PT Indocement Tunggal Prakarsa Tbk.
And
Subsidiaries

Consolidated Financial Statements
September 30, 2004
With Comparative Figures for 2003
(Indonesian Currency)

PT INDOCEMENT TUNGGAL PRAKARSA Tbk.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2004 and 2003
(Expressed in rupiah, unless otherwise stated)

	Notes	2004	2003
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2c, 3	673,194,100,394	486,935,439,061
Short-term investments	2d, 7f	5,496,636,150	11,513,082,300
Trade receivables	2e, 4, 11		
Third parties - net of allowance for doubtful accounts of Rp 13,702,091,743 in 2004 and Rp 16,714,770,690 in 2003	21i	383,457,025,872	385,869,211,402
Related parties	2f, 5a	27,800,796,747	20,480,359,567
Other receivables from third parties - net of allowance for doubtful accounts of Rp 1,389,089,659	2e, 10	22,801,294,147	25,715,611,628
Inventories - net	2g, 6, 11	640,578,118,807	757,515,543,355
Advances and deposits	6, 24	57,508,887,552	59,577,767,082
Prepaid taxes	10	38,555,490,752	31,947,687,802
Prepaid expenses	2h	21,622,865,220	25,994,303,103
Total Current Assets		1,871,015,215,641	1,805,549,005,300
NON-CURRENT ASSETS			
Due from related parties	2f, 5c, 24	67,298,144,988	63,915,248,631
Deferred tax assets - net	2r, 10	2,847,679,578	5,186,472,155
Long-term investments and advances to associated companies - net of allowance for doubtful accounts of Rp 13,431,144,026 in 2004 and Rp 13,789,698,006 in 2003	2b, 2f, 7, 24	29,709,299,425	32,792,201,150
Property, plant and equipment - net of accumulated depreciation, amortization and depletion of Rp 3,265,888,319,734 in 2004 and Rp 2,852,280,478,053 in 2003	2i, 2j, 2k, 2l, 8, 11, 21g, 21h	7,867,061,145,424	8,314,265,175,199
Restricted cash and time deposits	11, 12	428,423,352,409	548,514,320,190
Other non-current assets	2h, 2m, 8, 21c, 24	31,719,458,530	67,735,097,709
Total Non-Current Assets		8,427,059,080,354	9,032,408,515,034
TOTAL ASSETS		**10,298,074,295,995**	**10,837,957,520,334**

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
September 30, 2004 and 2003
(Expressed in rupiah, unless otherwise stated)

	Notes	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables	9		
Third parties	21e, 24	97,148,544,451	71,542,996,423
Related parties	2f, 5d	1,116,539,200	1,815,127,930
Other payables to third parties	2q, 8, 21l	91,133,816,843	100,779,480,140
Accrued expenses	2f, 5d, 11, 18, 20, 21d	167,181,503,545	98,327,244,766
Taxes payable	10	55,847,732,403	47,283,050,418
Current maturities of long-term liabilities			
Loans from banks and financial institutions	2f, 5c, 11	678,580,000,000	440,422,500,000
Obligation under capital lease	2k, 8, 12	2,350,111,368	-
Others	2o, 20, 21j	6,062,667,633	-
Other current liabilities		4,753,574,710	11,990,453,373
Total Current Liabilities		1,104,174,490,153	772,160,853,050
NON-CURRENT LIABILITIES			
Due to related party	2f, 5b, 5c	4,569,848,103	7,706,643,222
Deferred tax liabilities - net	2r, 10	89,158,031,823	-
Long-term liabilities - net of current maturities			
Loans from banks and financial institutions	2f, 5c, 11	4,342,256,677,422	5,471,563,385,861
Obligation under capital lease	2k, 8, 12	2,509,778,032	-
Others	2o, 20, 21j	29,583,128,108	-
Deferred gain on sale and leaseback transactions - net	2k	9,839,658,123	10,993,425,779
Total Non-Current Liabilities		4,477,917,121,611	5,490,263,454,862
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	13	1,840,615,849,500	1,840,615,849,500
Additional paid-in capital	2t, 14	1,194,236,402,048	1,194,236,402,048
Other paid-in capital	15	338,250,000,000	338,250,000,000
Differences arising from changes in Subsidiary's equity	2b	(1,283,795,327)	(727,744,329)
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	(3,066,594,320)	(2,987,048,170)
Retained earnings			
Appropriated	16	100,000,000,000	75,000,000,000
Unappropriated		1,578,030,020,838	1,461,944,951,881
Net Shareholders' Equity		4,715,982,684,231	4,575,533,212,422
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**10,298,074,295,995**	**10,837,957,520,334**

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Nine Months ended September 30, 2004 and 2003
(Expressed in rupiah, unless otherwise stated)

	Notes	2004	2003
NET REVENUES	2f, 2n, 5, 17, 21b, 21i	3,397,861,100,767	3,166,686,806,237
COST OF REVENUES	2f, 2n, 5, 18, 20, 21c, 21d, 21e, 21f	2,250,408,736,978	2,029,064,373,512
GROSS PROFIT		**1,147,452,363,789**	**1,137,622,432,725**
OPERATING EXPENSES	2n, 5, 19, 20		
Delivery and selling		373,878,884,253	307,708,005,136
General and administrative		115,062,644,593	105,736,073,689
Total Operating Expenses		**488,941,528,846**	**413,444,078,825**
INCOME FROM OPERATIONS		**658,510,834,943**	**724,178,353,900**
OTHER INCOME (CHARGES)			
Interest income	3	13,172,499,730	18,000,337,218
Foreign exchange gain (losses) - net	2p, 2q	(264,463,935,965)	189,748,160,617
Interest expense	11	(140,887,734,436)	(184,121,729,208)
Gain on disposal of long-term investment - net	7	-	104,804,644,090
Others - net	2b, 2d, 2k	9,716,920,539	53,473,025,543
Other Income (Charges) - Net		**(382,462,250,132)**	**181,904,438,260**
EQUITY IN NET EARNINGS OF ASSOCIATED COMPANIES - NET	2b, 7	**6,445,222,098**	**6,762,819,074**
INCOME BEFORE TAX EXPENSE AND EXTRAORDINARY ITEM		**282,493,806,909**	**912,845,611,234**
TAX EXPENSE	2r, 10		
Current		6,231,079,300	8,941,526,500
Deferred		93,298,019,268	275,197,945,633
Total Tax Expense		**99,529,098,568**	**284,139,472,133**
INCOME BEFORE EXTRAORDINARY ITEM		**182,964,708,341**	**628,706,139,101**
EXTRAORDINARY ITEM - Net of deferred tax effect of Rp 35,769,953,922	10, 11	-	83,463,225,817
NET INCOME		**182,964,708,341**	**712,169,364,918**
BASIC EARNINGS PER SHARE	2u	**49.70**	**193.46**

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

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Nine Months ended September 30, 2004 and 2003
(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: Appropriated	Retained Earnings: Unappropriated	Net Shareholders' Equity
Balance, January 1, 2003		**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		-	-	-	-	-	-	712,169,364,918	712,169,364,918
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)	-
Recovery in market values of investments in available- for-sale securities	2d	-	-	-	-	51,667,800	-	-	51,667,800
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	-	-	10,628,727,375	-	-	-	-	10,628,727,375
Change in Subsidiary's equity arising from the recovery from decline in market values of its investments in available-for-sale securities	2b, 2d	-	-	25,727,180,823	-	-	-	-	25,727,180,823
Balance, September 30, 2003		**1,840,615,849,500**	**1,532,486,402,048**	**(727,744,329)**	**(330,799,198,508)**	**(2,987,048,170)**	**75,000,000,000**	**1,461,944,951,881**	**4,575,533,212,422**
Balance, January 1, 2004		**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**
Net income		-	-	-	-	-	-	182,964,708,341	182,964,708,341
Appropriation of retained earnings for general reserve	16	-	-	-	-	-	25,000,000,000	(25,000,000,000)	-
Recovery from decline in market values of investments in available-for-sale securities	2d	-	-	-	-	2,584,000	-	-	2,584,000
Change in Subsidiary's equity arising from the decline in market values of its investments in available-for-sale securities	2b, 2d	-	-	(442,404,249)	-	-	-	-	(442,404,249)
Balance, September 30, 2004		**1,840,615,849,500**	**1,532,486,402,048**	**(1,283,795,327)**	**(330,799,198,508)**	**(3,066,594,320)**	**100,000,000,000**	**1,578,030,020,838**	**4,715,982,684,231**

* including Other Paid-in Capital

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

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months ended September 30, 2004 and 2003
(Expressed in rupiah, unless otherwise stated)

	Notes	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		3,633,813,703,511	3,333,114,772,786
Payments to suppliers and contractors, and for salaries and other employees' benefits		(2,330,363,426,602)	(2,077,839,468,925)
Cash provided by operations		1,303,450,276,909	1,255,275,303,861
Proceeds from claims for tax refund		15,872,718,682	13,162,903,873
Receipts of interest income		9,477,472,164	14,395,571,968
Payments of taxes		(231,892,114,738)	(219,989,031,045)
Net receipts from other operating activities		44,184,269,081	98,684,282,891
Net Cash Provided by Operating Activities		**1,141,092,622,098**	**1,161,529,031,548**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividend received		1,601,788,549	17,951,109,699
Proceeds from sale of equipment		105,700,000	94,700,000
Purchases of property, plant and equipment		(50,168,543,786)	(88,808,530,642)
Proceeds from sale of marketable securities		-	40,458,385,790
Proceeds from reduction of investment in associated company	7a	-	3,500,000,000
Net Cash Used in Investing Activities		**(48,461,055,237)**	**(26,804,335,153)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from forward exchange contract transactions	21l	6,049,144,750	-
Payment of obligation under capital lease	12	(876,177,880)	-
Payment of interest from obligation under capital lease	12	(308,836,589)	-
Proceeds from issuance of capital stock through realization of Warrant C		-	11,452,000
Net Cash Provided by Financing Activities		**4,864,130,281**	**11,452,000**
NET EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		17,556,703,205	(10,411,880,172)
RECLASSIFICATION OF CASH AND CASH EQUIVALENTS TO OTHER ASSETS (RESTRICTED CASH AND TIME DEPOSITS)		(741,943,054,406)	(910,997,960,748)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**373,109,345,941**	**213,326,307,475**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3	300,084,754,453	273,609,131,586
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3	**673,194,100,394**	**486,935,439,061**
Activities not affecting cash:			
Payment of bank loans from restricted cash accounts (including debt buy-back of Rp 611,440,197,006 in 2003)	11	582,843,333,193	1,041,916,459,283
Payment of interest using restricted cash accounts	11	122,728,385,727	180,711,613,233
Proceeds from interest earned on restricted cash accounts	11	1,441,878,387	2,920,851,676
Proceeds from sale of long-term investments deposited to restricted cash accounts	7	-	287,145,153,434
Recognition of revaluation increment in property, plant and equipment	8	-	18,550,195,620

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

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. 30 dated June 23, 2004 of Amrul Partomuan Pohan, S.H., LLM., concerning, among others, the changes of the Company’s boards of commissioners and directors. Such amendments were registered with the Ministry of Justice and Human Rights.

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).

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., LLM., 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.

(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 September 30, 2004, the members of the Company's boards of commissioners and directors are as follows:

Board of Commissioners :

President	: Jean-Claude Thierry A. Dosogne
Vice President	: Sudwikatmono
Vice President	: I Nyoman Tjager
Commissioner	: Hans Erwin Bauer
Commissioner	: Horst Robert Wolf
Commissioner	: Parikesit Suprapto
Commissioner	: Daniel Hugues Jules Gauthier

Board of Directors :

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

* Based on the minutes of the annual general meeting of the Company's shareholders held on June 23, 2004, which was covered by notarial deed No. 30 of Amrul Partomuan Pohan, S.H., LLM., the appointment will be effective September 1, 2004.

(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 15.1 billion and Rp 14.2 billion for the nine months ended September 30, 2004 and 2003, respectively. As of September 30, 2004 and 2003, the Company and Subsidiaries have a total of 7,078 and 7,475 permanent employees, respectively.

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 September 30, 2004	Effective Percentage of Ownership (%)
Direct					
PT Dian Abadi Perkasa (DAP)	Cement distribution	Indonesia	1998/1999	325,420,807,272	99.99
PT Indomix Perkasa (Indomix)	Ready mix concrete manufacturing	Indonesia	1992/1992	60,456,772,903	99.99
Indocement (Cayman Islands) Limited	Investing	Cayman Islands	1991/1991	25,562,220,496	100.00
Indirect					
PT Pionirbeton Industri (PBI)	Ready mix concrete manufacturing	Indonesia	1996/1996	87,219,504,437	99.99
PT Multi Bangun Galaxy (MBG)	Trading	Indonesia	1999	1,690,000,000	99.99

(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

On July 9, 2004, DAP and Indomix, subsidiaries, acquired at par value 1,000 shares of MBG, representing 100% share ownership from PT Total Galaxy and Mr. Freddysun, third parties, respectively. As a result of this transaction, the accounts of MBG were consolidated in the accompanying consolidated financial statements for the nine months ended September 30, 2004.

As of September 30, 2004, MBG has not yet started commercial operations.

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

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 September 30, 2004
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.

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.

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:

	Years
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.

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.

(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 2004 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 September 30, 2004 and 2003, the rates of exchange used are as follows:

	2004	2003
Euro (EUR 1)	11,301.58	9,758.52
U.S. dollar (US$ 1)	9,170.00	8,389.00
Japanese yen (JP¥ 100)	8,263.88	7,552.57

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.

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 3,681,231,699 shares in 2004 and 3,681,226,948 shares in 2003.

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.

(Expressed in rupiah, unless otherwise stated)

3. CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents are as follows:

	2004	2003
Cash on hand	694,495,017	672,575,346
Cash in banks		
ABN-AMRO Bank N.V.		
Rupiah	1,893,329,526	1,851,882,952
U.S. dollar (US$ 7,029,840 in 2004 and US$ 4,500,431 in 2003)	64,463,633,167	37,754,113,562
PT Bank Mandiri (Persero) Tbk.		
Rupiah	11,913,508,242	4,315,076,115
U.S. dollar (US$ 1,656,353 in 2004 and US$ 2,250,554 in 2003)	15,188,761,229	18,879,896,415
Euro (EUR 330,910 in 2004 and EUR 413,096 in 2003)	3,739,808,098	4,031,208,798
PT Bank Central Asia Tbk.		
Rupiah	10,891,314,788	13,813,718,983
U.S. dollar (US$ 1,884,439 in 2004 and US$ 34,798 in 2003)	17,280,307,372	291,920,422
Euro (EUR 718,994 in 2004 and EUR 6,139 in 2003)	8,125,766,063	59,906,774
The Hongkong and Shanghai Banking Corporation Ltd., Jakarta Branch		
Rupiah	5,670,775,584	3,309,587,444
PT Bank Multicor		
Rupiah	-	265,204,341
U.S. dollar (US$ 9,119 in 2004 and US$ 10,116,670 in 2003)	83,617,564	84,868,741,946
Others		
Rupiah	2,048,171,719	1,995,272,082
U.S. dollar (US$ 52,713 in 2004 and US$ 53,643 in 2003)	483,380,608	450,008,410
Other foreign currencies	118,181,417	176,325,471

(Expressed in rupiah, unless otherwise stated)

3. CASH AND CASH EQUIVALENTS (continued)

	2004	2003
Cash equivalents - time deposits		
ABN-AMRO Bank N.V.		
Rupiah	210,000,000,000	100,000,000,000
U.S. dollar (US$ 25,965,000)	238,099,050,000	-
PT Bank Mandiri (Persero) Tbk.		
Rupiah	79,500,000,000	214,200,000,000
PT Bank Central Asia Tbk.		
Rupiah	3,000,000,000	-
Total	**673,194,100,394**	**486,935,439,061**

Interest rates per annum ranged from 4.75% to 7.93% in 2004 and from 7.25 % to 13.00% in 2003 for the rupiah time deposits and 1.20% in 2004 for the U.S. dollar time deposits.

4. TRADE RECEIVABLES

The details of trade receivables are as follows:

	2004	2003
Related Party (see Note 5*a*)		
Cement business		
HCT Services Asia Pte., Ltd., Singapore (US$ 3,031,712 in 2004 and US$ 2,441,335 in 2003)	**27,800,796,747**	**20,480,359,567**
Third Parties		
Cement and ready mix concrete business (see Note 21*i*)	397,159,117,615	397,587,829,818
Other businesses	-	4,996,152,274
Total	397,159,117,615	402,583,982,092
Allowance for doubtful accounts	(13,702,091,743)	(16,714,770,690)
Net	**383,457,025,872**	**385,869,211,402**

(Expressed in rupiah, unless otherwise stated)

4. TRADE RECEIVABLES (continued)

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

	2004	2003
Balance at beginning of period	13,332,091,743	16,392,497,190
Provisions during the period	370,000,000	330,000,000
Collection of accounts written off during the period	-	(7,726,500)
Balance at end of period	**13,702,091,743**	**16,714,770,690**

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 September 30, 2004 are as follows:

	Currency		
	Rupiah	U.S. Dollar (In Equivalent Rupiah)	Total
Current	334,437,573,751	27,268,936,747	361,706,510,498
Overdue:			
1 - 30 days	28,223,277,206	-	28,223,277,206
31 - 60 days	6,853,676,686	-	6,853,676,686
61 - 90 days	2,180,610,828	-	2,180,610,828
Over 90 days	20,380,079,900	5,615,759,244	25,995,839,144
Total	**392,075,218,371**	**32,884,695,991**	**424,959,914,362**

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:

(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., an HC subsidiary, for the export of the Company's cement products (see Note 21). Net revenues derived from sales to related parties accounted for 13.55% and 10.6% of the consolidated net revenues for the nine months ended September 30, 2004 and 2003, respectively. The details of sales to related parties are as follows:

	2004	2003
HCT Services Asia Pte., Ltd. (HCT), Singapore	**460,262,052,562**	**335,689,710,646**

Total sales discounts granted to HC Trading for the nine months ended September 30, 2004 and 2003 amounted to approximately US$ 1.90 million and US$ 1.69 million, respectively.

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$ 2,578,455 and Rp 2,451,983,857 for the nine months ended September 30, 2004 and US$ 2,390,449 and Rp 2,153,705,230 for the nine months ended September 30, 2003. The outstanding service fees payable (part of "Due to Related Party") amounted to US$ 498,348 as of September 30, 2004, and US$ 662,353 and Rp 627,779,240 as of September 30, 2003.

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

	2004	2003
Due from Related Parties (Non-Current)		
Officers and employees	67,260,057,618	63,402,413,492
PT Cibinong Center Industrial Estate	38,087,370	512,835,139
Total	**67,298,144,988**	**63,915,248,631**
Due to Related Party (Non-Current)		
PT Pama Indo Mining	**4,569,848,103**	**7,706,643,222**
Long-term Loans		
Westdeutsche Landesbank Girozentrale	88,922,106,407	93,142,031,126
WestLB Asia Pacific Ltd., Singapore	15,900,707,098	16,641,153,598
Total	**104,822,813,505**	**109,783,184,724**

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

(Expressed in rupiah, unless otherwise stated)

5. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES (continued)

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

	2004	2003
Transportation services		
Stillwater Shipping Corporation	18,288,012,121	31,723,001,185
Purchase of materials		
HCT Services Asia Pte., Ltd.	7,349,935,860	1,815,127,930

The other outstanding payables/liabilities to related parties as of September 30, 2004 and 2003 are as follows:

	2004	2003
Stillwater Shipping Corporation (recorded as part of "Accrued Expenses")	1,315,565,265	943,316,452
HCT Services Asia Pte., Ltd.	1,116,539,200*	1,815,127,930*

* presented as "Trade Payables - Related Parties"

6. INVENTORIES

Inventories consist of:

	2004	2003
Finished goods	25,117,876,488	57,017,089,295
Work in-process	54,136,598,878	86,264,827,277
Raw materials	24,931,849,770	25,170,944,929
Fuel and lubricants	60,489,393,349	71,074,653,868
Spare parts	515,831,134,386	530,954,474,588
Materials in-transit and others	134,338,359	1,205,155,259
Total	680,641,191,230	771,687,145,216
Allowance for obsolescence	(40,063,072,423)	(14,171,601,861)
Net	**640,578,118,807**	**757,515,543,355**

With the exception of inventories owned by Indomix and PBI amounting to Rp 7.8 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).

(Expressed in rupiah, unless otherwise stated)

6. INVENTORIES (continued)

The changes in the allowance for obsolescence are as follows:

	2004	2003
Balance at beginning of period	40,063,072,423	14,171,601,861
Provisions during the period	-	-
Inventories written off during the period	-	-
Balance at end of period	**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 September 30, 2004 and 2003 amounted to Rp 36,386,665,522 and Rp 48,663,079,037, respectively, and are presented as part of "Advances and Deposits" in the consolidated balance sheets.

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:

	2004			
	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings (Losses) - Net	Carrying Value
Investments in Shares of Stock				
a. Equity Method				
PT Cibinong Center Industrial Estate	50.00	36,624,000,000	(21,655,743,448)	14,968,256,552
Stillwater Shipping Corporation	50.00	105,500,000	7,279,172,096	7,384,672,096
PT Pama Indo Mining	40.00	1,200,000,000	5,846,570,777	7,046,570,777
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
b. Cost Method				
Various investees	various	20,000,000	-	20,000,000
Sub-total		38,414,287,500	(8,994,788,075)	29,419,499,425
Advances				
PT Indo Clean Set Cement				13,720,944,026
Allowance for doubtful accounts				(13,431,144,026)
Net advances				289,800,000
Total				**29,709,299,425**

(Expressed in rupiah, unless otherwise stated)

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

	2003			
	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings (Losses) - Net	Carrying Value
Investments in Shares of Stock				
a. Equity Method				
PT Cibinong Center Industrial Estate	50.00	36,624,000,000	(17,653,024,080)	18,970,975,920
Stillwater Shipping Corporation	50.00	105,500,000	4,457,801,726	4,563,301,726
PT Pama Indo Mining	40.00	1,200,000,000	5,327,171,484	6,527,171,484
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
b. Cost Method				
Various investees	various	2,799,506,000	-	2,799,506,000
Sub-total		41,193,793,500	(8,332,838,370)	32,860,955,130
Advances				
PT Indo Clean Set Cement				13,720,944,026
Less allowance for doubtful accounts				(13,789,698,006)
Net advances				(68,753,980)
Total				**32,792,201,150**

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

The details of the equity in net earnings of associated companies, for the nine months ended September 30, 2004 and 2003 are as follows:

	2004	2003
Stillwater Shipping Corporation	3,541,744,605	3,279,625,234
PT Pama Indo Mining	1,831,216,201	1,255,976,183
PT Cibinong Center Industrial Estate	1,072,261,292	2,038,276,603
PT Indotek Engico	-	188,941,054
Total	**6,445,222,098**	**6,762,819,074**

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.

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

b. The Company and Subsidiaries received cash dividends from PT Pama Indo Mining amounting to Rp 1,600,803,229 in 2004 and Rp 881,109,699 in 2003 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 September 30, 2004, 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.

d. Based on the sale and purchase of shares agreement which was covered by Notarial deed No. 4 dated March 26, 2003 of Notary Gisella 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.

g. Net gains arising from the above sale transactions amounted to Rp 104.7 billion for the nine months ended September 30, 2003.

(Expressed in rupiah, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	2004			
	Beginning Balance	Additions/ Reclassifications	Disposals/ Reclassifications	Ending Balance
Carrying Value				
Direct Ownership				
Landrights and land improvements	199,336,944,132	35,488,141,207	-	234,825,085,339
Leasehold improvements	2,778,978,661	287,846,500	-	3,066,825,161
Quarry	71,572,756,395	2,611,696,301	-	74,184,452,696
Buildings and structures	2,869,715,188,338	2,970,350,249	-	2,872,685,538,587
Machinery and equipment	7,229,921,005,652	10,079,772,171	57,052,331	7,239,943,725,492
Transportation equipment	339,364,488,980	5,396,070,611	1,534,772,301	343,225,787,290
Furniture, fixtures and office equipment	182,527,745,485	11,187,641,116	1,175,238,146	192,540,148,455
Tools and other equipment	50,459,505,482	3,862,655,259	56,734,105	54,265,426,636
Sub-total	10,945,676,613,125	71,884,173,414	2,823,796,883	11,014,736,989,656
Assets under capital lease				
Machinery and equipment	366,518,240	-	-	366,518,240
Transportation equipment	6,646,904,800	480,000,000	-	7,126,904,800
Sub-total	7,013,423,040	480,000,000	-	7,493,423,040
Construction in-progress	98,840,606,129	23,672,803,789	11,794,357,456	110,719,052,462
Total	11,051,530,642,294	96,036,977,203	14,618,154,339	11,132,949,465,158
Accumulated Depreciation, Amortization and Depletion				
Direct Ownership				
Land improvements	19,943,913,602	1,358,610,244	-	21,302,523,846
Leasehold improvements	1,978,944,982	206,544,321	-	2,185,489,303
Quarry	13,498,356,128	1,440,411,924	-	14,938,768,052
Buildings and structures	531,991,259,186	71,117,660,446	-	603,108,919,632
Machinery and equipment	1,921,180,277,928	245,989,054,304	57,052,331	2,167,112,279,901
Transportation equipment	265,776,028,288	15,674,503,874	1,495,215,184	279,955,316,978
Furniture, fixtures and office equipment	120,497,102,926	17,028,223,307	691,532,213	136,833,794,020
Tools and other equipment	35,989,900,653	3,850,319,589	46,500,650	39,793,719,592
Sub-total	2,910,855,783,693	356,665,328,009	2,290,300,378	3,265,230,811,324
Assets under capital lease				
Machinery and equipment	-	34,361,085	-	34,361,085
Transportation equipment	-	623,147,325	-	623,147,325
Sub-total	-	657,508,410	-	657,508,410
Total	2,910,855,783,693	357,322,836,419	2,290,300,378	3,265,888,319,734
Net Book Value	**8,140,674,858,601**			**7,867,061,145,424**

	2003			
	Beginning Balance	Additions/ Reclassifications	Disposals/ Reclassifications	Ending Balance
Carrying Value				
Direct Ownership				
Landrights and land improvements	218,778,353,598	-	302,455,533	218,475,898,065
Leasehold improvements	2,375,602,386	377,304,575	-	2,752,906,961
Quarry	70,426,599,801	1,146,156,594	-	71,572,756,395
Buildings and structures	2,870,794,512,673	43,716,901,004	1,394,922,619	2,913,116,491,058
Machinery and equipment	7,190,000,788,532	60,567,215,955 *	-	7,250,568,004,487
Transportation equipment	303,386,212,236	22,068,388,565 *	3,487,320,354	321,967,280,447
Furniture, fixtures and office equipment	155,154,625,667	26,222,043,152	1,793,529,085	179,583,139,734
Tools and other equipment	44,396,470,489	4,402,921,712	376,428,836	48,422,963,365
Sub-total	10,855,313,165,382	158,500,931,557	7,354,656,427	11,006,459,440,512

(Expressed in rupiah, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	2003			
	Beginning Balance	Additions/ Reclassifications	Disposals/ Reclassifications	Ending Balance
Construction in-progress	206,286,678,289	57,249,833,706	103,450,299,255	160,086,212,740
Total	11,061,599,843,671	215,750,765,263	110,804,955,682	11,166,545,653,252
<u>Accumulated Depreciation, Amortization and Depletion</u>				
Direct Ownership				
Land improvements	18,933,262,087	1,482,005,788	-	20,415,267,875
Leasehold improvements	1,752,134,471	162,036,128	-	1,914,170,599
Quarry	11,591,235,022	1,430,371,629	-	13,021,606,651
Buildings and structures	481,648,219,682	72,722,447,240	862,763,501	553,507,903,421
Machinery and equipment	1,628,431,263,360	230,205,978,721	-	1,858,637,242,081
Transportation equipment	240,180,937,272	14,208,285,020	3,686,073,384	250,703,148,908
Furniture, fixtures and office equipment	105,829,303,100	15,177,338,824	1,700,893,627	119,305,748,297
Tools and other equipment	31,778,347,517	3,371,511,756	374,469,052	34,775,390,221
Total	2,520,144,702,511	338,759,975,106	6,624,199,564	2,852,280,478,053
Net Book Value	**8,541,455,141,160**			**8,314,265,175,199**

* Including the balances of revaluation increment in property, plant and equipment of PBI with net book value amounting to Rp 18,550,195,620.

Construction in-progress consists of:

	2004	**2003**
Machineries under installation	93,040,642,246	107,300,536,976
Buildings and structures under construction	9,763,283,414	36,937,693,205
Others	7,915,126,802	15,847,982,559
Total	**110,719,052,462**	**160,086,212,740**

Below is the percentage of completion and estimated completion period of the construction in-progress as of September 30, 2004:

	Estimated Percentage of Completion	Estimated Completion Period
Machineries under installation	5 - 99%	1 to 36 months
Buildings and structures under construction	5 - 95	1 to 24 months
Others	5 - 95	1 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 357,322,836,419 and Rp 338,759,975,106 for the nine months ended September 30, 2004 and 2003, respectively.

8. PROPERTY, PLANT AND EQUIPMENT (continued)

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 199,173,173,950 and US$ 3,258,852,737 as of September 30, 2004. 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.

The Company sold two of its properties (Wisma Indocement in November 2003 and employee housing in Pondok Indah in July 2003) 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, 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.

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 3,161.6 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 September 30, 2004, the Company is still in the process of obtaining the titles of ownership or rights over land covering a total area of approximately 932,863 square meters. In addition, the Company is also in the process of acquiring land rights covering a total area of approximately 607,753 square meters. The total expenditures incurred in relation to the above land rights acquisition process amounting to Rp 18,330,139,138 as of September 30, 2004, 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 September 30, 2004 amounted to Rp 1,583,941,718 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 8,351,356,231 and Rp 15,891,106,857 as of September 30, 2004 and 2003, respectively, and are recorded as part of "Other Payables to Third Parties" in the consolidated balance sheets.

(Expressed in rupiah, unless otherwise stated)

9. TRADE PAYABLES

This account consists of the following:

	2004	**2003**
Third Parties		
Cement and ready mix concrete business		
Rupiah	78,816,426,426	63,205,724,876
U.S. dollar (US$ 402,973 in 2004 and US$ 198,163 in 2003)	3,695,266,353	1,662,390,833
Other foreign currencies	14,636,851,672	6,307,969,609
Sub-total	97,148,544,451	71,176,085,318
Other businesses	-	366,911,105
Total - Third Parties	97,148,544,451	71,542,996,423
Related Parties - Cement business (see Note 5*d*)	1,116,539,200	1,815,127,930
Total Trade Payables	**98,265,083,651**	**73,358,124,353**

The aging analysis of trade payables based on their currency denomination as of September 30, 2004 is as follows:

	Rupiah	Foreign Currencies (In Rupiah Equivalent)	Total
Current	46,576,575,677	-	46,576,575,677
<u>Overdue</u>:			
1 - 30 days	21,877,279,941	4,638,752,997	26,516,032,938
31 - 60 days	2,755,372,256	4,515,314,916	7,270,687,172
61 - 90 days	5,486,373,371	396,412,084	5,882,785,455
Over 90 days	2,120,825,181	9,898,177,228	12,019,002,409
Total	**78,816,426,426**	**19,448,657,225**	**98,265,083,651**

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
Itochu	Gypsum
HCT Services Asia Pte., Ltd.	Gypsum
PT Baramulti Sugih Sentosa (formerly PT Baramulti Suksessarana)	Coal
PT Bahari Cakrawala Sebuku	Coal
PT Adaro Indonesia	Coal

(Expressed in rupiah, unless otherwise stated)

9. TRADE PAYABLES (continued)

Supplier	Materials Supplied
SIAM Refractory Industry Co., Ltd.	Firebricks
RHI A.G.	Firebricks
Refratechnik GmbH	Firebricks
Pertambangan Minyak dan Gas Bumi Negara (PERTAMINA)	Fuel
PT Sumberkencana Ekspressindo	Iron sand and silica sand
Magotteaux Co., Ltd.	Steel ball
Longwear Product., Ltd.	Steel ball
Vega Industries., Ltd.	Steel ball
Fujian Qingshan Paper Co., Ltd	Kraft paper
Billerud AB.	Kraft paper
Frantschach Pulp & Paper Sweden	Kraft Paper
Eurocan Pulp & Paper Co.	Kraft Paper

10. TAXATION

a. *Taxes Payable*

	2004	2003
Income taxes		
Article 21	2,920,222,873	2,623,621,136
Article 22	902,567,547	892,434,913
Article 23	1,230,650,542	843,265,354
Article 26	2,830,651,511	3,478,933,385
Article 29/Corporate income tax	971,879,423	2,452,131,510
Value added tax	46,991,760,507	36,992,664,120
Total	**55,847,732,403**	**47,283,050,418**

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 nine months ended September 30, 2004 and 2003 is as follows:

	2004	2003
Income before tax expense and extraordinary item per consolidated statements of income	282,493,806,909	912,845,611,234
Add (deduct):		
Extraordinary item	-	119,233,179,739
Income of Subsidiaries before tax expense - net	(18,896,672,144)	(112,385,665,378)
Net income of other businesses already subjected to final tax	-	(7,461,315,363)
Income before tax expense attributable to the Company	263,597,134,765	912,231,810,232
Add (deduct):		
Temporary differences		
Depreciation of property, plant and equipment	(148,160,642,453)	(238,561,990,752)
Accrual of retirement benefits	12,273,513,750	-
	(135,887,128,703)	(238,561,990,752)

(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

	2004	2003
Permanent differences		
Non-deductible expenses		
Employees' benefits	28,458,973,394	6,129,325,846
Donations	8,210,188,795	6,039,787,257
Public relations	5,167,343,154	2,860,447,720
Others	472,764,468	2,370,910,152
Gain on sale of investments in shares of stock	-	88,228,474,448
Equity in net earnings of associated companies - net	(2,903,477,493)	(3,483,193,840)
Income already subjected to final tax	(6,672,865,645)	(13,177,135,415)
	32,732,926,673	88,968,616,168
Estimated taxable income of the Company	160,442,932,735	762,638,435,648
Estimated tax loss carryforward from prior years	(1,692,713,302,871)	(2,478,226,185,667)
Corrections by the Tax Office	13,418,912,977	39,681,979,060
Estimated tax loss carryforward	**(1,518,851,457,159)**	**(1,675,905,770,959)**

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

c. The details of tax expense are as follows:

	2004	2003
Tax expense - current		
Company	-	-
Subsidiaries	6,231,079,300	8,941,526,500
Total tax expense - current	6,231,079,300	8,941,526,500
Tax expense - deferred		
Company		
Depreciation of property, plant and equipment	44,448,192,736	71,568,597,226
Tax loss carryforward - net of corrections by Tax Office	52,158,553,714	240,696,124,412
Accrual of retirement benefits	(3,682,054,125)	-
Sub-total	92,924,692,325	312,264,721,638
Subsidiaries	373,326,943	(1,296,822,083)
Total tax expense - deferred	93,298,019,268	310,967,899,555
Total	**99,529,098,568**	**319,909,426,055**

(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

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

	2004	2003
Tax expense	99,529,098,568	284,139,472,133
Extraordinary item	-	35,769,953,922
Total	**99,529,098,568**	**319,909,426,055**

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

	2004	2003
Tax expense - current		
Company	-	-
Subsidiaries	6,231,079,300	8,941,526,500
Total	6,231,079,300	8,941,526,500
Prepayments of income tax		
Company	28,147,480,000	18,135,608,182
Subsidiaries	14,603,849,446	19,369,794,332
Total	42,751,329,446	37,505,402,514
Estimated claims for tax refund - presented as part of “Prepaid Taxes” in the consolidated balance sheets		
Company	28,147,480,000	18,135,608,182
Subsidiaries	9,344,649,569	12,880,399,342
Total	37,492,129,569	31,016,007,524
Estimated Corporate Income Tax Payable Subsidiary	**971,879,423**	**2,452,131,510**

In March 2004, the Company received the decision letter from the Tax Office with respect to its income tax and taxable income in 2002. Based on the decision letter, the taxable income for 2002 amounted to Rp 1,080,012,260,671. The difference amounting to Rp 13,418,912,977 between the amounts agreed by the Tax Office and the Company’s calculation was recognized as a reduction from the Company’s tax loss carryforward in 2004. Moreover, the Tax Office also approved the Company’s 2002 claim for tax refund amounting to Rp 10,359,940,562.

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.

(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

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 September 30, 2004, 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 nine months ended September 30, 2004 and 2003 is as follows:

	2004	**2003**
Income before tax expense and extraordinary item per consolidated statements of income	282,493,806,909	912,845,611,234
Extraordinary item	-	119,233,179,739
Income before tax expense	282,493,806,909	1,032,078,790,973
Tax expense at the applicable rate	86,500,618,251	310,726,475,040
Tax effect on permanent differences (mainly consisting of employees’ benefits, donations, and public relations expenses)	13,027,821,184	8,781,971,018
Equity in net earnings of associated companies - net	(871,043,248)	(1,044,958,152)
Gain on sale of investments in shares of stock	-	(5,339,182,666)
Income already subjected to final tax	(3,107,074,548)	(5,119,472,903)
Tax corrections	4,025,673,893	11,904,593,718
Others	(46,896,964)	-
Total tax expense per consolidated statements of income	**99,529,098,568**	**319,909,426,055**

f. Deferred tax assets (liabilities) consist of:

	2004	**2003**
Deferred tax assets:		
Company		
Tax loss carryforward	456,527,107,552	503,643,401,693
Allowance for doubtful accounts and inventory obsolescence	11,608,313,004	3,840,880,835
Accrual of retirement benefits	8,591,459,624	-
Quarry restoration cost	1,745,367,302	-
Others	833,851,800	-
Sub-total	479,306,099,282	507,484,282,528
Subsidiaries	3,477,893,527	4,593,378,852
Total	482,783,992,809	512,077,661,380

(Expressed in rupiah, unless otherwise stated)

10. TAXATION (continued)

	2004	2003
Deferred tax liabilities:		
Company		
Property, plant and equipment	(568,304,584,962)	(506,978,403,480)
Subsidiaries	(789,760,092)	87,214,255
Total	(569,094,345,054)	(506,891,189,225)
Net deferred tax assets		
Company	-	505,879,048
Subsidiaries	2,847,679,578	4,680,593,107
Total	**2,847,679,578**	**5,186,472,155**
Net deferred tax liabilities		
Company	(88,998,485,680)	-
Subsidiaries	(159,546,143)	-
Total	**(89,158,031,823)**	**-**

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:

	2004	2003
Third Parties		
Rupiah	124,347,748,284	142,329,113,033
U.S. dollar	2,145,772,439,611	2,948,975,092,966
Japanese yen	2,645,893,676,022	2,710,898,495,138
Total - Third Parties	4,916,013,863,917	5,802,202,701,137
Related Parties		
U.S. dollar	104,822,813,505	109,783,184,724
Total	5,020,836,677,422	5,911,985,885,861
Less portions currently due	678,580,000,000	440,422,500,000
Long-term portion	**4,342,256,677,422**	**5,471,563,385,861**

(Expressed in rupiah, unless otherwise stated)

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

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

	2004	2003
Rupiah		
Third parties		
PT Bank Central Asia Tbk. (BCA)	79,545,543,819	91,048,264,675
PT Bank Mandiri (Persero) Tbk.	35,089,168,636	40,163,254,405
JPMorgan Europe Ltd., London	9,713,035,829	11,117,593,953
Total rupiah loans	**124,347,748,284**	**142,329,113,033**
Japanese yen		
Third parties		
Marubeni Corporation, Tokyo	JP¥ 27,027,196,856	JP¥ 29,239,885,702
Japan Bank for International Corporation, Tokyo	4,990,374,503	6,653,836,503
Total Japanese yen loans	**JP¥ 32,017,571,359**	**JP¥ 35,893,722,205**
U.S. dollar		
Third parties		
PT Bank Central Asia Tbk. (BCA)	US$ 54,169,001	US$ 40,816,789
Mizuho Global Ltd., Tokyo	25,780,949	29,502,602
Barclays Bank PLC	22,401,789	-
BNP Paribas, Singapore Branch	15,488,385	17,731,331
Deutsche Bank AG, London	14,898,176	37,554,207
Mizuho Asset Trust & Banking Co., Ltd., Tokyo	14,842,058	16,984,318
Credit Industriel et Commercial, Singapore	11,371,836	18,092,404
Kawasaki Heavy Industries Limited, Tokyo	10,298,518	11,791,521
JPMorgan Chase Bank, NY IBF	5,069,687	32,556,702
Credit Suisse First Boston Int'l, London	611,621	13,969,179
Avenue Asia Special Situations Fund II, LP, USA	-	12,950,635
Other creditors (each below US$ 10 million)	59,067,156	119,579,112
Related parties		
Westdeutsche Landesbank Girozentrale, Tokyo Branch	9,697,067	11,102,876
WestLB Asia Pacific Ltd., Singapore	1,733,992	1,983,687
Total U.S. dollar loans	**US$ 245,430,235**	**US$ 364,615,363**

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

	2004	2003
Rupiah	7.81% - 9.37%	10.50% - 15.00%
U.S. dollar	3.12% - 3.63%	3.11% - 4.72%
Japanese yen	2.30% - 3.80%	2.30% - 3.70%

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

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, 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 422,687,285,129 (consisting of Rp 2,981,769, US$ 40,461,838 and JP¥ 625,000,000) as of September 30, 2004, and Rp 548,514,320,190 (consist of Rp 43,359,024,313 and US$ 60,216,390) as of September 30, 2003 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.

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 389,904,519,278 and Rp 202,939,499,329 for the nine months ended September 30, 2004 and 2003, respectively.

Total interest payments made by the Company through its escrow accounts amounted to Rp 122,728,385,727 (consisting of US$ 6,805,792, JP¥ 654,761,393 and Rp 8,680,122,413) for the nine months ended September 30, 2004 and Rp 180,711,613,233 (consist of US$ 12,769,953, JP¥ 720,148,280 and Rp 16,318,920,331) for the nine months ended September 30, 2003, while the unpaid interest charges amounting to Rp 34,190,236,584 and Rp 38,367,596,591 as of September 30, 2004 and 2003, respectively, are presented as part of "Accrued Expenses" in the consolidated balance sheets.

As of September 30, 2004, the outstanding balance of the restructured debt amounted to Rp 5,020,836,677,422 (equivalent to US$ 547,528,536). 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 repayments 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 on the escrow account. For the nine months ended September 30, 2004, total prepayments made amounted to US$ 21,940,000 (equivalent to Rp 192,938,813,915) and the remaining 50% of the excess cash amounted to US$ 21,996,780 (presented as part of "Cash and Cash Equivalents"), wherein the usage will be determined later by the Company.

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 for the nine months ended September 30, 2003 amounted to US$ 25,500,000 (equivalent to Rp 227,536,762,948).

(Expressed in rupiah, unless otherwise stated)

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

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

In 2003, the Company bought-back a portion of its restructured debt amounting to US$ 83,667,022 from the creditors at an average discount rate of 16.26% or US$ 13,606,769 (equivalent to Rp 119,233,179,739 - before tax). Such discount was recognized as income and presented as an “Extraordinary Item” in the consolidated statement of income for the nine months ended September 30, 2003.

12. OBLIGATION UNDER CAPITAL LEASE

On December 23, 2003 and August 23, 2004, 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 September 30, 2004 are as follows:

Years	Amount
2004	1,066,347,007
2005	2,231,367,249
2006	2,162,919,483
Total	5,460,633,739
Less amount applicable to interest	600,744,339
Present value of minimum lease payments	4,859,889,400
Current maturities	2,350,111,368
Long-term portion	**2,509,778,032**

The obligation under capital lease is secured by PBI’s time deposits amounting to Rp 5,736,067,280 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.

(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 September 30, 2004 and 2003 are as follows:

	2004		
Shareholders	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**

	2003		
Shareholders	Number of Shares Issued and Fully Paid	Percentage of Ownership	Amount
Kimmeridge Enterprise Pte., Ltd., Singapore	2,254,739,197	61.25%	1,127,369,598,500
Government of the Republic of Indonesia	621,128,380	16.87	310,564,190,000
PT Mekar Perkasa	479,735,734	13.03	239,867,867,000
Public and cooperatives	325,628,388	8.85	162,814,194,000
Total	**3,681,231,699**	**100.00%**	**1,840,615,849,500**

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 September 30, 2004, 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.

(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 23, 2004, 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 and investing activity

(Expressed in rupiah, unless otherwise stated)

17. SEGMENT INFORMATION (continued)

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

2004	Cement	Ready Mix Concrete	Other Businesses	Elimination	Consolidation
REVENUES					
Sales to external customers	3,273,217,082,509	124,644,018,258	-	-	3,397,861,100,767
Inter-segment sales	45,251,142,640	-	-	(45,251,142,640)	-
Total Revenues	**3,318,468,225,149**	**124,644,018,258**	**-**	**(45,251,142,640)**	**3,397,861,100,767**
RESULTS					
Segment results	283,035,492,197	2,513,092,614	-	(9,500,000,000)	276,048,584,811
Equity in net earnings of associated companies - net	-	-	6,445,222,098	-	6,445,222,098
Tax expense - net					(99,529,098,568)
NET INCOME					**182,964,708,341**
ASSETS AND LIABILITIES					
Segment assets	10,334,004,525,548	121,500,595,436	2,797,548,400	(231,340,843,144)	10,226,961,826,240
Long-term investments and advances to associated companies - net	-	-	29,709,299,425	-	29,709,299,425
Net deferred tax assets and prepayment for income tax	39,067,315,565	2,335,854,765	-	-	41,403,170,330
Total Assets	**10,373,071,841,113**	**123,836,450,201**	**32,506,847,825**	**(231,340,843,144)**	**10,298,074,295,995**
Segment liabilities	5,669,494,205,752	44,487,184,200	690,000,000	(231,577,468,134)	5,483,093,921,818
Net deferred tax liabilities	88,998,485,680	159,546,143	-	-	89,158,031,823
Total Liabilities (excluding deferred gain on sale and leaseback transaction - net)	**5,758,492,691,432**	**44,646,730,343**	**690,000,000**	**(231,577,468,134)**	**5,572,251,953,641**
Capital expenditure	80,768,295,983	1,794,323,764	1,680,000,000	-	84,242,619,747
Depreciation, amortization and depletion expenses	352,280,004,450	5,042,831,969	-	-	357,322,836,419
Non-cash expenses other than depreciation, amortization and depletion expenses					
Provisions for doubtful accounts	-	370,000,000	-	-	370,000,000

2003	Cement	Ready Mix Concrete	Other Businesses	Elimination	Consolidation
REVENUES					
Sales to external customers	2,991,823,193,356	164,121,251,503	10,742,361,378	-	3,166,686,806,237
Inter-segment sales	53,525,872,727	-	8,252,143,400	(61,778,016,127)	-
Total Revenues	**3,045,349,066,083**	**164,121,251,503**	**18,994,504,778**	**(61,778,016,127)**	**3,166,686,806,237**
RESULTS					
Segment result	803,608,546,108	6,962,384,500	7,461,315,362	(16,754,097,900)	801,278,148,070
Equity in net earnings of associated companies – net	-	-	6,762,819,074	-	6,762,819,074
Others	-	-	104,804,644,090	-	104,804,644,090
Tax expense - net					(284,139,472,133)
Extraordinary item - net					83,463,225,817
NET INCOME					**712,169,364,918**

(Expressed in rupiah, unless otherwise stated)

17. SEGMENT INFORMATION (continued)

2003	Cement	Ready Mix Concrete	Other Businesses	Elimination	Consolidation
ASSETS AND LIABILITIES					
Segment assets	10,796,957,085,955	123,838,932,751	123,747,062,476	(276,511,921,955)	10,768,031,159,227
Long-term investment and advances to associated companies - net	-	-	32,792,201,150	-	32,792,201,150
Net deferred tax assets and prepayment for income tax	32,773,721,002	4,360,438,955	-	-	37,134,159,957
Total Assets	10,829,730,806,957	128,199,371,706	156,539,263,626	(276,511,921,955)	10,837,957,520,334
Segment liabilities (excluding deferred gain on sale and leaseback transaction - net)	**6,476,965,454,507**	**44,538,907,710**	**7,972,675,391**	**(278,046,155,475)**	**6,251,430,882,133**
Capital expenditure	92,213,535,133	534,972,430	1,001,762,825	-	93,750,270,388
Depreciation, amortization and depletion expenses	330,594,008,406	4,388,282,681	3,777,684,019	-	338,759,975,106
Non-cash expenses other than depreciation, amortization and depletion expenses					
Provisions for doubtful accounts	-	330,000,000	-	-	330,000,000

As discussed in Notes 7*f* 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.

As of September 30, 2003, the financial data on the property business prior to its disposal is as follows:

	Amount
Total assets	77,804,711,680
Total liabilities	8,003,683,601
Revenues	18,994,504,778
Cost of revenues	11,898,148,572
Net income	7,461,315,363
Cash flows from:	
Operating activities	(6,552,658,738)
Investing activities	(554,415,848)

GEOGRAPHICAL SEGMENTS

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

REVENUES (based on sales area)	**2004**	**2003**
Domestic		
Java	4,440,216,267,072	4,441,954,159,598
Outside Java	587,424,448,600	715,373,764,227
Export	460,262,052,562	335,689,710,646
	5,487,902,768,234	5,493,017,634,471

(Expressed in rupiah, unless otherwise stated)

17. SEGMENT INFORMATION (continued)

	2004	2003
Elimination	(2,090,041,667,467)	(2,326,330,828,234)
Net	**3,397,861,100,767**	**3,166,686,806,237**
ASSETS (based on location of assets)		
Domestic	**10,226,961,826,240**	**10,768,031,159,227**
CAPITAL EXPENDITURE (based on location of assets)		
Domestic	**84,242,619,747**	**93,750,270,388**

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*i*).

18. COST OF REVENUES

The details of cost of revenues are as follows:

	2004	2003
Raw materials used	348,112,958,053	324,138,623,150
Direct labor	150,120,515,876	156,784,030,466
Fuel and power	906,154,580,189	749,429,961,745
Manufacturing overhead	597,834,546,591	541,889,746,819
Total Manufacturing Cost	2,002,222,600,709	1,772,242,362,180
Work in-process inventory		
At beginning of period	87,803,081,247	143,544,024,820
At end of period	(54,136,598,878)	(86,264,827,277)
Cost of Goods Manufactured	2,035,889,083,078	1,829,521,559,723
Finished goods inventory		
At beginning of period	55,054,132,871	80,290,211,478
Others	(815,391,411)	(1,513,902,044)
At end of period	(25,117,876,488)	(57,017,089,295)
Cost of Goods Sold before Packing Cost	2,065,009,948,050	1,851,280,779,862

(Expressed in rupiah, unless otherwise stated)

18. COST OF REVENUES (continued)

	2004	2003
Packing cost	185,398,788,928	165,885,445,078
Total Cost of Goods Sold	2,250,408,736,978	2,017,166,224,940
Cost of services		
Direct costs	-	11,898,148,572
Indirect costs	-	-
Total Cost of Services	-	11,898,148,572
Total Cost of Revenues	**2,250,408,736,978**	**2,029,064,373,512**

Liabilities related to manufacturing costs which had been incurred but not yet billed to the Company and Subsidiaries amounted to Rp 67,365,820,754 and Rp 33,990,716,266 as of September 30, 2004 and 2003, 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:

	2004	2003
Delivery and Selling Expenses		
Delivery, loading and transportation	318,273,899,452	266,665,660,741
Salaries, wages and employees’ benefits (see Note 20)	16,298,309,356	12,791,318,248
Advertising and promotion	15,674,345,055	5,066,504,103
Rental	4,062,445,431	1,700,247,855
Professional fees	3,910,482,549	3,715,620,844
Depreciation	3,790,999,648	3,442,946,725
Repairs and maintenance	3,171,328,579	2,432,198,461
Electricity and water	1,929,375,467	1,850,114,628
Taxes and licenses	1,250,110,526	185,916,702
Research and testing	889,323,392	3,278,269,773
Miscellaneous (each below Rp 1 billion)	4,628,264,798	6,579,207,056
Total Delivery and Selling Expenses	373,878,884,253	307,708,005,136
General and Administrative Expenses		
Salaries, wages and employees’ benefits (see Note 20)	64,361,588,441	59,270,778,666
Rental	11,743,941,286	4,406,273,088
Professional fees	5,588,653,762	12,212,468,891
Public relations	4,557,452,316	2,051,487,395
Depreciation	4,487,455,765	4,887,017,237
Training and seminars	4,003,097,245	3,197,463,333
Traveling and transportation	3,374,472,693	2,338,216,858

(Expressed in rupiah, unless otherwise stated)

19. OPERATING EXPENSES (continued)

	2004	2003
Donations	2,715,700,981	2,248,476,127
Repairs and maintenance	2,308,805,261	2,205,610,614
Communication	2,252,260,033	2,475,291,783
Medical	1,951,631,019	1,546,008,650
Insurance	1,635,405,695	1,739,464,634
Taxes and licenses	748,372,864	1,817,820,372
Miscellaneous (each below Rp 1 billion)	5,333,807,232	5,339,696,041
Total General and Administrative Expenses	115,062,644,593	105,736,073,689
Total Operating Expenses	**488,941,528,846**	**413,444,078,825**

20. RETIREMENT BENEFITS

The Company has a defined contribution retirement plan covering all of its full-time employees. Retirement benefits charged to operations amounted to approximately Rp 15.1 billion and Rp 13.7 billion for the nine months ended September 30, 2004 and 2003, respectively.

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 September 30, 2004 and 2003, total asset of the Plan's was Rp 341.1 billion and Rp 287.8 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 September 30, 2004 amounted to Rp 28,638,198,761 (presented as part of "Long-term Liabilities - Others" in the 2004 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:

	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

20. RETIREMENT BENEFITS (continued)

Employee benefits of Subsidiaries are determined based on internal calculations. The total provisions made by the Subsidiaries amounted to Rp 1,189,705,973 (presented as part of "Long-term Liabilities - Others" in the 2004 consolidated balance sheet) as of September 30, 2004.

As of September 30, 2003 the total provisions made by the Company and Subsidiaries for their employees who did not join the pension plan amounted to Rp 1,611,208,601, which is recorded as part of "Accrued Expenses" account in the 2003 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 year 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., 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.

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.

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

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

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$ 772,332 and US$ 464,641 for the nine months ended September 30, 2004 and 2003, respectively.

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 for the nine months ended September 30, 2004 and 2003 amounted to Rp 60,403,041,147 and Rp 27,011,011,993, respectively. The related outstanding payables arising from these purchases amounting to US$ 1,254,047 (equivalent to Rp 11,499,613,466) and US$ 1,069,258 (equivalent to Rp 8,970,005,529) as of September 30, 2004 and 2003, 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.

   The Company also has an outstanding sale and purchase of electricity agreement with PLN wherein PLN agreed to deliver electricity to the Company's Cirebon plants with connection power of 45,000 KVA/70 kV. Under the agreement, the Company was required to pay connection fee of Rp 2,300,000,000. The price of the electricity will be based on the government regulation.

   Total amounts paid for the purchase of electricity under the agreements amounted to Rp 134.6 billion and Rp 129.8 billion for the nine months ended September 30, 2004 and 2003, respectively.

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.

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

h. In December 2001, the Company entered into an agreement with PT Perhutani (Persero) wherein the Company obtained a right to use 712.48 hectares of forest land located at RPH Gunung Karang, Jonggol, KPH Bogor for the purpose of mining limestone. The Company transferred 1,424.97 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 non-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 three (3) months prior to the expiration of the agreement by any party who wishes not to renew or extend its distribution rights.

   On April 6, 2004, DAP submitted written termination notices to the above sub-distributors. On June 18, 2004, DAP, entered into new distributorship agreements with PT Bangunsukses Niagatama Nusantara, PT Cipta Pratama Karyamandiri, PT Intimegah Mitra Sejahtera, PT Nusa Makmur Perdana, PT Royal Inti Mandiri Abadi, PT Saka Agung Abadi, PT Adikarya Maju Bersama, PT Angkasa Indah Mitra, PT Citrabaru Mitra Perkasa, PT Kharisma Mulia Abadijaya, PT Kirana Semesta Niaga, PT Primasindo Cipta Sarana, PT Samudera Tunggal Utama, and PT Sumber Abadi Sukses. Under the agreements, DAP appointed these companies to be non-exclusive area distributors to sell bagged cement and bulk cement for the domestic market.

   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 will be effective July 14, 2004, and will be valid until December 31, 2008, and may be extended for an additional period of three (3) years upon written agreement by both parties.

(Expressed in rupiah, unless otherwise stated)

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

Total gross sales to these sub-distributors for the nine months ended September 30, 2004 and 2003 are as follows:

	2004	2003
PT Jabotabek Niagatama Sukses	622,439,113,473	867,669,095,026
PT Jabar Multindo Perkasa	424,390,722,789	574,682,371,523
PT Jateng Kencana Abadimulia	294,181,720,203	420,820,324,784
PT Bangunsukses Niaga Nusantara	250,524,821,085	216,670,830,703
PT Royal Inti Mega Utama	119,574,839,589	194,113,714,241
PT Saka Agung Abadi	114,057,324,241	93,095,772,990
PT Samudera Tunggal Utama	72,280,391,271	-
PT Nusa Makmur Perdana	69,733,947,086	-
PT Primasindo Cipta Sarana	61,961,343,354	-
PT Royal Inti Mandiri Abadi	60,729,018,750	-
PT Intimegah Mitra Sejahtera	56,590,939,392	-
PT Kharisma Mulia Abadijaya	54,730,792,664	-
PT Kirana Semesta Niaga	54,343,146,098	-
PT Sumber Abadi Sukses	50,695,574,681	-
PT Angkasa Indah Mitra	48,736,876,560	-
PT Citrabaru Mitra Perkasa	45,600,505,592	-
PT Adikarya Maju Bersama	45,226,093,080	-
PT Cipta Pratama Karyamandiri	33,601,426,452	-
Total	**2,479,398,596,360**	**2,367,052,109,267**

The total outstanding receivables from these sub-distributors amounting to Rp 264,113,950,118 and Rp 262,066,953,661 as of September 30, 2004 and 2003, respectively, are recorded as part of "Trade Receivables - Third Parties" in the consolidated balance sheets.

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 2004 consolidated balance sheet.

k. In 2002, the Company entered into several 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 September 30, 2004.

21. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

l. 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.

   As of September 30, 2004, the Company has outstanding forward exchange contracts with Standard Chartered Bank, Jakarta Branch, and JPMorgan Chase Bank, Jakarta Branch (JPMorgan), aggregating to JP¥ 2,222.50 million and US$ 6 million which will mature in various dates in 2004 and 2005, at fixed exchange rates ranging from Rp 83.61 to Rp 89.24 to JP¥ 1 and Rp 8,834 to Rp 8,990 to US$ 1. In addition, the Company also has outstanding option contracts with JPMorgan, aggregating to JP¥ 382.50 million and US$ 6 million, whereby JPMorgan and the Company have the right to "call and put" at exchange rate of Rp 8,500 and Rp 9,800 to US$ 1 and Rp 79.40 and Rp 90.29 to JP¥ 1. As of September 30, 2004, the Company recognized a net unrealized loss on the forward and option contracts of Rp 1,998,784,700 which is presented as part of "Other Payables to Third Parties" in the 2004 consolidated balance sheet.

m. On June 9, 2004, the Company entered into a "Prototype Carbon Fund Emission Reductions Purchase Agreement" with International Bank for Reconstruction and Development, as a Trustee of Prototype Carbon Fund (PCF). The PCF is a World Bank administered fund representing six (6) governments and seventeen (17) companies.

   The objective of such emission reduction agreement project is to reduce greenhouse gas emissions by switching to alternative fuels and producing new type of cement. The project is intended for the Clean Development Mechanism (CDM) of the Kyoto Protocol, the 1997 international agreement to limit the emissions of climate altering greenhouse gases. The CDM allows industrialized countries and companies with greenhouse gas reduction commitments, to purchase some of their required reductions from developing countries.

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

(Expressed in rupiah, unless otherwise stated)

22. ECONOMIC CONDITIONS (continued)

As of September 30, 2004, the Company and Subsidiaries have monetary assets and liabilities denominated in foreign currencies as follows:

	Foreign Currency		Equivalent in Rupiah
Assets			
Related Parties	US$	3,031,712	27,800,799,040
Third Parties	US$	77,069,302	706,725,499,340
	JP¥	626,430,096	51,767,431,417
	EUR	1,049,904	11,865,574,048
Total			798,159,303,845
Liabilities			
Related Parties	US$	11,552,819	105,939,350,230
Third Parties	US$	236,120,122	2,165,221,518,740
	JP¥	32,222,395,593	2,662,820,104,931
	EUR	1,255,639	14,190,704,610
Total			4,948,171,678,511
Net liabilities			**4,150,012,374,666**

23. SUBSEQUENT EVENT

a. In October 2004, the Company entered into forward currency exchange contracts with JPMorgan Chase Bank, Jakarta Branch, and ABN-AMRO Bank N.V., Jakarta Branch, for the purchase of a total of JP¥ 400,000,000 and US$ 18,500,000 at fixed exchange rates ranging from Rp 86.69 to Rp 87.65 for JP¥ 1 and Rp 9,195 to Rp 9,477 to US$ 1 in various dates in 2005.

b. On October 20, 2004, the Company paid its loan amounting to US$ 16,462,081, JP¥ 1,827,141,252 and Rp 8,340,548,252, which already include a debt prepayment equivalent to US$ 17,583,500. In addition, the Company paid its interest obligations covering the period July 20, 2004 to October 20, 2004 amounting to US$ 2,195,188, JP¥ 216,451,786 and Rp 2,482,637,336.

24. RECLASSIFICATION OF ACCOUNTS

Certain accounts in the 2003 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 2004 consolidated financial statements.

a. The reclassified accounts are summarized as follows:

As previously reported	As reclassified	Amount
Other non-current assets	Due from related parties	59,247,589,282
Long-term investments and advances to associated companies	Due from related parties	512,835,139

b. “Advances and Deposits” amounting to Rp 25,922,410,098 has been offset against “Trade Payables - Third Parties” relating to the same suppliers.