



"The Government plans the construction of a railway line in the four islands other than Java in the next 5 years"

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Rail as a mode of transport that is cheap, safe, and environmentally friendly need to be developed not only in Java, but also in other major islands in Indonesia

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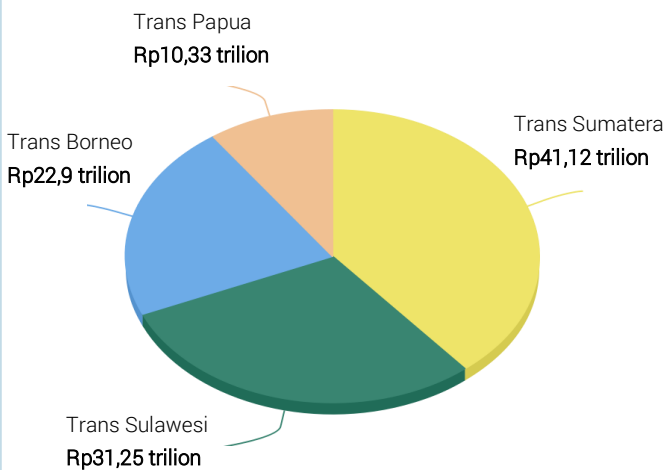
- Director General of Railways, Ministry of Transportation-

The Government's ambitious program to improve the quality and quantity of national infrastructure is one of the priorities that can be used as a benchmark in indicator of success in developing of basic infrastructure facilities for the welfare of the citizens which without leaving the impression of "Jakarta centric" or "Java-centric" which during this appears, especially by people who are outside the region.

One of the Government's work plan in order to support the equitable development of national infrastructure development plan and development is the railway line which is currently only available outside of Java and Sumatera, became widespread in other major islands. So in the next five years, the railway line will also be available by the people in the island of Sulawesi, Kalimantan, and Papua.



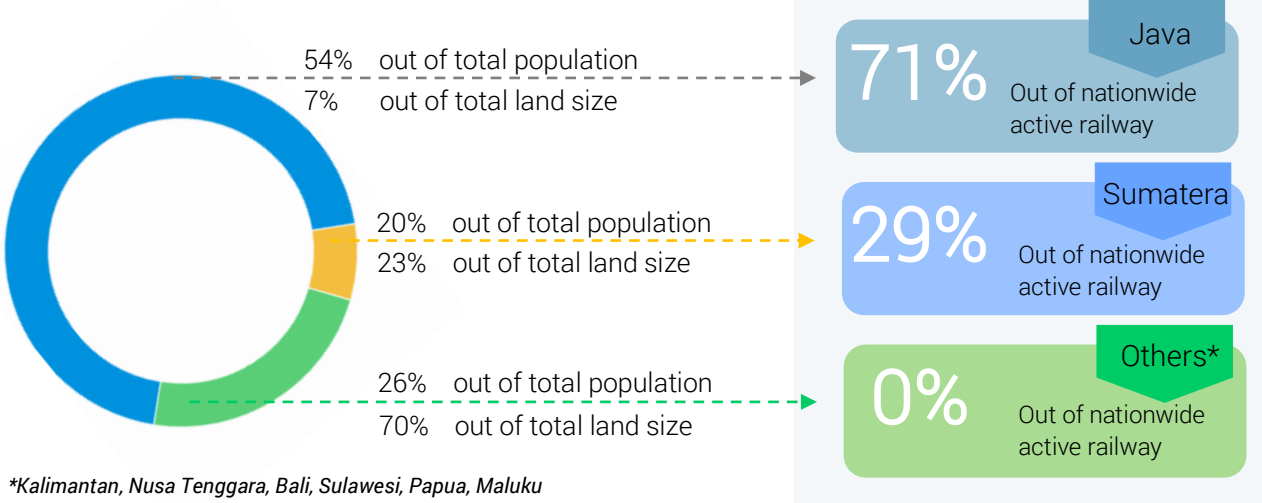
Railway Development within Rail Strategic Plan 2015 – 2019



As stated in the Strategic Plan for Railways 2015 - 2019 developed by the Directorate General of Railways (DGR) of the Ministry of Transportation, outside Java, the government needs a budget of around Rp105,6 trillion to build about 3,000 km railway line which is divided into four major islands, The development of this railway line, requires the support of all parties, both from the central and local agencies.

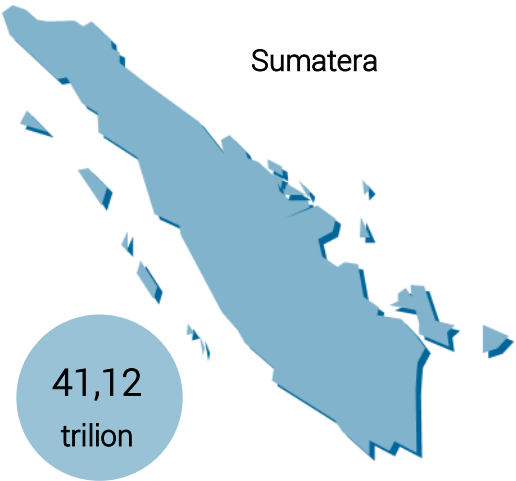
Nationally, the current railway line is only available in Java and Sumatera. From ± 6,324 km of trails available in Java, there were only about 3,600 km in operations. Whereas in a far wider aread, namely the island of Sumatera, an active railway line 'only' 1,369 km of the total 1,835 km ± available.

With these facts, it can be observed that:



The above statistics explain that other major islands, with an area of nearly 70% of Indonesia's land area and has a population of ± 26% of the total Indonesian population that did not have access to railway infrastructure network. Railways Strategic Plan 2015 - 2019 includes the development of new rail, is expected to reduce this significant gap.

Details of Development Plan for Railways in the Outer Java Year 2015-2019



- Highlight Projects:**
- New Railway Pekanbaru-Jambi-Palembang
 - Rail access to Belawan Port
 - Airport Railway Minangkabau
 - Railway revitalization of Padang Panjang-Bukit Tinggi-Payakumbuh

In Sumatera, the railway constructions will focus on new development, reactivation of rail, urban rail and electrification, adding the airport train, and train harbor. The government also plans to accelerate the construction of railway line connecting North Sumatera, West Sumatera and South Sumatera, as well as the continued construction of a railway in the province of Aceh, particularly those linking Lhokseumawe - Bireun. To make it happen, DGR will reactivate the path along the 111 km as well as building new lines along 1,399 km and 80 km of double track.

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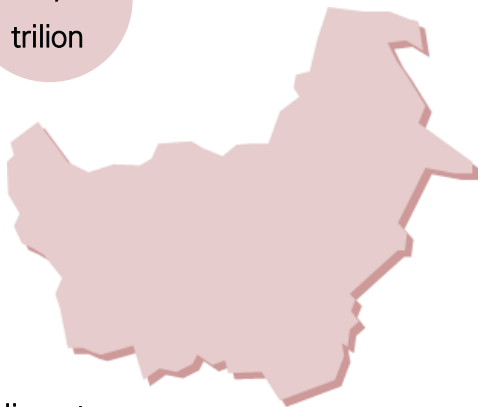
Sulawesi

Meanwhile in Sulawesi, the Government implemented a strategy similar to the island of Sumatera, which is building a new rail, urban rail, airport train, and train harbor. The government will also speed up the construction of Trans-Sulawesi railway line through the development of new railway lines along 1,772 km in South Sulawesi, West Sulawesi, Gorontalo and North Sulawesi.

Highlight Projects

- New Railway Manado-Bitung
- Urban Railway Development in Makassar
- Airport Railway Sultan Hasanuddin

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Kalimantan

In the Government's railway infrastructure work plan, Kalimantan is also be touchable rail access through the construction of new lines along the 2,428 km Trans Kalimantan connecting East Kalimantan, South Kalimantan and Central Kalimantan and West Kalimantan. The new railway line will also be developed for the needs of mining products such as coal, airports and urban.

Highlight Projects:

- New Railway Balikpapan-Samarinda
- Coal Railway Puruk Cahu-Mangkatib
- Airport Railway Syamsudin Noor

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Papua

Meanwhile, in Papua, the government will accelerate the construction of the railway line trans Papua through the development of new rail network of 390 km in West Papua.

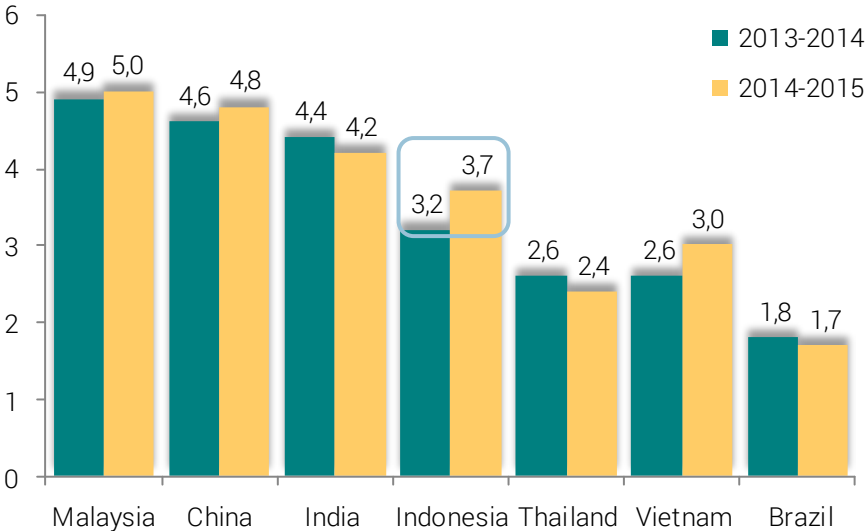
Highlight Project:

- New Railway Sorong - Manokwari

With these large projects, it is expected that the outcome of the plan that Indonesia will have a portfolio of railway lines that spread from East to West, which would improve the standard of living and economy of these areas.



Indonesia's Railway Comparison with Other Developing Countries



Sumber : Global Competitiveness Report 2013-2014 dan 2014-2015

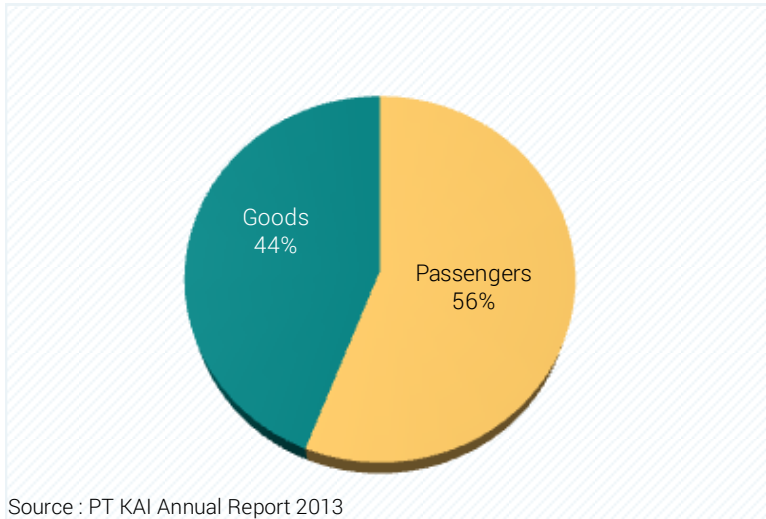
Until 2015, the quality of the railway network in Indonesia is ranked 41 of the world (from 144 countries) with a score of 3.7 and up passing 10 other countries compared with the previous year, but is still below neighboring Malaysia, as well as

under other countries in Asia such as China and India.

With the improvement and development of the railway line that has been well planned, it is expected can be accessible to all Indonesian people. The benefits of what has been done during the past year against the railway sector in Indonesia can really be felt improved quality of services, facilities and infrastructure. In addition, the development of technology making it easier for passengers to use this means of transportation, becomes evidence that the government's commitment in the development of this sector. This is reflected in the increase of Indonesia's railway quality ranking.



Until now, the company managing the railway line in Indonesia is PT Kereta Api Indonesia (KAI), the only railway company in Indonesia and owned by the state. There is also PT Railink, a joint venture between PT KAI and PT Angkasa Pura II, but only within a specific operational area. KAI is a legal entity that not only do part of the functions of government in delivering services to the public (under the Ministry of Transportation), but also has to make a profit (as a state-owned enterprise).



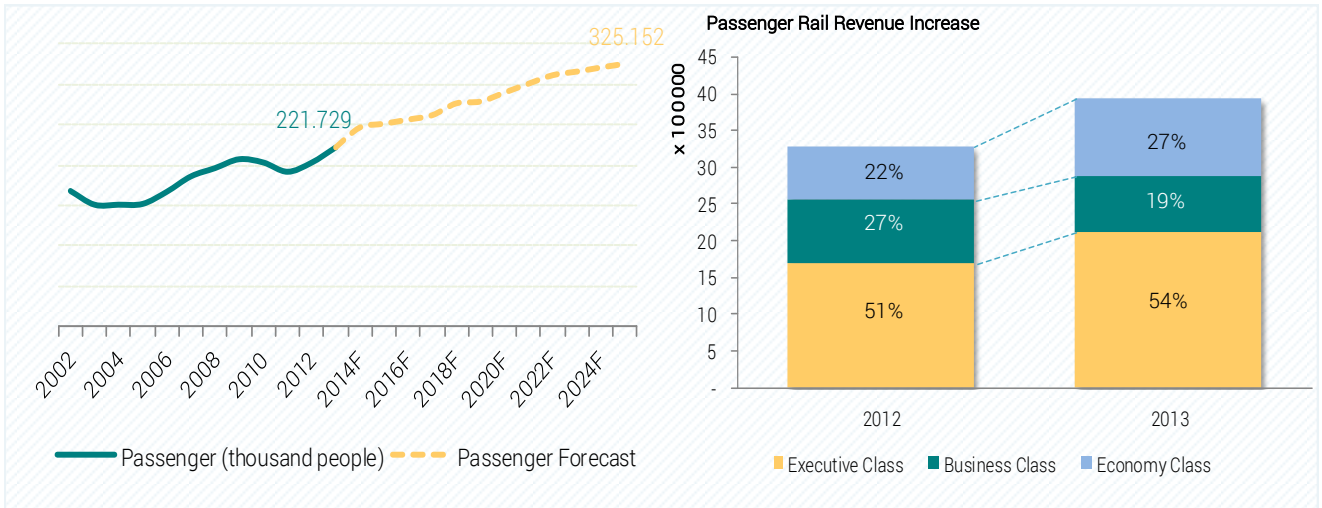
KAI's performance as the face of Indonesian railways arguably deserves to be appreciated. From the financial side, in 2013, KAI posted a higher net profit than in 2012, up nearly 20% more than the previous year. These revenues, mostly derived from passenger services. Java operating area is the largest revenue contributor for this category. One interesting

thing is, it turns out the transportation of goods provide a portion that is not too much different from the passengers for KAI income. Barn greatest contribution income from the transport of goods is the operational area of Sumatera. More than 90% use of the railway line on the island of Sumatera used to transport goods, especially coal and natural resources.

Passenger Growth

During the year 2013, the contribution to revenue passengers are divided into three classes: economy, business, and executives. Where the executive class has the largest contribution to the revenues of 27%, up 5% compared with the previous year's. Concentration of business passengers, in 2013 decreased, the amount may be absorbed by the executive class or economy class are equally increased.

In 2025, rail passengers are projected to touch the figure of ± 325 million people, an increase of 60% compared to the year 2012.

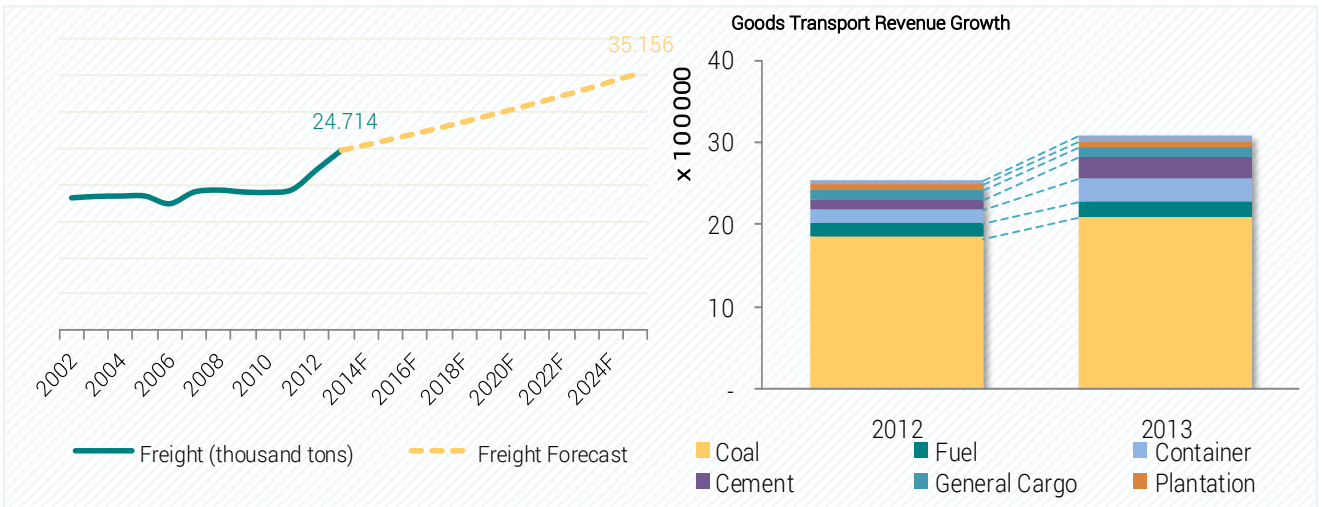


Source : National Railway Master Plan and Annual Report of PT KAI 2013

Goods Transport Growth

During the year 2013, coal remains the largest revenue contributor to commodity sector railway freight transport, although viewed in terms of revenues decreased 5% compared to the previous year.

Transport growth in 2025 will be projected at ± 24 million tons, an increase of 10% compared with the year 2013's.



Source : National Railway Master Plan and Annual Report of PT KAI 2013

Within the next few years, passenger transport is still the mainstay for revenue gain. Although the growth projection is smaller than the passenger transportation, freight transportation can not be excluded considering that to date the contributions made too large. It is also Indonesia's natural resources are abundant, especially minerals, can be a good opportunity and potential for the development of railway freight transport, especially in areas rich in mines, but has not been touched by the railroad access.



Regulation

Law No. 13 of 1992 on Railways no longer in accordance with developments in technology and consumer demand fulfillment, in 2007 the Government amended the law into Law No. 23 of 2007 on Railways. There are some essential changes in the legislation, namely:

- ① The abolition of the monopoly of PT KAI to provide an opportunity for the private sector to manage railway infrastructure company (including management of the track, electric systems, signaling, stations, other fixed assets, and maintenance) and operations (on rail goods and passenger services, including management of rolling stock and equipment). The abolition of the monopoly status is intended to encourage private investment in the railways, both as operator (which is expected to improve the quality of railway services) or investor in rail infrastructure and rolling stock, as well as to expand the railway network coverage in Indonesia.
- ② Decentralization, namely the possibility of local governments to act as investor and operator of railway infrastructure in their territory.
- ③ Regulatory functions are separated with operational functions, and private parties are given the same rights to invest, own, manage, and operate the rail system in Indonesia.

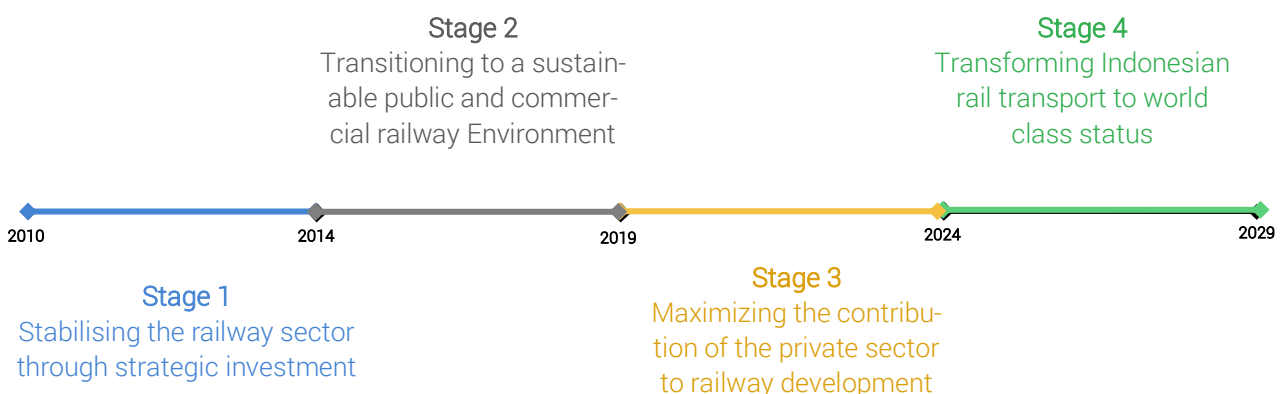
With these conditions, then the future, funding for railway infrastructure investment can come from various sources, such as private financing, financing of local government, or the scheme of the Public Private Partnership (PPP).



Future Development Plans

Passenger and Goods Transport

The development plan of the railway line is divided into four phases national with a period of each of the stages of 5 years and a different focus at each stage. The plan envisaged the following stages:



Sumber : National Railway Master Plan

There are two main targets of railway development plan:

- ① Increased market share of passengers using railway services as a means of transport by 10-20% by 2015 and to 25% in 2025.
- ② Increased market share of freight and cargo by 5-10% in 2020.

In order to achieve those targets, the Government and PT KAI in the early stages can focus on increasing the role of rail as a mass transport with a concentration in the main line interconnection between major cities in Java with the use of technology which will certainly improve the services in terms of capacity, speed, and overall service. Focus on developing Jabodetabek commuter train service which incidentally has a market share that is increasing every year can also be used as a strategy to achieve the above targets. In the passenger transport segment, the expansion of the network can be started with the initiation of PPP to build and maintain the urban train line services (commuter) in several metropolitan cities of Java, Sumatera, and Kalimantan.

Upon the completion interconnection lines and the quality of service has improved, it will create opportunities for the transport of goods with large volume for the railway sector, because the transportation of goods by truck or container would be inefficient in terms of time and cost.

In the freight transport segment, the expansion of the network can be focused on areas with the potential of mineral resources, such as Borneo, Sumatera, and Sulawesi , as well as agricultural resources, with an environmentally friendly way, so that the process of transportation of goods can be more effective and cost efficient in a more substantial and measurable precision over time when compared with other land transport.

Railway Management Company

To support the above achievements, a new railway company is expected to appear. With such conditions, the railway sector is expected to continue growing and become competitive as one mode of mass transportation.

① **PT KAI**

As a business entity of national flag railway operator, PT KAI is expected to still dominate within the next few years. With limited resources both in terms of funding, technology, and human resources, it feels PT KAI must hold the private sector to build railways Indonesia.

② Private/ Special Railway Enterprises

There is now a short-term initiation of the private sector to build a special railway line for coal transportation in Sumatera and Kalimantan, as well as the potential development of rail to transport other mineral resources on the two islands.

If initiation is realized, the KAI may participate in providing services as operator or participate in this, but it is not in line with the Law No.23 of 2007 which would encourage the private sector to be more active in this sector. So in this case, the mining companies can operate the rail service as a full operator with permission from the Government and a clear concession.

Investment Encouragement of Private Parties

Based on the Act No. 23 year 2007, private can be actively involved in investment and management of the industry as GOI aims to widen railway coverage and promote better service quality by means of:

- ① Railway network revitalization that is now under the management of PT KAI, including lines of Java and Sumatera.
- ② The railway lines that are closely related to the development and exploration of mineral resources in Sumatera and Kalimantan
- ③ The railway line region (sub-national) in accordance with the needs and local policies as the Government's Arm

Until now, the highest interest of the private sector in the field of railway investment is still at the development of railway lines (special railway). There are many potential private participation in this regard, especially those associated with the transport sector, mineral resources (especially coal), forestry and agriculture.

The railway line area also offers the opportunity for the private sector to invest in the context of Public Private Partnership. This model will be more focused on the development of commuter rail lines, where the infrastructure can be financed by the government, while the private sector can take a role as operator contracting with the government. Supported by the PSO agreement and projected tariffs, the private sector can also invest in rolling stock or other assets.



Regulation

To support the development, it needs a good institutional framework, to become a balancing in determining policy on the role of regulation, functioning, and the assigning authority. There are several things that must be considered, namely:

- ① Regulatory structure should be driven by the railway industry market structure. Existing regulations should fit and accommodate the needs of the railway market in Indonesia. Existing regulations should not hamper room for growth or development of the rail business climate in Indonesia.
- ② Railway market should be allowed to operate freely and regulation related to supporting economic policy should be clear to mitigate market failures. This is needed so that consumers are protected and promoting an efficient transportation system and innovative.
- ③ The operation of the railway safety system should be maintained and continue to be improved through the enforcement of quality standards of operators, infrastructure and rolling stock.
- ④ Cost-efficiency.



Disclaimer

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