

REORGANIZATION OF THE INDONESIAN FERTILIZER INDUSTRY

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1. PT PUPUK INDONESIA AT GLANCE

PT Pupuk Indonesia (PIHC), formerly known as PT Pupuk Sriwidjaja (Pusri), is a **Strategic and Investment Holding Company** of seven (7) subsidiaries i.e:

- PT Petrokimia Gresik (99.99% shares) established in 1972
- PT Pupuk Kujang (99.99% shares) established in 1975
- PT Pupuk Kalimantan Timur (99.99% shares) established in 1977
- PT Pupuk Iskandar Muda (99.99% shares) established in 1982
- PT Pupuk Sriwidjaja Palembang (99.99% shares) established in 2010
- PT Rekayasa Industri (90.06% shares) established in 1981
- PT Mega Eltra (98.72% shares) established in 1970

Prior to the establishment of Strategic and Investment Holding (2011), in 1997 The Government of The Republic of Indonesia established and appointed Pusri as **Operating Holding Company**, which produced and marketed fertilizer as well as the subsidiaries.

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2. IMPLEMENTATION OF OPERATIONAL HOLDING VS. NON-OPERATIONAL HOLDING (STRATEGIC AND INVESTMENT HOLDING) MODELS ON INDONESIAN FERTILIZER STATE OWNED ENTERPRISE (SOE)

2.1. The Establishment of Operational Holding (1997)

In 1997 The Government decided to establish a holding company, and transferring all the government shares from the subsidiaries to PT Pupuk Sriwidjaja. The decision to establish a holding company was due to the following reasons:

- To act as an arm of The Government to coordinate and control the subsidiaries
- To enhance synergy, efficiency and productivity of all subsidiaries
- Integrating SOE on the development of fertilizer and chemical industry

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2.2. Problems on Implementing Operational Holding Model (1997-2010)

In fact with this model of Operating Holding (PT Pupuk Sriwidjaja was acting as operating holding) still the following problems occurred:

- Investment overlapping
- High level of inventory in each plants
- Less synergic marketing activities (unnecessary competition)
- Less synergic financing activities
- Less synergic R and D, procurement (especially long term supply of gas and imported fertilizer), and plant maintenance and operation
- Less strategic Human Resource Development
- Conflict of interest when implementing market zoning decree in 2003, when each subsidiaries had their own responsibility for their market zone

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2.3. Restructuring of Operational Holding to Strategic and Investment Holding (2011)

2.3.1. The Structure of PIHC as a New Holding

Having deeply evaluated the Operational Holding since 1997, then in January 2011 the Government established a new model of holding i.e. Strategic and Investment Holding (spin-off process, PIHC established a new subsidiary PT Pupuk Sriwidjaja Palembang in January 2011, since then PIHC has been a Strategic and Investment Holding).



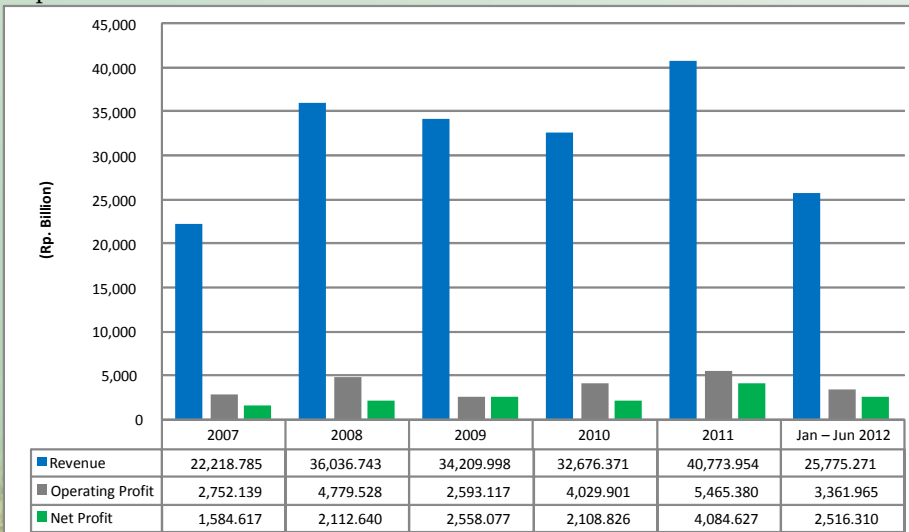
2.3.2. Strategic Actions as a New Holding

- Contract supply of subsidized fertilizer with the Government to ensure domestic fulfillment (would have better planning for domestic and export)
- Regionalized (market zoning) domestic/subsidized allocation, to have better PSO (Public Service Obligation) mission, and least cost distribution
- Inventory control
- Intensive marketing synergy
- Gas/feed stock coordination and control
- Combined procurement
- Financing strategies (funding, accounting, reporting system)
- Strategic investment coordinations (urea plant replacement, NPK plant development/clustering industry, energy conversion programme, new investments)
- HRD synergy/system
- Knowledge transfer of production management

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2.4. Financial Result on Implementing Strategic and Investment Holding Model (January 2011-June 2012)

Substantial increased on financial result has been achieved as strategic actions implemented.



3. CURRENT CAPACITY AND MARKET ZONE

3.1. Current Fertilizer Total Capacity

We are producing fertilizers product such as Urea (79% prilled and 21% granuled), NPK, ZA, DSP in capacity such as:

Company	Designed Capacity (tonnes per year)			
	Urea	ZA	SP-36	NPK
PT Petrokimia Gresik	462,000	750,000	510,000	2,800,000
PT Pupuk Kujang	1,156,000			400,000
PT Pupuk Kalimantan Timur	2,980,000			350,000
PT Pupuk Iskandar Muda	1,140,000			
PT Pupuk Sriwidjaja Palembang	2,262,000			
Total	8,000,000	750,000	510,000	3,550,000

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3.2. Plants Establishment and Capacity

3.2.1. PT Pupuk Sriwidjaja Palembang

Description	Start	Number of Plants & Capacity (tonnes per year)
Pusri II Plant	1974	4 Urea Prilled Plants : 2,262,000
Pusri III Plant	1976	
Pusri IV Plant	1977	
Pusri IB Plant (Replacement of Pusri I)	1993	

3.2.2. PT Petrokimia Gresik

Description	Start	Number of Plants & Capacity (tonnes per year)
PKG 1: ZA I Plant	1972	1 Urea Prilled Plant : 462,000 3 ZA Plants : 750,000 2 SP-36 Plants : 510,000 8 NPK Plants : 2,800,000
ZA II/III Plant	1984/86	
SP-36 I/II Plant	1979/83	
Urea Plant	1995	
Phonska (NPK) Plant	1999	

3.2.3. PT Pupuk Kujang

Description	Start	Number of Plants & Capacity (tonnes per year)
Kujang 1A Plant	1979	2 Urea Prilled Plants : 1,156,000 NPK Plants : 400,000
Kujang 1B Plant	2005	

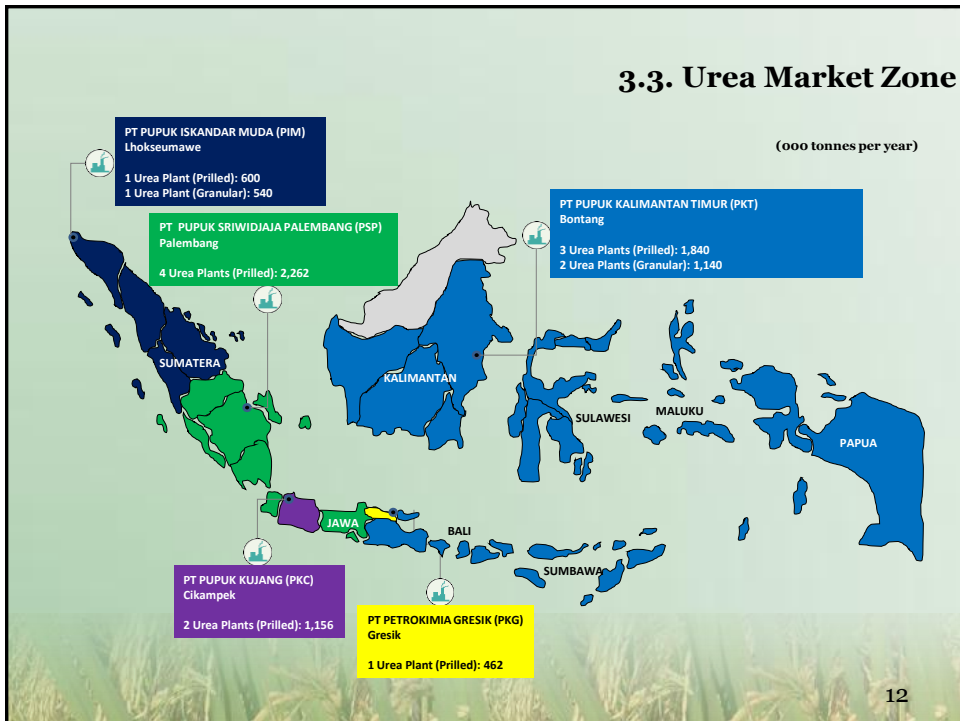
3.2.4. PT Pupuk Kalimantan Timur

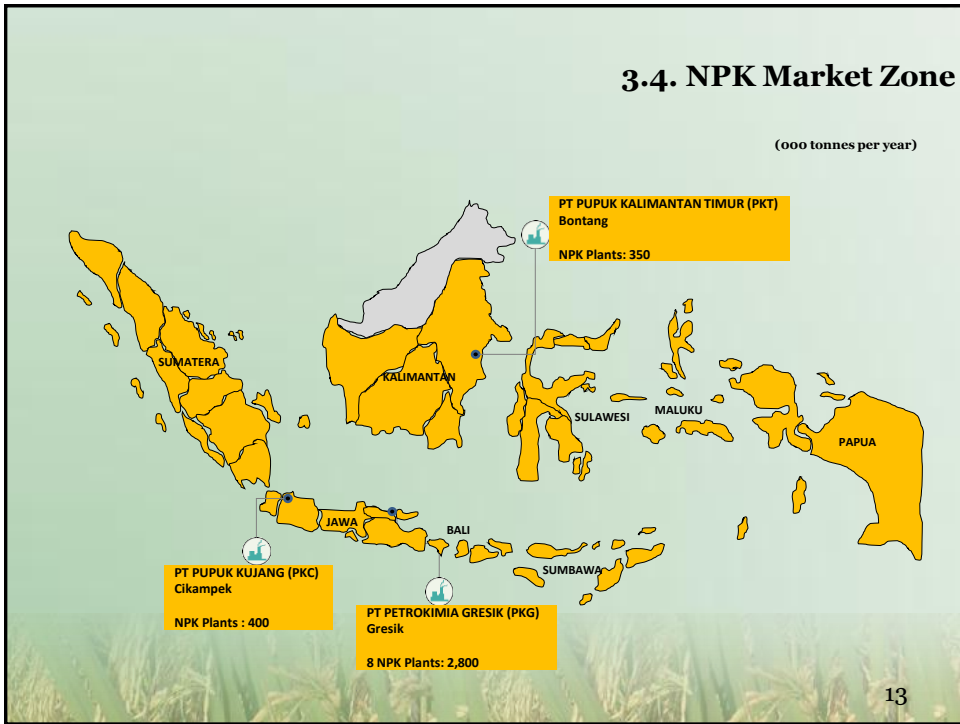
Description	Start	Number of Plants & Capacity (tonnes per year)
Kaltim 1 Plant	1984	3 Urea Prilled Plants : 1,840,000 2 Urea Granuled Plants : 1,140,000 NPK Plants : 350,000
Kaltim 2 Plant	1985	
Kaltim 3 Plant	1989	
Popka Plant	1999	
Kaltim 4 Plant	2002	

3.2.5. PT Pupuk Iskandar Muda

Description	Start	Number of Plants & Capacity (tonnes per year)
PIM 1 Plant	1984	1 Urea Prilled Plant : 600,000
PIM 2 Plant	2005	1 Urea Granuled Plant : 540,000

3.3. Urea Market Zone





4. TREND MARKET, DOMESTIC DEMAND

4.1. Projected Demand (2012-2017)

Fertilizer	Demand* (million tonnes)					
	2012	2013	2014	2015	2016	2017
Urea	7.1	7.0	7.0	7.0	7.0	7.0
NPK	9.2	9.7	10.3	10.7	11.2	11.6

Source: Ministry of Agriculture Republic of Indonesia

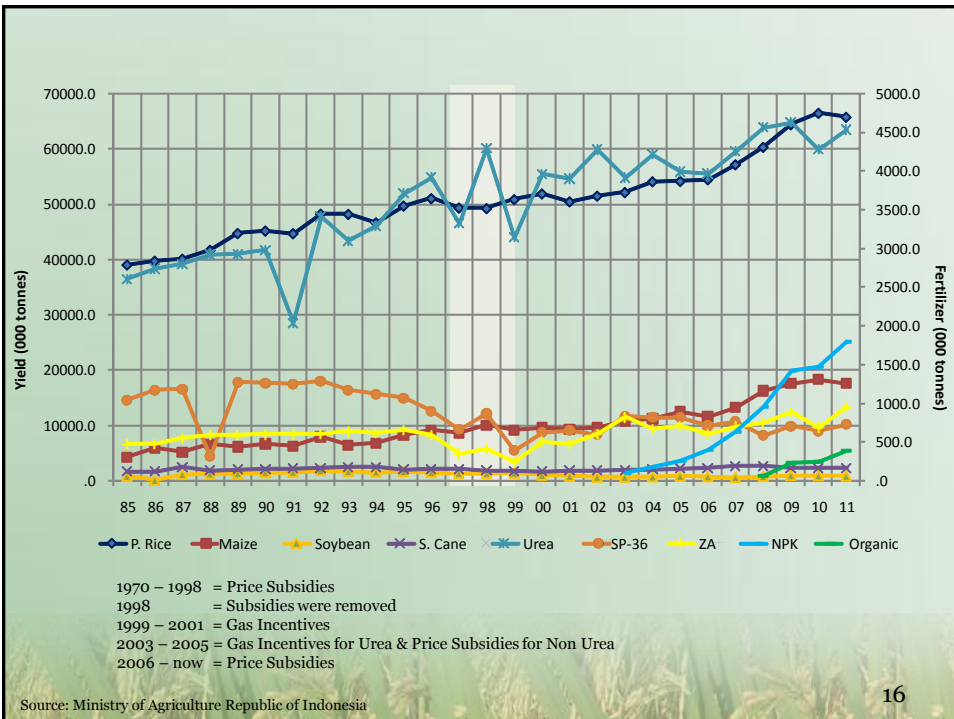
*) Demand for both subsidized and non-subsidized fertilizer.

4.2. Fertilizer Subsidy vs. Food Crops

Urea consumption increased from 3.7 million tonnes to 4.5 million tonnes (1995-2011) vs. paddy rice production increased from 49.6 million tonnes to 65.38 million tonnes (1995-2011).

Value of subsidy for fertilizer was amounting to Rp 77 trillion (2003-2011) vs. the increase in the commercial value of subsidized agricultural commodities (paddy rice, maize, soybean and sugar cane) was Rp 292 trillion (2003-2011).

Since 2003 subsidized fertilizer has been given to the farmers for Urea as well as for NPK compound, these Government policy has also been contributing substantially on increasing the production of food crops.



5. INVESTMENT AND PROJECT PLANNING

5.1. Urea Plants Replacement Project

	Old Plant	New Plant	Capacity (tonnes per day)		Schedule
			- Amoniak	- Urea	
1.	Kaltim-1	Kaltim-5	2,500	3,500	2011-2014
2.	Pusri II	Pusri II B	2,000	2,750	2012-2015
3.		PKG-2	2,000	1,750	2013-2016
4.	Kujang IA	Kujang IC	2,000	3,500	2013-2016
5.		Tangguh I	2,500	3,500	2015-2018

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5.2. NPK, PA/SA and ZA Plants Project, Industry Cluster

	Company	Capacity (tonnes per year)		Schedule
		Old	New	
Cluster Jawa				
1.	PKG	2.7 million	600 thousand	2013-2015
2.	PKC	110 thousand	200 thousand	2013-2016
Cluster Sumatera & Kalimantan				
3.	PSP	-	1.1 million	2013-2015
4.	PKT	300 thousand	1.2 million	2013-2016

	Company	PA	SA	Schedule
		(tonnes per year)		
1.	PKG	600,000	1,800,000	2012-2015
2.	PSP	200,000	910,000	2013-2016
3.	PKT	200,000	910,000	2014-2016
TOTAL		1,000,000	3,620,000	

	Plant	Capacity	Schedule
		(tonnes per year)	
1.	ZA IV PKG	350,000	2014-2016
2.	ZA PKT	350,000	2014-2016
TOTAL		700,000	

5.3. Energy Conversion Programme

	Company	Steam	Electricity (MW)	Schedule
1.	PIM	4 x 220	2 x 30	2012-2015
2.	PSP	2 x 240	1 x 32	2012-2015
3.	PKC	2 x 150	1 x 20	2012-2015
4.	PKG	2 x 150	1 x 25	2013-2016
5.	PKT	6 x 240	5 x 30	2015-2017

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CLOSING REMARKS

- The restructuring of Fertilizer State Owned Holding Company, even though being implemented only within short period (since January 2011), could enhance synergy, marketing and distribution system, and increase productivity and efficiency. As PIHC being the first SOE in implementing non-operating holding model, furtherance the GoI has also implemented the non-operating holding model to other SOE on plantation and construction sectors.
- Government policy on fertilizer subsidy to farmers in Indonesia has been contributing substantial increased for food crops productivity.
- The trend decrease in gas supply and the increase of gas price level, as raw material, has been the high concern to get solution alternatives from energy conversion, coal gasification and CBM project, and build new efficient plants close to the new remote gas source.

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