

TEMASEK HOLDINGS

FREQUENTLY ASKED QUESTIONS

A. KPPU Investigation

1. What is this case about?

In October 2006, a complaint was made to the KPPU by the FSP-BUMN Bersatu (United Federation of State Enterprise Workers) alleging that Temasek violated the Indonesian Anti-Monopoly Law. Although this complaint was subsequently withdrawn (due to the absence of evidence that there was indeed a violation), the KPPU nonetheless carried on investigations against Temasek. Temasek does not know on what basis that was done. In fact, the KPPU has refused to disclose the identities of the other alleged complainants against Temasek, if any.

In November 2007, the KPPU announced that it found Temasek guilty of engaging in monopolistic practices and anti-competitive behaviour in Indonesia's cellular market through two Indonesian telcos – Telkomsel and Indosat—which Temasek allegedly controls through its subsidiaries.

Temasek filed an appeal with the Central District Court of Jakarta in December 2007 under the laws of Indonesia.

On 9 May 2008, the Court denied Temasek's appeal. Temasek will appeal the District Court's decision under the laws of Indonesia and continue to seek legal redress.

2. What are KPPU's specific allegations against Temasek?

The allegations are that, in breach of Article 27 of the Indonesian Anti-Monopoly law, Temasek/ the so-called "Temasek Business Group" owns majority shares in both Telkomsel and Indosat, and that this cross-ownership of Telkomsel and Indosat has resulted in

- a. control of more than 50% of the cellular market
- b. control or collusion between Telkomsel and Indosat to weaken Indosat's performance for the benefit of Telkomsel leading to a decrease in competition in the Indonesian cellular market
- c. Price leadership by Telkomsel
- d. Excessive pricing leading to consumer loss

3. Did the KPPU find other companies guilty?

Besides Temasek Holdings, eight companies affiliated with Temasek – including SingTel and ST Telemedia – have been found guilty to have violated Article 27. Telkomsel was found to have violated Article 17 of Indonesian Anti-Monopoly Law which prohibits monopolistic and anti-competitive conduct.

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4. What penalties has the KPPU imposed?

The KPPU has ordered the alleged “Temasek Business Group” to give up its stakes in one of the telcos (Indosat or Telkomsel) within two years and imposed fine on the nine companies and Telkomsel of 25 billion rupiah (about S\$3.8 million) each. Telkomsel, a subsidiary of state-owned PT Telkom, was also asked to reduce its tariff by 15 per cent within two years.

5. What is Temasek’s defence?

In brief, Temasek’s position is that Temasek, SingTel and ST Telemedia (STT), as well as their subsidiaries/ investee companies, are independently managed by their respective board of directors, and there is no such entity as the “Temasek Business Group”. Furthermore, Temasek does not own any shares in Telkomsel or Indosat (much less majority shares), and Temasek has not caused any market distortion in the Indonesian telecommunications industry.

Temasek has also challenged the KPPU’s jurisdiction, and gave evidence that (among other things) Temasek does not have the ability to and indeed does not control or direct the policies of STT, SingTel, or any of their subsidiaries. Temasek also does not control or direct the policies of Indosat or Telkomsel.

An economic review of the Indonesian mobile telecommunications market shows that the KPPU has been wrong in its analysis: there is no evidence that Telkomsel or Indosat have engaged in excessive pricing. In fact, the Indonesian mobile telecommunications market is highly competitive.

6. What is the position of PT Telkom which has a 65% interest in Telkomsel on this issue?

Although PT Telkom was not allowed to testify during Temasek’s appeal process, the Court recorded PT Telkom’s position that it – and not Temasek – is the majority shareholder in Telkomsel.

B. Temasek Holdings and its portfolio companies

7. What is Temasek Holdings and where does it operate?

Temasek Holdings is an Asia investment firm incorporated in Singapore in 1974. Supported by offices around Asia, it manages a widely diversified portfolio, primarily in Singapore, Asia and the OECD (Organisation for Economic Co-operation and Development) economies. Its investments include telecommunications and media, financial services, real estate, transportation and logistics, energy and resources, infrastructure, engineering and technology as well as bioscience and healthcare.

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8. What is Telkomsel, and how is it related to Temasek?

Telkomsel is the leading operator of cellular telecommunications services in Indonesia. SingTel (a 54%-owned Temasek subsidiary) has a stake in Telkomsel. In 2001, SingTel purchased 22.28% of the shares in Telkomsel from KPN Royal Dutch Telecom of the Netherlands. In 2002, SingTel acquired an additional 12.72% from Telkom, bringing its total to the current 35% (with Telkom holding the remaining 65%).

9. What is Indosat, and how is it related to Temasek?

Indosat is the second largest cellular operator in Indonesia. Temasek's subsidiary, ST Telemedia (STT) has a stake in Indosat. In 2002, after a two-round public bidding process (endorsed by the International Monetary Fund, where 16 bidders expressed interest), the Indonesian government sold 41.9 % in Indosat to STT. STT out-bid Telekom Malaysia, but paid a 51% premium over the market price at that time.

The STT stake in Indosat is held by Indonesia Communications Limited and Indonesia Communications Pte Ltd. The latter two companies are wholly owned by Asia Mobile Holdings Pte Ltd, a joint venture entity held by Asia Mobile Holdings Company Pte Ltd (75%) and Qatar Telecoms Q.S.C. (QTel) (25%). This joint venture entity was established to invest in the Indonesian mobile telecommunications sector. QTel is the telecommunications operator in Qatar, with the State of Qatar holding 55% of its shares.

Asia Mobile Holdings Company Pte Ltd is wholly owned by STT Communications Ltd (in turn wholly owned by Singapore Technologies Telemedia Pte Ltd).

10. How involved is Temasek in the operations or investment strategy of Indosat and Telkomsel?

Temasek is not at all involved in the operations and business decisions of its portfolio companies such as STT and SingTel. Temasek does not get involved in the companies that these subsidiaries invest in. It is STT and SingTel that have stakes in Indosat and Telkomsel respectively. These subsidiaries are professionally managed by their respective board of directors (which include many prominent Indonesians and representatives of the Indonesian government), and they operate independently.

The Indonesian Government holds a Series A Share (commonly known as a golden share) in Indosat which gives it special powers including veto rights. Its interest in Indosat is about 14.3% and it nominates the majority of Indosat's directors (including the President Director).

The Indonesian Government, through its majority-owned subsidiary PT Telkom, holds 65% shares in Telkomsel. It also nominates the majority of Telkomsel's directors and commissioners.
