

INVESTMENT IQ INDONESIA

Exploring Infrastructure Investment in Indonesia

By

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President Commissioner

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INVESTMENT IQ INDONESIA

Status Pre-crisis 1997-1998

- Pre-1990 : Government responsibility
- 1990-1995/6 : Expansion of urban toll road programme ; private sector enters power generation; preparation of Jakarta water concessions and operations elsewhere
- 1995/6 : Over 30 toll roads offered to private sector concessionaires
- 1997/8 : Cancellation/ postponement of toll road concessions
- Feb 1998 : Jakarta water concessions signed



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Economy

- Indonesia is largest economy in ASEAN group and ranked 15th in the World economies
- Indonesia's Ranking has moved from 32nd to 15th in 10 years outstripping economies like India and China for improvement
- Much needed Infrastructure investment would raise GDP growth to >8%

	2006	2007F	2008F	2009F
1) GDP Growth	5.5%	6.3%	6.3%	6.5%
2) Consumption growth (70% of GDP)	3.2%	4.3%	4.7%	5.0%
3) Inflation (year-end)	6.6%	6.6%	6.0%	5.5%
4) USD/IDR (year-end)	9,100	9,380	8,900	8,500
5) BI rate (year-end)	9.75%	8.0%	7.50%	8.0%
6) Trade account (US\$ bn)	29.7	30.5	29.0	26.0
7) Current account (USD bn)	9.6	9.2	7.0	5.0
8) FX reserves (USD bn, year-end)	42.6	56.9	64.9	75.0
9) Risk rating (Standard & Poor®)	BB-	BB-	BB	BB+



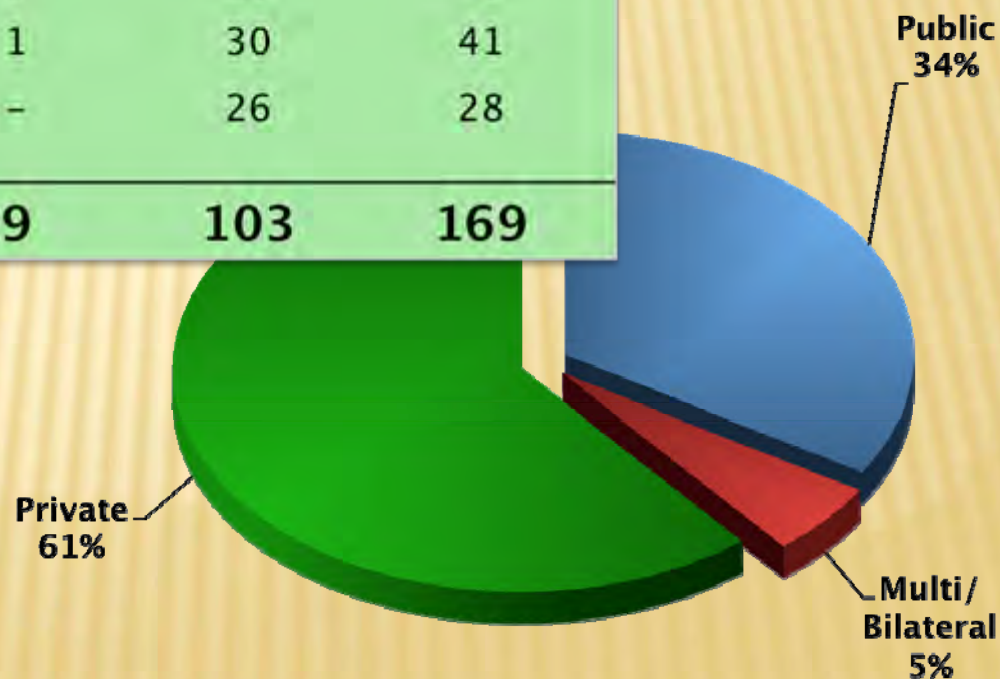
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1	United States	13,543,330
2	China	11,606,336 ¹
3	India	4,726,537
4	Japan	4,346,080
5	Germany	2,714,469
6	United Kingdom	2,270,884
7	France	2,040,109
8	Brazil	2,013,893
9	Russia	1,908,739
10	Italy	1,888,492
11	Spain	1,310,206
12	South Korea	1,250,490
13	Mexico	1,249,738
14	Canada	1,217,069
15	Indonesia	1,053,696
16	Taiwan	749,943
17	Australia	730,590
18	Turkey	722,581
19	Argentina	691,054
20	South Africa	663,950
21	Iran	647,592
22	Thailand	645,228
23	Netherlands	635,633
24	Poland	631,833
25	Philippines	509,061
26	Pakistan	465,416
27	Colombia	422,483
28	Saudi Arabia	417,669
29	Ukraine	399,806
30	Greece	391,395
31	Qatar	361,382
32	Malaysia	308,900
33	China Taipei	411,000

Estimated Minimum Investment Requirement Over Next 10 Years

Sector	Amount (US \$ bn)			
	Public	Multi /Bilateral	Private	Total US \$ bn
Power	12	2	17	31
Water	13	3	10	26
Transport	20	3	20	43
Toll Road	10	1	30	41
Telecommunications	2	-	26	28
Total	57	9	103	169



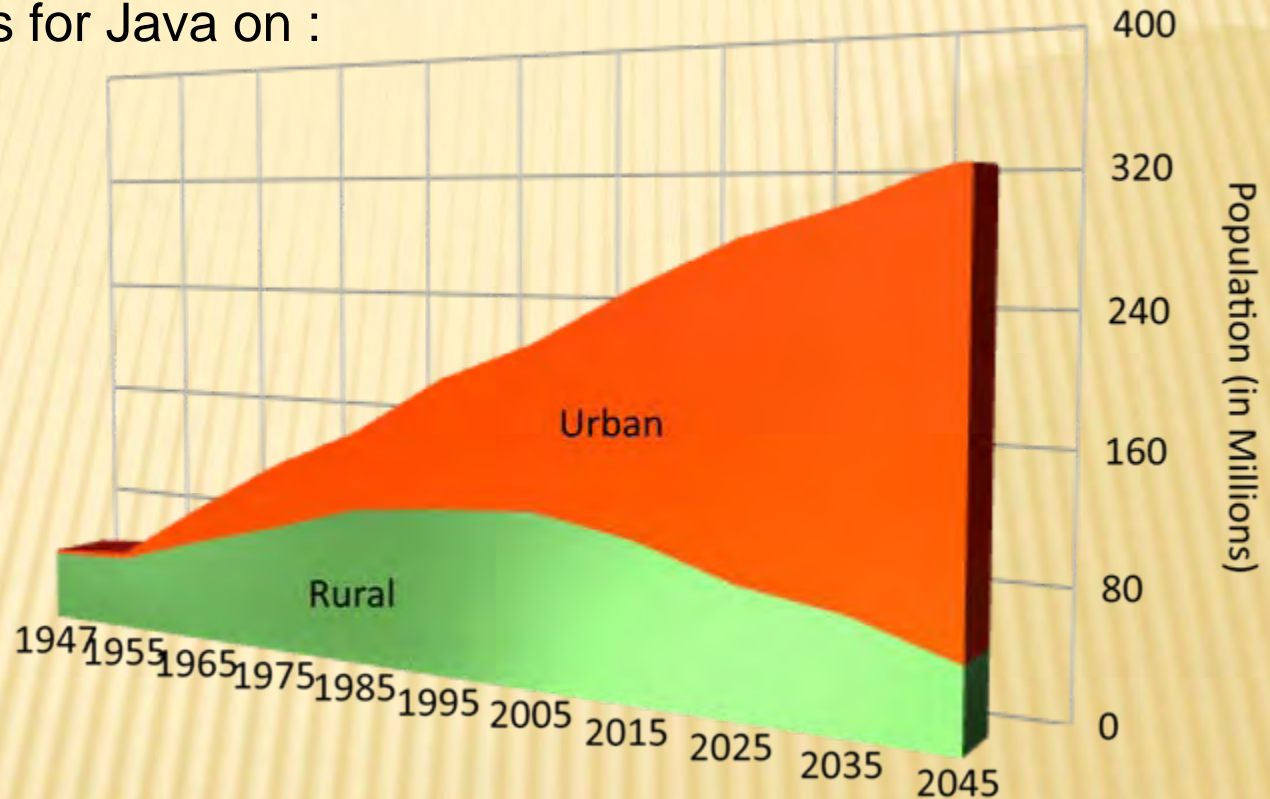
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Rapid National Urbanization

Strategic Issues for Java on :

- Power
- Transport
- Water



Today: Urban / Rural ratio ~ 50 : 50

2020: Urban / Rural ratio ~ 70 : 30



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Policy Challenges Facing Indonesia

- Need for improved concession terms
- Need for a new framework in several sectors
- Need for legal certainty & enforceability
- Perceived political risk
- High domestic interest rates
- Need to develop domestic capital markets



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Need for New Frameworks

- Toll Roads: Close to serviceable but problems remain; testing the road fund
- Power: Old framework with poor track record; but new approaches in pipeline; renewable energy for off Java
- Water: Ad hoc approach with poor track record; strategic issues to be addressed; implementing regulations on totally
- Airports: Waiting on revised framework
- Ports: New Law 21/2008 issued; implementing regulations; big investment in Ports & Ships
- Telecommunications: Fine tuning only



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“Environmental” Factors

- Inadequate legal infrastructure
- Perceived political risk
- High domestic interest rates
- Underdeveloped capital markets

“The greatest single factor in attracting investment is the experience of investors who have entered previously.”



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Perceived Political Risk

Political Risk Ranking of Selected Asian Countries, 2003

1	Singapore	7	India
2	Japan	8	Vietnam
3	South Korea	9	Philippines
4	Malaysia	10	China
5	Taiwan	11	Indonesia
6	Thailand	12	Pakistan

*Source: Political & Economic Risk
Consultancy, Ltd. (Hong Kong),
Business Environment Report 2003*

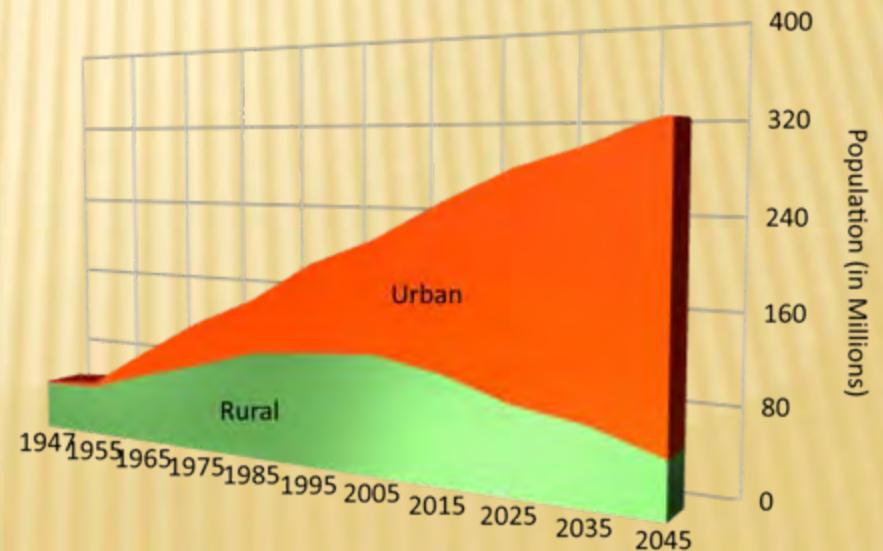


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Trends Affecting Infrastructure

- Rapid national urbanization
- Shortages of equipment and expertise
- Capital surpluses generated by emerging markets
- Popularity of infrastructure as an investment target



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Infrastructure Development Resources Are in High Demand

- There are an estimated US\$550 billion in projects now under development in the Persian Gulf region alone.
- Lead times and prices have increased by 50-100% since the start of 2006 for:
 - Turbines and generators
 - Petroleum & geothermal drilling equipment
 - Heavy equipment
 - Shipbuilding



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Infrastructure Development Resources Are in High Demand

- Shortages of engineers and construction specialists is reaching critical proportions.
- New business opportunities are arising, for example in:
 - Repair and maintenance
 - Used equipment
 - Innovative solutions to equipment shortages
 - Technical education and training



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Popularity of Infrastructure Investment

- Infrastructure investment is more popular in ever in history, with both governments and investors.
- US\$105 billion raised by infrastructure funds worldwide from January 2006-June 2007.
- The 20 largest infrastructure funds have US\$130 billion under management
 - 77% raised since January 2006
 - 63% from new entrants to infrastructure investing
- Competition for deals is driving prices up and yields down.



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Infrastructure Funds in Indonesia

- Few of the international infrastructure funds are currently present in Indonesia; they will come to Indonesia in search of good investments with reasonable returns.
- Private equity funds are being attracted to infrastructure to achieve their target investment size in Indonesia.
- A new Bapepam regulation allows private equity funds to operate in Indonesia, probably as domestic investors.

Bapepam regulation IV.C.5 (Feb. 14, 2008) allows venture capital funds to be operated under a collective investment contract – “KIK” – provided that:

- *The fund is managed by a CFA or experienced fund manager*
- *The minimum unit size is Rp.5 billion (or US\$500,000)*
- *The maximum number of investors is 49*



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Advice for Investors

- Do the work: The Indonesian infrastructure sector needs innovative solutions and will reward them.
- Add value by active financial and balance sheet management – in particular, the original development debt financing should usually be refinanced within 2 years of commercial operation.
- Don't rely exclusively on the classic project finance model.
- Takeovers of existing assets can generate revenues immediately.
- Exercise your right to walk away from unreasonable concession terms and overpriced deals.



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Advice for Investors

- Look at wholly private deals such as captive power and transportation infrastructure for coal and CPO.
- Assess risks in a project-specific way.
- Don't rely on financial expertise alone – become actively involved in operational issues.
- The Government's difficulties in making Indonesian infrastructure opportunities competitive with other countries will translate directly into higher yields.



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Key Issues & Opportunities in Power Sector

- Electrification ratio is around 56%
- 34% coming from fuel oil
- 78% of PLN fuel costs are fuel oil
- PLN fuel costs now exceed sales revenue
- Growth in demand around 7% pa
- 1997-2003 no significant capacity was added to the system
- PLN getting back on-track for the 10,000MW fast-track programme for Java-Bali



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Key Issues & Opportunities in Power Sector

- Fast-track programme soon for Java-Bali-another 10,000MW aimed at reducing fuel oil based generation by moving to coal, gas and renewables
- Around 100 IPP's in various stages of development representing 29,000MW but around 70% of these are either in PPA negotiations or requiring financing –around US\$25 Billion of finance required
- Another 50 IPP's being considered-representing some US\$15 billion of investment
- All this has to be done over the next 12 years just to meet demand
- Failure would result in Indonesia not sustaining its GDP growth at around 7% pa



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Key Issues & Opportunities in Water Sector

- Steady and dramatic increase in urban population
- Big impact on Java
- Basins already stressed
- Land use away from irrigation
- Serious investment plan for PDAM's & urban sanitation
- Upgrade irrigation infrastructure ; attention off Java (Stress Table)



Key Issues & Opportunities in Water Sector

- Rural water supply & sanitation ; innovative financing
- Rationalization of PDAMs
- Monitor IWRM v MDGs
- Funding – Shortfall and growing demands (Chart)



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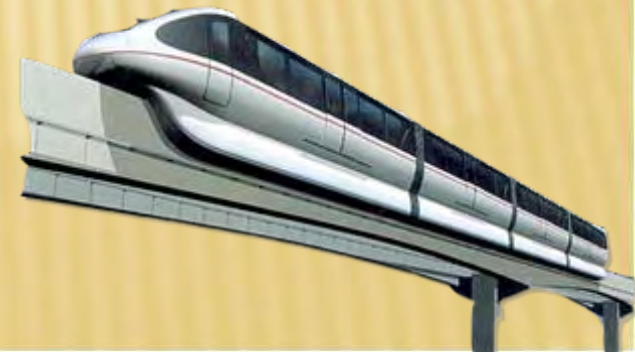
Key Issues & Opportunities in Road & Transportation Sector

- Significant increase in road network required – 1million km
- Funding with budget constraints? Multilateral & Bilateral agencies ; need other funding initiatives
- Toll Road Programme ; expected to get some momentum ; road fund for land acquisition
- Growth in motorcycles and cars increasing rapidly



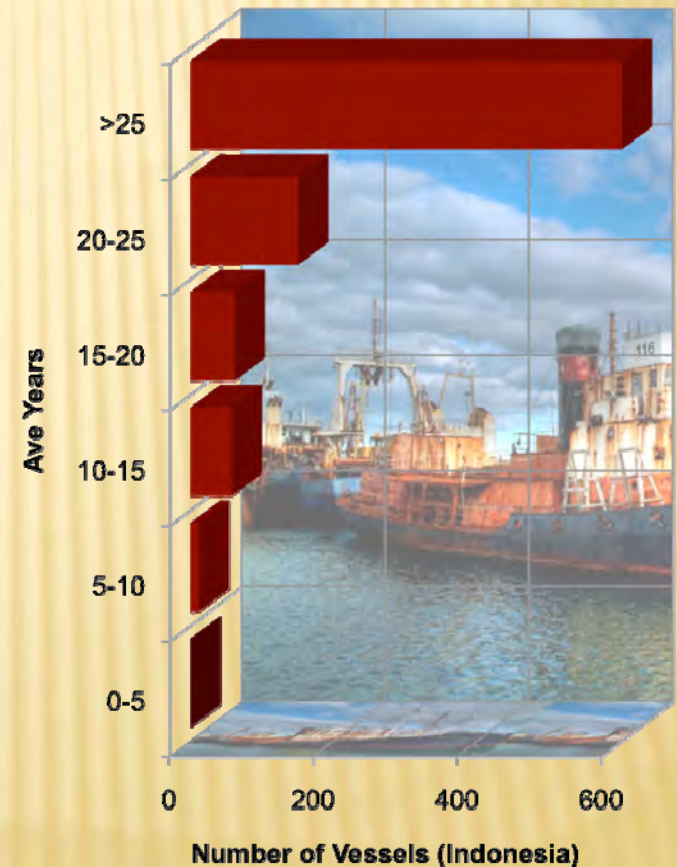
Key Issues & Opportunities in Road & Transportation Sector

- City congestion, especially Jakarta, severe
- Need alternative solution ; above/over ground – monorail, MRT, shared ROW
- Vehicle operating costs highest in Asia problem of illegal and user charges
- Truck fleet old
- Increasing number of accidents



Key Issues & Opportunities in Ports and Shipping

- Recent new shipping law, No 21 (2008)
- Tying up with SOEs (PELINDO I-IV) no longer mandatory for new ventures
- Introduction of cabotage principles ; tax, legal issues, current practice will cause implementation delays
- About 80% of all classes of vessel > 20 years old

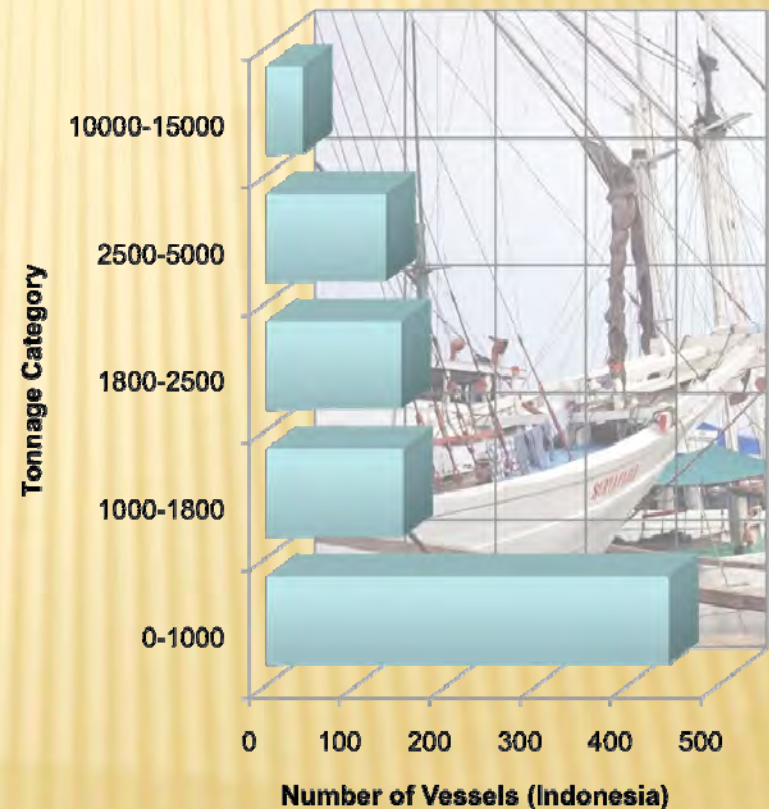


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Key Issues & Opportunities in Ports and Shipping

- Majority of ships small
- Large investment in new ships
- Major ports congested and have poor land access ; less than 50% are capable of handling containers
- Large investment in new ports and redevelopment of old



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Summary

- The timing is right for investment in Indonesia.
- The Government is politically committed to addressing the needs of Middle Eastern investors.
- Opportunities exist across virtually all sectors.



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