through restructuring. Meanwhile domestic cement market has recovered quite fast.

Since 2004, cement consumption in the country has continued to increase. Not including PT Semen Andalas, which had its factory destroyed by tsunami,

only PT Semen Kupang was still beset by financial problem in 2005. Other cement producers reported an increase in sales and profit.

Since the end of 2005, the country's economy was in the doldrums as a result of the 100% oil fuel prices in October. However, cement industrialists are still optimistic that cement market will not take too long to recover. In fact, sales in January grew though slightly.

Increase is still expected in the country's cement consumption in the coming years although not as fast as in the previous year. In the next 5-10 years the country's cement consumption is forecast to climb 4%-6% annually. With the increase in demand, the factories will need to operate at full capacity to meet the requirement in 2009-2010.

To forestall shortage in supply in the coming years, additional capacity will be needed. Based on a scenario of low consumption growth, in the next 10 years the country will need additional capacity of 7.5 million tons. Based on assumption that the consumption will grow 6% annually, a capacity expansion of 17.5 million tons will be needed in the same period.

Assuming that a factory will have an annual capacity at 2.5 million tons, three new factories will be needed in the next 10 years based on the low growth scenario. The number of new factories will be 7 based on the high growth scenario. A factory will cost around US\$ 350 million.

The size of the investment is a bottleneck in building the factories needed to prevent shortage in supply in the coming several years. Investors also consider the difficulty in grabbing a market share with the loyalty generally shown by consumers to certain producers they know. In addition the competition is tight including from imported products. Foreign suppliers are expected to move in fast to fill the gap any time between supply and requirement in the country.

In short term, new projects are expected to come from the existing producers such as PT Semen Gresik or Semen Padang, the capacity of which have been almost fully utilized.

New players will have greater chance of success in competition in areas where there have been no cement factory or where factories have not enough capacity to meet local requirement such as in fast growing regions of eastern and southern parts of Kalimantan.

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A new investor will not only need to have large fund, but also wide distribution networks including bagging plants, warehouses and silos, land and sea transport facilities.

### *Risks and bottlenecks in investing in cement industry*

Among the risks to be faced by investors in cement industry is growing fuel prices. The prices of oil and coal fuels, which constitute a big cost component, are difficult to predict.

An increase and decline in consumption also is determined by the purchasing power of the people as the largest cement consumer is housing projects, which are built for the general consumers. Many factors determining the purchasing power of the general consumers such as fuel prices, interest rates, inflation and rupiah stability.

Inadequate infrastructure to facilitate the transport of basic materials and cement production is a major factor hampering development of cement industry outside Java. Large funds will be needed to build infrastructure. The government is strapped for cash. It has no fund to built infrastructure projects to facilitate industrial projects including cement industry. Investors may not risk spending more money for infrastructure.

### *Competition tighter and open*

The competition is tight in cement industry as currently the production capacity far exceeds the domestic requirement. Therefore, despite the oligopoly in the cement industry, it is not easy now to form a cartel among the cement producers as in pre-crisis time. Each producer is concerned with maintaining its market share especially in area where it is a market leader enjoying premium prices. Meanwhile other cement producers are seeking to penetrate into new market areas by offering lower prices.

Something that causes concern is when producers have too much control over distributors, the producers could dictate the prices. Being few in number producers may easily come to agreement to prevent their distributors from exercising the rights to free competition. The consumers may enjoy a reasonable and fair price if the distributors and retailers are allowed to compete fairly in the market.

The tendency is the market leaders are seeking to secure their market foothold and shares by keeping control of their distribution networks to enjoy near monopoly in certain local market. However, as long as the KPPU is active in preventing unfair competition there is no cause for fear of monopoly.\* \* \*

# COMPANY PROFILE

## BOSOWA GROUP

The Bosowa Group is a powerful company group for eastern part of the country . The company group is one of the conglomerates surviving the monetary crisis of 1997/1998 and lingering economic malaise in the following several years.

The company group began to expand its wings in 1994 operating in widely diversified business areas from its original core business of motor vehicle trading. When the economic crisis was undermining the country's economy the group managed to continue the construction of its cement factory in Maros, South Sulawesi in 1998. Construction of the factory under PT Semen Bosowa Maros began in 1996.

The company, however, was not entirely unscathed under the impact of the crisis. In April, 2005 PT. Semen Bosowa Maros was reported to have non performing credit of Rp1.44 trillion from state owned Bank Mandiri. The company, however, denied the report saying repayment of the loan has been smooth.

### Company's Backgrounds

H. Muhamad Aksa Mahmud, the founder of the company group, is a leading businessman from east Indonesia succeeding in building his business empire to rank among the country's top business leaders. He was once an employee of a company belonging to M. Jusuf Kalla, now the country's vice president, who also shot up to political stature mainly through business ladder. Aksa Mahmud is related to the Kalla family as he is married to Kalla's sister H. Siti Ramlah Aksa.

Aksa Mahmud began to build his business empire in 1973 flying the flag of Bosowa, which an acronym of Bone-Soppeng-Wajo, the names of three regencies in the central part of South Sulawesi.

H. Muhammad Aksa Mahmud laid the foundation of his business by establishing PT. Bosowa Berlian Motor in 1978 in Ujung Pandang (Makasar) in South, Sulawesi. Together with his wife and Hasannudin Hasma established the company with an initial capital of Rp 5 billion. PT. Bosowa Berlian Motor became the backbone of the Bosowa Group. It is a dealer of Mitsubishi cars in Sulawesi, Now it also serves as a dealer for Mercedes Benz cars and the main distributors in eastern Indonesia.

The Bosowa Group continues to expand its business operations to shrimp farming, plantation, financial and insurance industry. The Bosowa Group also has business in the property, construction and infrastructure sector supported by

## Company Profile

its cement producing subsidiary. Its business becomes more and more integrated.

Until now Mahmud Aksa and his wife Siti Ramlah and two sons Erwin Aksa and Sadikin Aksa assisted by a number of partners never ceased to expand the business empire.

His success in business brought about political success. Aksa was elected deputy speaker of the People's Consultative Assembly (MPR). His political duty forced him to gradually hand over the management of the family business to his sons Erwin Aksa now holding the post of Vice President of the Bosowa group. He formed a team of professionals to make business plans. Earlier planning was fully in the hand of the owners.

### **Business Development**

#### *Automotive Industry*

The business of the Bosowa Group in the automotive industry began with the operation of PT Bosowa Berlian Motor, a dealer for Mitsubishi cars in eastern Indonesia, covering South Sulawesi, Central Sulawesi, Southeast Sulawesi, North Sulawesi, East Nusa Tenggara, Maluku and Papua.

The company now has 30 showrooms with workshops and component sales and after sales service units to support marketing.

In 2004, Bosowa Berlian Motor succeeded in selling more than 4,000 units of car, up to 6,000 units in 2005. Its car commodities are mainly Mitsubishi trucks including Fuso and Colt Diesel Mitsubishi trucks. Now the Bosowa Group is also dealer for Mercedes Benz cars in that region.

The Bosowa Group has a car body building factory in Karawang, West Java. The factory has an annual capacity to produce bodies for 6,000 cars of various types including trucks, buses, etc..

Later the Bosowa Group expanded operation to motorcycle industry with a factory coming on line in 1997 under PT. Bosowa Nusantara Motor. The factory is built in Karawang occupying a 50,000 sq.m. plot of land. It has the capacity to produce 30,000 units of sport motor cycle (125cc -150cc), 90,000 units of business motor cycle (100cc-125cc) with an investment of Rp 86,425 million. The motorcycle products use the brand name of Hyosung.

In 1996, the group established a financing firm named PT. Bosowa Multi Finance to support the marketing of its automotive products. The company offer to finance

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the purchase of Hyosung motorcycles and Mitsubishi cars. PT. Bosowa Multi Finance has 21 branch offices – 10 in Makasar, and the rest in other eastern Indonesian cities such as Kendari, Bone, Palopo, Mamuju, Bulukumba, Parepare, Manado, as well as in western Indonesian cities like Jakarta and Bandung. In 1998, the Group established insurance company named PT. Asuransi Bosowa Periskop (ABP). Now PT. ABP has 11 branches in a number of large cities including Surabaya, Makasar, Pekanbaru, Bandung and Semarang with the support of agents.

In 1995, the Bosowa group took over the entire assets of taxi operator PT Taksi Amal, which is the first tax company in Makasar established in 1985. The group also has another taxi company named PT Bosowa Utama, operating Bosowa Taxies.

Taksi Amal once suspended operation but the operation is to be resumed in 2006 by bringing in 300 new cabs. Later the management of Taksi Amal was merged into that of PT Bosowa Utama, which operates Taksi Bosowa.

The old taxies of Taksi Bosowa have already been replaced with 200 new Toyota Limo cars. The new cabs were brought in to replace ones with the brand of Timor operated since 2000. Toyota Soluna cars are also found among the taxies of Taksi Bosowa.

The automotive sector still serves as the backbone of the Bosowa Group contributing 35% to the total income of the group.

### *Agribusiness Sector*

In 1987, Bosowa Group established a company operating in shrimp breeding named PT. Bosowa Isuma. The company has shrimp breeding farms in Poros Boroung, Maros South Sulawesi occupying an area of 50 hectares. Its exported frozen shrimps to a number of countries such as Japan, Singapore, Taiwan and other Asian countries. Exports are handled by a subsidiary PT. Dataran Bosowa.

In 1994, PT. Bosowa Cocoa Industries was established to operate in the trading of coca beans. It exported coca beans to Singapore. However, apparently the company failed to expand and in 2001, it stopped operation.

In 1997, the Bosowa Group acquired two companies PT. Bumi Sawit Permai, which owns an oil palm plantation and PT. Celebes Minahasa Suraya Adira, which operates in tapioca flour processing industry.

Earlier or in 1994, a mineral water processing company PT. Bosowa Citra Waena Ompo was established with an annual production capacity of 3,120,000 liters of

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bottled drinking water using the brand of ALDA. The product is disposed of only in South Sulawesi.

### *Cement Industry*

In 1995, the Bosowa Group took another big step by building a cement factory under PT. Semen Bosowa Maros, in Maros, South Sulawesi. The factory has an annual production capacity of 1.8 million tons. The completion of construction of the factory was delayed because of the monetary crisis. It started operation only in 1998. The company has assets valued at Rp 3 trillion.

PT. Semen Bosowa Maros disposes of 80% of its production in the country and exported the remaining 20% such as to the Philippines and Africa. A distributor named PT Bosowa Trading International has been established to facilitate the marketing of its cement production in the country and to international market.

PT. Semen Bosowa Maros has its own transportation division to handle cement distribution in the region.

In early 2005, PT. Semen Bosowa Maros increased its investment spending US\$ 80 million to expand its capacity from 1.8 million tons to 3.2 million tons a year. The completion of the expansion project is expected to cope with possible shortage in cement supply in that region in 2007-2008 as well as to meet demand from other regions such as Java.

PT. Semen Bosowa Maros has received the quality management certificate of ISO 9000 and environment management certificate of ISO 14000.

In 2005, cement sales recorded by PT Semen Bosowa Maros totaled 998,763 tons, of which 6,400 tons were exported. PT BSM also exports clinker totaling 500,895 tons that year. In 2004, its cement exports totaled 989,872 tons, with exports of only 29,227 ton and its clinker exports totaled 525,637 tons.

### *Infrastructure Sector*

The operation of PT BSM prompted the move of the Bosowa Group the construction and infrastructure sectors. Its subsidiary PT. Tuju Waliwali was established to operate in infrastructure development building and operating toll road. In 2004 it completed the construction of concrete-paved roads in that region including in Papua, East Kalimantan and South Sulawesi totaling 50 kilometers. Earlier PT. Tuju Waliwali built concrete paved roads totaling 24 kilometers in three regencies in South Sulawesi.

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PT Bosowa Marga Nusantara was established to operate the section I and section II of the Makasar toll road between the port of Makasar and Talo 6 kilometers long since 1998.

Another subsidiary PT. Bosowa Trading Internasional in July, 2005 took over the operation of the 7.2-kilometer Serpong-Pondok Aren toll road in Tangerang after acquiring 89% of PT. Bintaro Serpong Damai at a price of Rp 280 billion. Bosowa beat other bidders PT. Castrate Nusantara (Astra Group), PT. Inpa Energi, and PT. Galaxi Ultra Prima.

In 2005, PT Bosowa Marga Nusantara took part in a tender for the construction of the Depok-Antasari toll road, the section IV of Makasar toll road and the Cinere-Jagorawi toll road. The 22-km Depok- Antasari toll road project will cost trillions of rupiahs. Bosowa will take part in the project with a 5% share in a consortium awarded the project. Other partners in the consortium include PT. Citra Marga Nusantara, PT. Pembangunan Perumahan, Hutama Karya and Waskita Karya In the consortium to build the 18-km Cinere-Jagorawi toll road the Bosowa Group has a 6% share with partners including the Bakrie Group, Citra Marga Nusantara. In the consortium to build the section IV of Makasar toll road, the Bosowa Group holds the majority 90% stake with minority partner PT. Citra Marga Nusantara.

PT Bosowa Marga Nusantara won the tender to build the 11.57- km section IV of he Makasar toll road to cost around Rp 440 billion. It is to be completed in 2007.

The Bosowa group began show interest in starting business in the electric power sector in 2002. It proposed to build a 200-MW power plant in South Sulawesi. The power plant is also needed to supply power for its cement factory. However, it was granted the license only in 2005 to build a coal fired power plant in Jenepono under PT Bosowa Energi.

The project is now in the final phase of signing a *power purchase agreement with* PLN. The two have agreed to set the price of electric power at 4.71 U.S. cent per kwh to be paid by PLN to the producer.

Construction is to start this year. In the first phase, the project will be for plant with a capacity of 100 MW. The first phase is to be completed in 1007. The next phase for the same capacity is to follow in 2008 to be completed in 2009.

The Bosowa Group will spend around US\$ 200 million for the project. The fund will come as a loan from a syndicate of international banks. Banks from Switzerland and Taiwan have stated commitment. The Bosowa Group is also seeking loans form China and Japan.

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The Bosowa Group also has business in the mining sector including in marble industry under PT. Bosowa Mining, which was established in 1985. The company has 25-hectare mining concession in Maros and a stone crusher with production capacity of 2,160,000 tons, 6,000 m<sup>3</sup> of block marble and 60,000 m<sup>2</sup> of sheet marble a year. Its entire production is exported to Asian and the United States.

Table below showed the major members of company under Bosowa Group.

**Tabel**  
Partial List of Company under Bosowa Group

Name of Company	Line of Business
PT. Bosowa Berlian Motor	Car dealer of Mitsubishi
PT. Bosowa Utama Corporation	Transportation Services and Investment Holding
PT. Bosowa Nusantara Motor	Motorcycle Manufacturing
PT. Bumi Bosowa International	Car body manufacture
PT Bosowa Multifinance	Multifinance/Leasing Company
PT. Staco Bosowa Finance	Leasing Company
PT. Asuransi Bosowa Periscop	Insurance Company
PT. Bosowa Lloyd	Expedition
PT. Semen Bosowa Maros	Cement Manufacturing
PT. Bosowa Trading International	Distributor of Semen Bosowa Maros and Toll road management
PT. Bosowa Plastindo	Cement Trading
PT. Bosowa Mining	Mining and Marble Industry
PT. Bosowa Marga Nusantara	Tool Road Development and Management
PT Tuju Waliwali	Contractor
PT Bosowa Energi	Electric power company
PT. Bosowa Isuma	Shrimp Breeding
PT. Dataran Bosowa	Trading/Export
PT. Bosowa Cocoa Industries	Cocoa Ben Trading
PT. Bosowa Citra Waena Ompo	Mineral Water Industry
PT. Celebes Minahasa Suraya Adira	Cassava Flour Processing

Source: Data Consult

## Company Profile

### Financial Highlight

The consolidated income of the group was estimated at Rp 1.6 trillion in 2003, up to Rp 2 trillion in 2004 and to Rp 3 trillion in 2005.

The largest contributor to its income is its automotive division under PT. Bosowa Berlian Motor. This division accounts for around 35% of the total income of the group.

The second largest contributor is its cement division under PT. Semen Bosowa Maros. In 2005, the cement company reported sales of around 1.5 million tons of cement and clinker.

Other major contributors to the total income of the company group are business in the infrastructure sector such as toll road operation, insurance industry and trading business.

A subsidiary of the Bosowa Group PT. Bosowa Cocoa Industri was listed among the debtors of the bank rescue agency BPPN with debt of Rp 6,177,183,880. The debt, however, has been settled through negotiation with the agency.

In April 2005, PT. Semen Bosowa Maros was reported to have a non performing debt of Rp 1.44 trillion to PT. Bank Mandiri, but the report was denied and the attorney general office stopped investigation of the case in May, 2005 saying it found nothing illegal in the loan issue.

The management of Jakarta Stock Exchange (JSX) has encouraged the Bosowa Group to have its good performing members listed on the JSX.

### Key to success

The impressive progress recorded by the Bosowa Group is attributable mainly to the business talent and skills of its managers notably the founder Mahmud Aksa.

The company group was able to soon settle its debt to BPPN following the 1998 crisis. The Group was not as badly hit by the crisis as were many other big companies probably because it was not over ambitious expansive in a relatively short time.

The key to success of Mahmud Aksa in establishing his business empire with 30 companies is that he expands businesses relying more on public fund than on state budget fund. The expansion of the group is also attributable to its success in exploiting the market potentials of the eastern part of the country not yet fully tapped. With strong market foothold it has established especially in trade of

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automotive products it would not be easy for other rivals to compete the group in that region.

In cement industry, the Group has only PT Semen Tonasa to face in market competition in eastern Indonesia. Semen Tonasa is a subsidiary of state-owned Semen Gresik, also located in South Sulawesi, Other companies would find it difficult to expand operation in that region facing the Bosowa Group, which has strong support from well established marketing networks and distribution and as well as transport affiliates.

### Main risks

The Bosowa Group controls widely diversified businesses from trading to manufacturing and service business such as cement industry, financial service and infrastructure development. The main risks faced by the Bosowa group are as follows:

- *Economic Condition*, The international economic condition that tends to fluctuate will have its effects on the country's economy. Economic slump will affect the manufacturing sector including cement industry. Cement industry, however, is vital and strategic that it will continue to be needed to support the country's economic development especially development of the real sector. The risks to be faced by cement industry, therefore is much smaller than those faced by most other industries.
- *Pollution*. Cement factories sends dust to the air causing heavy pollution. It will cost a lot to deal with protesting people living near factories.
- *Government policy in automotive industry*. Although the group is expected to be able to maintain its considerable share of automotive market in eastern Indonesia, there is no guarantee that it would be as successful in automotive industry as long as the government has not issued new policy in automotive industry that might benefit the Group.
- *Electric power*. Cement industry needs large supply of electric power. Therefore, an increase in the electricity tariff will cause substantial increase in operating cost of a cement factory.
- *Competition*. The Bosowa Group, which operates in various business areas is almost certain to continue to face strong competition as apparent from the frequent launching of new products to attract consumers and the invention of new technologies. Sharp competition will put pressure on the company group affecting its performance.
- *Declining Purchasing Power of the People*. The purchasing power of the people should be considered in planning to raise prices that will trigger inflation. A decline in the purchasing power will mean a decline in demand for products including those of the group.

\* \* \*

### INTEREST RATES ON HOUSING CREDIT START DECLINING

The high increase in oil fuel prices in October, 2005 and falling value of the rupiah to the level of 10,000 per U.S. dollar forced Bank Indonesia (BI) to raise its benchmark interest rate (BI rate) from 10% in September to 11% in October, 2005. and again to 12.25% in November that year.

The rapid increase in BI rate forced banks to raise their interest rates on almost all types of loans including housing credit (KPR). Earlier, the KPR interest rates ranged from 12.5% to 15%, but with the increase in BI rate, the KPR interest rate was raised to 17%-20% toward the end of 2005. The increase forced buyers to postpone signing a deal.

In January, 2006, the rupiah regained some of its lost value to reach the level of 9,000. Meanwhile, the BI rate was unchanged from the level of 12.75% since December, 2005 until late April. The central bank even said it might consider cutting the key interest rate prompting banks to offer a lower interest rates including on KPR.

Early the second quarter of 2006 was a good momentum for banks for credit expansion in KPR sector. Banks begin to show enthusiasm and reduce their interest rates to attract more clients with weak purchasing power. The enthusiasm is higher with a statement by State Minister for Public Housing M. Yusuf Asy'ari, who asks Bank Indonesia to encourage Indonesian banks to allocate 30% of their KPR portfolio for subsidized healthy low cost houses. (RSH).

#### **BNI reduces KPR interest rate to 15.5%**

Large disbursement of KPR is predicted to start in the second half of 2006 when bank interest rates begin to decline. A number of state banks begin to show greater interest in offering KPR such as Bank Negara Indonesia (BNI) and Bank Mandiri. The two banks have cut the interest rates on KPRs.

In March, 2006, Bank Mandiri, the country's largest lender, reduced its interest rate from 17.25% to 16% on Graha Mandiri KPR. BNI cut its interest rate on BNI Griya KPR from 17% to 15.5% also effective as from March - lower than the interest rates on KPRs offered by other banks.

Meanwhile, BTN, which is known for long as the main financier of property credits including and KPRs, still keeps a relatively high interest rate of 18% per year. The bank, however, plans to soon cut the interest rate to 15%.

**Table - 1**  
KPR interest rates by a number of banks, April 2006

Name of Banks	Interest rates on KPR (% annually)	
	Earlier	At present
Bank Mandiri	17.25 %	16.0%
Bank BNI	17.0 %	15.5%
Bank BTN	18.0%	18.0%
Bank Niaga	16.5%	16.5%
Bank BCA	16.0 %	16.0%
Bank Danamon	20.0%	16.0%
Bank Permata	18.0%	16.5%

Source: Data Consult processed

### **Banks expand property credits**

With the plan to reduce interest rates, banks expect an increase in property credits this year. Bank BNI is more serious in expanding credit for the property sector targeting an increase in its outstanding credit in the sector from Rp 1.9 trillion by the end of 2005 to Rp 3 trillion by the end of this year. The fund is allocated for 13,700 units of low cost houses and middle to high class houses and for construction service. By the end of 2005, the Rp 1.9 trillion KPRs provided by BNI made up 20% of its total consumer credits of Rp 11 trillion.

BNI started showing greater interest in offering KPR by forming cooperation with around 150 developers and a number of property agents in channeling out the Rp 3 trillion credits.

In this sector, BNI offers financing services from construction to KPR for consumers with ceiling of up to Rp5 billion with repayment up to 20 years. It also offer incentives in interest rates for developers and user of KPR.

Bank Tabungan Negara (BTN), which has core business in providing property credits targets an increase in its outstanding credit by Rp 5.5 trillion of which 95% or Rp 5.2 trillion will be for the property sector. Until the end of March, 2006, its had disbursed KPRs only for 16,000 units as against its target of 100,000 units for the whole year.

The interest shown by banks in KPR is also attributable to workers insurance company PT. Jamsostek (Jaminan Sosial Tenaga Kerja) establishing cooperation with BTN in the distribution of Rp 750 billion in KPR for low cost

houses in 2006. The fund will be kept as *stand by loan* at BTN to finance KPRs this year.

Bank Mandiri also shows interest in extending KPRs. In 2006 the country's largest bank plans to provide Rp 5.5 trillion in property credit. It also offers incentives for developers in attracting buyers of KPR houses.

The country's largest private bank BCA targets to chalk up an increase of Rp 2 trillion or 57.1% in KPR bringing its total outstanding KPR to 5.5 trillion by the end of this year.

Bank Niaga plans to set aside at least Rp 7.5 trillion for KPR this year or an increase of 22.9% from Rp 6.1 trillion last year. Bank Niaga has relied more on KPR for credit expansion. KPRs accounted for 20.3% of its total outstanding credit of Rp 30 trillion. Last year. In January, 2006, the bank, which is 63.35% owned by Malaysia's Commerce Asset Berhad, provided Rp 240 billion in KPRs for 2,175 units of house. Its non performing KPRs is relatively low at 2%.

**Table - 2**  
Property credit targets of several banks, 2006

Name of banks	Credit targets
Bank BTN	Rp 5.5 trillion
Bank Mandiri	Rp 4 trillion
Bank BNI	Rp 3 trillion
BCA	Rp 2 trillion
Bank Niaga	Rp 7.5 trillion

Source : Data Consult, processed

### **KPR predicted to rise 25%**

KPR is a type of property credit provided by banks. Other types of property credits are construction credits, offered for contractors and real estate credits provided for developers.

In the first two months of 2006, a 3.6% increase was still recorded in the amount of KPRs to Rp 58.03 trillion in February, 2006 from Rp 53.06 trillion in December, 2005, although the interest rates were relatively high. Seeing the trend, many expressed optimism that the property sector will soon recover after the interest rates on KPRs are reduced. In 2006, the amount of outstanding credits in KPRs is forecast to rise 20%-25% to Rp 70 trillion. The projected growth is lower than 33.1% in 2005. However, the KPR growth rate is still high compared to growth

## Finance

rates expected for other credits such as car credits, which also showed a slow down to follow the slump that hit car market in the first months of this year.

The high growth forecast for KPRs is based on the growing number of banks offering KPRs including apartment credit (KPA) with various facilities.

**Table - 3**  
Value of property credits in KPRs and KPAs,  
2000 – 2006

(Rp billion)

Period	Construction		Real Estate		KPR+KPA		Total Property credits	
	Value	Growth rate	Value	Growth rate	Value	Growth rate	Value	Growth rate
Dec. 2000	5,866		5,872		15,976		27,714	
Dec. 2001	6,898	17.6%	5,239	-10.8%	19,912	24.6%	32,049	15.6%
Dec. 2002	7,500	8.7%	5,727	9.3%	21,773	9.3%	35,000	9.2%
Dec. 2003	9,483	26.4%	7,395	29.1%	30,108	38.3%	46,986	34.2%
Dec. 2004	15,864	67.3%	9,324	26.1%	42,099	39.8%	67,287	43.2%
Dec. 2005	21,433	35.1%	10,377	11.3%	56,034	33.1%	87,844	30.6%
Feb. 2006	21,510	0.4%	11,148	7.4%	58,041	3.6%	90,699	3.3%
Composition 2006		23.7%		12.3%		64.0%		100.0%

Source: BI, Data Consult processed

By February, 2006, KPRs made up 64% of property credits in amount. The rest included real estate credits accounting for 12.3% and construction credit making up 23.7%. There have been changes in the composition of property credits in the past 5 years. In 2000, property credits disbursed for developers accounted for 21.2% with KPRs and KPR making up for 57.6%.

Under the new system, developers will build houses after KPRs are approved and made available by banks reducing the risk faced by developers.

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## INDUSTRY

### HOUSING ESTATE DEVELOPMENT BOOSTS CONCRETE TILE INDUSTRY

Boosted by rebound in housing development, concrete tile industry has enjoyed a strong growth in the last three years. The strong demand has encouraged several major concrete tile producers to increase their production capacity. One of the key players in industry has even stopped receiving new orders until mid of this year, due to the full utilization of their production capacity. Production of concrete tiles has increased from only about 118.7 million pcs in 2003 to around 200 million pcs in 2005.

**Table - 1**  
Production of concrete tile, 2003 - 2005

(million pcs)

Region	2003	2004	2005
Jabotabek, West Java, Banten	49.3	75.6	86.1
Central Java	16.3	20.0	23.0
East Java	41.7	71.5	78.7
North Sumatra	6.4	8.7	10.4
Other	5.0	6.0	6.0
Total	118.7	181.8	204.2

Source: Data Consult

The strong growth of demand for concrete tile was highly influenced by the implementation of government program in providing houses for low income group. In 2004, the government introduced a new movement to build 1 million houses per year to meet the current shortage of houses of some 5.7 million. This movement is supported by a policy to subsidise the cost of houses for low income group and the assistance for providing the advance payment for acquiring the house. According to the government sources, the one million house development program will consist of development of 52,500 houses and 203,000 low-cost and very simple houses by real estate companies, 600,000 houses built by individuals and rehabilitation of 200,000 houses in slump area.

Concrete tile producers have highly benefited from the housing development program, because real estate companies mostly use concrete tiles for their houses. In fact, concrete tile industry started in early 1980's in Indonesia to meet the demand from real estate companies which emerged during this period.

## Industry

### Growing market, stronger competition

The year 2004 was a turning point for roof tile industry when the government introduced the movement to build 1 million houses per year of which around 250 thousand units will be developed by housing estate companies. The main market for concrete tile in Indonesia is B 2B (Business to Business) market not the individual housing market. B2B projects consist mainly housing estates, corporate housing complex, and shop-houses.

Despite full utilization of some major companies, production capacity of many smaller companies are still under utilized because they could not compete with major producers which have strong brand image in the market. Roof tile is a part of a house which is highly exposed to the sun and rains. Therefore the quality and durability of the tile is an important factor of buying criteria, by real estate companies. Most of housing developers do not want to take risk by using low quality roof tile, because it can badly affected the company's reputation, when the tile break down or the roof leaking.

The following table illustrates the market players of concrete tile and their scale of business.

**Table - 2**  
Major market players of concrete tile, 2005

Company	Brand	Located	Production Capacity (pcs)
<b>A. Jabodetabek-Banten-West Java</b>			
2. PT Efata	Mahkota	Jakarta	6,000,000
3. PT Lafarge	Monier	Jakarta, Surabaya	54,000,000
4. PT Angsa Mas	Angsa Mas	Cisoka Tangerang	3,900,000
5. PT Cisangkan	Cisangkan	Purwakarta Bandung	16,200,000
6. PT Cengkareng Permai	CP	Purwakarta	18,000,000
7. PT Daun Hijau Permai	Daun	Cirebon	3,300,000
<b>B. Central Java</b>			
1. Genteng SA Utama	SA Utama	Solo	5,400,000
2. Genteng Beton Pandu	Pandu	Solo	2,400,000
3. Industri Genteng Beton Berwarna & Conblock	Mutiara	Yogyakarta	6,750,000
4. PT Diamond Baru	Diamond	Yogyakarta	3,000,000
5. CV Jati Agung	J A	Yogyakarta	1,100,000
6. Genteng Karya Utama	K U	Magelang	1,800,000

Industry
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Table – 2 cont'd

<b>C. East Java</b>			
1. PT Mercu Graha Gempol Permai	<b>Mercu</b>	Pasuruan	4,000,000
2. PT Menara Genteng	<b>Menara</b>	Sidoarjo	4,000,000
3. Cahaya Purnama	<b>Cahaya</b>	Sidoarjp	7,200,000
4. Payung Mas	<b>PM</b>	Sidoarjo	1,600,000
5. Surya Sari	<b>SS</b>	Sidoarjo	1,900,000
6. Genteng Supersonic	<b>Supersonic</b>	Malang	4,000,000
<b>D. North Sumatera</b>			
1. CV Genteng Pioneer Indonesia	<b>Pioneer</b>	Medan	2,400,000
2. Jaya Traso	<b>Jatra</b>	Medan	2,400,000
3. Genteng Alfa Omega	<b>AO</b>	Medan	1,000,000
4. Polonia Traso Genteng	<b>Polonia</b>	Medan	1,350,000
5. CV Saudara Traso	<b>Super</b>	Medan & Tj Morawa	1,400,000

Source: Data Consult

With a total production capacity of around 54 million pcs a year, PT Lafarge Roofing Indonesia, is the biggest producer of concrete tile in Indonesia. The company is a part of Lafarge, a France based group of multinational companies. In Indonesia Lafarge is involved in cement ( PT Semen Andalas Indonesia), roofing ( PT Lafarge Roofing Indonesia) and gyssum industry ( PT Petrojaya Boral Plasterboard). Through its wellknown brand, “Monier”, Lafarge has a strong market presence in Indonesia.

The close competitor to Monier is Cisangkan. This brand is also wellknown and posseses a strong brand image among housing estate developers because of its quality and durability. Due to strong demand in the market, the company will in the near future expand their production capacity. Although their price is higher compared with other brands, Cisangkan still find a good market for their products. Even the company is unable to fulfil all of the orders from their customers because of its limited capacity.

The following table presents the production development of major producers of concrete tile.

## Industry

**Table - 3**  
Production development of selected producers of concrete tile,  
2003 - 2004

Name of company	Production (pcs)	
	2004	2003
<b>A. Jabodetabek-Banten-West Java</b>		
1. PT Atap Makmur Kencana	250,000	240,000
2. PT Efata	4,860,000	4,140,000
3. PT Lafarge	26,000,000	22,100,000
4. PT Angsa Mas	730,000	640,000
5. PT Cisangkan	13,260,000	12,180,000
6. PT Cengkareng Permai	9,600,000	5,000,000
7. PT Daun Hijau Permai	2,800,000	2,500,000
<b>B. Central Java</b>		
1. Genteng SA Utama	2,300,000	2,000,000
2. Genteng Beton Pandu	300,000	300,000
3. Genteng Mutiara	5,400,000	5,000,000
4. PT Diamond Baru	1,000,000	800,000
5. CV Jati Agung	750,000	600,000
6. Genteng Karya Utama	1,500,000	1,500,000
<b>C. East Java</b>		
PT Mercu Graha Gempol Permai	2,000,000	1,500,000
2. PT Menara Genteng	3,100,000	2,700,000
3. PT Cahaya Purnama	5,000,000	4,100,000
4. Payung Mas	1,000,000	1,000,000
5. Surya Sari	1,700,000	1,500,000
6. Genteng Supersonic	4,000,000	3,400,000
<b>Sub total</b>		
<b>D. North Sumatera</b>		
1. CV Genteng Pioner Indonesia	1,500,000	1,100,000
2. Jaya Traso	1,400,000	1,000,000
3. Genteng Alfa Omega	500,000	400,000
4. Polonia Traso Genteng	1,000,000	720,000
5. CV Saudara Traso	700,000	600,000
<b>Sub total</b>		

Source: Data Consult

Leading manufacturers emphasised that competition between suppliers of concrete roofing tiles was not simply confined to price. Local architects' and

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private developers determine which roofing material is to be used by considering the competing materials in the light of several factors including the quality and longevity of product; the quality of design and other aesthetic factors; the quality of service, including technical literature, technical advice and the ability to meet delivery dates and price.

Concrete tile is mostly used in medium and low end market segment. However, certain type of tile like flat type concrete tile is also used in high end segment especially for house with minimalist design. In this segment, concrete tile compete with flat tiles of other materials. In high end market, the competition exists primarily in the quality image, designs, ranges of products and colors and the continuity of supply. The price of Cisangkan which is generally higher than other major brands still found a good market and much sought by housing developers. The brands play in medium and high end segment also include CP, Monier and Mutiara.

In the medium end market, price is the most important factor, but still they consider also the quality. These developers usually has a ceiling price level for roof tile, and they will select the best quality products in this level. The level of ceiling price depends highly on the selling price of house. The popular brands like Cisangkan, Monier, CP and Mutiara dominated this market segment, particularly in Jakarta, Banten and West Java. In the meantime, in Central Java, the most popular brands are Sak, Utama, Diamond, Mutiara, JA and KU.

In the low end market, price is a dominant factor of buying decision. In this market segments there are many products offered in the market. Some of the products even, do not have brands. Wellknown brand, CP is leading in this market segment. Other brands which have also some sizeable shares are Angsana, Mahkota and Mutiara.

Being restricted by high transportation cost, the market of concrete tiles generally cover a limited area not so far from the producing center. Therefore, producers located in Jabotabek and West Java usually serve the market in their own regions. Similarly, producers in Central Java and East Java are usually oriented their market for their own region. Whenever they want to expand the market far away from their production facilities, they usually build another factory located in the target market. This situation leads to competition among products produced in the same area. The variety of products (*type, design and color*) also contributes to the success in marketing roof tile. Producers which are able to follow the trend in the market have bigger opportunities to sell to real estate companies which also suits their housing design to meet the requirement of their customers.

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Producers of concrete tiles usually introduced more than one series of products to meet different requirement of their clients. For instance, Cisangkan offers M/S, Excellent/ ORR, CP markets Safari, Royal, Nusantara & Ramayana series of concrete tiles.

**Table - 4**  
Type of product concrete roof tile produce by several producers  
in Indonesia, 2005

Company	Brand	Type of product	
		Corrugated	Flat
<b>A. Jabodetabek-Banten-West Java</b>			
1. PT Atap Makmur Kencana	MK		
2. PT Efata	Mahkota	Century	
3. PT Lafarge	Monier	Bima, Centurion, New elabama, Nova-Royal	Flat : (Nova-Palace)
4. PT Angsa Mas	Angsa Mas	Garuda, Royal, Super Deluxe, KIAA	-
5. PT Cisangkan	Cisangkan	M/S, Excellent/ ORR	Victoria (Fine, Slate&Multiline)
6. PT Cengkareng Permai	CP	Safari, Royal, Nusantara & Ramayana	Citra & Stone
7. PT Conrofindo Trias Corp.	Mutiara	Garuda (Mutiara, ABC) & Royal	Crown A/B
8. PT Daun Hijau Permai	Daun	PS, LB, Garuda, Royal	Flat color
<b>Central Java – Yogyakarta</b>			
1. Genteng SA Utama	SA Utama	Nusantara, Garuda, Ramayana, Safari	-
2. Genteng Beton Pandu	Pandu	Nusantara, Garuda	-
3. Industri Genteng Beton Berwarna & Conblock	Mutiara	Nusantara, Garuda, Bima, Pelita, Ramayana	
4. PT Diamond Baru	Diamond	DB I-IV, Kulit Jeruk (DB II), Excellent (DB VI)	DB VIII
5. CV Jati Agung	J A		
6. Genteng Karya Utama	K U		
<b>C. East Java</b>			
1. PT Mercuri Graha Gempol Permai	Mercuri	Country, Elabama, Royal, Centurion	-
2. PT Menara Genteng	Menara	Garuda, Royal, Nusantara	-
3. Cahaya Purnama	Cahaya	Classico, Royal Elabama, Aston- Garuda	-
4. Payung Mas	PM	Royal	-
5. Surya Sari	SS	Garuda, Royal Elabama, Nusantara	-
6. Genteng Supersonic	Supersonic	(Nusantara, Garuda, Royal, Kiaa	-

## Industry

Table – 4 cont'd

Company	Brand	Type of product	
		Corrugated	Flat
<b>D. North Sumatera</b>			
1. CV Genteng Pioneer Indonesia	Pioneer	Oscar Tiara, Crown	-
2. Jaya Traso	Jatra	M-95	-
3. Genteng Alfa Omega	AO	A O	-
4. Polonia Traso Genteng	Polonia	Polonia	-
5. CV Saudara Traso	Super	Super	-

Source: Field research Data Consult

As indicated by the following table, Monier, the present biggest producer of concrete tile offers the most varieties of colors. Similarly Cisangkan and CP also penetrated the market with a lot different colors of tiles. In the meantime, small producers usually introduce only less than 5 colors, of which natural color is the most type of color offered by these companies.

**Table – 5**

Ranges of colors of concrete tiles of selected companies, 2005

Company	Brand	Type of color	
		Standard	Special
<b>A. Jabodetabek-Banten-WestJava</b>			
1. PT Atap Makmur Kencana	MK		
2. PT Efata	Mahkota	Red	Brown, Green (based on order)
3. PT Lafarge	Monier	Red, Maroon, Flame (black-red), Sunset (red-yellow), Red flash (red-natural), Groto green (green-black), Bunga raya (red-black), Antique (brown-black), Golden sand, Silver flash (yellow-gray)	Villa Green
4. PT Angsa Mas	Angsa Mas	Red, Dark green	Based on order
5. PT Cisangkan	Cisangkan	Dark Brown, Red, Sandalwood, Black, Grey	Light green, Maroon, Blue, Light blue, Terracotta, Yellow, light yellow
6. PT Cengkareng Permai	CP	Light brown, Dark brown, Black, Red, Dark red, Yellow	Green tosca, Light green, Maroon, Multi color (based on order)

Industry

Table – 5 cont'd

Company	Brand	Type of color	
		Standard	Special
7. PT Conrofindo Trias Corp.	Mutiara	Red, Brown	Green, Blue (based on order)
8. PT Daun Hijau Permai	Daun	Natural Black, Brown, Red	Green, Blue, Maroon, etc (Based on order)
<b>B. Central Java – Yogyakarta</b>			
1. Genteng SA Utama	SA Utama	Natural & 1-2 color water/oil paint (based on order)	1 - 2 color water/oil paint (based on order)
2. Genteng Beton Pandu	Pandu	Natural Red, Brown, Black	Green, Blue (based on order)
3. Industri Genteng Beton Berwarna & Conblock	Mutiara	Red, Coffee, Fair black Blue, Green	Orange, Red Mandarin, Green toasca.
4. PT Diamond Baru	Diamond	Natural - Water/oil paint (Based on order)	Green, Orange, Blue (Water/oil paint)
5. CV Jati Agung	J A		
6. Genteng Karya Utama	K U		
<b>C. East Java</b>			
1. PT Mercu Graha Gempol Permai	<b>Mercu</b>	Red, Brown	Green (Based on order)
2. PT Menara Genteng	<b>Menara</b>	Natural, Red, Brown	Blue, Green, Orange, Maroon (Based on order)
3. Cahaya Purnama	<b>Cahaya</b>	Natural, Red, Orange, Brown	Maroon, Green Blue (Based on order)
4. Payung Mas	<b>PM</b>	Natural	Based on order
5. Surya Sari	<b>SS</b>	Natural	-
6. Genteng Supersonic	<b>Supersonic</b>	Brown, Red, Black Green	(Based on order)
<b>D. North Sumatera</b>			
1. CV Genteng Pioneer Indonesia	<b>Pioneer</b>	Brown, Black, Red	Maroon, Green, Blue (Based on order)
2. Jaya Traso	<b>Jatra</b>	Natural	Oil paint (Based on order)
3. Genteng Alfa Omega	<b>AO</b>	Natural	Oil paint (Based on order)
4. Polonia Traso Genteng	<b>Polonia</b>	Water/oil paint	
5. CV Saudara Traso	<b>Super</b>	Natural	Oil paint (Based on order)

Source : Field research Data Consult \* \* \*

# INFRASTRUCTURE

## INFRASTRUCTURE PROJECT DEVELOPMENT: BIG OPPORTUNITIES BUT FULL OF CHALLENGES

Indonesia is undoubtedly in a great need for new infrastructures across the span of the economy. The government of Indonesia has put infrastructure in high priority list for the country's short and medium term development. The government has announced that the country needs around US\$ 130 billion to developed new infrastructures projects for the period of 2005-2009 to maintain gross domestic product growth of more than 6% a year over the same period. Of this huge amount of fund needed, the government is able to meet only 17% of the budget, and the remaining 83% is expected to derive from private sectors. There is, however, some doubt on whether funding is the main problem or is it the lack of legal and operational certainty.

In the first "infrastructure summit" in January 2005, the government unveiled a list of 91 priority infrastructure projects offered to private sectors with an estimated value of US\$ 22.5 billion.

Many of the projects were developed in cooperation with state owned enterprises (SOE) prior to the financial crisis but have languished for lack of financing. Valued at approximately US\$ 22.5 billion (in aggregate), the sectoral distribution of the project is as follows:

**Table – 1**  
Infrastructure projects offered to investors, 2005

Sector	Number of projects	Estimated cost ( US\$ million)
Gas pipeline 1)	6	2,888
Electricity	12	5,897
Telecommunications	1	1,600
Railway	1	77
Seaport	4	1,485
Airport	5	709
Water 2)	24	386
Toll road 3)	38	9,428
Total	91	22,469

Notes: 1) includes a proposed LNG regassification terminal in West Java with an estimated value of US\$ 251 million

2) Includes 15 small municipal water projects valued at US\$ 13 million or less

3) Includes the Jakarta Outer Ring Road ( JOOR) phase two valued at US\$ 983 million

Source: KPPI

## Infrastructure

### Current status of infrastructure projects

After the Infrastructure Summit 2005, there have been 24 Infrastructure projects that have gone under transaction, covering 17 toll road projects, 2 gas pipelining projects, 1 power generation project and 4 water supply projects with a total investment of US\$ 6 billion. As well, eight projects have reached concession agreement, namely 4 toll road projects (Makassar section 4, Depok-Antasari, Cinere-Jagowari and Cikarang-Tanjung Priok) and 4 water supply projects (Yogyakarta, Banjarmasin, Samarinda and Kaligarang up-rating water processing unit - Semarang).

During 2006, 25 infrastructure projects are under preparation for transaction, namely 12 toll roads projects, 3 gas pipelining projects, 7 power generating projects and 3 water supply projects; with more than US\$ 7 billion of investment value. As well, 2 sub-sector transportation projects are being assessed for transaction readiness.

**Table – 2**  
Current status of infrastructure projects offered  
in Infrastructure Summit, 2005

Sector	Number of projects	Investment tender preparations	Invest. tender in process	Decision of winner	To be cont'd by former investors	Under Construction	In operation
Toll road	38	10	4	8	15	1	0
Electric power	12	5	1	3	2	1	0
Gas pipeline	6	4	1	1			0
Drinking water	24	6	0	0		2	1
Ports	4	1	0	0		0	0
Airport	5	1	0	2		1	0
Railway	1	1	0	0		1	0
Telecom Munication	1	0	0	0			0
<b>Total</b>	<b>91</b>	<b>28</b>	<b>6</b>	<b>15</b>	<b>17</b>	<b>5</b>	<b>1</b>

Source: KPPI

With the issuance of Perpres (Presidential Decree) 67/2005 and other PSP (Private Sector Participation) frameworks within infrastructure provisions, such as risk management framework son to be issued under a Ministry of Finance Decree, as well as a fully functioning KKPP (National Committee for the Acceleration of Infrastructure Provision) Secretariat including a PPP (Public Private Partnership) Center and PPP Nodes at each related Ministry, it is expected that the contracting agencies will produce bankable and quality

## Infrastructure

infrastructure projects that will at the same time provide the predictability needed by the investors.

Development of toll roads receives highest priority in the country's infrastructure development. In 2005, the government has issued a list of toll road projects which are offered to investors. These toll road projects required a total investment of some US\$ 9.3 billion and are expected to be completed within the next five years.

**Table – 3**  
Toll road projects offered to investors

No.	Name of project	Length (Km)	Estimated cost (US \$ Mill)
I	Jakarta and its surroundings		
	Cinere – Jagorawi	14.0	167
	Bekasi – Cawang	21.5	396
	Cikarang – Tanjungpriok	53.0	372
	Depok – Antasari	18.2	237
	Bogor Ring Road	11.5	154
	Jakarta Ring Road (JORR) 2	90.0	983
	Jakarta Ring Road (JORR) W2 North	9.2	89
	<b>Subtotal</b>	<b>217.4</b>	<b>2,398</b>
II	West Java and Banten		
	Ciawi – Sukabumi	53.5	420
	Sukabumi – Ciranjang	31.0	165
	Ciranjang – Padalarang	30.0	199
	Cileunyi – Sumedang – Dawuan	56.0	413
	Pasir Koja – Soreang	15.0	56
	Cikampek – Cirebon	100.0	140
	Kanci – Pejagan	34.0	148
	Dawuan – Palimanan	25.0	108
	<b>Subtotal</b>	<b>344.5</b>	<b>1,649</b>
III	Central Java and Yogyakarta		
	Pejagan – Pemalang	56.0	275
	Pemalang – Batang	35.0	164
	Batang – Semarang	75.0	355
	Semarang – Demak	25.0	93
	Semarang – Solo	80.0	427
	Solo – Matingan	58.0	317
	Yogyakarta – Solo	45.0	219
	Yogyakarta – Bawean	104.4	544
	<b>Subtotal</b>	<b>478.4</b>	<b>2,394</b>
IV	<b>East Java</b>		
	Matingan – Ngawi	27.0	122
	Surabaya – Mojokerto	37.0	197
	Ngawi – Kertosono	84.0	403
	Kertosono – Mojokerto	11.5	181
	SS Waru – Tanjung Perak I	12.0	86
	SS Waru – Tanjung Perak II	23.0	83
	Waru – Wonkromo – Tanjung Perak	18.4	340
	Gempol – Pandaan	13.6	75

## Infrastructure

Table – 3 cont'd

No.	Name of project	Length (Km)	Estimated cost (US \$ Mill)
	Pandaan – Malang	30.0	172
	Pasuruan – Probolinggo	40.0	192
	Probolinggo – Banyuwangi	156.0	676
	Gempol – Pasuruan	34.0	167
	<b>Subtotal</b>	<b>486.5</b>	<b>2,694</b>
V	North Sumatra		
	Medan – Binjai	20.5	107
VI	South Sumatera		
	Palembang – Indralaya	24.5	55
VII	South Sulawesi		
	Makasar Section IV	14.0	49
	<b>Total Indonesia</b>	<b>1,585.8</b>	<b>9,346</b>

Source: KPPI

During the recent infrastructure investment forum conducted in February 2006 by the Coordinating Minister of Economic affairs, the government conceded that the Ministry of Public Works tendered only a small number of projects from the list announced at the January 2005 Infrastructure Summit, and that these transactions were not up to international standards. As a result, only one of six toll road sections tendered in a first group of projects in 2005 is in final negotiation. In addition, only four out of 13 toll road sections tendered in a second round have eligible bidders in the pre-qualification stage.

### Infrastructure Regulatory Reform Agenda

To support the execution of infrastructure development plans, the government recently announced a regulatory reform agenda intended to create a predictable and transparent framework for infrastructure investment. Presidential Regulation (Perpres) 67/2005 (issued in November 2005) revised the principles governing public-private partnerships (PPP), emphasizing a competitive and open bidding process, clear risk allocation, and tariff structures designed to attract private investment with a reasonable return on investment.

Under the umbrella of Perpres 67, the inter-ministerial "National Committee for the Acceleration of Infrastructure Provision" (KKPPI) announced a policy matrix on February 17 listing 153 specific actions the GOI would take through January 2007 to boost infrastructure investment. These actions include the submission of draft laws, the issuance of regulations covering ten infrastructure sectors, and the enactment of institutional reforms in GOI infrastructure bodies. Key action items in the matrix include:

## Infrastructure

- The submission to Parliament of draft laws covering traffic and land transportation (by January 2007), railways (July 2006), shipping (July 2006), aviation (January 2007), electricity (June 2006), postal services (November 2006), solid waste (June 2006), mortgage securitization (June 2006), and regional government-owned enterprises (June 2006).
- The issuance of more than 30 new or revised ministerial decrees or regulations covering a range of infrastructure issues and sectors. These include regulations on foreign loans and grants (by January 2006), tariff policy for PPP projects for all modes of transportation (September 2006), and implementing regulations for Law 38/2004 on Toll Roads (June 2006). The GOI will also issue amendments to Presidential Regulation 36/2005 on Land Acquisition (March 2006) as well as regulations on oil and natural gas upstream and downstream activity by December 2006.
- The adoption of a series of ministerial decrees establishing new or reformed institutions to coordinate the development and implementation of PPP infrastructure projects, including the provision of GOI support. The new institutions include a PPP Center in the KKPPI Secretariat, PPP "nodes" in three key infrastructure ministries, and a "Risk Management Unit" (RMU) in the Ministry of Finance (see below). The issue of two key KKPPI decrees scheduled for April 2005 that would establish criteria for the prioritization of infrastructure projects and set up procedures and mechanisms for PPP projects requiring GOI financial support. The former decree would pave the way for a KKPPI list of priority projects eligible for GOI support.
- The preparation of engineering designs, feasibility studies, or tender documents for more than a dozen specific infrastructure projects in the transportation sector. For some projects, construction is scheduled to begin in 2006.

Structural issues such as land clearance, lack of flexibility to raise tariffs without parliamentary approval, and protection from local government interference are the main issues plaguing investors when it comes to infrastructure projects. Regional governments, which under the Regional Autonomy Law, now have the authority to approve projects but the majority of the country's 350 local governments do not have the capacity to implement large-scale infrastructure projects.

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# MINES AND ENERGY

## DOMESTIC CONSUMPTION OF COAL ON THE INCREASE

With the crude oil prices soaring to all time record, coal has become more important as an alternative source of energy for various industries such as power generating and cement manufacturing industries. The domestic consumption of coal has shot up in the past several years reaching 45.5 million tons in 2005 or an increase of 11.8% from the previous year's 40.7 million tons.

Coal consumption in Indonesia, one of the world's largest producer of that commodity, is relatively low - about 28% of its total production. The bulk of the production is exported such as to Japan, Thailand, the Philippines, South Korea and other countries. Coal is used only by a few sectors of the industry in the country. The largest consumers are cement and power generating industries.

**Table - 1**  
Coal production and sales, 2004-2005

Business players	Production (million tons)		Sales (million tons)			
	2004	2005	2004		2005	
			Local	Export	Local	Export
BUMN (PTBA)	8,707	8,607	7,210	2,712	7,193	2,492
Working contract Generation I	97,725	105,155	18,630	79,186	24,664	88,585
Working contract Generation II	11,618	12,254	5,960	5,067	4,798	7,137
Working contract Generation III	3,828	3,521	0,983	2,563	0,947	1,883
KP and Cooperatives	10,474	5,953	3,230	4,084	0,633	3,680
Total	132,352	135,489	36,013	93,613	38,234	103,776

KP : Mining Authority

Source: Mineral and Coal Directorate

However, coal requirement in the country is expected to continue to increase and the increase will be faster in the coming years as the government has ruled the use of coal or gas to fuel new power plants, and has also encouraged the use of coal by other industries instead of oil fuels. . . .

State-owned electricity company PLN plans to build coal fired power plants with a total capacity of 15,000 megawatts until 2015. At least 90 million tons of coal, therefore, will be needed in 2015 or an increase of 62 million tons in coal requirement in 9 years in the electricity sector alone. Currently, coal fired power

plants , which have a total capacity of 8,500 MW need up to 28 million tons of coal a year.

The government is in the process of holding tender for six power generating projects to be built by independent power producer (IPP) and four of them are steam powered electricity plants using coal fuel. They are PLTU Jateng (1,200 MW), PLTU Bali (200 MW), PLTU Sumut (50 MW), and PLTU Sulut (50MW). They are part of the government's plan to build 10 coal fired power plants with a total capacity of 10,000 MW outside the ones to be built by PLN until 2015 .

Some of the projects have been under construction such as PLTU Tarahan (2 x 100 MW) , which is to start operation in 2007, two units of PLTU owned by the Bosowa in South Sulawesi with a capacity of 2 x 100 MW to be operational in 2008 and 2009. Each of the plants is expected to need 700,000 tons of coal a year.

There are other power generating projects in the process of construction to come on line soon such as PLTU Tanjung Jati B (2,200 MW), PLTU Labuan Angin (230 MW), PLTU Karahan III and IV 100 MW, and PLTU Cilacap 600 MW

The plan to build a number of cement factories will also contribute to increase in coal consumption in the next five years. PT Semen Gresik plans to build a new cement plant with an annual capacity of 2.5 million tons. Other cement companies planning to build new factories using coal fuel include PT Semen Bosowa Maros and PT Semen Andalas.. In 2004, cement consumption for cement industry was 5.5 million tons . The consumption is forecast to rise to 9 million tons in 2015.

### **Bumi Resources to produce Synthetic Crude Oil from Coal**

PT Bumi Resource plans to build a factory to process coal into crude synthetic oil as fuel in South Sumatra. PT. Bumi Resources Tbk (BRT) a mining holding company of the Bakrie Group, in April 2006 sold its coal mining subsidiaries at a price of US\$3.2 billion to PT. Borneo Lumbung Energi (a business unit of Renaissance Capital). BRT sold a 95% stake in PT. Kaltim Prima Coal (KPC), 100% stake in PT. Arutmin Indonesia (AI) and 100% stake in PT. Indocoal Limited Resources.

BRT will focus on business in coal energy source. It will use the fund it received from the asset sales to build coal liquefaction factory to produce liquid fuel. BRT will also develop alternative source of energy such as biomass , bio-diesel and upgraded brown coal.

BRT, therefore, will need regular coal supply, therefore, it plans to acquire the coal mine of Pendopo Energi Batubara at a price of US\$ 3 million.

## Mines and Energy

Pendopo will supply up to 20 million tons of coal a year to be processed into liquid coal with a capacity of 8,000 barrels per day.

**Table - 2**  
PT Bumi Resources' expansion plan

Description	Project 1	Project 2
Estimate of investment	US\$ 800 million	US\$ 3 billion
Coal requirement	8,000 ton/day	47,500 tons/day
Production	Synthetic oil 13,500 barrels/day	Synthetic oil 80,000 barrels/day

Source : PT. Bumi Resources Tbk

The government will hold coordination with coal mining companies to regulate coal export volume to guarantee supply on the domestic market. The government and the association of coal mining companies (APBI) are drafting a domestic market obligation formula.

### **Coal Production to be Increased**

The government encourages the use of alternative sources of energy including coal. Coal mining companies, therefore are expected to increase production to meet growing demand in the country.

Coal producers in the country include state companies and contractors holding the PKP2B (Coal Mining Working Agreement) and mining authority contractors..

In 2005, a number of coal mining companies increased their production such as PT. Adaro Indonesia. Adaro produced 26 million tons of coal last year up from 24 million tons in the previous year. PT. Kaltim Prima Coal (KPC) increased its production to 27 million tons from 21 million tons in 2004.

Coal production of PT. Arutmin Indonesia (AI) totaled 16.7 million tons last year. The company, which operates in South Kalimantan, targets to increase production of low calorie coal to 20 million tons in 2010.. Low rank coal is the type of sub-bituminous with a calorie of less than 5,000. Being low in calorie few investors are interested in venturing to produce that type of coal as it will not sell well in international market. Subbituminous coal is used mainly to fuel power plants. Arutmin has so far supplied sub-bituminous coal to the coal-fired power plant of PLTU Suralaya, Banten averaging 3.6 million tons a year.

In the past five years, the country's coal production has continued to increase. In 2005, production totaled 135 million tons or a 20% increase from 112 million

## Mines and Energy

tons in 2003. Around 110 million tons of the production in 2005 were exported. This year, production is forecast to rise further to 170 million tons.

**Table - 3**  
Indonesia's coal production by companies, 2003-2006

No	Name of company	2003	2004	2005	2006*)
	STATE COMPANY				
	Bukit Asam, PT	10,026,838	8,707,166	8,606,635	780,550
	CONTRACTORS				
1	Adaro Indonesia, PT	22,523,247	24,330,581	26,686,197	5,240,594
2	Allied Indo Coal, PT	51,953	185,043	-	-
3	Antang Gunung Meratus, PT	507,033	1,130,210	418,067	-
4	Arutmin Indonesia	13,614,603	15,019,064	16,756,700	2,630,495
5	Bahari Cakrawala Sebuk, PT	1,963,718	2,531,058	2,417,051	-
6	Baramarta, PD	719,234	1,049,292	398,144	-
7	Baramulti Suksesarana, PT	45,224	72,970	27,335	-
8	Berau Coal, PT	7,359,542	9,103,123	9,197,371	695,569
9	Gunung Bayan Pratamacoal, PT	3,325,927	3,359,570	4,329,940	-
10	Indominco Mandiri, PT	6,327,073	7,103,265	3,686,904	-
11	Jorong Barutama Greston, PT	2,891,449	2,801,038	2,725,930	-
12	Kaltim Prima Coal, PT	14,762,896	21,279,757	27,641,329	2,373,470
13	Kartika Selabumi Mining, PT	301,632	736,115	1,035,136	-
14	Kideco Jaya Agung, PT	14,055,940	16,926,699	18,125,043	16,043,250
15	Lanna Harita Indonesia, PT	1,234,937	1,699,732	1,886,550	140,112
16	Mandiri Intiperkasa, PT	-	602,246	1,016,997	-
17	Marunda Graha Mineral, PT	-	457,822	310,740	-
18	Multi Harapan Utama, PT	1,620,380	1,521,035	896,277	116,572
19	Source Kurnia Buana, PT	932,447	756,554	459,102	-
20	Tanito Harum, PT	2,178,576	2,256,024	2,164,754	-
21	Tanjung Alam Jaya, PT	450,431	249,861	565,087	-
	Sub Total	94,866,243	113,171,060	120,744,654	27,240,062
	KP Private	7,924,356	9,506,564	5,940,661	
	KP Cooperatives		967,235	12,568	
	Total	112,817,438	132,352,025	135,304,518	28,020,612

Note: \*) up to February 2006

KP : Mining authority

Source: Energy and Mineral Resources Ministry

\* \* \*

## CORPORATE NEWS IN BRIEF

**ANGKASA PURA NAMED CONTRACTOR TO BUILD NEW AIRPORT IN MEDAN.** State-owned airport operator Angkasa Pura has been named by the government as the contractor to build the Kuala Namu international airport in Medan . Construction of the new airport, which will replace old airport of Polonia, will cost an estimated US\$500 million. Angkasa Pura will put up around US\$224.6 million and will seek US\$225 million in foreign loan including from Asia Development Bank to finance the project. The work will start this month to level the ground and build concrete panels. Tender for the construction will be opened in September. The new airport will have large capacity handling up to 8 million air passengers a year or doubling the capacity of Polonia.

**ELSORO TO BUILD CAPROLACTAM FACTORY.** PT Eloro Multi Pratama and a German financier Polycon plan to build the country's first caprolactam factory with an investment of Rp5 trillion (US\$556 million) in the country. The factory, which will produce the basic material for tire cord and textile yarns will be built over a 30-hectare plot of land in the Gresik Industrial Estate , East Java, Zubeir Halim, the president of the industrial estate company said. Halim said .the factory will have an annual production capacity of 120,000 tons .

**MEDCO TAKES OVER 15% OF BANGKANAI BLOCK.** PT Medco Energi Internasional has moved faster in its bid to expand its oil business empire by acquiring the entire stake of Mitra Energi Bangkanai in Bangkanai Petroleum (L) Berhad . A Medco Director Rashid I Mangunkusumo said Medco paid US\$3.75 million for the stake in Bangkanai Petroleum, which has a 15% participation rights in the Bangkanai block in the border area of Central Kalimantan and East Kalimantan. In the first two months of this year, Medco through its subsidiaries has signed a number of deals in the oil and gas sector. Medco E&P Indonesia and Medco E&P Lematang recently signed US\$627.5 million contracts to supply gas to state electricity company PLN and gas distributor PT Perusahaan Gas Negara (PGN).

**TITAN WHOLLY ACQUIRES PT PENI AT US\$ 78 MLN.** Malaysian Titan Chemical Corp. Bhd has acquired the whole of PT Petrokimia Nusantara Interindo (Peni) at a price of US\$78 million . Titan Managing Director Donald M Condon Jr said the price includes for the acquisition of a US\$58 million debt of Peni to be renamed PT Titan Petrokimia Nusantara. Peni is the largest producer of polyethylene in the country established in 1990 by BP. Sumitomo and Mitsui. It was acquired by the Indika Group in 2003 at US\$50 million with a loan fund from Malaysian banks. Titan said it will expand the production capacity of Peni from 450,000 tons annually at present.. With the acquisition, PT Titan Petrokimia, which has a 8% share of the polyethylene market in Indonesia (56% supplied through imports and 36% from PT Chandra Asri) will have a 50% share of the market in the country (Imports 16% and PT Chandra Asri 34%).

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## ECONOMIC NEWS IN BRIEF

**INDONESIA TO IMPORT US\$750 MLN WORTH OF PLASTIC BASIC MATERIAL.** Indonesia's imports of plastic basic materials this year are estimated to reach US\$ 750 million in value. Substantial imports are still needed as local production is not enough to meet requirement. This year the country will need around 1.4 million tons of ethylene and 650,000 tons of which are expected to be supplied by PT Chandra Asri Petrochemical Center. The remaining 750,000 tons will have to be imported. With a price of around US\$ 1,000 per ton, around US\$750 million will be needed to pay for the imports. The secretary general of the association of olefin and plastic industry (Inaplas) Budi Susanto Sadiman said demand for plastic basic materials in the country will continue to increase although plastic consumption grew only 3% to 2.4 million tons or far short of projection. This year plastic consumption is expected to rise 6%-7% to 2.6 million tons.

**USE OF NATURAL FOREST TREES BANNED IN 2014.** The government has decided to outlaw the use of natural forest tree for all types of industry in 2014. The government already set deadline in 2009 for paper pulp industry to stop using natural forest trees. Timber processing factories have to start taking steps toward building their plantation forests (HTI) to supply them with tree logs by 2014. The policy is to prevent further destruction of the country's tropical forests, which, according to Forestry Minister MS Kaban, suffer a degradation of 2.87 million hectares a year on the average. Based on data from Global Forest Resources Assessment 2005 published by the World Food Organization (FAO) the country's natural forests were reduced to 88 million hectares in 2006 from 100 million hectares in 2005. Until last year implementation of HTI project have reached 2.5 million hectares, which will have a sustained yield of up to 22 million cubic meters of logs. In 2009, HTI implementation is projected to reach 5 million hectares and by 2014, HTI implementation target is 9 million hectares

**FOREIGN INVESTORS ALLOWED TO HAVE UP TO 49% OF RETAIL COMPANY.** The government has issued a regulation allowing foreign individuals or companies to have up to 49% stake in modern retail companies or shops. Under previous regulation foreign investors were allowed to own supermarkets and small shops in the country without specifying the percentage of ownership. The foreign investors, however, are allowed to have the stake indirectly from stock exchange. Direct acquisition or investment of supermarket and shops modern is still banned. The association of retail companies (Aprindo) said the regulation should be more concrete in banning foreign investors from holding the majority stake. Aprindo secretary general Tutum Rahanta said with a 49% stake, a foreign investor could easily become the majority shareholder if the remaining 51% stake is split by a number of local partners.

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## APPENDICES

### DIRECTORY OF CEMENT COMPANIES IN INDONESIA

<b>Asosiasi Semen Indonesia (Indonesia Cement Association)</b>	
Head Office Address:	Graha Irama, 11 <sup>th</sup> floor, Jl. HR. Rasuna Said blok X-1 Kav. 1 & 2 Jakarta 12950, Indonesia
Phone No. :	(021) 5261105; 5261106
Fax No.:	(021) 5261107; 5261108
E-mail:	<a href="mailto:Info@asi.or.id">Info@asi.or.id</a>
Management	Chairman : Soepardjo Vice chairman: Urip Timuryono Secretary general : Mrs. Sudaryanti
<b>PT Semen Andalas Indonesia</b>	
Head Office Address :	Lok Nga, Km. 17 Banda Aceh, Indonesia
Location :	Lhok Nga, Nangro Aceh Darusalam
Phone No. :	(0651) 770016
Fax No.:	(0651) 770019
E-mail:	<a href="mailto:ptsa@aceh.santara.net.id">ptsa@aceh.santara.net.id</a>
Management	President Director : Thomas Patrick Ehrhart
Prod. Capacity :	1,400,000 tons per annum
<b>PT Semen Padang</b>	
Head Office Address:	Indarung, Padang 25237, West Sumatra, Indonesia
Location :	Indarung, West Sumatra
Phone No. :	(0751) 32250 (hunting)
Fax No.:	(0751) 34590, 28973
E-mail:	<a href="mailto:pdepts@indosat.net.id">pdepts@indosat.net.id</a>
Management	President Director : Dwi Soetjipto
Prod. Capacity:	5,440,000 tons per annum
<b>PT Semen Baturaja</b>	
Head Office Address:	Jl. Abdikusno Cokrosuyoso, Kertapati, Palembang 30001, South Sumatra, Indonesia
Location :	Baturaja, Palembang and Panjang (Lampung)
Phone No. :	(0711) 511261
Fax No.:	(0711) 512126
Management	President Director : Bakti Setiawan
Prod. Capacity:	1,250,000 tons per annum
<b>PT Indocement Tunggul Prakarsa Tbk.</b>	
Head Office Address:	Wisma Indocement 13 <sup>th</sup> floor, Jl. Jend. Sudirman Kav. 70-71, Jakarta 12910, Indonesia
Location :	Citeureup, Palimanan (West Java) and Tarjun, Kalimantan
Phone No. :	(021) 2512121, 2522121
Fax No.:	(021) 2510060

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E-mail:	<a href="mailto:corpsec@ibm.net.id">corpsec@ibm.net.id</a>
Management	President Director : Daniel Lavallo
Prod. Capacity:	15,650,000 tons per annum
<b>PT Semen Cibinong Tbk.</b>	
Head Office Address:	Jamsostek Tower, North Building 14 <sup>th</sup> & 15 <sup>th</sup> floors Jl. Jend. Gatot Subroto No. 38, Jakarta 12930
Location :	Narogong, Citeureup, West Java
Phone No. :	(021) 52962011
Fax No.:	(021) 52962022
Management	President Director : Timoty David Mackay
Prod. Capacity:	9,700,000 tons per annum
<b>PT Semen Gresik Tbk.</b>	
Head Office Address :	Jl. Veteran 10, Gresik 611122, East Java, Indonesia
Location :	Gresik, Tuban, East Java
Phone No. :	(031) 3981732, 3981745
Fax No.:	(031) 3983209
E-mail:	<a href="mailto:ptsg@sg.sggrp.com">ptsg@sg.sggrp.com</a>
Management	President Director : Satriyo
Prod. Capacity:	8,200,000 tons per annum
<b>PT Semen Tonasa</b>	
Head Office Address:	Biringere, Pangkep 90651 South Sulawesi, Indonesia
Location :	Pangkep, South Sulawesi
Phone No. :	(0410) 312245 (hunting)
Fax No.:	(0410) 310007 – 8
E-mail:	tonasa@pusdataprin.go.id
Management	President Director : Sadman
Prod. Capacity :	3,480,000 tons per annum
<b>PT Semen Bosowa Maros</b>	
Head Office Address:	Jl. Urip Sumoharjo No. 188, Makasar, Sulawesi Selatan. Indonesia
Location :	Maros, South Sulawesi
Phone No. :	(0411) 444 444 (12 line)
Fax No.:	(0411) 447 744
E-mail:	<a href="mailto:sbmmaros@indosat.net.id">sbmmaros@indosat.net.id</a>
Management	President Director : H.M. Aksa Mahmud
Prod. Capacity :	1,800,000 tons per annum
<b>PT Semen Kupang</b>	
Head Office Address:	Jl. Yos Sudarso, Osmo Tenao, Kupang, East Nusa Tenggara. Indonesia
Location :	Kupang, East Nusa Tenggara
Phone No. :	(0380) 890 086, 890 087, 890 090
Fax No.:	(0380) 890 089
Management	President Director : Abdul Madjid Nampira
Prod. Capacity :	570,000 tons per annum

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## Appendices

### ECONOMIC INDICATORS

#### 1. CONSUMER PRICE INDEX IN INDONESIA (2002 = 100), IN MARCH 2006 (Change Against Previous Month And December 2005)

Sector	March 2006	Change (%)
<b>GENERAL INDEX</b>	<b>139.57</b>	<b>0.03</b>
<b>1. FOODSTUFF</b>	<b>132.37</b>	<b>-0.88</b>
- Cereal roots and products thereof		
- Meat and products	115.43	-1.31
- Fresh frozen	128.19	-0.84
- Processed fish	122.85	0.61
- Egg, milk, and products	110.78	-3.83
- Vegetables	132.30	-0.51
- Beans	136.70	0.57
- Fruits	126.76	1.61
- Spices	145.36	1.99
- Fat and oil	125.76	-0.17
- Foodstuff others	115.64	-0.07
<b>2. PREPARED FOODS, BEVERAGES, CIGARETTE &amp; TOBACCO</b>	<b>134.44</b>	<b>0.58</b>
- Prepared foods	136.75	0.53
- Non-alcoholic beverages	137.65	0.03
- Tobacco & alcoholic beverages	126.39	1.35
<b>3. HOUSEHOLD</b>	<b>143.79</b>	<b>0.36</b>
- Housing cost	137.51	0.44
- Fuel, light and water	182.39	0.22
- Household equipment	110.70	0.21
- Household maintenance	123.30	0.31
<b>4. CLOTHING</b>	<b>123.16</b>	<b>0.15</b>
- Clothing for men	117.74	0.27
- Clothing for women	112.86	0.12
- Clothing for children	116.84	0.24
- Personal effects	155.04	0.06
<b>5. HEALTH</b>	<b>122.22</b>	<b>0.39</b>
- Medical care	135.72	0.34
- Drug	118.13	0.26
- Baby care	134.04	1.49
- Cosmetics	114.16	0.25
<b>6. EDUCATION, RECREATION &amp; SPORT</b>	<b>136.64</b>	<b>0.12</b>
- Education	165.75	-0.05
- Course / training	116.39	0.28
- Education equipment	111.98	0.08
- Recreation	105.17	0.62
- Sport	112.21	0.51
<b>7. TRANSPORTATION, COMMUNICATION &amp; FINANCE</b>	<b>165.77</b>	<b>0.13</b>
- Transportation	186.77	-0.01
- Communication & Send	120.63	-0.02
- Transportation support	133.06	0.96
- Transportation support	149.79	5.34

Source: Central Bureau of Statistics

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## Appendices

### 2. OIL PRICES

ITEM	Market	Latest		1 month	3 months	One year
		Date	Price	ago	ago	ago
1. CRUDE OIL SPOT PRICE (US\$/Barrel)						
- Sumatran Light 1)	Tokyo	04/24/2006	55.43	48.25	42.25	26.20
- Arabian Light 2)	Europe	04/24/2006	58.23	53.30	48.10	27.10
- Arabian Heavy 2)	Europe	04/24/2006	63.33	56.46	50.33	28.35
- Brent 2)	Europe	04/24/2006	73.14	64.19	57.29	30.23
- W. Texas 2)	-	04/24/2006	70.22	60.45	53.40	32.00
2. REFINED PRODUCT (US\$/Gallon)						
- Fuel Oil 2)	New York	04/24/2006	.5770	.5835	.5770	.5546
- Gasoline, Premium 3)	New York	04/24/2006	.4636	.4711	.4636	.4344

Sources: 1) FEER - Telerate, 2) AWSJ- Dow Jones International Petroleum Report, 3) AWSJ - Oil Buyer Guide \* \* \*

### 2. FOREIGN EXCHANGE AND GOLD PRICE IN JAKARTA

ITEM		Today	1 month	3 months	One year
		04-24-2006	ago	ago	ago
A. FOREIGN EXCHANGE (RUPIAH)					
US\$	<u>buying</u>	8,345	9,330	9,105	8,645
	<u>selling</u>	9,345	10,330	10,105	9,645
Pound.		14,901	16,237	16,568	15,491
		16,692	17,982	18,394	17,288
Aust. \$		6,219	7,021	6,992	6,048
		6,967	7,777	7,765	6,752

## Appendices

### Foreign exchange and gold price in Jakarta cont'd

buying  
selling

I T E M	Today 04-24-2006	1 month ago	3 months ago	One year ago
<b>A. FOREIGN EXCHANGE (RUPIAH)</b>				
Sin. \$	5,241	5,518	5,441	5,025
	5,871	6,111	6,043	5,609
Mal. \$	2,300	2,573	2,515	2,420
	2,375	2,599	2,530	2,450
Hk. \$	1,067	1,199	1,170	1,108
	1,205	1,328	1,299	1,237
Yen	72.06	82.59	83.34	76.53
	80.72	91.46	92.52	85.45
Euro	10,304	11,277	11,014	10,386
	11,543	12,490	12,228	11,593
<b>B. GOLD PRICE (RP/GRAM)</b>				
Gold 24 carat	175,000	133,000	129,000	109,000
<b>C. AVERAGE INTEREST RATE</b>				
- Call money	8.7	6.0	6.7	6.9
- S B P U				
a. 7 days	-	-	-	-
b. 1 up to 3 months	-	-	-	-
c. 3 up to 6 months	-	-	-	-
- SBI (Primary market)				
a. 7 days	-	-	-	-
b. 31 days	13.0	9.0	8.5	7.6

Notes : SBI = Bank Indonesia Certificates, SBPU = Money Market Securities

n.a. = Data not available

Source: Data Consult

\* \* \*

## Appendices

### 2. THE INDONESIAN ECONOMIC TRENDS

Items	2002r)	2003r)	2004r)	2005r)	2006 e)
1. The growth rate of GDP (% p.a.)	3.6	4.0	5.1	5.6	6.0
- GDP per capita (US\$)	810	1,116	1,207	1,305	1,356
- GNP per capita (US\$)	760	1,072	1,165	1,224	1,250
2. Total export (US\$ bill)	57.2	61.1	71.6	85.5	86.4
Total increase (%)	-1.6	-6.8	-9.3	-19.5	-
Non-oil/gas(US\$ billion)	45.0	47.4	55.9	66.3	67.2
Non-oil Increase (%)	-3.0	-5.3	-17.9	-18.5	-
3. Total import (US\$ bill)	-31.3	-32.6	-48.4	-58.6	-57.2
Total increase (%)	1.6	4.1	4.5	26.0	-
Non-oil/gas(US\$ billion)	-24.8	-24.9	-34.5	-43.4	43.1
Non-oil increase (%)	2.0	0	18.2	24.7	-
4. Current account (US\$ bill)	5.8	6.1	5.9	8.0	6.5
5. Reserve assets (US\$ bill) (End of the year)	32.0	36.2	36.3	34.7	35.8
6. Total money supply (Rp trill.)	191.9	223.7	253.8	281.9	290.0
Increase in 12 months(%)	8.0	16.6	11.8	12.9	-
7. Bank credit (Rp trill.)	410.3	477.2	595.6	730.1	846.2
Increase in 12 months(%)	18.8	19.8	26.4	20.2	-
8. Comm. bank deposit (Rp trill.)	845.0	902.3	963.0	1,030.4	1,142
Increase in 12 months(%)	4.9	6.8	6.7	7.0	6.6
9. Average interest rate (% p.a.)					
a. 3 month time deposit					
-State bank	13.5	7.31	7.2	8.4	9.0
-Private bank	13.7	7.2	6.9	7.9	9.0
b. Short-term credit					
-State bank	17.2	17.9	16.4	15.0	11.8
-Private bank	18.3	15.7	14.0	17.2	12.9
10. Inflation rate, % p.a	10.03	5.06	6.40	17.11	8.0
11. Population (million peoples)	208.1	211.6	214.4	216.6	217.3

Notes : r) Revised figures

e) Estimate by Data Consult

p) Projection revision figures

n.a. = data not available

Source: Bank Indonesia, Central Bureau of Statistic and Data Consult \* \* \*