

**Consolidated Financial Statements
With Independent Auditors' Report
Years ended December 31, 2003 and 2002
(Indonesian Currency)**

**PT INDOCEMENT TUNGGAL PRAKARSA Tbk.
AND SUBSIDIARIES**

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOCEMENT TUNGGAL PRAKARSA Tbk.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2003 AND 2002**

Table of Contents

	Page
Independent Auditors' Report	
Consolidated Balance Sheets	1-2
Consolidated Statements of Income	3
Consolidated Statements of Changes in Shareholders' Equity	4
Consolidated Statements of Cash Flows	5-6
Notes to the Consolidated Financial Statements	7-50

This report is originally issued in Indonesian language.

Independent Auditors' Report

Report No. RPC-1592

The Shareholders, and the Boards of Commissioners and Directors
PT Indocement Tunggol Prakarsa Tbk.

We have audited the consolidated balance sheets of PT Indocement Tunggol Prakarsa Tbk. (the "Company") and Subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of all associated companies, the investments in which are accounted for in the consolidated financial statements using the equity method. The carrying values of these investments represent approximately 0.24% and 1.98% of the total consolidated assets as of December 31, 2003 and 2002, respectively, while the related equity in net earnings (losses) of these associated companies amounted to Rp 1,256,450,475 in 2003 and (Rp 6,964,775,864) in 2002.

We conducted our audits in accordance with auditing standards established by the Indonesian Institute of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Indocement Tunggol Prakarsa Tbk. and Subsidiaries as of December 31, 2003 and 2002, and the results of their operations, and their cash flows for the years then ended in conformity with generally accepted accounting principles in Indonesia.

This report is originally issued in Indonesian language.

Note 22 to the consolidated financial statements summarizes the effects of the economic conditions in Indonesia on the Company and Subsidiaries, as well as the measures the Company and Subsidiaries have implemented in response to the economic conditions. The accompanying consolidated financial statements include the effects of the economic conditions to the extent that they can be determined and estimated.

PRASETIO, SARWOKO & SANDJAJA

Drs. Soemarso S. Rahardjo, ME
Public Accountant License No. 98.1.0064

January 20, 2004

The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. The standards, procedures and practices applied to audit such consolidated financial statements are those generally accepted and applied in Indonesia.

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

	Notes	2003	2002
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2c, 3	300,084,754,453	273,609,131,586
Short-term investments	2d, 7f	5,946,452,150	193,157,721,723
Trade receivables	2e, 4, 11		
Third parties - net of allowance for doubtful accounts of Rp 13,332,091,743 in 2003 and Rp 16,392,497,190 in 2002	21i	294,566,141,368	249,064,859,792
Related parties	2f, 5a	22,748,551,497	36,928,717,886
Other receivables from third parties - net of allowance for doubtful accounts of Rp 1,389,089,659	2e, 10	15,218,462,652	26,598,797,607
Inventories - net	2g, 6, 11	709,065,286,248	875,871,806,398
Advances and deposits	6, 24	57,943,015,022	72,586,114,137
Prepaid taxes	10	48,965,252,314	37,482,183,606
Prepaid expenses	2h	12,560,871,406	12,119,171,886
Total Current Assets		<u>1,467,098,787,110</u>	<u>1,777,418,504,621</u>
NON-CURRENT ASSETS			
Due from related parties	2f, 5d, 24	68,129,247,479	45,748,856,034
Deferred tax assets - net	2r, 10	7,278,466,766	316,079,036,182
Long-term investments and advances to associated companies - net of allowance for doubtful accounts of Rp 13,431,144,026 in 2003 and Rp 13,789,698,006 in 2002	2b, 2f, 7, 24	24,864,880,556	62,134,771,993
Property, plant and equipment - net of accumulated depreciation, amortization and depletion of Rp 2,910,855,783,693 in 2003 and Rp 2,520,144,702,511 in 2002	2i, 2j, 2k, 2l, 5c, 8, 11, 21g, 21h	8,140,674,858,601	8,541,455,141,160
Restricted cash and time deposits	3, 11, 12	368,504,768,694	593,895,812,471
Other non-current assets	2h, 2m, 8, 21c, 24	68,514,825,152	100,791,348,303
Total Non-Current Assets		<u>8,677,967,047,248</u>	<u>9,660,104,966,143</u>
TOTAL ASSETS		<u>10,145,065,834,358</u>	<u>11,437,523,470,764</u>

The accompanying notes form an integral part of these consolidated financial statements.

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

	Notes	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables	9		
Third parties	21d, 21e, 24	106,900,353,070	101,712,666,265
Related parties	2f, 5e	796,852,775	1,617,742,080
Other payables to third parties	2q, 8, 21k	43,169,864,325	39,551,424,566
Accrued expenses	2f, 5e, 11, 18, 20	76,994,864,638	125,548,668,827
Taxes payable	10	46,388,550,615	28,342,949,278
Current maturities of long-term liabilities			
Loans from banks and financial institutions	2f, 5d, 11	497,318,750,000	299,490,000,000
Obligation under capital lease	2k, 8, 12	1,752,355,760	-
Others	2o, 20, 21j	6,062,667,633	-
Other current liabilities		5,568,622,589	15,692,762,057
Total Current Liabilities		<u>784,952,881,405</u>	<u>611,956,213,073</u>
NON-CURRENT LIABILITIES			
Due to related party	2f, 5b, 5d	1,819,921,011	7,500,993,255
Deferred tax liabilities - net	2r, 10	290,799,555	-
Long-term liabilities - net of current maturities			
Loans from banks and financial institutions	2f, 5d, 11	4,792,846,759,308	6,997,925,764,030
Obligation under capital lease	2k, 8, 12	3,504,711,520	-
Others	2o, 20, 21j	17,495,856,555	-
Deferred gain on sale and leaseback transactions - net	2k	10,697,108,865	11,745,876,520
Total Non-Current Liabilities		<u>4,826,655,156,814</u>	<u>7,017,172,633,805</u>
SHAREHOLDERS' EQUITY			
Capital stock - Rp 500 par value per share			
Authorized - 8,000,000,000 shares			
Issued and fully paid - 3,681,231,699 shares			
in 2003 and 3,681,223,519 shares in 2002	13	1,840,615,849,500	1,840,611,759,500
Additional paid-in capital	2t, 14	1,194,236,402,048	1,194,229,040,048
Other paid-in capital	15	338,250,000,000	338,250,000,000
Differences arising from changes in Subsidiary's equity	2b	(841,391,078)	(55,633,848,147)
Differences arising from restructuring transactions among entities under common control	2b	(330,799,198,508)	(330,799,198,508)
Unrealized losses on available-for-sale securities - net	2d	(3,069,178,320)	(3,038,715,970)
Retained earnings			
Appropriated	16	75,000,000,000	50,000,000,000
Unappropriated		1,420,065,312,497	774,775,586,963
Net Shareholders' Equity		<u>4,533,457,796,139</u>	<u>3,808,394,623,886</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>10,145,065,834,358</u>	<u>11,437,523,470,764</u>

The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

	Notes	2003	2002
NET REVENUES	2f, 2n, 5, 17, 21b, 21i	4,157,683,466,642	3,948,282,505,933
COST OF REVENUES	2f, 2n, 5, 18, 20, 21c, 21d, 21e, 21f	2,761,761,751,105	2,648,367,364,706
GROSS PROFIT		1,395,921,715,537	1,299,915,141,227
OPERATING EXPENSES	2n, 5, 19, 20		
Delivery and selling		422,933,060,351	211,684,875,781
General and administrative		158,612,350,562	158,286,568,569
Total Operating Expenses		581,545,410,913	369,971,444,350
INCOME FROM OPERATIONS		814,376,304,624	929,943,696,877
OTHER INCOME (CHARGES)			
Gain on disposal of property and equipment - net	2i, 8	123,100,441,406	446,644,768
Gain (loss) on disposal of long-term investment - net	7	101,972,978,186	(8,036,067,640)
Foreign exchange gain - net	2p, 2q	38,208,746,252	848,775,562,121
Interest income	3	22,343,305,301	37,451,739,021
Interest expense	11	(233,967,826,486)	(358,723,716,786)
Others - net	2b, 2d, 2k, 2m	(48,015,621,862)	(1,867,222,331)
Other Income - Net		3,642,022,797	518,046,939,153
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATED COMPANIES - NET	2b, 7	1,256,450,475	(6,964,775,864)
INCOME BEFORE TAX EXPENSE AND EXTRAORDINARY ITEM		819,274,777,896	1,441,025,860,166
TAX EXPENSE	2r, 10		
Current		4,105,138,210	416,706,500
Deferred		259,884,204,782	416,259,830,060
Total Tax Expense		263,989,342,992	416,676,536,560
INCOME BEFORE EXTRAORDINARY ITEM		555,285,434,904	1,024,349,323,606
EXTRAORDINARY ITEM - Net of deferred tax effect of Rp 49,287,553,127 in 2003 and Rp 7,156,316,410 in 2002	10, 11	115,004,290,630	16,698,071,624
NET INCOME		670,289,725,534	1,041,047,395,230
BASIC EARNINGS PER SHARE	2u	182.08	282.80

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

	Notes	Capital Stock	Additional Paid-in Capital *	Differences Arising from Changes in Subsidiary's Equity	Differences Arising from Restructuring Transactions Among Entities Under Common Control	Unrealized Losses on Available-for-Sale Securities - Net	Retained Earnings		Net Shareholders' Equity
							Appropriated	Unappropriated	
Balance, January 1, 2002		1,840,611,759,500	1,532,479,040,048	(59,762,848,146)	(330,799,198,508)	(3,169,412,670)	50,000,000,000	(266,271,808,267)	2,763,087,531,957
Net income		-	-	-	-	-	-	1,041,047,395,230	1,041,047,395,230
Recovery from decline in market values of investments in available-for-sale securities	2d	-	-	-	-	130,696,700	-	-	130,696,700
Change in Subsidiary's equity arising from realized loss on sale of its investment in available-for-sale securities	2b, 2d	-	-	3,419,212,500	-	-	-	-	3,419,212,500
Change in Subsidiary's equity arising from the recovery from decline in market values of its investments in available-for-sale securities	2b, 2d	-	-	709,787,499	-	-	-	-	709,787,499
Balance, December 31, 2002		1,840,611,759,500	1,532,479,040,048	(55,633,848,147)	(330,799,198,508)	(3,038,715,970)	50,000,000,000	774,775,586,963	3,808,394,623,886
Net income		-	-	-	-	-	-	670,289,725,534	670,289,725,534
Issuance of common stock arising from the exercise of warrants by shareholders	13	4,090,000	7,362,000	-	-	-	-	-	11,452,000
Appropriation of retained earnings for general reserve	16	-	-	-	-	-	25,000,000,000	(25,000,000,000)	-
Decline in market values of investments in available- for-sale securities	2d	-	-	-	-	(30,462,350)	-	-	(30,462,350)
Change in Subsidiary's equity arising from the revaluation of its property, plant and equipment	8	-	-	18,550,195,620	-	-	-	-	18,550,195,620
Change in Subsidiary's equity arising from realized loss on sale of its investment in available-for-sale securities	2b, 2d	-	-	10,842,722,096	-	-	-	-	10,842,722,096
Change in Subsidiary's equity arising from the recovery from decline in market values of its investments in available-for-sale securities	2b, 2d	-	-	25,399,539,353	-	-	-	-	25,399,539,353
Balance, December 31, 2003		1,840,615,849,500	1,532,486,402,048	(841,391,078)	(330,799,198,508)	(3,069,178,320)	75,000,000,000	1,420,065,312,497	4,533,457,796,139

* including Other Paid-in Capital

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

	Notes	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		4,472,855,641,795	4,286,388,049,856
Payments to suppliers and contractors, and for salaries and other employees' benefits		(2,825,942,446,699)	(2,766,490,476,107)
Cash provided by operations		1,646,913,195,096	1,519,897,573,749
Receipts of interest income		17,427,738,508	30,320,659,563
Proceeds from claims for tax refund	10	13,270,822,761	236,284,666
Payments of taxes		(335,211,814,611)	(317,902,874,119)
Net receipts from other operating activities		45,019,911,782	24,914,356,171
Net Cash Provided by Operating Activities		1,387,419,853,536	1,257,466,000,030
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	8	219,457,254,400	543,455,000
Proceeds from sale of marketable securities		42,179,214,093	4,478,084,157
Cash dividends received	7b, 7f	17,951,109,674	4,669,598,153
Proceeds from sale and lease-back transaction		5,173,904,800	-
Proceeds from reduction of investment in associated company	7a	3,500,000,000	-
Purchases of property, plant and equipment		(113,641,572,724)	(205,924,649,877)
Acquisition of subsidiaries		-	(4,297,500,000)
Net proceeds from other investing activities		2,287,159,904	7,505,676,788
Net Cash Provided by (Used in) Investing Activities		176,907,070,147	(193,025,335,779)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock arising from the exercise of warrants by shareholders	13	11,452,000	-
Net proceeds from (payment of) forward exchange contract transactions	21k	(9,368,600,000)	1,265,000,000
Payment of obligation under capital lease	12	(1,756,355,760)	-
Payments of bank loan		-	(4,119,720,000)
Net Cash Used in Financing Activities		(11,113,503,760)	(2,854,720,000)
NET EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		(5,256,476,958)	(8,036,040,550)
RECLASSIFICATION OF CASH AND CASH EQUIVALENTS TO OTHER ASSETS (RESTRICTED CASH AND TIME DEPOSITS)		(1,521,481,320,098)	(1,038,634,870,607)
NET INCREASE IN CASH AND CASH EQUIVALENTS		26,475,622,867	14,915,033,094
CASH AND CASH EQUIVALENTS FROM ACQUIRED SUBSIDIARY AT ACQUISITION DATE		-	2,821,848,770
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	273,609,131,586	255,872,249,722
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	300,084,754,453	273,609,131,586

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years ended December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

	Notes	2003	2002
Activities not affecting cash:			
Payment of bank loans from restricted cash accounts (including debt buy-back of Rp 1,267,460,477,784 in 2003 and Rp 58,740,651,888 in 2002)	11	1,793,865,599,734	558,729,769,040
Proceeds from sale of long-term investments deposited to restricted cash accounts	7	287,145,153,434	57,987,032,360
Payment of interest using restricted cash accounts	11	220,606,458,920	321,604,987,796
Recognition of revaluation increment in property, plant and equipment	8	18,550,195,620	-
Acquisitions of assets under capital lease through the incurrance of obligation under capital lease	8, 12	7,013,423,040	-
Proceeds from interest earned on restricted cash accounts	11	4,462,847,868	6,621,603,315
Payments to facility agent and security agent using restricted cash accounts	11	2,359,395,000	468,000,000

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

1. GENERAL

PT Indocement Tunggal Prakarsa Tbk. (the "Company") was incorporated in Indonesia on January 16, 1985 based on notarial deed No. 27 of Ridwan Suselo, S.H. Its deed of incorporation was approved by the Ministry of Justice in its decision letter No. C2-2876HT.01.01.Th.85 dated May 17, 1985 and was published in Supplement No. 57 of State Gazette No. 946 dated July 16, 1985. The Company's articles of association has been amended from time to time, the latest of which was covered by notarial deed No. 39 dated July 25, 2003 of Amrul Partomuan Pohan, S.H., LL.M. concerning, among others, the increase in the Company's issued and paid-up capital stock. Such amendments were registered with the Ministry of Justice and Human Rights on August 12, 2003.

The Company started its commercial operations in 1985.

As stated in Article 3 of the Company's articles of association, the scope of its activities comprises, among others, the manufacture of cement, building materials, food and beverages, and textile products, construction and trading. Currently, the Company and Subsidiaries are involved in several businesses consisting of the manufacture and sale of cement (the Company and Subsidiaries' core business), ready mix concrete and other businesses.

The Company's head office is located at Wisma Indocement 8th Floor, Jl. Jend. Sudirman Kav 70-71, Jakarta. Its factories are located in Citeureup - West Java, Cirebon - West Java, and Tarjun - South Kalimantan.

The cement business includes the operations of the Company's twelve (12) plants located in three different sites: nine at the Citeureup - Bogor site, two at the Palimanan - Cirebon site and one at the Tarjun - South Kalimantan site, with a total combined annual production capacity of approximately 15.4 million tons of clinker. The ready mix concrete manufacturing business comprises the operation of its two subsidiaries, while other businesses include, among others, the lease of the Company-owned property, Wisma Indocement, a 23-storey office tower (with over 19,000 square meters of rentable space and two basement car parks) which was sold in November 2003 (see Note 8). Prior to 2003, the Company also owned PT Wisma Nusantara International (see Note 7f), which owns and operates a 30-storey office building (located at Jakarta's central commercial district) with 26,108 square meters of rentable space, the President Hotel (a four-star hotel with 315 rooms), and Hotel Novotel Benoa Bali (a four-star hotel with 190 rooms, located in Nusa Dua, Bali).

Based on the minutes of the extraordinary general meeting of the Company's shareholders (EGMS) held on October 2, 1989, which were covered by notarial deed No. 4 of Amrul Partomuan Pohan, S.H., LL.M., the shareholders approved, among others, the offering of 598,881,000 shares to the public. Also, based on the minutes of the EGMS held on March 18, 1991, which were covered by notarial deed No. 53 of the same notary, the shareholders approved the issuance of convertible bonds with a total nominal value of US\$ 75 million.

On June 20, 1991, in accordance with the above-mentioned shareholders' approval, the Company issued and listed US\$ 75 million worth of 6.75% Euro Convertible Bonds (the "Euro Bonds") on the Luxembourg Stock Exchange at 100% issue price, with an original maturity in 2001 if these were not converted into shares. The Euro Bonds were convertible into common shares starting August 1, 1991 up to May 20, 2001 at the option of the bondholders at the initial conversion price of Rp 14,450 per share, with a fixed rate of exchange upon conversion of US\$ 1 to Rp 1,946.

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

1. GENERAL (continued)

In 1994, the Company issued 8,555,640 shares upon the partial conversion of the Euro Bonds worth US\$ 35,140,000. Accordingly, the Company transferred and reclassified the corresponding portion of the related bonds payable amounting to Rp 8,555,640,000 to capital stock and Rp 67,320,100,000 to additional paid-in-capital. The remaining balance of the Euro Bonds with total nominal value of US\$ 39,860,000 was fully redeemed and settled in 1994.

In the EGMS held on June 15, 1994, the shareholders approved the increase in the Company's authorized capital stock from Rp 750 billion to Rp 2,000 billion, and the issuance of one bonus share for every share held by the shareholders as of August 23, 1994, or a total of 599,790,020 bonus shares.

In the EGMS held on June 26, 1996, the shareholders resolved to split the par value of the Company's shares from Rp 1,000 per share to Rp 500 per share. Accordingly, the issued and paid-in capital stock were also increased from 1,207,226,660 shares to 2,414,453,320 shares. This shareholders' resolution was approved by the Ministry of Justice in its decision letter No. C2-HT.01.04.A.4465 dated July 29, 1996.

On December 29, 2000, the Company issued 69,863,127 shares to Marubeni Corporation as a result of the conversion into equity of the latter's receivable from the Company (debt-to-equity swap).

In the EGMS held on March 29, 2001, the shareholders approved the rights issue offering with pre-emptive rights to purchase new shares at Rp 1,200 per share. The total number of shares allocated for the rights issue was 1,895,752,069 shares with an option to receive Warrant C if the shareholders did not exercise their rights under certain terms and conditions stated in Note 13.

As of May 1, 2001 (the last exercise date), the total shares issued for rights exercised were as follows:

- 1,196,874,999 shares to Kimmeridge Enterprise Pte., Ltd. ("Kimmeridge"), a subsidiary of HeidelbergCement (formerly Heidelberger Zement AG (HZ)) (HC), on April 26, 2001, through the conversion of US\$ 149,886,295 debt.
- 32,073 shares to public shareholders.

The number of shares issued for the exercise of Warrant C totaled 8,180 shares.

As of December 31, 2003, the members of the Company's boards of commissioners and directors are as follows:

Board of Commissioners :

President : Paul Marie Vanfrachem
Vice President : Sudwikatmono
Vice President : I Nyoman Tjager
Commissioner : Hans Erwin Bauer
Commissioner : Horst Robert Wolf
Commissioner : Hans Hakan Fernvik
Commissioner : Parikesit Suprpto
Commissioner : Ibrahim Risjad
Commissioner : Jean-Claude Thierry A. Dosogne

Board of Directors :

President : Daniel Eugene Antoine Lavallo
Vice President : Tedy Djuhar
Director : Thomas Willi Kern
Director : Hans Oivind Hoidalen
Director : Iwa Kartiwa
Director : Nelson G. D. Borch
Director : Benny Setiawan Santoso
Director : Bradley Reginald Taylor

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

1. GENERAL (continued)

Total salaries and other compensation benefits paid to the Company's boards of commissioners and directors amounted to Rp 24 billion and Rp 22 billion for the years ended December 31, 2003 and 2002, respectively. As of December 31, 2003 and 2002, the Company and Subsidiaries have a total of 7,107 and 7,414 permanent employees, respectively (unaudited).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles and practices in Indonesia, which are based on Statements of Financial Accounting Standards (PSAK), the Capital Market Supervisory Agency's (Bapepam) regulations and Guidelines for Financial Statements Presentations and Disclosures for publicly listed companies issued by the Bapepam for manufacturing and investment companies. The consolidated financial statements have been prepared on the accrual basis using the historical cost concept of accounting, except for inventories which are valued at the lower of cost or net realizable value (market), certain short-term investments which are stated at market values, certain investments in shares of stock which are accounted for under the equity method, and certain property, plant and equipment which are stated at revalued amounts.

The consolidated statements of cash flows present cash receipts and payments of cash and cash equivalents classified into operating, investing and financing activities, using the direct method.

The reporting currency used in the preparation of the consolidated financial statements is the Indonesian rupiah.

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those of its direct and indirect subsidiaries (collectively referred to as the "Subsidiaries") as follows:

	Principal Activity	Country of Domicile	Year of Incorporation/ Start of Commercial Operations	Total Assets as of December 31, 2003	Effective Percentage of Ownership (%)
<u>Direct</u>					
PT Dian Abadi Perkasa (DAP)	Cement distribution	Indonesia	1998/1999	274,852,426,779	99.99
PT Indomix Perkasa (Indomix)	Ready mix concrete manufacturing	Indonesia	1992/1992	71,135,491,419	99.99
Indocement (Cayman Islands) Limited	Investing	Cayman Islands	1991/1991	22,020,475,891	100.00
<u>Indirect</u>					
PT Pionirbeton Industri (PBI) (formerly PT Pioneer Beton Industri)	Ready mix concrete manufacturing	Indonesia	1996/1996	77,999,979,039	99.99

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

DAP was established in 1998 and primarily acts as the Company's main domestic distributor of certain cement products.

On December 18, 2002, Indomix and DAP effectively acquired the remaining 50% equity shares from Pioneer International Holding Pty. Limited (PIH), wherein 3,320,904 shares were acquired by Indomix and 2 shares were acquired by DAP for a total cash consideration of US\$ 500,000 (equivalent to Rp 4,297,500,000). After this acquisition, PBI became 99.99% indirectly owned by the Company. However, the Company's management decided to consolidate PBI's accounts starting July 1, 2002 since on such date, PBI had effectively been controlled and managed by the Company. Negative goodwill arising from this transaction amounting to Rp 1,133,085,235 was charged to current operations since it was considered immaterial.

The Company also has five (5) other subsidiaries, all with effective percentages of ownership of 99.99%. The total cost of investments in these entities amounted to Rp 20,000,000. Since these entities have no activities and the total cost of the investments in these subsidiaries is immaterial, their accounts were no longer consolidated into the consolidated financial statements. Instead, the investments in these subsidiaries are presented as part of "Long-term Investments and Advances to Associated Companies" in the consolidated balance sheets. The details of these subsidiaries are as follows:

	Year of Incorporation	Country of Domicile	Total Assets as of December 31, 2003
PT Bhakti Sari Perkasa Abadi	1998	Indonesia	5,000,000
PT Lentera Abadi Sejahtera	1998	Indonesia	5,000,000
PT Mandiri Sejahtera Sentra	1998	Indonesia	5,000,000
PT Sari Bhakti Sejati	1998	Indonesia	5,000,000
PT Makmur Abadi Perkasa Mandiri	1998	Indonesia	-

All significant intercompany accounts and transactions have been eliminated.

Investments in associated companies in which the Company or its Subsidiaries have ownership interests of at least 20% but not exceeding 50% are accounted for under the equity method, whereby the costs of such investments are increased or decreased by the Company's or Subsidiaries' share in the net earnings (losses) of the investees since date of acquisition and are reduced by cash dividends received by the Company or Subsidiaries from the investees. The share in net earnings (losses) of the investees are adjusted for the straight-line amortization, over a twenty-year period (in view of the good future business prospects of the investees), of the difference between the costs of such investments and the Company's or Subsidiaries' proportionate share in the book value of the underlying net assets of investees at date of acquisition (goodwill).

All other investments are carried at cost.

In compliance with PSAK No. 38, "Accounting for Restructuring Transactions Among Entities under Common Control", the differences between the cost/proceeds of net assets acquired/disposed in connection with restructuring transactions among entities under common control compared to their net book values are recorded and presented as "Differences Arising from Restructuring Transactions Among Entities under Common Control" under the Shareholders' Equity section of the consolidated balance sheets.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

In compliance with PSAK No. 40, "Accounting for Changes in the Value of Equity of a Subsidiary/Associated Company", the difference between the carrying amount of the Company's investment in, and the value of the underlying net assets of the subsidiary/investee arising from changes in the latter's equity, which are not resulting from transactions between the Company and the concerned subsidiary/investee, is recorded and presented as "Differences Arising from Changes in Subsidiary's Equity" under the Shareholders' Equity section of the consolidated balance sheets. Accordingly, the resulting difference arising from the changes in equity of PT Indomix Perkasa in connection with its application of the provisions of PSAK No. 50, "Accounting for Investments in Certain Securities", is recorded and presented under this account (see item *d* below).

c. Cash Equivalents

Time deposits and other short-term investments with maturities of three months or less at the time of placement or purchase and not pledged as collateral for loans and other borrowings are considered as "Cash Equivalents".

d. Short-term Investments

Investments in equity securities listed on the stock exchanges are classified as "Short-term Investments".

Equity securities classified as available-for-sale are stated at market values. Any unrealized gains or losses on appreciation/depreciation in market values of the equity securities are recorded and presented as "Unrealized Losses on Available-for-Sale Securities - Net" under the Shareholders' Equity section of the consolidated balance sheets. These are credited or charged to operations upon realization.

e. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on a review of the status of the individual receivable accounts at the end of the year.

f. Transactions with Related Parties

The Company and Subsidiaries have transactions with certain parties which have related party relationships as defined under PSAK No. 7, "Related Party Disclosures".

All significant transactions and balances with related parties, whether or not conducted using terms and conditions similar to those granted to third parties, are disclosed in Note 5.

g. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the moving average method. Allowance for inventory obsolescence is provided to reduce the carrying value of inventories to their net realizable values.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Prepaid Expenses

Prepaid expenses are amortized over the periods benefited using the straight-line method. The non-current portion of prepaid expenses are shown as part of "Other Non-Current Assets" in the consolidated balance sheets.

i. Property, Plant and Equipment

Property, plant and equipment are stated at cost, except for certain assets revalued in accordance with government regulations, less accumulated depreciation, amortization and depletion. Certain machinery and equipment related to the production of cement are depreciated using the unit-of-production method, while all other property, plant and equipment are depreciated using the straight-line method based on their estimated useful lives as follows:

	<u>Years</u>
Land improvements, quarry, and buildings and structures	8 - 30
Machinery and equipment	5 - 10
Leasehold improvements, furniture, fixtures and office equipment, and tools and other equipment	5
Transportation equipment	5

Land is stated at cost and is not depreciated.

Construction in-progress is stated at cost. Costs are reduced by the amount of revenue generated from the sale of finished products during the trial production runs less the related cost of production. The accumulated costs will be reclassified to the appropriate property, plant and equipment accounts when the construction is substantially completed and the asset is ready for its intended use.

The costs of maintenance and repairs are charged to operations as incurred; significant renewals and betterments, which meet the capitalization criteria under PSAK No. 16, "Property, Plant and Equipment", are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation, amortization or depletion are removed from the accounts, and any resulting gains or losses are credited or charged to current operations.

j. Impairment of Assets

A review of asset values is conducted at the end of the year to determine whether an impairment has occurred in accordance with PSAK No. 48, "Impairment in Asset Value". PSAK No. 48 requires companies to estimate the recoverable amount of all their long-lived assets and recognize the impairment in asset value as a loss in the statements of income whenever the recoverable amount of the asset is lower than its carrying value.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Leases

Lease transactions are accounted for under the capital lease method when the required capitalization criteria under PSAK No. 30, "Accounting for Leases" are met. Otherwise, lease transactions are accounted for under the operating lease method. Assets under capital lease (presented as part of "Property, Plant and Equipment" in the consolidated balance sheets) are recorded based on the present value of the lease payments at the beginning of the lease term plus residual value (option price) to be paid at the end of the lease period. Depreciation of leased assets is computed based on methods and estimated useful lives used for similar property, plant and equipment acquired under direct ownership.

Gain on sale and leaseback transaction is deferred and amortized using the same basis and methods as referred to above.

Obligations under capital lease are presented at the present value of the remaining lease payments to be made.

l. Capitalization of Borrowing Costs

In accordance with the revised PSAK No. 26, "Borrowing Costs", interest charges and foreign exchange differences incurred on borrowings and other related costs to finance the construction or installation of major facilities are capitalized. Capitalization of these borrowing costs ceases when the construction or installation is completed and the related asset is ready for its intended use.

m. Deferred Charges

Expenditures whose benefits extend over one year are deferred and amortized over the periods benefited using the straight-line method (presented as part of "Other Non-Current Assets").

In accordance with PSAK No. 47, "Accounting for Land", costs incurred in connection with the acquisitions/renewal of landrights, such as legal fees, land remeasurement fees, notarial fees, taxes and other expenses, are deferred and amortized using the straight-line method over the legal terms of the related landrights.

n. Revenue and Expense Recognition

Revenues are recognized when the products are delivered and the risks and benefits of ownership are transferred to the customers and/or when services are rendered. Cost and expenses are generally recognized and charged to operations when they are incurred.

o. Retirement Benefits

The Company has a defined contribution retirement plan covering all of its qualified permanent employees. Contributions are funded and consist of the Company's and the employees' contributions computed at 10% and 5%, respectively, of the employees' pensionable earnings. On the other hand, the Subsidiaries do not operate any pension plan for the benefit of their employees. Retirement benefit expenses for those Subsidiaries are accrued based on the government regulations.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Retirement Benefits (continued)

Non-vested past service costs were deferred and amortized over the estimated average remaining years of service of qualified employees, while current service costs are charged directly to operations of the current year.

Prior to January 1, 2003, the Company and Subsidiaries recognized employee service entitlement liabilities in accordance with the Ministry of Manpower Decree No. Kep-150/Men/2000 (Kep-150) regarding the settlement of work dismissal and determination of separation, gratuity and compensation payments by companies. On March 25, 2003, Labor Law No. 13 (Law No. 13/2003) was signed by the President of the Republic of Indonesia and its effects have been reflected in the 2003 consolidated financial statements.

p. Foreign Currency Transactions and Balances

Transactions involving foreign currencies are recorded in rupiah at the middle rates of exchange prevailing at transaction date. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange prevailing at the last banking transaction date of the year, as published by Bank Indonesia. The resulting gains or losses are credited or charged to current operations, except for those capitalized under PSAK No. 26.

As of December 31, 2003 and 2002, the rates of exchange used are as follows:

	<u>2003</u>	<u>2002</u>
Euro (EUR 1)	10,643.06	9,369.58
U.S. dollar (US\$ 1)	8,465.00	8,940.00
Japanese yen (JP¥ 100)	7,916.77	7,539.54

Transactions in other foreign currencies are considered insignificant.

q. Derivative Instruments

PSAK No. 55, "Accounting for Derivative Instruments and Hedging Activities", establishes the accounting and reporting standards requiring that every derivative instrument (including certain derivatives embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value. PSAK No. 55 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedges allow a derivative's gain or loss to offset related results on the hedged item in the statement of income. PSAK No. 55 also requires that an entity formally document, designate, and assess the effectiveness of transactions that are accounted for under the hedge accounting treatment.

The accounting for changes in the fair value of a derivative depends on the documented use of the derivative and the resulting designation. The Company has entered into forward currency contracts to hedge market risks arising from fluctuations in exchange rates relating to its foreign currency denominated loans. However, based on the specific requirements for hedge accounting under PSAK No. 55, the said instruments do not qualify and are not designated as hedge activities for accounting purposes and accordingly, changes in the fair value of such instruments are recorded directly in earnings.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Income Tax

The Company and Subsidiaries apply the liability method to determine its income tax expense in accordance with PSAK No. 46, "Accounting for Income Tax". Under this method, deferred tax assets and liabilities are recognized for temporary differences between the financial and the tax bases of assets and liabilities at balance sheet date. This method also requires the recognition of future tax benefits, such as the carry-forward of unused tax losses, to the extent that realization of such benefits is probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Amendments to tax obligations are recorded when an assessment is received or, if appealed, when the result of the appeal is determined.

s. Segment Reporting

For management purposes, the Company and Subsidiaries' businesses are grouped into three major operating businesses: cement, ready mix concrete and other businesses. Financial information on business segments is presented in Note 17.

A business segment is a distinguishable component based on the industry or group of products or services and is subject to risks and returns that are different from those of other segments.

t. Stock Issuance Cost

Based on the decision letter No. KEP-06/PM/2000 dated March 13, 2000 of the Chairman of Bapepam, all expenses related to the issuance of equity securities should be offset against additional paid-in capital.

u. Net Earnings per Share

Basic earnings per share is computed by dividing net earnings by the weighted average number of shares outstanding during the year, which is 3,681,229,010 shares in 2003 and 3,681,223,519 shares in 2002.

In accordance with PSAK No. 56, "Earnings per Share", the Company did not consider the dilutive effects of its outstanding warrants issued in computing earnings per share since the exercise price of the outstanding warrants is significantly higher than the market price of the Company's shares listed on the stock exchange.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

3. CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents are as follows:

	2003	2002
Cash on hand	666,075,457	673,617,841
Cash in banks		
ABN-AMRO Bank N.V.		
Rupiah	881,323,157	-
U.S. dollar		
(US\$ 6,635,805)	56,172,090,341	-
PT Bank Mandiri (Persero) Tbk.		
Rupiah	5,790,124,744	61,907,905,732
U.S. dollar		
(US\$ 1,304,204 in 2003 and		
US\$ 4,038,572 in 2002)	11,040,084,829	36,104,832,518
Euro		
(EUR 1,422 in 2003 and		
EUR 4,393 in 2002)	15,133,899	41,160,378
PT Bank Central Asia Tbk.		
Rupiah	15,329,849,669	10,446,774,594
U.S. dollar		
(US\$ 142,612 in 2003 and		
US\$ 1,337,797 in 2002)	1,207,207,617	11,959,902,677
Euro		
(EUR 6,385 in 2003 and		
EUR 74,470 in 2002)	67,958,280	697,749,531
The Hongkong and Shanghai Banking Corporation Ltd., Jakarta Branch		
Rupiah	4,200,913,392	5,036,625,895
PT Bank Lippo Tbk.		
Rupiah	2,475,341,084	861,344,482
PT Bank Multicor		
Rupiah	-	7,071,352,311
U.S. dollar		
(US\$ 28,173 in 2003 and		
US\$ 5,768,370 in 2002)	238,486,731	51,569,230,035
Others		
Rupiah	404,217,051	420,609,547
U.S. dollar		
(US\$ 52,932 in 2003 and		
US\$ 14,807 in 2002)	447,119,814	132,372,613
Other foreign currencies	148,828,388	508,329,318

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

3. CASH AND CASH EQUIVALENTS (continued)

	2003	2002
Rupiah time deposits		
PT Bank Mandiri (Persero) Tbk.	163,000,000,000	83,133,505,532
ABN-AMRO Bank N.V.	35,000,000,000	-
PT Bank Central Asia Tbk.	3,000,000,000	-
The Hongkong and Shanghai Banking Corporation Ltd., Jakarta Branch	-	3,043,818,582
Total	300,084,754,453	273,609,131,586

Interest rates per annum ranged from 6.00% to 13.00% in 2003 and from 9.00% to 17.88% in 2002 for the rupiah time deposits.

As of December 31, 2002, the Company also had time deposits amounting to Rp 10,000,000,000 in PT Bank Mandiri (Persero) Tbk. (Mandiri). These time deposits were used as collateral for the letters of credit issued by Mandiri to foreign suppliers (presented as part of "Restricted Cash and Time Deposits" under Non-Current Assets in the 2002 consolidated balance sheet). The restrictions on these time deposits were released in 2003.

4. TRADE RECEIVABLES

The details of trade receivables are as follows:

	2003	2002
<u>Related Party (see Note 5a)</u>		
Cement business		
HCT Services Asia Pte., Ltd. (formerly HC Trading International Inc.), Singapore (US\$ 2,687,366 in 2003 and US\$ 4,130,729 in 2002)	22,748,551,497	36,928,717,886
<u>Third Parties</u>		
Cement and ready mix concrete business (see Note 21 <i>i</i>)	306,664,591,682	262,419,758,345
Other businesses	1,233,641,429	3,037,598,637
Total	307,898,233,111	265,457,356,982
Allowance for doubtful accounts	(13,332,091,743)	(16,392,497,190)
Net	294,566,141,368	249,064,859,792

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

4. TRADE RECEIVABLES (continued)

The changes in the allowance for doubtful accounts are as follows:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year	16,392,497,190	80,189,114,757
Allowance for doubtful accounts of acquired Subsidiary	-	6,554,247,680
Provisions during the year	561,569,728	1,679,716,540
Receivables written off during the year	(3,621,975,175)	(70,422,632,360)
Collection of accounts written off during the year	-	(477,014,510)
Reclassification to allowance for doubtful accounts of other receivables	-	(1,130,934,917)
Balance at end of year	<u>13,332,091,743</u>	<u>16,392,497,190</u>

Based on the review of the status of the individual receivable accounts at the end of the year, management believes that the above allowance for doubtful accounts is sufficient to cover any possible losses that may arise from uncollectible accounts.

Trade receivables are used as collateral to secure the long-term loans from banks and financial institutions (see Note 11).

The aging of trade receivables based on their currency denominations as of December 31, 2003 are as follows:

	Currency		Total
	Rupiah	U.S. Dollar (In Equivalent Rupiah)	
Current	243,202,243,193	22,748,551,497	265,950,794,690
<u>Overdue:</u>			
1 - 30 days	23,894,526,202	-	23,894,526,202
31 - 60 days	13,881,188,250	-	13,881,188,250
61 - 90 days	8,656,702,955	-	8,656,702,955
Over 90 days	13,179,673,267	5,083,899,244	18,263,572,511
Total	<u>302,814,333,867</u>	<u>27,832,450,741</u>	<u>330,646,784,608</u>

5. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES

In the normal course of their business, the Company and Subsidiaries entered into transactions with related parties. Related parties are those entities which are under common control/ownership as the Company and Subsidiaries. The significant transactions and related account balances with related parties are as follows:

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

5. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES (continued)

- a. The Company has an exclusive export distribution agreement with HCT Services Asia Pte., Ltd. (formerly HC Trading International Inc.), an HC subsidiary, for the export of the Company's cement products (see Note 21). In 2002, DAP also sold cement product to PT Pionirbeton Industri (formerly PT Pioneer Beton Industri) for use in the latter's ready mix concrete manufacturing. Net revenues derived from sales to related parties accounted for 10.19% in 2003 and 10.48% in 2002 of the consolidated net revenues. The details of sales to related parties are as follows:

	<u>2003</u>	<u>2002</u>
HCT Services Asia Pte., Ltd. (HCT), Singapore	423,584,651,307	401,455,722,986
PT Pionirbeton Industri (formerly PT Pioneer Beton Industri)	-	12,407,049,000*
Total	<u>423,584,651,307</u>	<u>413,862,771,986</u>

* represents six months' sales from January until June 2002

Total sales discounts granted to HCT amounted to approximately US\$ 2.0 million in 2003 and US\$ 1.8 million in 2002.

The related trade receivables arising from the above-mentioned sales transactions are shown as "Trade Receivables - Related Parties" in the consolidated balance sheets (see Note 4).

- b. The Company has a mining agreement with PT Pama Indo Mining (PIM), whereby PIM agreed to develop and operate a limestone, clay and laterite mine, and to supply the limestone, clay and laterite requirements of the Company for the operations of its plants. The Company agreed to pay PIM service fees as compensation based on the Company's tonnage consumption of limestone, clay and laterite. Service fees amounted to US\$ 3,364,338 and Rp 3,235,125,524 in 2003 and US\$ 3,252,467 and Rp 2,675,557,908 in 2002. The outstanding service fees payable (part of "Due to Related Party") amounted to US\$ 214,994 as of December 31, 2003, and US\$ 780,312 and Rp 525,002,903 as of December 31, 2002.
- c. In 2000, the Company entered into two agreements with PT Indotek Engico (Indotek), an associated company, whereby the latter agreed to provide services for a block plan on community development and employees' housing, and to monitor/supervise the clearing and development of approximately 100 hectares of land located at Tarjun, South Kalimantan, for a total contract amount of Rp 8,200,000,000. As of December 31, 2003 and 2002, the total advances paid by the Company to Indotek in connection with said agreements amounted to Rp 8,200,000,000 and Rp 7,827,225,000, respectively.

In 2002, the Company entered into several additional contracts with Indotek, whereby the latter agreed to construct a club house and a swimming pool and to acquire land with an area of approximately 47 hectares located at Tarjun, for a total contract amount of Rp 11 billion. In 2003, the construction of the club house and swimming pool have been completed and have been reclassified to the appropriate property, plant and equipment account. On the other hand, total advances paid by the Company to Indotek in connection with land acquisition amounted to Rp 5,566,618,083 as of December 31, 2003.

Indotek was no longer considered as a related party starting March 26, 2003 (see Note 7d).

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

5. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES (continued)

d. The balances of accounts with related parties arising from non-trade transactions are as follows:

	2003	2002
<u>Due from Related Parties (Non-Current)</u>		
Officers and employees	67,140,391,307	45,202,868,409
PT Cibinong Center Industrial Estate	988,856,172	545,987,625
Total	68,129,247,479	45,748,856,034
<u>Due to Related Party (Non-Current)</u>		
PT Pama Indo Mining	1,819,921,011	7,500,993,255
<u>Long-term Loans</u>		
Westdeutsche Landesbank Girozentrale	92,549,164,778	106,165,968,720
WestLB Asia Pacific Ltd., Singapore	16,549,499,689	18,984,188,340
Total	109,098,664,467	125,150,157,060

The amounts due from officers and employees are being collected through monthly salary deduction.

e. Other transactions with related parties involving amounts over Rp 1 billion are as follows:

	2003	2002
Transportation services		
Stillwater Shipping Corporation	39,291,595,990	45,771,903,289
Purchase of materials		
HCT Services Asia Pte., Ltd.	5,419,933,620	-
PT Indominco Mandiri (Indominco)*	-	15,250,194,887

* Indominco was no longer considered as related party starting February 23, 2003 (see Note 7 e).

The other outstanding payables/liabilities to related parties as of December 31, 2003 and 2002 are as follows:

	2003	2002
Stillwater Shipping Corporation (recorded as part of "Accrued Expenses")	1,732,650,907	2,881,473,722
HCT Services Asia Pte., Ltd.	796,852,775*	-
PT Indominco Mandiri	-	1,617,742,080*

* presented as "Trade Payables - Related Parties"

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

6. INVENTORIES

Inventories consist of:

	2003	2002
Finished goods	55,054,132,871	79,369,841,822
Work in-process	87,803,081,247	143,146,246,942
Raw materials	27,069,939,368	35,359,461,100
Fuel and lubricants	65,041,549,522	114,560,418,847
Spare parts	514,025,317,304	516,174,050,565
Materials in-transit and others	134,338,359	1,433,388,983
Total	749,128,358,671	890,043,408,259
Allowance for obsolescence	(40,063,072,423)	(14,171,601,861)
Net	709,065,286,248	875,871,806,398

With the exception of inventories owned by DAP, Indomix and PBI amounting to Rp 6.03 billion, all of the inventories are insured against fire and other risks under a combined insurance policy package (see Note 8).

The inventories are used as collateral for the long-term loans from banks and financial institutions (see Note 11).

The changes in the allowance for obsolescence are as follows:

	2003	2002
Balance at beginning of year	14,171,601,861	9,427,169,839
Provisions during the year	29,402,108,626	4,744,432,022
Inventories written off during the year	(3,510,638,064)	-
Balance at end of year	40,063,072,423	14,171,601,861

Management believes that the above allowance for obsolescence is sufficient to reduce the carrying amounts of inventories to their net realizable values.

The Company made advance payments to several foreign suppliers for the purchase of certain inventories. The outstanding balances of the purchase advances as of December 31, 2003 and 2002 amounted to Rp 42,622,773,986 and Rp 44,660,405,544, respectively, and are presented as part of "Advances and Deposits" in the consolidated balance sheets.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

7. LONG-TERM INVESTMENTS AND ADVANCES TO ASSOCIATED COMPANIES

This account consists of long-term investments and advances to certain associated companies. The details of this account are as follows:

2003				
	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings (Losses) - Net	Carrying Value
Investments in Shares of Stock				
<i>a. Equity Method</i>				
PT Cibinong Center Industrial Estate	50.00	36,624,000,000	(22,728,004,740)	13,895,995,260
Stillwater Shipping Corporation	50.00	105,500,000	3,737,427,491	3,842,927,491
PT Pama Indo Mining	40.00	1,200,000,000	5,616,157,805	6,816,157,805
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
<i>b. Cost Method</i>				
Various investees	various	20,000,000	-	20,000,000
Sub-total		38,414,287,500	(13,839,206,944)	24,575,080,556
Advances				
PT Indo Clean Set Cement				13,720,944,026
Allowance for doubtful accounts				(13,431,144,026)
Net advances				289,800,000
Total				24,864,880,556
2002				
	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings (Losses) - Net	Carrying Value
Investments in Shares of Stock				
<i>a. Equity Method</i>				
PT Cibinong Center Industrial Estate	50.00	40,124,000,000	(19,691,300,683)	20,432,699,317
Stillwater Shipping Corporation	50.00	105,500,000	18,248,176,492	18,353,676,492
PT Indotek Engico	50.00	500,000,000	11,578,751,171	12,078,751,171
PT Pama Indo Mining	40.00	1,200,000,000	4,952,305,000	6,152,305,000
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
PT Indominco Mandiri	35.00	38,493,328,526	(38,493,328,526)	-
<i>b. Cost Method</i>				
Various investees	various	2,799,506,000	-	2,799,506,000
Sub-total		83,687,122,026	(23,870,184,046)	59,816,937,980
Advances				
PT Indo Clean Set Cement				13,789,698,006
Stillwater Shipping Corporation				2,235,000,000
PT Indotek Engico				82,834,013
Sub-total				16,107,532,019
Allowance for doubtful accounts				(13,789,698,006)
Net advances				2,317,834,013
Total				62,134,771,993

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

7. LONG-TERM INVESTMENTS AND ADVANCES TO ASSOCIATED COMPANIES (continued)

The principal activities of the above investees are as follows:

Investee	Country of Domicile	Principal Business Activity
PT Cibinong Center Industrial Estate	Indonesia	Development of industrial estates
Stillwater Shipping Corporation	Liberia	Shipping
PT Pama Indo Mining	Indonesia	Mining
PT Indo Clean Set Cement	Indonesia	Production of clean set cement
PT Indotek Engico	Indonesia	Construction, engineering, consultancy and project management
PT Indominco Mandiri	Indonesia	Coal mining

The details of the equity in net earnings (losses) of associated companies, net of goodwill amortization, for the years ended December 31, 2003 and 2002 are as follows:

	2003	2002
Stillwater Shipping Corporation	2,559,250,999	8,425,458,689
PT Pama Indo Mining	1,544,962,479	308,770,593
PT Indotek Engico	188,941,054	495,232,405
PT Cibinong Center Industrial Estate	(3,036,704,057)	(7,959,787,887)
PT Wisma Nusantara International	-	(6,573,468,516)
PT Pionirbeton Industri (formerly PT Pioneer Beton Industri)(six months in 2002-see Note 2b)	-	(1,660,981,148)
Total	1,256,450,475	(6,964,775,864)

- a. Based on the minutes of the shareholders' extraordinary meeting of PT Cibinong Center Industrial Estate (CCIE) held on June 3, 2003, which was covered by notarial deed No. 7 of Notary Popie Savitri Martosuhardjo Pharmanto, S.H. of the same date, the shareholders of CCIE agreed to reduce the issued and paid-up capital from Rp 80,248,000,000 to Rp 73,248,000,000. As a result, the Company's investment in CCIE was reduced by Rp 3,500,000,000.
- b. The Company and Subsidiaries received cash dividends from PT Pama Indo Mining amounting to Rp 881,109,674 in 2003 and Rp 799,598,153 in 2002, and from Stillwater Shipping Corporation amounting to US\$ 2,000,000 (equivalent to Rp 17,070,000,000) in 2003.
- c. Based on circular resolutions dated June 1, 1998 and May 10, 1998 of the extraordinary general meetings of shareholders of PT Indo Clean Set Cement (ICSC), which were covered by notarial deed No. 9 dated October 24, 2002 of notary Deni Thanur, S.E., S.H., M.Kn., the shareholders approved the sale of 125 ICSC shares owned by Ina International Corporation and 300 ICSC shares owned by Kawasho Corporation to the Company, which increased the Company ownership interest in ICSC to 90%. The acquisition became effective on October 23, 2002 after obtaining the approval of the Company's creditors.

Based on the minutes of the shareholders' extraordinary meeting held on December 30, 2002, which were covered by notarial deed No.2 dated January 7, 2003 of Notary Deni Thanur, S.E., S.H., M.Kn, the shareholders approved to liquidate ICSC. As of December 31, 2003, the liquidation process of ICSC is still ongoing. The accounts of ICSC were not included in the consolidated financial statements since ICSC has ceased operations and the effects of ICSC's accounts are immaterial to the consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

7. LONG-TERM INVESTMENTS AND ADVANCES TO ASSOCIATED COMPANIES (continued)

- d. Based on the sale and purchase of shares agreement which was covered by Notarial deed No. 4 dated March 26, 2003 of Notary Gissela Ratnawati, S.H., the Company agreed to sell its 50% ownership in PT Indotek Engico to a third party, at a selling price of US\$ 950,000 (equivalent to Rp 8,456,900,000).
- e. On October 3, 2002, Indomix, a Subsidiary, entered into a conditional shares sale and purchase agreement (CSSPA), which was amended on December 4, 2002, with PT Indo Tambangraya Megah and PT Centralink Wisesa Internasional for the sale of Indomix's 35% ownership (equivalent to 4,375 shares) in PT Indominco Mandiri (Indominco), at the aggregate price of US\$ 10,500,000 (equivalent to Rp 93,282,000,000).

On February 23, 2003, all of the above parties signed the Deed of Sale and Purchase of Shares as the consummation of the CSSPA.

- f. On December 13, 2002, the Company entered into shares sale and purchase agreement with Guthrie Logistics Private Limited (Guthrie), Singapore, whereby the Company agreed to sell and transfer its 33.98% ownership in PT Wisma Nusantara International (WNI) to Guthrie at an aggregate sales price of US\$ 20,751,000 (equivalent to Rp 185,513,940,000). The agreement was completed on January 2, 2003. As a result, the Company's ownership in WNI with carrying value of Rp 170,210,782,223 was reclassified to "Short-term Investments" in the 2002 consolidated balance sheet.

The Company received cash dividends of Rp 3,870,000,000 in 2002.

- g. On September 16, 2002, the Company sold its 8.80% ownership in PT Citra Marga Nusaphala Persada Tbk. (CMNP) to Parallax Venture Partners VIII Ltd., for Rp 57,987,032,360.
- h. Net gains (losses) arising from the above sale transactions amounted to Rp 104.78 billion in 2003 and (Rp 8 billion) in 2002.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	2003				
	Beginning Balance	Additions/ Reclassifications	Disposals/ Reclassifications	Appraisal Increase	Ending Balance
Carrying Value					
Direct Ownership					
Land and land improvements	218,778,353,598	40,000,000	19,481,409,466	-	199,336,944,132
Leasehold improvements	2,375,602,386	403,376,275	-	-	2,778,978,661
Quarry	70,426,599,801	1,146,156,594	-	-	71,572,756,395
Buildings and structures	2,870,794,512,673	84,152,666,841	85,231,991,176	-	2,869,715,188,338
Machinery and equipment	7,190,000,788,532	56,715,671,711	23,819,278,369	7,023,823,778	7,229,921,005,652
Transportation equipment	303,386,212,236	34,602,738,475	10,150,833,573	11,526,371,842	339,364,488,980
Furniture, fixtures and office equipment	155,154,625,667	32,012,803,567	4,639,683,749	-	182,527,745,485
Tools and other equipment	44,396,470,489	6,439,463,829	376,428,836	-	50,459,505,482
Sub-total	10,855,313,165,382	215,512,877,292	143,699,625,169	18,550,195,620	10,945,676,613,125
Assets under capital lease					
Machinery and equipment	-	366,518,240	-	-	366,518,240
Transportation equipment	-	6,646,904,800	-	-	6,646,904,800
Sub-total	-	7,013,423,040	-	-	7,013,423,040

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	2003				
	Beginning Balance	Additions/ Reclassifications	Disposals/ Reclassifications	Appraisal Increase	Ending Balance
Construction in-progress	206,286,678,289	74,117,478,808	181,563,550,968	-	98,840,606,129
Total	11,061,599,843,671	296,643,779,140	325,263,176,137	18,550,195,620	11,051,530,642,294
<u>Accumulated Depreciation, Amortization and Depletion</u>					
Direct Ownership					
Land improvements	18,933,262,087	1,953,329,875	942,678,360	-	19,943,913,602
Leasehold improvements	1,752,134,471	226,810,511	-	-	1,978,944,982
Quarry	11,591,235,022	1,907,121,106	-	-	13,498,356,128
Buildings and structures	481,648,219,682	96,519,474,859	46,176,435,355	-	531,991,259,186
Machinery and equipment	1,628,431,263,360	308,305,590,830	15,556,576,262	-	1,921,180,277,928
Transportation equipment	240,180,937,272	31,901,360,290	6,306,269,274	-	265,776,028,288
Furniture, fixtures and office equipment	105,829,303,100	18,489,904,781	3,822,104,955	-	120,497,102,926
Tools and other equipment	31,778,347,517	4,586,022,188	374,469,052	-	35,989,900,653
Total	2,520,144,702,511	463,889,614,440	73,178,533,258	-	2,910,855,783,693
Net Book Value	8,541,455,141,160				8,140,674,858,601
2002					
	Beginning Balance	Additions/ Reclassifications*	Disposals/ Reclassifications	Ending Balance	
<u>Carrying Value</u>					
Direct Ownership					
Land and land improvements	218,476,787,892	301,565,706	-	218,778,353,598	
Leasehold improvements	2,175,946,050	199,656,336	-	2,375,602,386	
Quarry	69,700,375,069	726,224,732	-	70,426,599,801	
Buildings and structures	2,837,999,300,949	32,795,211,724	-	2,870,794,512,673	
Machinery and equipment	6,971,957,619,234	221,299,169,319	3,256,000,021	7,190,000,788,532	
Transportation equipment	277,359,182,459	28,766,316,088	2,739,286,311	303,386,212,236	
Furniture, fixtures and office equipment	133,498,187,830	22,033,043,794	376,605,957	155,154,625,667	
Tools and other equipment	39,987,843,526	4,476,691,315	68,064,352	44,396,470,489	
Sub-total	10,551,155,243,009	310,597,879,014	6,439,956,641	10,855,313,165,382	
Construction in-progress	231,499,902,084	189,863,123,220	215,076,347,015	206,286,678,289	
Total	10,782,655,145,093	500,461,002,234	221,516,303,656	11,061,599,843,671	
<u>Accumulated Depreciation, Amortization and Depletion</u>					
Direct Ownership					
Land improvements	16,957,254,368	1,976,007,719	-	18,933,262,087	
Leasehold improvements	1,579,291,299	172,843,172	-	1,752,134,471	
Quarry	9,691,559,026	1,899,675,996	-	11,591,235,022	
Buildings and structures	386,364,468,540	95,283,751,142	-	481,648,219,682	
Machinery and equipment	1,304,971,071,051	326,728,408,562	3,268,216,253	1,628,431,263,360	
Transportation equipment	215,496,425,669	27,121,005,649	2,436,494,046	240,180,937,272	
Furniture, fixtures and office equipment	87,662,045,540	18,535,787,211	368,529,651	105,829,303,100	
Tools and other equipment	27,753,106,136	4,083,779,233	58,537,852	31,778,347,517	
Total	2,050,475,221,629	475,801,258,684	6,131,777,802	2,520,144,702,511	
Net Book Value	8,732,179,923,464			8,541,455,141,160	

* includes the balances of PBI's property, plant and equipment as of July 1, 2002 with carrying value of Rp 24,158,206,847 and accumulated depreciation of Rp 14,793,952,849

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Construction in-progress consists of:

	2003	2002
Machineries under installation	80,295,187,163	138,697,211,238
Buildings and structures under construction	10,015,875,575	55,657,332,620
Others	8,529,543,391	11,932,134,431
Total	98,840,606,129	206,286,678,289

Below is the percentage of completion and estimated completion period of the construction in-progress as of December 31, 2003:

	Estimated Percentage of Completion	Estimated Completion Period
Machineries under installation	5 - 95%	1 to 48 months
Buildings and structures under construction	5 - 98	1 to 8 months
Others	5 - 50	3 to 36 months

Property, plant and equipment are used as collateral to secure the long-term loans from banks and financial institutions (see Note 11).

Depreciation, amortization and depletion charges amounted to Rp 463,889,614,440 in 2003 and Rp 461,007,305,835 in 2002.

The Company and Subsidiaries insured their property, plant and equipment and inventories against losses from fire and other insurable risks under several combined policies, with a total insurance coverage of Rp 195,849,368,150 and US\$ 2,795,147,535 as of December 31, 2003. In management's opinion, the above insurance coverage is adequate to cover any possible losses that may arise from such risks.

Based on the review of asset values at the end of the year, management believes that there is no potential impairment in the values of the assets included in the consolidated financial statements.

In 2003, the Company sold two of its properties (Wisma Indocement and employee housing in Pondok Indah) for a net selling price of Rp 202,237,101,000 (see Note 17). The gain arising from the sales amounted to Rp 135.3 billion.

In March 2003, PT Pionirbeton Industri (formerly PT Pioneer Beton Industri), a Subsidiary, received a decision letter from the Tax Office which approved the revaluation of its machinery and transportation equipment. The difference between the revalued amount and the net book value of Rp 18,550,195,620 was recognized as an addition to the carrying value of property, plant and equipment while the difference between the revalued amount and the fiscal book value of Rp 20,254,205,519 was compensated against PBI's tax loss carryforward. The remaining useful lives of the revalued machinery and transportation equipment have been extended by 3 to 5 years.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company and Subsidiaries own building/construction rights or "Hak Guna Bangunan" (HGB), land use rights or "Hak Pakai" (HP) and land ownership or "Hak Milik" (HM) over land covering approximately 3,128 hectares, and local mining rights or "Surat Izin Penambangan Daerah" (SIPD) covering approximately 11,022.05 hectares at several locations in Indonesia, with legal terms ranging from 5 to 30 years. Management believes that such titles of land right ownership can be extended upon their expiration.

As of December 31, 2003, the Company is still in the process of obtaining the titles of ownership or rights over land covering a total area of approximately 1,254,799 square meters. In addition, the Company is also in the process of acquiring land rights covering a total area of approximately 49,267 square meters. The total expenditures incurred in relation to the above land rights acquisition process amounting to Rp 29,746,063,550 as of December 31, 2003, are recorded as part of "Other Non-Current Assets" in the consolidated balance sheets.

The Company made advance payments for the purchase of certain machinery, equipment and spareparts from several suppliers. The outstanding balances of the purchase advances as of December 31, 2003 and 2002 amounted to Rp 5,239,288,918 and Rp 19,426,222,816, respectively, and are presented as part of "Other Non-Current Assets" in the consolidated balance sheets.

On the other hand, the unpaid balances to contractors and suppliers for the construction, purchase, repairs and maintenance of property, plant and equipment amounted to Rp 3,513,696,747 and Rp 14,231,036,973 as of December 31, 2003 and 2002, respectively, and are recorded as part of "Other Payables to Third Parties" in the consolidated balance sheets.

9. TRADE PAYABLES

This account consists of the following:

	2003	2002
Third Parties		
Cement and ready mix concrete business		
Rupiah	70,328,693,490	90,157,364,875
U.S. dollar		
(US\$ 3,510,766 in 2003 and		
US\$ 437,806 in 2002)	29,716,938,459	3,913,985,909
Other foreign currencies	6,634,028,756	7,542,213,602
Sub-total	106,679,660,705	101,613,564,386
Other businesses	220,692,365	99,101,879
Total - Third Parties	106,900,353,070	101,712,666,265
Related Parties - Cement business (see Note 5e)	796,852,775	1,617,742,080
Total Trade Payables	107,697,205,845	103,330,408,345

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

9. TRADE PAYABLES (continued)

The aging analysis of trade payables based on their currency denomination as of December 31, 2003 is as follows:

	Rupiah	Foreign Currencies (In Rupiah Equivalent)	Total
Current	28,987,770,155	24,272,837,305	53,260,607,460
<u>Overdue:</u>			
1 - 30 days	33,371,183,639	6,474,538,441	39,845,722,080
31 - 60 days	4,371,392,765	963,935,228	5,335,327,993
61 - 90 days	2,355,376,409	915,786,025	3,271,162,434
Over 90 days	1,463,662,887	4,520,722,991	5,984,385,878
Total	70,549,385,855	37,147,819,990	107,697,205,845

The above trade payables arose mostly from purchases of raw materials and other inventories. The main suppliers of the Company are as follows:

Supplier	Materials Supplied
Topniche	Gypsum
PT Baramulti Sugih Sentosa (formerly PT Baramulti Suksessarana)	Coal
PT Bahari Cakrawala Sebuk	Coal
PT Adaro Indonesia	Coal
RHI A.G.	Firebricks
Refratechnik GmbH	Firebricks
Pertambangan Minyak dan Gas Bumi Negara (PERTAMINA)	Fuel
PT Sumberkencana Ekspresindo	Iron sand and silica sand
Magotteaux Co., Ltd.	Steel ball
Billerud AB.	Kraft paper
Frantschach Pulp & Paper Sweden	Kraft paper

10. TAXATION

a. Taxes Payable

	2003	2002
Income taxes		
Article 21	11,109,140,629	9,774,366,443
Article 22	707,621,929	385,262,103
Article 23	2,395,358,741	822,066,064
Article 25	-	415,949,445
Article 26	3,286,127,125	5,459,734,813
Value added tax	28,890,302,191	11,485,570,410
Total	46,388,550,615	28,342,949,278

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

- b. A reconciliation between income before tax expense and extraordinary item, as shown in the consolidated statements of income, and estimated taxable income of the Company for the years ended December 31, 2003 and 2002 is as follows:

	2003	2002
Income before tax expense and extraordinary item per consolidated statements of income	819,274,777,896	1,441,025,860,166
Add (deduct):		
Extraordinary item	164,291,843,757	23,854,388,034
Income of Subsidiaries before tax expense - net	(103,017,877,593)	(28,219,321,416)
Net income of other businesses already subjected to final tax	(7,764,114,040)	(11,509,548,192)
Income before tax expense attributable to the Company	872,784,630,020	1,425,151,378,592
Add (deduct):		
Temporary differences		
Depreciation of property, plant and equipment	(294,821,953,242)	(333,573,883,607)
Provisions for doubtful accounts and inventory obsolescence	25,891,440,562	4,569,378,644
Accrual of retirement benefits	16,364,684,995	-
Quarry restoration cost	5,817,891,007	-
Others	2,779,506,000	3,268,168,067
	(243,968,430,678)	(325,736,336,896)
Permanent differences		
Non-deductible expenses		
Employees' benefits	27,975,655,658	29,757,283,432
Donations	10,441,164,003	8,779,784,631
Public relations	4,559,415,744	5,789,889,381
Receivables written off during the year	-	(70,852,795,466)
Others	653,175,208	1,553,652,024
Gain on sale of investments in shares of stock	88,228,474,448	8,036,067,640
Equity in net earnings of associated companies - net	1,302,800,524	12,173,877,701
Income already subjected to final tax	(16,145,981,191)	(28,059,453,331)
	117,014,704,394	(32,821,693,988)
Estimated taxable income of the Company	745,830,903,736	1,066,593,347,708
Estimated tax loss carryforward from prior years	(2,478,226,185,667)	(3,544,819,533,375)
Corrections by the Tax Office	39,681,979,060	-
Estimated tax loss carryforward	(1,692,713,302,871)	(2,478,226,185,667)

Under existing tax regulations, the tax loss carryforward can be utilized within 5 (five) fiscal years from the date the tax loss is incurred.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

c. The details of tax expense are as follows:

	2003	2002
Tax expense - current		
Company	-	-
Subsidiaries	4,105,138,210	416,706,500
Total tax expense - current	4,105,138,210	416,706,500
Tax expense - deferred		
Company		
Tax loss carryforward - net of corrections by Tax Office	235,653,864,839	319,978,004,312
Depreciation of property, plant and equipment	88,446,585,972	100,072,165,082
Provisions for doubtful accounts and inventory obsolescence	(7,767,432,169)	(1,370,813,593)
Accrual of retirement benefits	(4,909,405,499)	-
Quarry restoration cost	(1,745,367,302)	-
Others	(833,851,800)	(980,450,420)
Sub-total	308,844,394,041	417,698,905,381
Subsidiaries	327,363,868	5,717,241,089
Total tax expense - deferred	309,171,757,909	423,416,146,470
Total	313,276,896,119	423,832,852,970

The tax expense is presented in the consolidated statements of income as/as part of the following accounts:

	2003	2002
Tax expense	263,989,342,992	416,676,536,560
Extraordinary item	49,287,553,127	7,156,316,410
Total	313,276,896,119	423,832,852,970

d. The calculation of estimated claims for tax refund is as follows:

	2003	2002
Tax expense - current		
Company	-	-
Subsidiaries	4,105,138,210	416,706,500
Total	4,105,138,210	416,706,500

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

	2003	2002
Prepayments of income tax		
Company	22,561,403,965	10,372,367,241
Subsidiaries	8,008,493,311	13,433,958,188
Total	30,569,897,276	23,806,325,429
Estimated claims for tax refund - presented as part of "Prepaid Taxes" in the consolidated balance sheets		
Company		
2003	22,561,403,965	-
2002	10,372,367,241	10,372,367,241
2001	-	13,577,441,171
Subsidiaries	15,523,786,551	13,017,251,688
Total	48,457,557,757	36,967,060,100

As of the independent auditors' report date, the Company has not yet submitted its 2003 income tax return, however, management represents that its 2003 income tax return will be prepared based on the computation as stated above. The Company's estimated taxable income for 2002, as stated above, conforms with the amounts reported in its 2002 income tax return.

As of the independent auditors' report date, the Tax Office is currently conducting an examination of the Company's 2002 income tax return.

In March 2003, the Company received a decision letter from the Tax Office wherein the Tax Office approved the Company's 2001 claim for tax refund amounting to Rp 13,270,822,761 (net of additional taxes and penalties) and reduced the tax loss to Rp 435,282,619,580. The difference between the amounts approved by the Tax Office and the amount reported amounting to Rp 39,681,979,060 was recognized as an adjustment to the Company's tax loss carryforward in 2003.

During 1999 up to the early part of 2000, the Company received several tax assessments letters wherein the Tax Office assessed the Company penalties totaling Rp 6,967,452,371 which were paid by the Company. The Company, however, has contested Rp 5,502,658,681 of the total amount of the assessment. As of the independent auditors' report date, the case has been forwarded to and is pending action by the Supreme Court. The amount being contested is presented as part of "Other Receivables - Third Parties" in the consolidated balance sheets.

- e. The reconciliation between income before tax expense and extraordinary item multiplied by the applicable tax rate and tax expense as shown in the consolidated statements of income for the years ended December 31, 2003 and 2002 is as follows:

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

	2003	2002
Income before tax expense and extraordinary item per consolidated statements of income	819,274,777,896	1,441,025,860,166
Extraordinary item	164,291,843,757	23,854,388,034
Income before tax expense	<u>983,566,621,653</u>	<u>1,464,880,248,200</u>
Tax expense at the applicable rate	296,087,048,567	433,994,742,778
Tax effect on permanent differences (mainly consisting of employees' benefits, donations, public relations expenses and receivables written off in 2002)	16,065,098,637	(6,121,431,846)
Equity in net earnings of associated companies - net	390,840,157	4,125,229,708
Loss (gain) on sale of investments in shares of stock	(5,339,182,666)	2,410,820,292
Income already subjected to final tax	(6,438,785,414)	(10,576,507,962)
Tax corrections	11,904,593,718	-
Others	607,283,120	-
Total tax expense per consolidated statements of income	<u>313,276,896,119</u>	<u>423,832,852,970</u>

f. Deferred tax assets (liabilities) consist of:

	2003	2002
Deferred tax assets:		
Company		
Tax loss carryforward	508,685,661,266	744,339,526,105
Allowance for doubtful accounts and inventory obsolescence	11,608,313,004	3,840,880,835
Accrual of retirement benefits	4,909,405,499	-
Quarry restoration cost	1,745,367,302	-
Others	833,851,800	-
Sub-total	<u>527,782,598,871</u>	<u>748,180,406,940</u>
Subsidiaries	3,659,625,735	3,308,435,496
Total	<u>531,442,224,606</u>	<u>751,488,842,436</u>
Deferred tax liabilities:		
Company		
Property, plant and equipment	(523,856,392,226)	(435,409,806,254)
Subsidiaries	(598,165,169)	-
Total	<u>(524,454,557,395)</u>	<u>(435,409,806,254)</u>

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

	2003	2002
Net deferred tax assets		
Company	3,926,206,645	312,770,600,686
Subsidiaries	3,352,260,121	3,308,435,496
Total	7,278,466,766	316,079,036,182
Net deferred tax liabilities - Subsidiaries	(290,799,555)	-

Management believes that the above deferred tax assets can be fully recovered in future periods.

11. LONG-TERM LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

This account consists of loans from:

	2003	2002
Third Parties		
Rupiah	140,176,222,939	152,257,123,190
U.S. dollar	2,232,925,944,652	4,148,798,240,010
Japanese yen	2,807,964,677,250	2,871,210,243,770
Total - Third Parties	5,181,066,844,841	7,172,265,606,970
Related Parties		
U.S. dollar	109,098,664,467	125,150,157,060
Total	5,290,165,509,308	7,297,415,764,030
Less portions currently due	497,318,750,000	299,490,000,000
Long-term portion	4,792,846,759,308	6,997,925,764,030

The balances of the above loans in their original currencies are as follows:

	2003*	2002*
Rupiah		
<u>Third parties</u>		
PT Bank Central Asia Tbk. (BCA)	89,671,055,874	90,334,470,920
PT Bank Mandiri (Persero) Tbk.	39,555,739,395	42,964,797,878
JPMorgan Europe Ltd., London (formerly The Chase Manhattan International)	10,949,427,670	18,957,854,392
Total rupiah loans	140,176,222,939	152,257,123,190

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

11. LONG-TERM LOANS FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

	2003*	2002*
Japanese yen		
<u>Third parties</u>		
Marubeni Corporation, Tokyo	JP¥ 29,646,459,041	JP¥ 30,596,467,260
Japan Bank for International Corporation, Tokyo (formerly The Export-Import Bank of Japan)	5,822,105,503	7,485,567,503
Total Japanese yen loans	JP¥ 35,468,564,544	JP¥ 38,082,034,763
U.S. dollar		
<u>Third parties</u>		
PT Bank Central Asia Tbk. (BCA)	US\$ 40,201,310	US\$ -
Mizuho Global Ltd., Tokyo	29,067,302	-
Deutsche Bank AG, London	24,632,338	60,706,948
BNP Paribas, Singapore Branch	17,462,732	18,967,651
Mizuho Asset Trust & Banking Co., Ltd., Tokyo (formerly The Yasuda Trust & Banking Co., Ltd.)	16,734,123	18,176,135
Credit Industriel et Commercial, Singapore	12,821,541	14,086,377
Kawasaki Heavy Industries Limited, Tokyo	11,611,273	12,611,947
Citigroup Financial Products Inc. (formerly Salomon Brothers Holding Company Inc., USA)	10,367,936	23,531,788
JPMorgan Chase Bank, NY IBF (formerly The Chase Manhattan Bank, New York International Banking Facility)	5,716,364	157,917,189
Merrill Lynch JPND Inc., Tokyo	3,943,480	11,617,624
Credit Suisse First Boston Int'l, London	689,970	11,506,542
Mizuho Corporate Bank, Ltd., Singapore Branch (formerly The Fuji Bank Ltd. - Singapore Branch)	-	41,961,459
Avenue Asia Special Situations Fund II, LP, USA	-	13,853,518
Other creditors (each below US\$ 10 million)	90,534,968	79,134,214
<u>Related parties</u>		
Westdeutsche Landesbank Girozentrale, Tokyo Branch	10,933,156	11,875,388
WestLB Asia Pacific Ltd., Singapore	1,955,050	2,123,511
Total U.S. dollar loans	US\$ 276,671,543	US\$ 478,070,291

* based on the confirmation from JPMorgan Chase Bank, as the facility agent

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

11. LONG-TERM LOANS FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

The interest rates per annum for the above indebtedness are as follows:

	<u>2003</u>	<u>2002</u>
Rupiah	9.38% - 15.00%	15.00% - 16.06%
U.S. dollar	3.16% - 4.49%	2.30% - 4.20%
Japanese yen	2.30% - 3.70%	2.30% - 4.72%

The above debts represent restructured debts under the Post HZ Entry Master Facility Agreement (HZMFA) dated December 29, 2000. The HZMFA provides for, among others, the mechanism, amounts and schedules of loan installment repayments, collateral, interest rates, restrictions on granting of guarantees or loans, issuance of warrants to the lenders, restrictions on issuance of new shares or other securities, restrictions on declarations and payments of cash dividends without prior written consent from the creditors, restrictions on capital expenditures, appointment of monitoring accountants, determination and transfer of surplus cash, and restrictions on derivative transactions.

Under the HZMFA, the Company, and all the lenders appointed BA Asia Limited (BAAL) to act as the Facility Agent, JPMorgan Chase Bank (formerly The Chase Manhattan Bank), Jakarta Branch to act as the Security and Escrow Agent, and The Bank of America N.A., JPMorgan Chase Bank, The Fuji Bank, Limited and BNP Paribas to compose the Monitoring Committee. In April 2002, the Company received a letter from BAAL regarding the resignation of BAAL and The Bank of America N.A. as part of the Monitoring Committee, and their replacement by Marubeni Corporation. Also, in December 2002, the Company was notified by JPMorgan Chase Bank that starting on December 10, 2002, the role of Facility Agent had been transferred from BAAL to JPMorgan Chase Bank.

The HZMFA also requires the Company to:

- Establish and maintain escrow accounts in JPMorgan Chase Bank. Usages or withdrawals of funds from these escrow accounts shall be subjected to strict monitoring and review by the monitoring accountants.
- Maintain an aggregate balance for all other current bank accounts (other than the current bank accounts agreed by the lenders) in an amount not exceeding the working capital buffers as defined in the HZMFA.

In compliance with the above requirements, the Company opened and maintains eleven (11) escrow accounts with JPMorgan Chase Bank. The balances of deposits maintained in such escrow accounts amounted to Rp 363,247,701,414 (consisting of Rp 9,147,189 and US\$ 42,910,638) as of December 31, 2003, and Rp 583,895,812,471 (consisting of Rp 188,955,597, US\$ 56,844,607 and JP¥ 1,001,600,452) as of December 31, 2002 which are presented as part of "Restricted Cash and Time Deposits" in the consolidated balance sheets.

Furthermore, as stated in the HZMFA, the loan repayment installments would be as follows:

- (i) Fixed quarterly installment payments totaling US\$ 10,500,000 in 2002; US\$ 33,500,000 in 2003; US\$ 58,750,000 in 2004; US\$ 78,500,000 in 2005; US\$ 84,500,000 in 2006; US\$ 87,250,000 in 2007; and US\$ 22,000,000 in 2008 (final).
- (ii) Quarterly payments equal to the amount of cash available in the above-mentioned escrow accounts after the payments or applications required under the HZMFA.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

11. LONG-TERM LOANS FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

As specified in the HZMFA, the restructured loans are secured/collateralized by the following:

- All of the above-mentioned escrow accounts maintained in JPMorgan Chase Bank, including all time deposit and demand deposit placements made from the funds in the escrow accounts.
- All receivables of the Company.
- All land, buildings, site improvements and other fixtures owned by the Company, except for:
 - Cement plants 6, 7 and 8, including their supporting facilities and land
 - Land where cement plants 1 and 2 are located
 - Quarry and the expansion of the Citeureup cement plants, including the land located within Kecamatan Citeureup, Cileungsi, Cibadak and Jonggol
- Fiduciary transfers of all proprietary rights over the inventories, and plant and equipment owned by the Company, including the related insurance coverage and/or proceeds from insurance recoveries
- Shares of Indomix and DAP.

Total principal payments made amounted to Rp 298,868,359,077 in 2003 and Rp 324,969,640,657 in 2002.

Total interest payments made by the Company through its escrow accounts amounted to Rp 220,606,458,920 (consisting of US\$ 15,787,982, JP¥ 861,313,609 and Rp 20,055,059,549) in 2003 and Rp 321,604,987,796 (consisting of US\$ 22,445,093, JP¥ 1,169,440,960 and Rp 33,008,176,317) in 2002, while the unpaid interest charges amounting to Rp 32,362,435,599 and Rp 53,795,883,779 as of December 31, 2003 and 2002, respectively, are presented as part of "Accrued Expenses" in the consolidated balance sheets.

As of December 31, 2003, the outstanding balance of the restructured debt amounted to Rp 5,290,165,509,308 (equivalent to US\$ 624,945,719). Since the Company was able to reduce its debt below the target debt level (equivalent to US\$ 700 million) before December 31, 2003 and as confirmed by the Facility Agent on December 24, 2003, the Company, among others, can use at its own discretion, 50% of any excess money in the escrow account after the prepayments of the principal loan installments and interest payments. The remaining 50% of the excess should be used in the early repayment of the debt (prepayment). In addition, the Monitoring Accountant's role has been limited to only performing monthly reviews of the Company's cash sweep mechanism to the escrow account.

Prior to the achievement of the target debt level, any excess money in the escrow accounts after the principal loan installment repayments plus interest payments should be used as the early repayment of the debt (prepayment) with the maximum annual prepayment amounting to US\$ 27,000,000 in 2002; US\$ 25,500,000 in 2003; US\$ 28,500,000 in 2004; US\$ 21,500,000 in 2005; US\$ 16,500,000 in 2006; and US\$ 24,000,000 in 2007. Total prepayments made amounted to US\$ 25,500,000 (equivalent to Rp 227,536,762,873) in 2003 and US\$ 19,254,411.57 (equivalent to Rp 175,019,476,495) in 2002.

Any excess funds available in the escrow accounts after the above maximum annual prepayment will be used for debt buy-back.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

11. LONG-TERM LOANS FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

In 2003, the Company bought back portions of its restructured debt amounting to US\$ 166,095,618 from the creditors at an average discount rate of 11.38% or US\$ 18,904,363 (equivalent to Rp 164,291,843,757 - before tax).

In November 2002, the Company bought back a portion of its restructured debt amounting to US\$ 8,945,634 from the creditors at a discount of US\$ 2,583,601 (equivalent to Rp 23,854,388,034 - before tax).

The discounts were recognized as "Extraordinary Item" in the consolidated statements of income.

12. OBLIGATION UNDER CAPITAL LEASE

On December 23, 2003, PBI entered into a sale and leaseback agreement with PT Central Sari Finance (CSF) involving certain machineries and transportation equipment with lease terms of 3 years.

The future minimum lease payments required under the lease agreements as of December 31, 2003 are as follows:

<u>Years</u>	<u>Amount</u>
2004	2,208,324,203
2005	2,033,672,750
2006	1,856,885,606
Total	6,098,882,559
Less amount applicable to interest	841,815,279
Present value of minimum lease payments	5,257,067,280
Current maturities	1,752,355,760
Long-term portion	<u>3,504,711,520</u>

The obligation under capital lease is secured by PBI's time deposits amounting to Rp 5,257,067,280 which are placed in PT Bank NISP (presented as part of "Restricted Cash and Time Deposits"), and the related leased assets. Based on the lease agreements, PBI is not permitted to sell or transfer its leased assets to other parties.

The gain arising from the sale and leaseback transaction amounting to Rp 241,528,137 was charged directly to current operations, instead of amortizing it over the term of the lease, since management considers the gain to be immaterial.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

13. CAPITAL STOCK

a. Share Ownership

The details of share ownership based on records maintained by the shares registrar as of December 31, 2003 and 2002 are as follows:

Shareholders	2003		
	Number of Shares Issued and Fully Paid	Percentage of Ownership	Amount
HC Indocement GMBH, Germany	2,397,980,863	65.14%	1,198,990,431,500
PT Mekar Perkasa	479,735,234	13.03	239,867,617,000
Public and cooperatives	803,515,602	21.83	401,757,801,000
Total	3,681,231,699	100.00%	1,840,615,849,500

Shareholders	2002		
	Number of Shares Issued and Fully Paid	Percentage of Ownership	Amount
Kimmeridge Enterprise Pte., Ltd., Singapore	2,271,259,197	61.70%	1,135,629,598,500
Government of the Republic of Indonesia	621,128,380	16.87	310,564,190,000
PT Mekar Perkasa	495,703,892	13.47	247,851,946,000
Public and cooperatives	293,132,050	7.96	146,566,025,000
Total	3,681,223,519	100.00%	1,840,611,759,500

On November 20, 2003, the Company received a copy of a letter from HC Indocement GMBH to the Chairman of the Badan Pengawas Pasar Modal (Bapepam) regarding the transfer of 2,254,739,197 shares of the Company from Kimmeridge Enterprise Pte., Ltd., to HC Indocement GMBH.

On December 1, 2003, the Company received a copy of a letter from HC Indocement GMBH to the Chairman of the Bapepam which states that HC Indocement GMBH has purchased 143,241,666 shares from the Government of the Republic Indonesia (GOI) through the exercise of the put option of GOI on October 30, 2003. After this acquisition, the number of shares owned by HC Indocement GMBH totaled 2,397,980,863 shares.

The Company's shares are listed on the Jakarta and Surabaya Stock Exchanges.

b. Warrants A and Warrants C

As of December 31, 2003, the Company has 153,382,977 Warrants A issued and outstanding.

Warrants A were issued to the creditors of the Company in connection with the debt restructuring at a fixed realization price of Rp 3,600 per share, while Warrants C were issued to the shareholders who did not exercise their pre-emptive rights during the rights issue process in 2001.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

13. CAPITAL STOCK (continued)

b. Warrants A and Warrants C (continued)

The period of realization of Warrants A shall be from two (2) to four (4) years and nine (9) months after the effective date of the debt restructuring which was on December 29, 2000, while Warrants C have a two-year exercise period starting from May 1, 2001 with an exercise price of Rp 1,200 per share for the first year and Rp 1,400 for the second year.

As of May 1, 2003 (the last exercise date for Warrants C), 8,180 shares were subscribed by the holders of Warrants C at Rp 1,400 per share. A total of 698,836,302 Warrants C was forfeited.

All of the above warrants, which are issued at no cost, are naked warrants and listed on the Jakarta and Surabaya Stock Exchanges.

14. ADDITIONAL PAID-IN CAPITAL

This account represents the excess of the amounts received and/or the carrying value of converted debentures and bonds over the par value of the shares issued after offsetting all the expenses related to the issuance of equity securities.

15. OTHER PAID-IN CAPITAL

This account represents the foreign exchange differential arising from the difference between the agreed exchange rate for the conversion of the foreign currency debentures into equity and the exchange rate at the date of the transaction.

16. RETAINED EARNINGS

In compliance with Corporation Law No. 1 of 1995 dated March 7, 1995, which requires companies to set aside, on a gradual basis, an amount equivalent to at least 20% of their subscribed capital as general reserve, the shareholders approved the partial appropriations of the Company's retained earnings as general reserve during their annual general meetings held on June 26, 2003, June 24, 1997 and June 25, 1996 in the amount of Rp 25 billion each.

17. SEGMENT INFORMATION

BUSINESS SEGMENTS

The Company and Subsidiaries' businesses are grouped into three major operating businesses: cement, ready mix concrete and other businesses. These operating businesses are used as basis for reporting of business segment information.

The main activities of each operating business are as follows:

Cement	: Produce and sell several types of cement
Ready mix concrete	: Produce and sell ready mix concrete
Other businesses	: Building rental services, hotel and investing activity

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

17. SEGMENT INFORMATION (continued)

The Company and Subsidiaries' business segment information is as follows:

2003	Cement	Ready Mix Concrete	Other Businesses	Elimination	Consolidation
REVENUES					
Sales to external customers	3,932,900,756,605	212,542,062,605	12,240,647,432	-	4,157,683,466,642
Inter-segment sales	66,640,436,803	-	9,669,956,627	(76,310,393,430)	-
Total Revenues	3,999,541,193,408	212,542,062,605	21,910,604,059	(76,310,393,430)	4,157,683,466,642
RESULTS					
Segment results	879,280,943,620	4,137,735,005	7,764,114,040	(177,916,949,430)	713,265,843,235
Equity in net earnings of associated companies - net	-	-	1,256,450,475	-	1,256,450,475
Others	-	-	104,752,484,186	-	104,752,484,186
Tax expense - net	-	-	-	-	(263,989,342,992)
Extraordinary item - net	-	-	-	-	115,004,290,630
NET INCOME					670,289,725,534
ASSETS AND LIABILITIES					
Segment assets	10,036,617,280,917	128,230,274,967	4,033,371,846	(104,415,998,451)	10,064,464,929,279
Long-term investments and advances to associated companies - net	-	-	24,864,880,556	-	24,864,880,556
Net deferred tax assets and prepayment for income tax	52,859,602,785	2,876,421,738	-	-	55,736,024,523
Total Assets	10,089,476,883,702	131,106,696,705	28,898,252,402	(104,415,998,451)	10,145,065,834,358
Segment liabilities	5,777,923,404,988	43,316,578,854	517,534,397	(221,137,388,440)	5,600,620,129,799
Net deferred tax liabilities	-	290,799,555	-	-	290,799,555
Total Liabilities (excluding deferred gain on sale and leaseback transaction - net)	5,777,923,404,988	43,607,378,409	517,534,397	(221,137,388,440)	5,600,910,929,354
Capital expenditure	106,270,097,841	7,737,724,612	1,072,405,719	-	115,080,228,172
Depreciation, amortization and depletion expenses	452,361,206,636	7,329,622,164	4,198,785,640	-	463,889,614,440
Non-cash expenses other than depreciation, amortization and depletion expenses	-	-	-	-	-
Provisions for doubtful accounts and inventory obsolescence	29,402,108,626	561,569,728	-	-	29,963,678,354
2002					
REVENUES					
Sales to external customers	3,822,106,837,642	114,860,205,748	11,315,462,543	-	3,948,282,505,933
Inter-segment sales	31,313,368,682	-	15,880,999,150	(47,194,387,832)	-
Total Revenues	3,853,420,226,324	114,860,205,748	27,196,461,693	(47,194,387,832)	3,948,282,505,933
RESULTS					
Segment results	1,448,552,099,453	1,300,050,753	4,390,702,729	1,783,850,735	1,456,026,703,670
Equity in net losses of associated companies - net	-	(1,660,981,148)	(5,303,794,716)	-	(6,964,775,864)
Others	-	-	(8,036,067,640)	-	(8,036,067,640)
Tax expense - net	-	-	-	-	(416,676,536,560)
Extraordinary item - net	-	-	-	-	16,698,071,624
NET INCOME					1,041,047,395,230

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

17. SEGMENT INFORMATION (continued)

2002	Cement	Ready Mix Concrete	Other Businesses	Elimination	Consolidation
ASSETS AND LIABILITIES					
Segment assets	10,825,547,778,999	107,211,576,338	256,409,670,863	(166,826,423,711)	11,022,342,602,489
Long-term investment and advances to associated companies - net	-	-	62,134,771,993	-	62,134,771,993
Net deferred tax assets and prepayment for income tax	350,183,236,614	2,862,859,668	-	-	353,046,096,282
Total Assets	11,175,731,015,613	110,074,436,006	318,544,442,856	(166,826,423,711)	11,437,523,470,764
Segment liabilities (excluding deferred gain on sale and leaseback transaction - net)					
	7,768,943,861,833	174,311,490,240	4,012,078,622	(333,681,384,237)	7,613,586,046,458
Capital expenditure	251,250,279,494	1,166,018,326	9,256,885,969	-	261,673,183,789
Depreciation, amortization and depletion expenses	451,541,689,839	3,338,311,119	6,127,304,877	-	461,007,305,835
Non-cash expenses other than depreciation, amortization and depletion expenses					
Provisions for doubtful accounts and inventory obsolescence	5,031,393,152	1,679,716,540	-	-	6,711,109,692
Others	2,308,250,000	-	-	-	2,308,250,000

As discussed in Notes 7f and 8, the Company sold its investment in PT Wisma Nusantara International and its property, Wisma Indocement, to third parties in connection with its plan to dispose non-core assets and business. After these sales transactions, the Company ceased to engage in the property business. Since the financial effects of this property business are immaterial, the management decided not to segregate the presentation of the related financial position, results of operations and cash flows of this property business.

Below are certain financial data on the property business prior to its disposal:

	2003	2002
Total assets	2,925,823,446	256,409,670,863
Total liabilities	517,534,397	2,722,627,022
Revenues	21,910,604,059	27,196,461,693
Cost of revenues	14,879,645,460	16,354,337,294
Equity in net earnings of associated companies	-	(6,573,468,516)
Net income	7,764,114,040	11,509,548,192
Cash flows from:		
Operating activities	(10,315,559,589)	(9,106,416,886)
Investing activities	(554,415,848)	(5,116,876,329)

GEOGRAPHICAL SEGMENTS

The Company and the Subsidiaries' geographical segment information is as follows:

REVENUES (based on sales area)	2003	2002
Domestic		
Java	5,800,941,946,530	5,880,611,286,839
Outside Java	976,423,327,016	1,028,108,284,757
Export	424,043,332,619	410,864,208,641
	7,201,408,606,165	7,319,583,780,237

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

17. SEGMENT INFORMATION (continued)

	2003	2002
Elimination	(3,043,725,139,523)	(3,371,301,274,304)
Net	4,157,683,466,642	3,948,282,505,933
ASSETS (based on location of assets)		
Domestic	10,064,464,929,279	11,022,342,602,489
CAPITAL EXPENDITURE (based on location of assets)		
Domestic	115,080,228,172	261,673,183,789

The export sales were coursed through HCT, a related company, which is domiciled in Singapore (see Note 21*b*).

Most of the Company's sales are coursed through DAP's sub-distributors. Sales of more than 10% of net revenues were made to the following sub-distributors: PT Jabotabek Niagatama Sukses, PT Jabar Multindo Perkasa and PT Jateng Kencana Abadimulia (see Note 21).

18. COST OF REVENUES

The details of cost of revenues are as follows:

	2003	2002
Raw materials used	433,518,997,536	407,012,668,823
Direct labor	252,177,795,685	215,668,674,426
Fuel and power	990,544,854,273	1,041,432,834,544
Manufacturing overhead	769,021,138,798	728,169,910,720
Total Manufacturing Cost	2,445,262,786,292	2,392,284,088,513
Work in-process inventory		
At beginning of year	143,146,246,942	121,123,657,233
Others	-	(503,086,114)
At end of year	(87,803,081,247)	(143,146,246,942)
Cost of Goods Manufactured	2,500,605,951,987	2,369,758,412,690
Finished goods inventory		
At beginning of year	79,369,841,822	95,840,437,876
Others	(312,223,154)	(6,117,319,043)
At end of year	(55,054,132,871)	(79,369,841,822)
Cost of Goods Sold before Packing Cost	2,524,609,437,784	2,380,111,689,701

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

18. COST OF REVENUES (continued)

	2003	2002
Packing cost	222,272,667,861	251,901,337,711
Total Cost of Goods Sold	2,746,882,105,645	2,632,013,027,412
Cost of services		
Direct costs	11,211,814,195	13,598,353,682
Indirect costs	3,667,831,265	2,755,983,612
Total Cost of Services	14,879,645,460	16,354,337,294
Total Cost of Revenues	2,761,761,751,105	2,648,367,364,706

Liabilities related to manufacturing costs which had been incurred but not yet billed to the Company and Subsidiaries amounted to Rp 36,676,849,494 and Rp 32,993,179,310 as of December 31, 2003 and 2002, respectively, and are presented as part of "Accrued Expenses" in the consolidated balance sheets.

There are no aggregate purchases from any individual supplier which exceeded 10% of consolidated revenues.

19. OPERATING EXPENSES

The details of operating expenses are as follows:

	2003	2002
<u>Delivery and Selling Expenses</u>		
Delivery, loading and transportation	344,546,884,782	168,824,043,572
Advertising and promotion	26,215,225,849	4,363,896,392
Salaries, wages and employees' benefits (see Note 20)	23,552,113,480	17,715,761,429
Depreciation	4,571,473,055	3,530,366,050
Professional fees	4,547,642,287	2,932,430,630
Research and testing	3,307,691,773	22,358,785
Repairs and maintenance	2,761,412,080	1,722,425,793
Rental	2,635,700,861	2,504,553,036
Electricity and water	2,621,081,187	2,178,793,202
Business travel	1,031,124,148	530,707,638
Miscellaneous (each below Rp 1 billion)	7,142,710,849	7,359,539,254
Total Delivery and Selling Expenses	422,933,060,351	211,684,875,781
<u>General and Administrative Expenses</u>		
Salaries, wages and employees' benefits (see Note 20)	89,754,972,386	75,339,670,823
Professional fees	17,359,217,092	17,439,275,132
Rental	8,888,078,685	4,724,143,865
Depreciation	6,531,900,327	6,986,870,128
Training and seminars	4,545,202,654	1,762,478,014
Insurance	3,447,045,694	21,429,007,070

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

19. OPERATING EXPENSES (continued)

	2003	2002
Public relations	3,409,916,535	4,900,965,734
Repairs and maintenance	3,352,137,806	3,348,855,303
Donations	3,256,254,295	1,964,149,173
Communication	2,743,367,100	3,013,645,288
Travelling and transportation	2,360,530,612	3,172,510,743
Taxes and licenses	2,281,755,837	1,251,950,793
Medical	1,865,931,303	1,764,732,436
Printing and photocopying	1,385,444,208	1,235,167,177
Electricity and water	1,306,001,694	984,887,828
Publications and sponsorships	1,207,758,664	1,265,593,862
Provision for doubtful accounts	569,296,228	1,966,677,670
Miscellaneous (each below Rp 1 billion)	4,347,539,442	5,735,987,530
Total General and Administrative Expenses	158,612,350,562	158,286,568,569
Total Operating Expenses	581,545,410,913	369,971,444,350

20. RETIREMENT BENEFITS

The Company has a defined contribution retirement plan covering 99.47% of its full-time employees. Retirement benefits charged to operations amounted to approximately Rp 27.7 billion in 2003 and Rp 15.2 billion in 2002.

The plan's assets are administered by Dana Pensiun Karyawan Indocement Tunggal Prakarsa, the establishment of which was approved by the Ministry of Finance on November 12, 1991, as amended by Decree No. Kep-332/KM.17/1994 dated December 1, 1994. As of December 31, 2003 and 2002, the Plan Assets totaled Rp 303.2 billion and Rp 239.9 billion, respectively.

In relation to the implementation of Labor Law No. 13/2003, the Company has appointed PT Watson Wyatt Purbajaga (WWP), an independent actuary, to calculate the expected obligation for post-employment, severance, gratuity and compensation benefits of its qualified permanent employees for the year ended December 31, 2003. Based on the actuarial report dated September 4, 2003, total employee benefits for the year ended December 31, 2003 amounted to Rp 17,722,018,000, while the related net liability (after considering the Company's portion for benefits in its pension plan net of the unamortized balance of the related non-vested past service costs amounting to Rp 65,847,435,000) as of December 31, 2003 amounted to Rp 16,364,684,995 (presented as part of "Long-term Liabilities - Others" in the 2003 consolidated balance sheet).

The balance of the non-vested past service costs is amortized over the average remaining years of service of active employees, starting January 1, 2003 for 14.91 years.

The actuarial valuation was determined using the "Projected Unit Credit" method which considered the following assumptions:

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

20. RETIREMENT BENEFITS (continued)

	December 31, 2003
Discount rate	9%
Wage and salary increase	8%
Retirement age	55 years
Average employee turnover	1% for employees with ages from 20 years old up to 54 years old
Table of mortality	Commissioner's Standard Ordinary 1980
Disability	10% of the mortality rate

Employee benefits of Subsidiaries are determined based on internal calculations. The total provisions made by the Subsidiaries amounted to Rp 1,375,948,186 (presented as part of "Long-term Liabilities - Others" in the 2003 consolidated balance sheet) as of December 31, 2003.

As of December 31, 2002 the total provisions made by the Company and Subsidiaries for their employees who did not join the pension plan amounted to Rp 1,655,391,997, which is recorded as part of "Accrued Expenses" account in the 2002 consolidated balance sheet. For the employees who joined the pension plan, management believes that the contributions to the retirement plan are enough to cover the payments of such employees' benefits.

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

- a. On October 20, 2003, the Company, Koperasi Gabindo (Developer) and PT Indotek Engico (Contractor) entered into an agreement for the construction of the Griya Indotarjun Indah Housing Project which is intended for the Company's employees at the Tarjun site. To assist in the development of the housing project, the Developer entered into three (3) agreements with the Contractor for the latter to construct 596 units of houses including the infrastructure and the facilities for a total contract value of Rp 31.6 billion (excluding value added tax). The housing construction is divided into three phases. The estimated completion date for the first phase (consisting of 250 units) is at the end of June 2004. The completion dates for the second and the third phases will be determined at a later date.
- b. In the EGMS held on March 29, 2001, the independent shareholders approved the exclusive export distribution agreement between the Company and HCT Services Asia Pte., Ltd. (formerly HC Trading International Inc.), an HC subsidiary, under the following terms and conditions, among others (see Note 17):
 - HCT Services Asia Pte., Ltd. (HCT) will act as the Company's exclusive export distributor.
 - The Company shall invoice HCT at a net price equivalent to the U.S. dollar FOB sales price invoiced by HCT to its customers, less:
 - 5.5% on the first one million tons shipments per year.
 - 3.0% on shipments in excess of one million tons per year.
 - The term of the export distribution agreement is twenty (20) years.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- c. The Company advanced funds in 2001 amounting to US\$ 11,678,711 (equivalent to Rp 65,452,904,196) to finance PERTAMINA's development of its natural gas production facility in Bojongroong, Tanjung Sari, West Java in exchange for the Company's future purchases of natural gas. The Company's natural gas consumption started in May 2001 and the advance has been fully utilized as of August 31, 2003. The remaining balance of these advances as of December 31, 2002 amounting to US\$ 2,225,120 (equivalent to Rp 12,470,910,521) is shown as part of "Other Non-Current Assets" in the 2002 consolidated balance sheet.
- d. The Company has an outstanding agreement with PT Rabana Gasindo Usama (Rabana) whereby Rabana will build and own the distribution and receiving facilities of natural gas at Tegal Gede - Citeureup with a capacity of 18 MMSCFD. The Company will pay compensation of US\$ 0.45 per MMBTU natural gas delivered as gas transportation fee and US\$ 0.02 per MMBTU natural gas as technical fee. The agreement also provides for a minimum annual delivery of natural gas by the Company. If the Company is unable to utilize the minimum volume as stated in the agreement, Rabana will claim from the Company payment of gas transportation fee for the unconsumed volume. Such amount claimed should be agreed to by both parties within one month after the end of the year. This minimum purchase requirement will not be valid if the total payments made for the gas transportation fee exceed US\$ 10,000,000 plus interest and Rabana's overhead. The agreement will expire in 2014 or may be terminated if the total volume of natural gas consumed reaches the contractual volume as stipulated in the agreement. Total transportation fee and technical fee paid to Rabana amounted to US\$ 767,771 in 2003 and US\$ 810,481 in 2002.
- e. The Company also has agreements with PERTAMINA for the purchase of natural gas which provide for annual minimum purchase quantity. If the Company is unable to consume the agreed volume of natural gas, the Company should pay for the unconsumed volume to PERTAMINA. However, such payment can be treated as prepayment and can be applied for future gas consumption. Such agreements will expire in 2004 for the cement plants in Citeureup and 2014 for the power plant in Citeureup. Total purchases of natural gas from PERTAMINA amounted to Rp 44,861,430,481 in 2003 and Rp 25,076,520,781 in 2002. The related outstanding payables arising from these purchases amounting to US\$ 197,563 (equivalent to Rp 1,672,371,022) and US\$ 466,413 (equivalent to Rp 4,169,736,153) as of December 31, 2003 and 2002, respectively, are presented as part of "Trade Payables - Third Parties" in the consolidated balance sheets.
- f. The Company has an outstanding sale and purchase of electricity agreement with PT PLN (Persero) (PLN) wherein PLN agreed to deliver electricity to the Company's Citeureup plants with connection power of 80,000 KVA/150 kV at a certain rate with a minimum consumption of 8,000,000 kWh per month. Under the agreement, the Company was required to pay connection fee of Rp 8,000,000,000, build its own main tower and an incoming bay for PLN based on the standards and specifications of PLN. The price of the electricity will be based on the government regulation.

Total amounts paid for the purchase of electricity under this agreement amounted to Rp 61.8 billion in 2003 and Rp 30.6 billion 2002.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- g. The Company has an outstanding agreement with the Forestry Department (FD) for the exploitation of raw materials for cement, construction of infrastructure and other supporting facilities over 3,733.97 hectares of forest located in Pantai - Kampung Baru, South Kalimantan. Based on the agreement, the FD agreed to grant a license to the Company to exploit the above forest area for the above-mentioned purposes without any compensation. However, the Company is obliged to pay certain expenses in accordance with applicable regulations, to reclaim and replant the unproductive area each year, to maintain the forest area borrowed by the Company and to develop local community livelihood. Such license is not transferable and will expire in May 2019.
- h. In December 2001, the Company entered into an agreement with PT Perhutani (Persero) wherein the Company obtained a right to use 712.484 hectares of forest land located at RPH Gunung Karang, Jonggol, KPH Bogor for the purpose of mining limestone. The Company transferred 1,424.968 hectares of land located at Desa Cikangkareng and Panyindanyan - Bogor to PT Perhutani (Persero) and paid Rp 7.1 billion as compensation to PT Perhutani (Persero) for the vegetation in the forest. The Company is also obliged to shoulder the reclamation and replanting cost of the forest. This agreement is valid for 5 years and can be renewed based on the evaluation of PT Perhutani (Persero).
- i. DAP entered into several distributorship agreements with PT Jabotabek Niagatama Sukses, PT Jabar Multindo Perkasa, PT Jateng Kencana Abadimulia, PT Bangunsukses Niaga Nusantara, PT Royal Inti Mega Utama, and PT Saka Agung Abadi. Pursuant to these agreements, DAP, as the Company's exclusive main domestic distributor, has appointed these companies to act as area distributors of bagged cement and bulk cement for the domestic market (see Note 17).

The above-mentioned distributorship agreements provide for, among others, the specific distribution area or region for each sub-distributor, delivery requirements, obligations and responsibilities of the sub-distributors, responsibilities of DAP, terms and sales price, and restriction to transfer the distribution rights without prior consent from DAP. These agreements are valid until July 14, 2004, and are automatically renewable for another five (5) years, subject to the same terms and conditions, except for the requirement to submit written termination notice six (6) months prior to the expiration of the agreement by any party who wishes not to renew or extend its distribution rights.

Total gross sales to these sub-distributors in 2003 and 2002 are as follows:

	2003	2002
PT Jabotabek Niagatama Sukses	1,114,234,822,240	1,059,553,548,842
PT Jabar Multindo Perkasa	763,972,268,928	738,391,293,038
PT Jateng Kencana Abadimulia	561,787,336,992	612,714,696,120
PT Bangunsukses Niaga Nusantara	288,717,674,942	300,209,918,923
PT Royal Inti Mega Utama	253,334,247,039	255,671,481,858
PT Saka Agung Abadi	131,976,999,153	110,965,203,632
Total	3,114,023,349,294	3,077,506,142,413

The total outstanding receivables from these sub-distributors amounting to Rp 197,832,649,664 and Rp 154,845,443,711 as of December 31, 2003 and 2002, respectively, are recorded as part of "Trade Receivables - Third Parties" in the consolidated balance sheets.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- j. In compliance with the mining regulations issued by the government, the Company is obliged to restore the mined area by preparing and submitting an annual restoration plan "Mining Exploitation Plan Book" for a period of 5 years to the Mining Department. The Company has made a provision for the restoration cost and presented as part of "Long-term Liabilities - Others" in 2003 consolidated balance sheet.
- k. The Company is exposed to market risk, primarily changes in currency exchange rates, and uses derivative instruments to hedge the risks in such exposures in connection with its risk management activities. The Company does not hold or issue derivative instruments for trading purposes.

In 2002, the Company entered into foreign exchange contracts with Standard Chartered Bank, Jakarta Branch to hedge its foreign currency-denominated loans. Under the terms of the foreign exchange contracts, the Company shall purchase a total of JP¥ 600 million and US\$ 10 million on various dates in 2003, at fixed exchange rates ranging from Rp 76.27 to Rp 80.62 for JP¥ 1 and Rp 9,085 to Rp 9,700 to US\$ 1. As of December 31, 2002, the Company recognized a net unrealized loss on the forward contracts of Rp 3,088,387,820 which is presented as part of "Other Payables to Third Parties" in the 2002 consolidated balance sheet. These contracts matured in 2003 (see also Note 23).

22. ECONOMIC CONDITIONS

Indonesia is continuing its modest recovery from the effects of the financial crisis that hit most parts of Asia in 1997. Thus far, the government has been able to maintain political stability and this has renewed foreign investors' confidence. There has also been a progressive improvement in the country's economy given the macroeconomic fundamentals and indicators such as economy growth, a declining trend in inflation and a stronger rupiah against the U.S. dollar. However, the operations of the Company may be affected for the foreseeable future by the social and political conditions in Indonesia that may contribute to volatility in currency values and negatively impact economic growth. Thus, the Company and its subsidiaries have implemented measures to cope with the current economic environment, among others:

- a. Enhancing export sales with the exclusive export distribution agreement with HCT
- b. Continued cost-cutting measures that were initiated in the previous years, such as:
 - Preferential use of domestic goods and services, whenever available
 - Reduction in non-essential operating expenditures
 - Minimize foreign currency denominated expenses to the extent possible
- c. Limiting capital expenditures to necessary operating requirements
- d. Applying dynamic and prudent financial management
- e. Disposal of non-core assets

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

22. ECONOMIC CONDITIONS (continued)

As of December 31, 2003, the Company and Subsidiaries have monetary assets and liabilities denominated in foreign currencies as follows:

	Foreign Currency		Equivalent in Rupiah	
			December 31, 2003 (Balance Sheet Date)	January 20, 2004 (Auditors' Report Date)
Assets				
Related Parties	US\$	2,687,366	22,748,553,190	22,547,000,740
Third Parties	US\$	51,084,364	432,429,141,260	428,597,813,960
	JP¥	1,879,913	148,828,388	146,864,255
	EUR	7,807	83,090,369	80,991,848
Total			455,409,613,207	451,372,670,803
Liabilities				
Related Parties	US\$	12,982,341	109,895,516,565	108,921,840,990
Third Parties	US\$	269,452,191	2,280,912,796,815	2,260,703,882,490
	JP¥	35,644,626,170	2,821,903,071,239	2,784,661,565,816
	EUR	620,441	6,603,390,789	6,436,616,249
Total			5,219,314,775,408	5,160,723,905,545
Net liabilities			4,763,905,162,201	4,709,351,234,742

The rupiah currency has increased in value based on the middle rates of exchange published by Bank Indonesia as shown below:

Foreign Currency	December 31, 2003	January 20, 2004
Euro (EUR 1)	10,643.06	10,374.26
U.S. dollar (US\$ 1)	8,465.00	8,390.00
Japanese yen (JP¥ 100)	7,916.77	7,812.29

Had the assets and liabilities denominated in foreign currencies as of December 31, 2003 been reflected using the above middle rates of exchange as of January 20, 2004 (the independent auditors' report date), the net foreign currency denominated liabilities, as stated above, would have decreased by approximately Rp 55 billion.

23. SUBSEQUENT EVENT

On January 16, 2004, the Company entered into forward currency exchange contracts with Standard Chartered Bank, Jakarta Branch for the purchase of a total of JP¥ 1,450,000,000 at fixed exchange rates ranging from Rp 80.79 to Rp 86.23 to JP¥ 1 in various dates in 2004 and 2005.

24. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 2002 consolidated financial statements have been reclassified and an account has been offset against another related account to conform with the presentation of accounts in the 2003 consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(Expressed in rupiah, unless otherwise stated)

24. RECLASSIFICATION OF ACCOUNTS (continued)

- a. The reclassified accounts are summarized as follows:

As previously reported	As reclassified	Amount
Other non-current assets	Due from related parties	36,037,852,668
Trade payables - related parties	Trade payables - third parties	1,267,974,000
Long-term investments and advances to associated companies	Due from related parties	545,987,625

- b. "Advances and Deposits" amounting to Rp 27,281,335,908 has been offset against "Trade Payables - Third Parties" relating to the same suppliers.

25. COMPLETION OF THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation of the consolidated financial statements that were completed on January 20, 2004.