

**Consolidated Financial Statements
Nine Months Ended September 30, 2006 and 2005**

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

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOCEMENT TUNGGAL PRAKARSA Tbk.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2006 and 2005
(Expressed in rupiah)

	Notes	2006	2005
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2c,3	557,267,546,812	518,111,763,511
Short-term investments	2d	4,750,200,000	5,428,752,650
Trade receivables	2e,4,11		
Related party	2f,22	34,453,249,623	49,139,564,477
Third parties - net of allowance for doubtful accounts of Rp14,184,435,448 in 2006 and Rp18,525,156,535 in 2005	23i	648,728,164,974	538,127,834,697
Other receivables from third parties - net of allowance for doubtful accounts of Rp7,371,980,358 in 2006 and Rp7,373,045,808 in 2005	2e,5,10,29	11,199,253,883	4,238,514,026
Derivative assets - net	2q,24,29	-	12,046,935,654
Inventories - net	2g,6,11	921,908,321,373	843,696,739,177
Advances and deposits	6	90,836,301,351	84,780,523,219
Prepaid taxes	10	23,560,834,495	33,745,634,658
Prepaid expenses	2h	26,203,769,391	19,043,541,494
TOTAL CURRENT ASSETS		2,318,907,641,902	2,108,359,803,563
NON-CURRENT ASSETS			
Long-term derivative assets - net	2q,24,29	-	148,357,167,780
Due from related parties	2f,22	51,218,987,050	69,456,596,729
Deferred tax assets - net	2r,10	6,163,882,272	5,525,445,038
Long-term investments and advances to associated company - net of allowance for doubtful accounts of Rp13,720,944,026 in 2006 and 2005	2b,2f,7	51,508,236,089	19,982,749,052
Fixed assets - net of accumulated depreciation, amortization and depletion of Rp4,229,667,295,079 in 2006 and Rp3,733,960,096,865 in 2005	2i,2j,2k, 2l,8,11	7,637,546,669,905	7,507,650,369,072
Restricted cash and time deposits	11,12	2,736,067,280	430,880,823,404
Other non-current assets	2h,2m,8	60,122,534,072	65,483,223,994
TOTAL NON-CURRENT ASSETS		7,809,296,376,668	8,247,336,375,069
TOTAL ASSETS		10,128,204,018,570	10,355,696,178,632

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

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
September 30, 2006 and 2005
(Expressed in rupiah)

	Notes	2006	2005
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Trade payables	9		
Third parties	23m	121,509,577,274	109,378,124,793
Related party	2f,22	1,565,264,054	2,806,687,701
Other payables to third parties	8,23h	122,327,957,456	59,147,311,671
Accrued expenses	2f,11,19,23f	189,992,474,719	168,230,790,017
Taxes payable	10	108,173,429,940	57,728,509,199
Derivative liabilities - net	2q,24	5,745,458,051	-
Dividend payable	16	414,272,131	-
Other current liabilities		12,991,438,285	13,464,874,257
Current maturities of long-term liabilities			
Loans from banks and financial institutions	2f,11,22	388,844,061,199	412,400,000,000
Obligations under capital lease	2k,8,12	597,755,604	1,912,022,428
TOTAL CURRENT LIABILITIES		952,161,688,713	825,068,320,066
NON-CURRENT LIABILITIES			
Long-term derivative liabilities – net	2q,24	46,318,973,650	-
Due to related parties	2f,22	4,419,975,798	4,249,752,212
Deferred tax liabilities - net	2r,10	599,608,568,337	313,186,644,328
Long-term liabilities - net of current maturities			
Loans from banks and financial institutions	2f,11,22	2,446,653,744,477	3,953,002,257,394
Obligations under capital lease	2k,8,12	-	597,755,604
Others	2o,21,23p	69,843,132,969	54,900,732,088
Deferred gain on sale-and-leaseback transactions - net	2k	7,458,622,813	8,601,890,468
TOTAL NON-CURRENT LIABILITIES		3,174,303,018,044	4,334,539,032,094
SHAREHOLDERS' EQUITY			
Capital stock - Rp500 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
Revaluation increment in fixed assets	2i,8,10	229,970,296,236	-
Differences arising from restructuring transactions among entities under common control	2b	1,165,715,376,569	1,165,715,376,569
Differences arising from changes in the equity of Subsidiaries	2b	4,909,775,318	6,756,007,951
Unrealized losses on available-for-sale securities - net	2d	-	(2,324,693,611)
Retained earnings			
Appropriated	17	150,000,000,000	125,000,000,000
Unappropriated		1,078,041,612,142	527,839,884,015
NET SHAREHOLDERS' EQUITY		6,001,739,311,813	5,196,088,826,472
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,128,204,018,570	10,355,696,178,632

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

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Nine months ended September 30, 2006 and 2005
(Expressed in rupiah)

	Notes	2006	2005
NET REVENUES	2f,2n,18, 22,23i,23k	4,819,555,297,631	4,165,555,398,435
COST OF REVENUES	2f,2n,19,21, 22,23a,23b, 23l,23m,23n	3,072,163,758,745	2,608,052,646,089
GROSS PROFIT		1,747,391,538,886	1,557,502,752,346
OPERATING EXPENSES	2f,2n,20,21, 22,23h,23j		
Delivery and selling		654,927,986,473	429,998,787,346
General and administrative		133,968,548,174	134,665,462,648
Total Operating Expenses		788,896,534,647	564,664,249,994
INCOME FROM OPERATIONS		958,495,004,239	992,838,502,352
OTHER INCOME (EXPENSES)			
Interest income		24,429,082,801	17,668,200,257
Foreign exchange gain (loss) - net	2p,2q,24	32,232,193,212	(76,511,029,460)
Interest expense	11	(235,494,899,715)	(182,480,502,600)
Others - net	2i, 2m,22,23l	21,526,869,396	45,052,192,133
Other Expenses - Net		157,306,754,306	196,271,139,670
EQUITY IN NET EARNINGS (LOSSES) OF ASSOCIATED COMPANIES - NET	2b,7	7,788,270,183	(5,266,581,261)
INCOME BEFORE CORPORATE INCOME TAX EXPENSE		808,976,520,116	791,300,781,421
CORPORATE INCOME TAX EXPENSE	2r,10		
Current		147,422,174,300	2,674,795,100
Deferred		103,711,190,330	250,360,266,284
Total Corporate Income Tax Expense		251,133,364,630	253,035,061,384
NET INCOME		557,843,155,486	538,265,720,037
BASIC EARNINGS PER SHARE	2u	151.54	146.22

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Nine months ended September 30, 2006 and 2005
(Expressed in rupiah)

	Notes	Capital Stock	Additional Paid-in Capital * (Notes 14 and 15)	Revaluation Increment in Fixed Assets	Differences Arising from Restructuring Transactions among Entities under Common Control	Differences Arising from Changes in the Equity of Subsidiaries	Unrealized Losses on Available-for-Sale Securities - Net	Retained Earnings		Net Shareholders' Equity
								Appropriated	Unappropriated	
Balance as of December 31, 2004		1,840,615,849,500	1,532,486,402,048	-	1,165,715,376,569	5,447,335,825	(3,045,917,820)	100,000,000,000	14,574,163,978	4,655,793,210,100
Net income		-	-	-	-	-	-	-	538,265,720,037	538,265,720,037
Appropriation of retained earnings for general reserve	17	-	-	-	-	-	-	25,000,000,000	(25,000,000,000)	-
Realized loss on sale of its investment in available-for-sale securities	2d	-	-	-	-	-	721,224,209	-	-	721,224,209
Changes in the equity of a Subsidiary arising from foreign currency translation adjustment	2b	-	-	-	-	1,761,072,126	-	-	-	1,761,072,126
Changes in the equity of a Subsidiary arising from the decline in market values of its Investments in available-for-sale securities	2b,2d	-	-	-	-	(452,400,000)	-	-	-	(452,400,000)
Balance as of September 30, 2005		1,840,615,849,500	1,532,486,402,048	-	1,165,715,376,569	6,756,007,951	(2,324,693,611)	125,000,000,000	527,839,884,015	5,196,088,826,472
Balance as of December 31, 2005		1,840,615,849,500	1,532,486,402,048	229,970,296,236	1,165,715,376,569	6,333,962,836	-	125,000,000,000	729,260,041,606	5,629,381,928,795
Net income		-	-	-	-	-	-	-	557,843,155,486	557,843,155,486
Appropriation of retained earnings for general reserve	17	-	-	-	-	-	-	25,000,000,000	(25,000,000,000)	-
Dividends	16	-	-	-	-	-	-	-	(184,061,584,950)	(184,061,584,950)
Changes in the equity of a Subsidiary arising from foreign currency translation adjustment	2b	-	-	-	-	(971,787,518)	-	-	-	(971,787,518)
Changes in the equity of a Subsidiary arising from the decline in market values of its Investments in available-for-sale securities	2b,2d	-	-	-	-	(452,400,000)	-	-	-	(452,400,000)
Balance as of September 30, 2006		1,840,615,849,500	1,532,486,402,048	229,970,296,236	1,165,715,376,569	4,909,775,318	-	150,000,000,000	1,078,041,612,142	6,001,739,311,813

* Including Other Paid-in Capital.

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine months ended September 30, 2006 and 2005
(Expressed in rupiah)

	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		5,114,799,449,080	4,382,414,157,262
Payments to suppliers and contractors, and for salaries and other employees' benefits		(3,655,306,705,977)	(3,088,517,900,119)
Cash provided by operations		1,459,492,743,103	1,293,896,257,143
Receipts of interest income		19,666,811,839	10,999,669,230
Proceeds from claims for tax refund	10	13,460,525,368	23,022,640,563
Payments of taxes		(381,111,850,321)	(268,727,295,160)
Payments of interest expense and other financial charges	11	(56,032,385,514)	-
Net receipts from other operating activities		80,679,766,785	48,831,875,016
Net Cash Provided by Operating Activities		1,136,155,611,260	1,108,023,146,792
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of fixed assets		586,295,001	470,822,068
Proceeds from sale of marketable securities		138,377,257	-
Purchases of fixed assets		(147,807,825,903)	(73,286,880,605)
Investments in shares of stock		(1,818,150,000)	-
Refund of investment in associated company	7	-	6,600,000,000
Cash dividend received	7	-	2,267,602,055
Net Cash Used in Investing Activities		(148,901,303,645)	(63,948,456,482)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term borrowings	11	297,104,804,781	-
Payments of bank loans	11	(300,868,620,892)	-
Payments of dividends		(162,089,684,385)	-
Interest payment for cross currency interest rate swap transaction		(86,177,625,469)	(23,007,574,429)
Payment for derivative transactions		(39,595,919,970)	(2,211,694,898)
Payment of obligations under capital lease	12	(1,588,791,412)	(1,689,185,617)
Net Cash Used in Financing Activities		(293,215,837,347)	(26,908,454,944)
NET EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS			
		(22,413,982,929)	3,637,204,412
NET RECLASSIFICATION OF CASH AND CASH EQUIVALENTS TO OTHER ASSETS (RESTRICTED CASH AND TIME DEPOSITS)			
		(612,706,835,280)	(810,124,194,670)

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Nine months ended September 30, 2006 and 2005
(Expressed in rupiah)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
TRANSFER FROM RESTRICTED CASH AND TIME DEPOSITS (OTHER ASSETS)	11	339,511,121	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		59,257,163,180	210,679,245,108
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3	498,010,383,632	307,432,518,403
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3	557,267,546,812	518,111,763,511
Activities not affecting cash and cash equivalents:			
Payment of bank loans from restricted cash accounts (including debt buy-back of Rp64,477,910,000 in 2005)	11	1,943,252,376,328	521,646,146,414
Proceeds from long-term borrowings through restricted cash accounts	11	1,141,479,940,019	-
Payment of interest using restricted cash accounts	11	93,012,389,053	124,226,665,759
Interest earned on restricted cash accounts	11	1,896,246,906	3,514,888,572
Payment to facility and security agent using restricted cash accounts	11	-	1,254,150,000

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Nine months ended September 30, 2006 and 2005
(Expressed in rupiah, unless otherwise stated)

1. GENERAL

PT Indocement Tunggak 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 amendment of which was covered by notarial deed No. 57 dated June 28, 2006 of Amrul Partomuan Pohan, S.H., LL.M., concerning, among others, the change in the members 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, construction and trading. Currently, the Company and Subsidiaries are involved in several businesses consisting of the manufacture and sale of cement (as core business) and ready mix concrete.

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 the Company's two subsidiaries.

Based on the minutes of the extraordinary general meeting of the Company's shareholders (EGMS) held on October 2, 1989, which were covered by notarial deed No. 4 of Amrul Partomuan Pohan, S.H., LL.M., the shareholders approved, among others, the offering of 598,881,000 shares to the public. 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. 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 Rp14,450 per share, with a fixed rate of exchange upon conversion of US\$1 to Rp1,946.

In 1994, the Company issued 8,555,640 shares on 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 Rp8,555,640,000 to capital stock and Rp67,320,100,000 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 Rp750 billion to Rp2,000 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.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Nine months ended September 30, 2006 and 2005
(Expressed in rupiah, unless otherwise stated)

1. GENERAL (continued)

In the EGMS held on June 26, 1996, the shareholders resolved to split the par value of the Company's shares from Rp1,000 per share to Rp500 per share. Accordingly, the number of issued and fully paid capital stock was 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 Rp1,200 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.

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, 2006 and 2005, the members of the Company's boards of commissioners and directors are as follows:

	2006	2005
<u>Board of Commissioners</u>		
President	Daniel Hugues Jules Gauthier	Daniel Hugues Jules Gauthier
Vice President	Sudwikatmono	Sudwikatmono
Vice President	I Nyoman Tjager	I Nyoman Tjager
Commissioner	Sri Prakash	Parikesit Suprpto
Commissioner	Lorenz Naeger	Lorenz Naeger
Commissioner	Bernhard Scheifele	Bernhard Scheifele
Commissioner	Ali Emir Adiguzel	Ali Emir Adiguzel
<u>Board of Directors-</u>		
President	Daniel Eugene Antoine Lavallo	Daniel Eugene Antoine Lavallo
Vice President	Tedy Djuhar	Tedy Djuhar
Director	Hans Oivind Hoidalen	Thomas Willi Kern
Director	Nelson G. D. Borch	Hans Oivind Hoidalen
Director	Christian Kartawijaya	Iwa Kartiwa
Director	Kuky Permana Kumalaputra	Nelson G. D. Borch
Director	Benny Setiawan Santoso	Benny Setiawan Santoso
Director	Ernest Gerard Jelito	Christian Kartawijaya
Director	-	Albert Scheuer

Total salaries and other compensation benefits paid to the Company's boards of commissioners and directors amounted to Rp16 billion and Rp16.3 billion for the nine months ended September 30, 2006 and 2005, respectively. As of September 30, 2006 and 2005, the Company and Subsidiaries have a total of 6,544 and 6,698 permanent employees, respectively.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Nine months ended September 30, 2006 and 2005
(Expressed in rupiah, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation of the 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 Presentation 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), derivative instruments and 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 fixed assets which are stated at revalued amounts.

The consolidated statements of cash flows present receipts and payments of cash and cash equivalents classified into operating, investing and financing activities. The cash flows from operating activities are presented 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, 2006	Effective Percentage of Ownership (%)
<u>Direct</u>					
PT Dian Abadi Perkasa (DAP)	Cement distribution	Indonesia	1998/1999	519,033,656,299	99.99
PT Indomix Perkasa (Indomix)	Ready mix concrete manufacturing	Indonesia	1992/1992	76,735,095,982	99.99
Indocement (Cayman Islands) Limited	Investing	Cayman Islands	1991/1991	48,962,301,970	100.00
<u>Indirect</u>					
PT Pionirbeton Industri (PBI)	Ready mix concrete manufacturing	Indonesia	1996/1996	107,652,101,665	99.99
PT Multi Bangun Galaxy (MBG)	Trading	Indonesia	1999	1,688,531,689	99.99

DAP was established in 1998 for the purpose of acting as the Company's main domestic distributor of certain cement products.

On July 9, 2004, DAP and Indomix, subsidiaries, acquired 1,000 shares of MBG at book value, representing 100% ownership from PT Total Galaxy and Mr. Freddysun, third parties. MBG is a company which has obtained the right to use ("hak pengelolaan") the Lembar port in Lombok (where the Company built its terminal), for a period of 20 years from PT (PERSERO) Pelabuhan Indonesia III starting January 1, 2001.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

As of September 30, 2006, MBG has not yet started its commercial operations.

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 Rp20,000,000. 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, 2006
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 wherein 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 the 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 is 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 fair value of the underlying net assets of investees at date of acquisition (goodwill).

A subsidiary's investment in an associated company which uses the U.S. dollar as its functional and reporting currency is translated into rupiah using the exchange rate prevailing at balance sheet date, while the equity in the net earnings (losses) of the associated company is translated using the average rate during the year. Exchange differences arising from the translation of the investment are recorded by the Company as "Differences Arising from Changes in the Equity of Subsidiaries" account which is presented under the Shareholders' Equity section of the consolidated balance sheets.

All other investments are carried at cost.

In compliance with PSAK No. 38 (Revised 2004), "Accounting for Restructuring of Entities under Common Control", the differences between the cost/proceeds of net assets acquired/disposed of 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. This PSAK also provides for the realization of the restructuring differences to gain or loss if the conditions stated in the PSAK are fulfilled.

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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 differences 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, are recorded and presented as "Differences Arising from Changes in the Equity of Subsidiaries" under the Shareholders' Equity section of the consolidated balance sheets. Accordingly, the resulting difference arising from the change in the 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 part of "Unrealized Gains/Losses on Available-for-Sale Securities" under the Shareholders' Equity section of the consolidated balance sheets. These are credited or charged to operations upon realization.

When a decline in the fair value of available-for-sale equity securities has been recognized directly to equity and there is objective evidence that the equity securities are impaired, the cumulative losses that had been recognized directly in equity are removed from equity and recognized in profit and loss even though the equity securities have not been derecognized.

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 22.

g. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average method, except for spare parts which use the moving average method. Allowance for inventory losses is provided to reduce the carrying value of inventories to their net realizable value.

Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and estimated cost necessary to make the sale.

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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 is shown as part of "Other Non-current Assets" in the consolidated balance sheets.

i. Fixed Assets

Fixed assets 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 fixed assets are depreciated using the straight-line method based on their estimated useful lives as follows:

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

Land is stated at cost and is not depreciated.

Construction in progress is stated at cost (including capitalized interest - see following item "l"). Cost is reduced by the amount of revenue generated from the sale of finished products during the trial production run less the related cost of production. The accumulated cost will be reclassified to the appropriate fixed assets account when the construction is substantially completed and the constructed 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, "Fixed Assets", 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

The recoverable amount of an asset is estimated whenever events or changes in circumstances indicate that its carrying amount may not be fully recoverable. Impairment in asset value, if any, is recognized as a loss in the current year's statement of income.

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 "Fixed Assets" 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 the methods and estimated useful lives used for similar fixed assets acquired under direct ownership.

Gain on sale-and-leaseback transactions is deferred and amortized using the same basis and methods as mentioned above.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Capitalization of Borrowing Costs

In accordance with 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. In 2006 and 2005, no borrowing costs were capitalized.

m. Deferred Charges

In accordance with PSAK No. 47, "Accounting for Land", costs incurred in connection with the acquisition/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 the services are rendered. Costs and expenses are generally recognized and charged to operations when they are incurred.

o. Provision for Employee Benefits

(i) Retirement Benefits

The Company has a defined contribution retirement plan (Pension Plan) covering all of its qualified permanent employees and an unfunded employee benefit liability in accordance with the existing Collective Labor Agreement (CLA). The provision for the CLA has been calculated by comparing the benefit that will be received by an employee at normal pension age from the Pension Plan with the benefit as stipulated in the CLA after deducting the accumulated employee contribution and the related investment results. If the employer-funded portion of the Pension Plan benefit is less than the benefit as required by the CLA, the Company provides for such shortage.

On the other hand, the Subsidiaries do not maintain any pension plan for the benefit of their employees. However, retirement benefit expenses for those Subsidiaries are accrued based on Labor Law No. 13/2003 dated March 25, 2003 ("the Law").

Effective January 1, 2004, the Company decided to early adopt PSAK No. 24 (Revised 2004) - Employee Benefits, on a retrospective basis and changed its previous accounting method for employee benefits to the method required under this revised PSAK.

Under PSAK No. 24 (Revised 2004), the cost of providing employee benefits under the CLA/Law is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses for each individual plan at the end of the previous reporting year exceed the higher of 10% of the present value of defined benefit obligation and the fair value of plan assets at that date. These gains or losses are amortized on a straight-line basis over the expected average remaining working lives of the employees. Further, past service costs arising from the introduction of a defined benefit plan or changes in the benefit payable of an existing plan are required to be amortized over the period until the benefits concerned become vested.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Provision for Employee Benefits (continued)

(ii) Post-retirement Healthcare Benefits

In March 2005, the Company issued a policy regarding post-retirement healthcare benefits wherein employees who reach normal retirement age as of January 1, 2003 onwards are entitled to receive healthcare benefits for 5 years from their normal retirement date. The amount of post-retirement healthcare benefits is equivalent to the benefits limited to reimbursement for in-patient hospital bills under the same standard which an employee used to have prior to his retirement, for a period not exceeding 60 days per year.

p. Foreign Currency Transactions and Balances

Transactions involving foreign currencies are recorded in rupiah at the middle rates of exchange prevailing at the time the transactions are made. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange quoted at the closing of the last banking day of the year. The resulting gains or losses are credited or charged to current operations, except for those capitalized under PSAK No. 26 (see Note 21).

As of September 30, 2006 and 2005, the rates of exchange used are as follows:

	<u>2006</u>	<u>2005</u>
Euro (EUR1)	11,731.70	12,419.44
U.S. dollar (US\$1)	9,235.00	10,310.00
Japanese yen (JP¥100)	7,841.23	9,124.30

Transactions in other foreign currencies are insignificant.

q. Derivative Instruments

PSAK No. 55, "Accounting for Derivative Instruments and Hedging Activities", established the accounting and reporting standards which require that every derivative instrument (including certain derivatives embedded in other contracts) be recorded in the balance sheets as either an asset or a 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 statements 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 and option 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 can not be designated as hedge activities for accounting purposes and accordingly, changes in the fair value of such instruments are recorded directly in earnings.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Corporate Income Tax

Current tax expense is provided based on the estimated taxable income for the year. Deferred tax assets and liabilities are recognized for temporary differences between the financial and the tax bases of assets and liabilities at each reporting date. Future tax benefits, such as the carry-forward of unused tax losses, are also recognized 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 any of the assets is realized or any of the liabilities is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Amendment to a tax obligation is recorded when an assessment is received or, if appealed, when the result of the appeal is determined.

s. Segment Reporting

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 18.

t. Stock Issuance Costs

Based on decision letter No. KEP-06/PM/2000 dated March 13, 2000 of the Chairman of Bapepam, all costs 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 income by the weighted average number of shares outstanding during the year, which is 3,681,231,699 shares in 2006 and 2005.

v. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported therein. Due to inherent uncertainty in making estimates, actual results reported in future periods may be based on amounts that differ from those estimates.

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3. CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents are as follows:

	<u>2006</u>	<u>2005</u>
Cash on hand	947,951,397	739,867,397
Cash in banks		
ABN AMRO Bank N.V.		
Japanese yen (JP¥1,596,264,259 in 2006 and JP¥50,000,000 in 2005)	125,166,751,956	4,562,150,000
Rupiah	4,888,599,314	3,189,778,805
U.S. dollar (US\$237,044 in 2006 and US\$1,916,837 in 2005)	2,189,104,018	19,762,591,532
Euro (EUR56,457 in 2006 and EUR512,757 in 2005)	662,334,710	6,368,149,580
PT Bank Central Asia Tbk.		
Rupiah	10,099,582,506	11,436,571,013
U.S. dollar (US\$995,364 in 2006 and US\$383,932 in 2005)	9,192,182,939	3,958,337,992
Euro (EUR634,100 in 2006 and EUR481,619 in 2005)	7,439,075,897	5,981,441,130
PT Bank Mandiri (Persero) Tbk.		
Rupiah	17,760,117,979	15,784,965,176
U.S. dollar (US\$406,743 in 2006 and US\$650,844 in 2005)	3,756,270,959	6,710,203,083
Euro (EUR302,498 in 2006 and EUR301,830 in 2005)	3,548,818,133	3,748,556,595
The Hongkong and Shanghai Banking Corporation Ltd., Jakarta Branch		
Rupiah	4,554,569,236	13,721,694,992
Standard Chartered Bank., Jakarta Branch		
U.S. dollar (US\$167,587)	1,547,670,470	-
Rupiah	83,834,691	-
Others		
Rupiah	3,651,664,577	6,404,287,653
U.S. dollar (US\$53,262 in 2006 and US\$53,269 in 2005)	491,878,012	549,205,143
Other foreign currencies	-	49,723,420
Rupiah time deposits		
ABN AMRO Bank N.V.	242,000,000,000	140,000,000,000
PT Bank Central Asia Tbk.	53,000,000,000	3,000,000,000
Standard Chartered Bank., Jakarta Branch	23,229,640,018	40,000,000,000
PT Bank Mandiri (Persero) Tbk.	1,500,000,000	12,500,000,000
U.S. dollar time deposits		
ABN AMRO Bank N.V. (US\$4,500,000 in 2006 and US\$21,304,000 in 2005)	41,557,500,000	219,644,240,000
Total	557,267,546,812	518,111,763,511

Interest rates per annum ranged from 10.25% to 13.00% in 2006 and from 6.90% to 14.00% in 2005 for the rupiah time deposits, and from 3.75% to 5.00% in 2006 and from 1.75% to 3.40% in 2005 for the U.S. dollar time deposits.

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4. TRADE RECEIVABLES

The details of trade receivables are as follows:

	2006	2005
<u>Related Party (see Note 22)</u>		
Cement business		
HCT Services Asia Pte., Ltd., Singapore		
(US\$3,730,725 in 2006 and		
US\$4,766,204 in 2005)	34,453,249,623	49,139,564,477
<u>Third Parties</u>		
Cement and ready mix concrete business	662,912,600,422	556,652,991,232
Allowance for doubtful accounts	(14,184,435,448)	(18,525,156,535)
Net	648,728,164,974	538,127,834,697

The movements of allowance for doubtful accounts are as follows:

	2006	2005
Balance at beginning of period	13,835,340,496	13,822,091,743
Provision during the period	360,000,000	6,131,877,800
Receivables written off during the period	(10,905,048)	(1,428,813,008)
Balance at end of period	14,184,435,448	18,525,156,535

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 for 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, 2006 and 2005 is as follows:

	2006		
	Currency		
	Rupiah	U.S. Dollar (Equivalent Rupiah)	Total
Current	569,330,942,016	31,088,752,761	600,419,694,777
Overdue:			
1 - 30 days	43,744,383,865	3,364,496,862	47,108,880,727
31 - 60 days	12,913,819,531	-	12,913,819,531
61 - 90 days	5,908,552,897	-	5,908,552,897
Over 90 days	31,014,902,113	-	31,014,902,113
Total	662,912,600,422	34,453,249,623	697,365,850,045

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4. TRADE RECEIVABLES (continued)

	2005		
	Currency		
	Rupiah	U.S. Dollar (Equivalent Rupiah)	Total
Current	490,952,341,013	42,604,327,042	533,556,668,055
Overdue:			
1 - 30 days	24,463,778,529	6,535,237,435	30,999,015,964
31 - 60 days	7,017,758,934	-	7,017,758,934
61 - 90 days	4,105,728,119	-	4,105,728,119
Over 90 days	25,029,485,393	5,083,899,244	30,113,384,637
Total	551,569,091,988	54,223,463,721	605,792,555,709

5. OTHER RECEIVABLES

The details of other receivables are as follows:

	2006	2005
Contested payment for tax assessments	5,502,658,681	5,502,658,681
Claim for tax refund	5,391,795,600	-
Others	7,676,779,960	6,108,901,153
Total	18,571,234,241	11,611,559,834
Allowance for doubtful accounts	(7,371,980,358)	(7,373,045,808)
Net	11,199,253,883	4,238,514,026

The movements of allowance for doubtful accounts are as follows:

	2006	2005
Balance at beginning of period	7,371,980,358	8,503,980,725
Receivables written off during the period	-	(1,130,934,917)
Balance at end of period	7,371,980,358	7,373,045,808

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.

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6. INVENTORIES

Inventories consist of:

	2006	2005
Finished goods	40,116,320,591	41,660,516,685
Work in process	108,838,382,098	97,917,797,003
Raw materials	36,267,241,200	37,027,557,744
Fuel and lubricants	156,494,785,184	170,603,473,159
Spare parts	616,732,555,745	540,428,247,708
Materials in transit and others	-	134,338,359
Total	958,449,284,818	887,771,930,658
Allowance for inventory losses	(36,540,963,445)	(44,075,191,481)
Net	921,908,321,373	843,696,739,177

With the exception of inventories owned by Indomix and PBI amounting to Rp9.3 billion, all of the inventories are insured against fire and other risks under a combined insurance policy package (see Note 8).

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

The movements of allowance for inventory losses are as follows:

	2006	2005
Balance at beginning of period	38,184,113,445	44,075,191,481
Reversals during the period	(1,643,150,000)	-
Balance at end of period	36,540,963,445	44,075,191,481

Management believes that the above allowance for inventory losses 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, 2006 and 2005 amounting to Rp34,585,996,483 and Rp41,113,483,422, respectively, are presented as part of "Advances and Deposits" in the consolidated balance sheets.

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7. LONG-TERM INVESTMENTS AND ADVANCES TO ASSOCIATED COMPANY

The details of this account are as follows:

2006				
	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings (Losses) - Net	Carrying Value
<u>Investments in Shares of Stock</u>				
<i>a. Equity Method</i>				
PT Cibinong Center Industrial Estate	50.00	30,024,000,000	(9,779,722,474)	20,244,277,526
Stillwater Shipping Corporation	50.00	105,500,000	20,439,253,570	20,544,753,570
PT Pama Indo Mining	40.00	1,200,000,000	7,681,054,993	8,881,054,993
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
<i>b. Cost Method</i>				
Various investees	various	1,838,150,000	-	1,838,150,000
Sub-total		<u>33,632,437,500</u>	<u>17,875,798,589</u>	<u>51,508,236,089</u>
<u>Advances</u>				
PT Indo Clean Set Cement				13,720,944,026
Allowance for doubtful accounts				(13,720,944,026)
Net advances				-
Total				<u>51,508,236,089</u>

2005				
	Percentage of Ownership	Cost	Accumulated Equity in Net Earnings (Losses) - Net	Carrying Value
<u>Investments in Shares of Stock</u>				
<i>a. Equity Method</i>				
PT Cibinong Center Industrial Estate	50.00	30,024,000,000	(26,535,986,525)	3,488,013,475
Stillwater Shipping Corporation	50.00	105,500,000	9,602,725,920	9,708,225,920
PT Pama Indo Mining	40.00	1,200,000,000	5,566,509,657	6,766,509,657
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
<i>b. Cost Method</i>				
Various investees	various	20,000,000	-	20,000,000
Sub-total		<u>31,814,287,500</u>	<u>(11,831,538,448)</u>	<u>19,982,749,052</u>
<u>Advances</u>				
PT Indo Clean Set Cement				13,720,944,026
Allowance for doubtful accounts				(13,720,944,026)
Net advances				-
Total				<u>19,982,749,052</u>

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

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

The details of the equity in net earnings (losses) of associated companies, net of goodwill amortization, for the nine months ended September 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Stillwater Shipping Corporation	4,776,876,808	3,778,326,634
PT Pama Indo Mining	1,635,680,150	1,382,009,001
PT Cibinong Center Industrial Estate	1,375,713,225	(10,426,916,896)
Total	<u>7,788,270,183</u>	<u>(5,266,581,261)</u>

Based on the minutes of the shareholders' extraordinary meeting of PT Cibinong Center Industrial Estate (CCIE) held on September 19, 2005, which were 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 its issued and paid-up capital from Rp73,248,000,000 to Rp60,048,000,000. As a result, the Company's investment in CCIE was reduced by its proportionate share of Rp6,600,000,000.

In 2005, the Company and Subsidiaries received cash dividends from PT Pama Indo Mining amounting to Rp2,267,602,055 and from Stillwater Shipping Corporation amounting to US\$1,000,000 (equivalent to Rp10,240,000,000).

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 PT Indo Clean Set Cement (ICSC). As of September 30, 2006, the liquidation process of ICSC is still ongoing. The additional equity in net losses of ICSC after 2002 has not been recognized in the consolidated financial statements since ICSC has ceased operations and the effects of the additional equity are immaterial to the consolidated financial statements.

8. FIXED ASSETS

Fixed assets consist of:

	<u>Balance as of December 31, 2005</u>	<u>Additions/ Reclassifications</u>	<u>Disposals/ Reclassifications</u>	<u>Balance as of September 30, 2006</u>
2006 movements				
<i>Carrying Value</i>				
Direct Ownership				
Land and land improvements	224,518,277,686	1,074,005,155	-	225,592,282,841
Leasehold improvements	3,104,184,761	-	-	3,104,184,761
Quarry	75,196,165,196	-	-	75,196,165,196
Buildings and structures	2,879,587,632,211	2,247,753,391	-	2,881,835,385,602
Machinery and equipment	7,598,973,011,201	110,348,349,620	499,605,704	7,708,821,755,117
Transportation equipment	445,546,068,642	13,879,765,194	6,240,017,006	453,185,816,830
Furniture, fixtures and office equipment	218,579,593,300	14,713,354,704	844,424,670	232,448,523,334
Tools and other equipment	64,138,529,143	5,517,656,828	100,626,154	69,555,559,817
Sub-total	<u>11,509,643,462,140</u>	<u>147,780,884,892</u>	<u>7,684,673,534</u>	<u>11,649,739,673,498</u>
Assets under capital lease				
Machinery and equipment	366,518,240	-	-	366,518,240
Transportation equipment	7,126,904,800	-	-	7,126,904,800
Sub-total	<u>7,493,423,040</u>	<u>-</u>	<u>-</u>	<u>7,493,423,040</u>
Construction in progress	143,529,316,123	197,074,523,806	130,612,971,483	209,990,868,446
Total Carrying Value	<u>11,660,666,201,303</u>	<u>344,855,408,698</u>	<u>138,297,645,017</u>	<u>11,867,223,964,984</u>

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8. FIXED ASSETS (continued)

	Balance as of December 31, 2005	Additions/ Reclassifications	Disposals/ Reclassifications	Balance as of September 30, 2006
<u>Accumulated Depreciation, Amortization and Depletion</u>				
Direct Ownership				
Land improvements	23,572,533,808	1,399,343,413	-	24,971,877,221
Leasehold improvements	2,590,369,120	198,558,082	-	2,788,927,202
Quarry	17,357,081,668	1,462,861,181	-	18,819,942,849
Buildings and structures	721,819,652,671	71,365,876,388	-	793,185,529,059
Machinery and equipment	2,569,424,305,191	259,999,893,202	381,226,845	2,829,042,971,548
Transportation equipment	301,433,082,278	30,813,690,811	5,728,331,559	326,518,441,530
Furniture, fixtures and office equipment	163,487,186,953	17,136,789,164	830,405,130	179,793,570,987
Tools and other equipment	47,214,846,898	4,893,307,602	82,983,987	52,025,170,513
Sub-total	3,846,899,058,587	387,270,319,843	7,022,947,521	4,227,146,430,909
Assets under capital lease				
Machinery and equipment	91,629,560	34,361,085	-	125,990,645
Transportation equipment	1,736,726,200	668,147,325	-	2,404,873,525
Sub-total	1,828,355,760	702,508,410	-	2,530,864,170
Total Accumulated Depreciation, Amortization and Depletion	3,848,727,414,347	387,972,828,253	7,022,947,521	4,229,677,295,079
Net Book Value	7,811,938,786,956			7,637,546,669,905
<hr/>				
	Balance as of December 31, 2004	Additions/ Reclassifications	Disposals/ Reclassifications	Balance as of September 30, 2005
2005 movements				
<u>Carrying Value</u>				
Direct Ownership				
Land and land improvements	209,454,489,891	7,383,938,471	-	216,838,428,362
Leasehold improvements	3,104,184,761	-	-	3,104,184,761
Quarry	74,484,452,696	-	-	74,484,452,696
Buildings and structures	2,873,657,286,812	5,741,548,216	-	2,879,398,835,028
Machinery and equipment	7,283,050,582,835	18,059,531,820	694,399,754	7,300,415,714,901
Transportation equipment	344,875,147,012	30,978,902,290	5,282,060,451	370,571,988,851
Furniture, fixtures and office equipment	196,785,021,094	16,994,548,484	762,097,226	213,017,472,352
Tools and other equipment	58,162,093,421	3,676,129,055	96,355,473	61,741,867,003
Sub-total	11,043,573,258,522	82,834,598,336	6,834,912,904	11,119,572,943,954
Assets under capital lease				
Machinery and equipment	366,518,240	-	-	366,518,240
Transportation equipment	7,126,904,800	-	-	7,126,904,800
Sub-total	7,493,423,040	-	-	7,493,423,040
Construction in-progress	101,060,707,894	58,304,380,367	44,820,989,318	114,544,098,943
Total Carrying Value	11,152,127,389,456	141,138,978,703	51,655,902,222	11,241,610,465,937
<u>Accumulated Depreciation, Amortization and Depletion</u>				
Direct Ownership				
Land improvements	21,755,393,927	1,361,565,763	-	23,116,959,690
Leasehold improvements	2,266,770,388	245,576,736	-	2,512,347,124
Quarry	15,420,599,275	1,452,153,670	-	16,872,752,945
Buildings and structures	626,831,349,630	71,191,744,193	-	698,023,093,823
Machinery and equipment	2,258,219,519,132	234,230,624,708	438,187,936	2,492,011,955,904
Transportation equipment	281,938,826,263	19,083,712,288	5,185,263,828	295,837,274,723
Furniture, fixtures and office equipment	142,480,757,740	16,206,264,924	742,914,748	157,944,107,916
Tools and other equipment	41,068,377,149	4,649,765,431	92,229,176	45,625,913,404
Sub-total	3,389,981,593,504	348,421,407,713	6,458,595,688	3,731,944,405,529

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8. FIXED ASSETS (continued)

	Balance as of December 31, 2004	Additions/ Reclassifications	Disposals/ Reclassifications	Balance as of September 30, 2005
Assets under capital lease				
Machinery and equipment	45,814,780	54,977,736	-	100,792,516
Transportation equipment	845,863,100	1,069,035,720	-	1,914,898,820
Sub-total	891,677,880	1,124,013,456	-	2,015,691,336
Total Accumulated Depreciation, Amortization and Depletion	3,390,873,271,384	349,545,421,169	6,458,595,688	3,733,960,096,865
Net Book Value	7,761,254,118,072			7,507,650,369,072

Construction in progress consists of:

	2006	2005
Machineries under installation	193,831,036,353	92,407,345,826
Buildings and structures under construction	3,227,626,532	19,120,468,328
Others	12,932,205,561	3,016,284,789
Total	209,990,868,446	114,544,098,943

Below are the percentages of completion and estimated completion periods of the construction in progress as of September 30, 2006:

	Estimated Percentage of Completion	Estimated Completion Period
Machineries under installation	20 - 95%	1 to 24 months
Buildings and structures under construction	25 - 95	3 to 24 months
Others	50 - 95	1 to 24 months

The unpaid balances to contractors and suppliers for the construction, purchase, repairs and maintenance of fixed assets amounting to Rp4,931,139,789 and Rp859,823,195 as of September 30, 2006 and 2005, respectively, are presented as part of "Other Payables to Third Parties" in the consolidated balance sheets.

In November 2005, the Company received a decision letter from the Tax Office which approved the revaluation of certain machinery and transportation equipment. The increment of Rp229,970,296,236, which is net of deferred tax effect amounting to Rp98,558,698,385, between the revalued amount and the net book value of these fixed assets was recognized as revaluation increment in fixed assets, which is presented in the shareholders' equity section of the 2006 consolidated balance sheet, while the difference of Rp430,904,292,854 between the revalued amount and the fiscal book value was compensated against the Company's tax loss carryforward.

Fixed assets 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 Rp387,972,828,253 and Rp349,545,421,169 for the nine months ended September 30, 2006 and 2005, respectively.

The Company and Subsidiaries insured their fixed assets and inventories against losses from fire and other insurable risks under several combined policies, with a total insurance coverage of Rp213,308,769,010 and US\$2,679,104,480 as of September 30, 2006. In management's opinion, the above insurance coverage is adequate to cover any possible losses that may arise from such risks.

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8. FIXED ASSETS (continued)

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 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 3,221.29 hectares, and local mining rights or "Surat Izin Penambangan Daerah" (SIPD) covering approximately 10,592.359 hectares at several locations in Indonesia, with legal terms ranging from 5 to 30 years. Management believes that such titles of land rights ownerships can be extended upon their expiration.

As of September 30, 2006, the Company is still in the process of obtaining the titles of ownership or rights over land covering a total area of approximately 2,288,314 square meters. The Company is also in the process of acquiring land rights covering a total area of approximately 430,687 square meters. The total expenditures amounting to Rp18,463,485,429 as of September 30, 2006 incurred in relation to the above land rights acquisition process 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 spare parts from several suppliers. The outstanding balances of the purchase advances as of September 30, 2006 and 2005 amounting to Rp847,822,170 and Rp14,277,687,474, respectively, are presented as part of "Other Non-current Assets" in the consolidated balance sheets.

9. TRADE PAYABLES

This account consists of the following:

	2006	2005
Third Parties - Cement and ready mix concrete business		
Rupiah	102,235,306,844	88,895,493,830
U.S. dollar (US\$1,389,071 in 2006 and US\$1,224,642 in 2005)	12,828,068,641	12,626,057,235
Other foreign currencies	6,446,201,789	7,856,573,728
Total - Third Parties	121,509,577,274	109,378,124,793
Related Party - Cement business (see Note 22)	1,565,264,054	2,806,687,701
Total Trade Payables	123,074,841,328	112,184,812,494

The aging analysis of trade payables based on their currency denomination as of September 30, 2006 and 2005 is as follows:

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9. TRADE PAYABLES (continued)

	2006		
	Rupiah	Foreign Currencies (Rupiah Equivalent)	Total
Current	80,278,228,878	2,836,376,752	83,114,605,630
Overdue:			
1 - 30 days	12,333,252,170	12,893,173,354	25,226,425,524
31 - 60 days	5,901,341,339	4,279,436,381	10,180,777,720
61 - 90 days	696,259,945	331,471,675	1,027,731,620
Over 90 days	3,026,224,512	499,076,322	3,525,300,834
Total	102,235,306,844	20,839,534,484	123,074,841,328

	2005		
	Rupiah	Foreign Currencies (Rupiah Equivalent)	Total
Current	67,023,495,370	-	67,023,495,370
Overdue:			
1 - 30 days	13,440,047,703	11,720,641,213	25,160,688,916
31 - 60 days	2,294,318,243	5,675,607,112	7,969,925,355
61 - 90 days	166,746,909	2,566,916,350	2,733,663,259
Over 90 days	9,063,885,603	233,153,991	9,297,039,594
Total	91,988,493,828	20,196,318,666	112,184,812,494

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

Suppliers	Materials Supplied
Pertambangan Minyak dan Gas Bumi Negara (PERTAMINA)	Fuel
PT Adaro Indonesia	Coal
PT Masa Jaya Perkasa	Coal
PT Padang Bara Sukses Makmur	Coal
PT Putra Utama Mandiri	Coal
PT Indotruck Utama	Spare parts
PT Politama Pakindo	Woven paper
Eurocan Pulp & Paper Co.	Kraft paper
Fujian Qingshan Paper Industry Co., Ltd.	Kraft paper
Billerud AB	Kraft paper
Itochu Co.	Gypsum

10. TAXATION

a. Taxes Payable

	2006	2005
Income taxes		
Article 21	3,058,421,010	2,604,884,278
Article 22	1,269,480,790	1,262,674,924
Article 23	1,846,743,877	1,371,209,947
Article 26	332,769,678	1,787,617,969
Article 29	48,907,893,323	-
Value added tax	52,758,121,262	50,702,122,081
Total	108,173,429,940	57,728,509,199

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10. TAXATION (continued)

- b. The reconciliation between income before corporate income tax expense, as shown in the consolidated statements of income, and estimated taxable income of the Company for the nine months ended September 30, 2006 and 2005 is as follows:

	2006	2005
Income before corporate income tax expense per consolidated statements of income	808,976,520,116	791,300,781,421
Income of Subsidiaries before corporate income tax expense - net	(28,959,815,400)	(6,635,961,447)
Reversal of inter-company consolidation eliminations	(4,776,876,808)	(5,673,471,474)
Income before corporate income tax expense attributable to the Company	775,239,827,908	778,991,348,500
Add (deduct):		
Temporary differences		
Provision for employee benefits - net	2,593,194,724	11,364,567,965
Provision for post-retirement healthcare benefits - net	2,343,448,569	-
Depreciation of fixed assets	(93,104,669,952)	(115,029,690,549)
Provisions for doubtful accounts and inventory losses - net	(1,643,150,000)	(2,559,747,925)
Provision for recultivation - net (see Note 23p)	(1,494,622,228)	(384,145,397)
Provision for trade discount	-	(13,543,264,140)
	(91,305,798,887)	(120,152,280,046)
Permanent differences		
Non-deductible expenses		
Employees' benefits	43,178,863,900	36,557,005,827
Donations	3,788,722,950	8,673,694,057
Public relations	1,920,343,553	2,684,259,368
Others	1,080,572,722	456,155,053
Income already subjected to final tax	(19,317,078,275)	(10,446,410,099)
Equity in net losses (earnings) of associated companies - net	(3,011,393,375)	9,044,907,895
	27,640,031,475	46,969,612,101
Estimated taxable income of the Company	711,574,060,496	705,808,680,555
Estimated tax loss carryforward at beginning of year	(256,930,304,261)	(1,627,684,818,624)
Corrections by the Tax Office	6,359,790,385	13,012,856,409
Estimated taxable income (tax loss carryforward) at end of period	461,003,546,620	(908,863,281,660)

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

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10. TAXATION (continued)

c. The details of corporate income tax expense (benefit) are as follows:

	2006	2005
Current		
Company	138,283,563,800	-
Subsidiaries	9,138,610,500	2,674,795,100
	<u>147,422,174,300</u>	<u>2,674,795,100</u>
Deferred		
Company	104,470,830,942	251,692,145,104
Subsidiaries	(759,640,612)	(1,331,878,820)
	<u>103,711,190,330</u>	<u>250,360,266,284</u>
Total	<u>251,133,364,630</u>	<u>253,035,061,384</u>

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

	2006	2005
Current income tax expense		
Company	138,283,563,800	-
Subsidiaries	9,138,610,500	2,674,795,100
Total	<u>147,422,174,300</u>	<u>2,674,795,100</u>
Prepayments of income tax		
Company	91,641,624,219	6,844,285,320
Subsidiaries	8,948,938,608	7,538,138,724
Total	<u>100,590,562,827</u>	<u>14,382,424,044</u>
Estimated claims for income tax refund - presented as part of "Prepaid Taxes" in the consolidated balance sheets		
Company	-	6,844,285,320
Subsidiaries	2,076,281,850	4,863,343,624
Total for the current year	<u>2,076,281,850</u>	<u>11,707,628,944</u>
Claims for income tax refund from prior years:		
Company		
2005	10,414,347,316	-
2004	-	8,328,177,255
Subsidiaries	6,510,604,140	12,584,521,053
Total	<u>19,001,233,306</u>	<u>32,620,327,252</u>

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10. TAXATION (continued)

In March 2006, the Company received a decision letter from the Tax Office wherein the Tax Office approved to refund the claim for 2004 income tax and increased the 2004 taxable income to Rp57,969,361,654. The difference of Rp6,359,790,385 between the amount of taxable income approved by the Tax Office and the amount reported was recognized as an adjustment to the Company's tax loss carryforward in 2006.

In March 2005, the Company received a decision letter from the Tax Office wherein the Tax Office approved to refund the claim for 2003 income tax and increased the 2003 taxable income to Rp758,843,760,148. The difference of Rp13,012,856,409 between the amount of taxable income approved by the Tax Office and the amount reported was recognized as an adjustment to the Company's tax loss carryforward in 2005.

In April 2006, DAP received a decision letter from the Tax Office wherein the Tax Office approved to refund DAP's 2003 claim for tax refund amounting to Rp3,824,659,200.

In March 2006, DAP received a decision letter from the Tax Office wherein the Tax Office approved to refund DAP's 2004 claim for tax refund amounting to Rp2,946,642,366, out of the total claim of Rp2,991,878,166.

In February 2004, DAP received a decision letter from the Tax Office wherein the Tax Office approved to refund DAP's 2002 claim for tax refund amounting to Rp6,195,133,712, out of the total claim of Rp11,605,908,212. DAP has contested the result of the tax assessment and the disapproved portion of the claim has remained as part of "Prepaid Taxes" in the 2005 consolidated balance sheets. Furthermore, on 16 August 2006 the Tax Court granted the DAP's request for an appeal amounting to Rp5,391,795,600, and is presented as part of "Other Receivables" in the 2006 consolidated balance sheets.

- e. The reconciliation between income before corporate income tax expense multiplied by the applicable tax rate and corporate income tax expense as shown in the consolidated statements of income for the nine months ended September 30, 2006 and 2005 is as follows:

	2006	2005
Income before corporate income tax expense	808,976,520,116	791,300,781,421
Reversal of inter-company consolidation eliminations	(4,776,876,808)	(5,673,471,474)
Combined income, net of loss, before income tax of the Company and Subsidiaries	804,199,643,308	785,627,309,947
Tax expense at the applicable tax rate	241,189,892,238	235,670,692,744
Tax effects on permanent differences:		
Non-deductible expenses	15,609,909,799	15,253,975,182
Income already subjected to final tax	(6,670,956,510)	(4,506,935,834)
Equity in net losses (earnings) of associated companies - net	(903,418,013)	2,713,472,369
Tax corrections	1,907,937,116	3,903,856,923
Corporate income tax expense per consolidated statements of income	251,133,364,630	253,035,061,384

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10. TAXATION (continued)

f. Deferred tax assets (liabilities) consist of:

	December 31, 2005	Deferred Tax Benefit (Expense) Credited (Charged) to 2006 Profit and Loss	September 30, 2006
Deferred Tax Assets:			
Company			
Estimated liability for employee benefits	13,156,508,384	777,958,417	13,934,466,801
Allowance for doubtful accounts and inventory losses	9,412,817,503	(492,945,000)	8,919,872,503
Reserve for recultivation	3,814,876,992	(448,386,668)	3,366,490,324
Estimated liability for post-retirement healthcare benefits	1,322,794,200	703,034,571	2,025,828,771
Tax loss carryforward	77,079,091,278	(77,079,091,278)	-
Others	833,851,800	-	833,851,800
Sub-total	105,619,940,157	(76,539,429,958)	29,080,510,199
Subsidiaries	6,566,388,568	944,637,264	7,511,025,832
Total	112,186,328,725	(75,594,792,694)	36,591,536,031
Deferred Tax Liabilities:			
Company			
Difference in net book value of fixed assets between tax base and accounting base	(600,757,677,552)	(27,931,400,984)	(628,689,078,536)
Subsidiaries	(1,162,146,908)	(184,996,652)	(1,347,143,560)
Total	(601,919,824,460)	(28,116,397,636)	(630,036,222,096)
Net Deferred Tax Assets:			
Subsidiaries	5,404,241,660	759,640,612	6,163,882,272
Net Deferred Tax Liabilities:			
Company	(495,137,737,395)	(104,470,830,942)	(599,608,568,337)
		Deferred Tax Benefit (Expense) Credited (Charged) to 2005 Profit and Loss	September 30, 2005
Deferred Tax Assets:			
Company			
Tax loss carryforward	488,305,445,587	(215,646,461,090)	272,658,984,497
Estimated liability for employee benefits	9,338,768,646	3,409,370,390	12,748,139,036
Allowance for doubtful accounts and inventory losses	13,295,618,437	(767,924,378)	12,527,694,059
Reserve for recultivation	2,902,904,019	(115,243,619)	2,787,660,400
Accrual for trade discount	4,062,979,242	(4,062,979,242)	-
Others	833,851,800	-	833,851,800
Sub-total	518,739,567,731	(217,183,237,939)	301,556,329,792
Subsidiaries	5,063,109,760	1,685,549,729	6,748,659,489
Total	523,802,677,491	(215,497,688,210)	308,304,989,281

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10. TAXATION (continued)

	December 31, 2004	Deferred Tax Benefit (Expense) Credited (Charged) to 2005 Profit and Loss	September 30, 2005
Deferred Tax Liabilities:			
Company			
Difference in net book value of fixed assets between tax base and accounting base	(580,234,066,955)	(34,508,907,165)	(614,742,974,120)
Subsidiaries	(869,543,543)	(353,670,908)	(1,223,214,451)
Total	(581,103,610,498)	(34,862,578,073)	(615,966,188,571)
Net Deferred Tax Assets:			
Subsidiaries	4,193,566,217	1,331,878,821	5,525,445,038
Net Deferred Tax Liabilities:			
Company	(61,494,499,224)	(251,692,145,104)	(313,186,644,328)

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:

	2006	2005
Third parties		
Japanese yen	777,022,805,676	1,526,422,091,943
U.S. dollar	323,225,000,000	1,228,630,559,459
Rupiah	350,000,000,000	63,849,605,992
Sub-total	1,450,247,805,676	2,818,902,257,394
Related parties (see Note 22)		
U.S. dollar	1,385,250,000,000	1,546,500,000,000
Total	2,835,497,805,676	4,365,402,257,394
Less portions currently due	388,844,061,199	412,400,000,000
Long-term portion	2,446,653,744,477	3,953,002,257,394

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

	2006	2005
Japanese yen		
<u>Third parties</u>		
ABN AMRO Bank N.V., Jakarta	JP¥ 3,534,000,000	JP¥ -
Calyon Deutschland, Germany	3,534,000,000	-
Japan Bank for International Cooperation, Tokyo	1,663,450,503	3,326,912,503
Marubeni Corporation, Tokyo	1,178,000,000	5,402,284,169
MG Leasing Corporation, Tokyo	-	8,000,000,000
Total Japanese yen loans	JP¥ 9,909,450,503	JP¥ 16,729,196,672

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

	2006	2005
U.S. dollar		
<u>Third parties</u>		
ABN AMRO Bank N.V., Jakarta	US\$ 17,500,000	US\$ -
Standard Chartered Bank, Jakarta	17,500,000	-
PT Bank Central Asia Tbk. (BCA)	-	32,812,655
Bayerische Hypo & Vereinsbank AG, Singapore	-	17,497,664
Other creditors (each below US\$10 million)	-	68,858,503
<u>Related parties</u>		
HC Finance B.V.	150,000,000	150,000,000
Total U.S. dollar loans	US\$ 185,000,000	US\$ 269,168,822
Rupiah		
<u>Third parties</u>		
PT Bank Central Asia Tbk. (BCA)	350,000,000,000	45,832,153,944
PT Bank Mandiri (Persero) Tbk.	-	18,017,452,048
Total rupiah loans	350,000,000,000	63,849,605,992

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

	2006	2005
Japanese yen	1.01% - 3.80%	2.30% - 3.70%
U.S. dollar	5.25% - 6.88%	3.37% - 5.62%
Rupiah	10.75% - 13.65%	7.87% - 8.44%

Prior to the refinancing, the Company's 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.

The HZMFA, which has been amended from time to time, also requires the Company to:

- Establish and maintain escrow accounts in JPMorgan Chase Bank, N.A. Usages or withdrawals of funds from these escrow accounts shall be subject 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.

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

In compliance with the above requirements, the Company opened and maintains eleven (11) escrow accounts with JPMorgan Chase Bank, N.A. The balances of deposits maintained in such escrow accounts amounted to Rp425,144,756,124 (consisting of Rp2,356,800, US\$31,943,397 and JP¥1,050,009,103) as of September 30, 2005 which are presented as part of "Restricted Cash and Time Deposits" in the consolidated balance sheets. However, following to the fully prepayment of HZMFA on April 20, 2006 and the termination of the existing HZMFA at the same time, the Company closed its escrow accounts and the remaining balances amounted to Rp339,511,121 were transferred to the current accounts as part of "Cash and cash equivalents" in the 2006 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 excess cash available in the above-mentioned escrow accounts after the payments or applications required under the HZMFA.

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, N.A., 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 capital stock of Indomix and DAP.

On March 8, 2005, HeidelbergCement Finance B.V., a related party, purchased a portion of the restructured debt under the HZMFA. In connection with this transaction, the following amendments were made to the HZMFA agreements:

- Amendment of the HZMFA to allow the Company to engage in currency hedges for tenures of up to 4 (four) years, and enter into swap transactions under International Swap and Derivative Association documentation in relation to the proposed refinancing transaction.
- Amendment of the HZMFA to reduce the scheduled principal repayments to be US\$40 million per annum or to be US\$10 million quarterly starting April 2005 until January 2008.
- The loan ranks pari passu with other debts as to the security under the HZMFA and with the different terms of payment.

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

The term of the HC Finance B.V. loan is four (4) years and will be fully repaid at the end of the fourth year (2009). This loan bears interest at the rate of 3 Months' LIBOR + 1.80% per annum with the same interest payment schedule as that of the other MFA creditors. Effective as of July 1, 2006, the interest rate was reduced from 3 Months' LIBOR + 1.80% per annum to 3 Months' LIBOR + 1.15% per annum. This reduction was amended by an addendum signed by the Company and HC Finance B.V. on June 30, 2006.

To reduce the exposure to exchange rate fluctuation relating to the above-mentioned refinancing transaction, the Company simultaneously entered into a hedging transaction with a notional amount of US\$150 million using the Cross Currency Interest Rate Swap (CCIRS) instrument with Standard Chartered Bank, Jakarta Branch. The CCIRS contract has the same period with the HC Finance B.V. loan (see Note 24).

Total principal payments made from the escrow accounts amounted to Rp99,273,996,569 and Rp350,662,793,179 for the nine months ended September 30, 2006 and 2005, respectively.

Total interest payments made by the Company through its escrow accounts amounted to Rp93,012,389,053 (consisting of US\$7,697,473, JP¥212,962,732 and Rp3,184,912,596) for the nine months ended September 30, 2006 and Rp124,226,665,759 (consisting of US\$8,422,025, JP¥429,871,510 and Rp5,621,723,696) for the nine months ended September 30, 2005, while the unpaid interest charges amounting to Rp55,913,965,767 and Rp40,265,022,499 as of September 30, 2006 and 2005, respectively, are presented as part of "Accrued Expenses" in the consolidated balance sheets.

Total prepayments made from the escrow accounts amounted to US\$4,334,814 (equivalent to Rp42,383,356,775) and US\$11,001,804 (equivalent to Rp106,505,443,235) for the nine months ended September 30, 2006 and 2005, respectively.

In 2005, the Company bought back portions of its restructured debt at face value amounting to JP¥700,000,000 (equivalent to Rp64,477,910,000) from the creditors.

On March 29, 2006, the Company has convened the EGMS and obtained approval from independent shareholders regarding the conflict of interest transaction in form of Corporate Guarantee issued by HeidelbergCement AG (HC), a related party, to substitute to the existing collateralized assets under the HZMFA relating to the Company's plan to fully refinance its debt previously restructured in 2000 under the HZMFA. The Corporate Guarantee is issued:

1. To guarantee:
 - a. Syndicated loan with the Standard Chartered Bank as Coordinating Lead Arranger.
 - b. Bilateral loan between the Company and Marubeni Corporation.

The maximum amount of the loan guaranteed is US\$190 million and Company will pay a guarantee fee as compensation to HC at 0.2% per annum of the loan guaranteed.

2. To guarantee the hedging transaction for the syndicated loan as stated in item 1.a. above.

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

On April 7, 2006, The Company (as the Borrower) together with HeidelbergCement AG (as the Guarantor), signed the syndicated loan facility agreement ("the Facility") in US\$, JP¥ and IDR with total amount equivalent to US\$158 million with Standard Chartered Bank (as the Coordinating Lead Arranger and Facility Agent), ABN AMRO Bank N.V., Jakarta Branch, PT Bank Central Asia, Tbk. and Calyon Deutschland acting as the Lead Arrangers. The Facility consists of the following:

- i. Term loan facility of US\$35 million and revolving credit facility of US\$25 million, with annual interest rate at US\$ LIBOR plus 0.9%.
- ii. Term loan facility of Rp350 billion, with annual interest rate at SBI plus 1%.
- iii. Term loan facility of JP¥7,068 million, with annual interest rate at JP¥ LIBOR plus 0.9%.

The Facility will expire in five years from the date of the first drawdown. The term loans will be repaid in 19 equal quarterly installments with the first installment commencing six months from the first drawdown date, while for the revolving credit facility, each drawdown shall be repaid on the last day of its interest period, and may be re-borrowed during the credit facility period.

On April 11, 2006, The Company (as the Borrower) signed a bilateral loan facility agreement with Marubeni Corporation (as Lender). The loan facility is from partial refinancing of the Marubeni Contractor Facility amounting to JP¥1,178 million that will be due on December 29, 2012 and from the JBIC P11 Guarantee Facility amounting to JP¥2.4 billion, which is guaranteed by Marubeni.

The interest rate of the Marubeni Contractor Facility was LTPR plus 0.9% and the guarantee fee to Marubeni Corporation reduced from 1% to 0.7% per annum.

The Facility and the Marubeni Contractor Facility as mentioned above are secured by the Corporate Guarantee of HC. The Company will pay guarantee fee as compensation to HC at 0.2% per annum of the loan facilities.

On April 20, 2006, the Company terminated the existing HZMFA and made a prepayment of the principal amounting to Rp1,801,595,022,984 (consisting of US\$98,723,524, JP¥11,078,193,765 and Rp52,895,195,219). While on the same time, the Facility and the Marubeni Contractor Facility as mentioned above has become effective.

Total principal payments made from the current accounts on the above-mentioned loan facilities amounted to Rp300,868,620,892 (consisting of revolving loan amounting to US\$25,000,000 and JBIC P11 Guarantee Facility amounting to JP¥831,731,000) for the nine months ended September 30, 2006.

Total interest and other financial charges payments made by the Company through its current accounts (including guarantee fees to HC of Rp889,687,557 and Marubeni Corporation of Rp326,011,713) amounted to Rp50,127,958,773 (consisting of US\$3,494,508, JP¥66,009,447 and Rp12,249,501,153) for the nine months ended September 30, 2006.

12. OBLIGATIONS UNDER CAPITAL LEASE

On December 23, 2003 and August 23, 2004, PBI entered into sale-and-leaseback agreements with PT Central Sari Finance (CSF) involving certain machineries and transportation equipment with lease terms of 3 years.

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12. OBLIGATIONS UNDER CAPITAL LEASE (continued)

The future minimum lease payments required under the lease agreements as of September 30, 2006 and 2005 are as follows:

Years	2006	2005
2005	-	539,923,826
2006	488,179,161	2,037,986,968
2007	125,792,516	124,932,515
Total	613,971,677	2,702,843,309
Less amounts applicable to interest	16,216,073	193,065,277
Present value of minimum lease payments	597,755,604	2,509,778,032
Current maturities	597,755,604	1,912,022,428
Long-term portion	-	597,755,604

The obligations under capital lease are secured by PBI's time deposits amounting to Rp2,736,067,280 in 2006 and Rp5,736,067,280 in 2005 which were 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.

13. CAPITAL STOCK

a. Share Ownership

The details of share ownership as of September 30, 2006 and 2005 are as follows:

Shareholders	2006		
	Number of Shares Issued and Fully Paid	Percentage of Ownership	Amount
HeidelbergCement AG, Germany	2,397,980,863	65.14%	1,198,990,431,500
PT Mekar Perkasa	479,735,234	13.03	239,867,617,000
Public and cooperatives	803,515,602	21.83	401,757,801,000
Total	3,681,231,699	100.00%	1,840,615,849,500

Shareholders	2005		
	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

On September 1, 2006, HeidelbergCement South-East Asia GmbH merged with HeidelbergCement AG with the latter as the surviving company. As a result of the merger, HeidelbergCement AG became the direct shareholder of the Company.

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13. CAPITAL STOCK (continued)

On November 2, 2005, HC Indocement GmbH merged with HeidelbergCement South-East Asia GmbH with the latter as the surviving company. As a result of the merger, HeidelbergCement South-East Asia GmbH became the direct shareholder of the Company.

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

b. Warrants A

Warrants A were issued to the creditors of the Company in connection with the debt restructuring at a fixed exercise price of Rp3,600 per share. All of the warrants, which were issued at no cost, were naked warrants and were listed on the Jakarta and Surabaya Stock Exchanges.

The period of exercise of Warrants A was from two (2) to four (4) years and nine (9) months after the effective date of the debt restructuring on December 29, 2000. As of September 29, 2005 (the last exercise date for Warrants A), no warrants had been exercised by the holders of Warrants A. A total of 153,382,977 Warrants A was forfeited.

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 stock issuance costs.

15. OTHER PAID-IN CAPITAL

This account represents 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. DIVIDENDS

At the Company's Annual General Shareholders' Meeting on June 28, 2006, the shareholders approved the declaration of cash dividends from 2005 net income totaling Rp184,061,584,950 or Rp50 per share. The cash dividends were paid on August 7, 2006. Dividends amounting to Rp414,272,131 has not yet been paid as of September 30, 2006 are presented as part of "Dividend Payable" in the consolidated balance sheets.

17. 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 28, 2006, June 16, 2005, June 23, 2004, June 26, 2003, June 24, 1997 and June 25, 1996 in the amount of Rp25 billion each.

18. SEGMENT INFORMATION

BUSINESS SEGMENTS

The Company and Subsidiaries' businesses are grouped into three major operating businesses: cement, ready mix concrete and other business.

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 business	:	Investing activity

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18. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

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

2006	Cement	Ready Mix Concrete	Other Business	Elimination	Consolidation
REVENUES					
Sales to external customers	4,605,919,784,703	213,635,512,928	-	-	4,819,555,297,631
Inter-segment sales	91,545,159,999	-	-	(91,545,159,999)	-
Total Revenues	4,697,464,944,702	213,635,512,928	-	(91,545,159,999)	4,819,555,297,631
RESULTS					
Segment results	792,921,692,590	8,266,557,343	-	-	801,188,249,933
Equity in net earnings of associated companies	-	-	7,788,270,183	-	7,788,270,183
Corporate income tax expense					(251,133,364,630)
NET INCOME					557,843,155,486
ASSETS AND LIABILITIES					
Segment assets	10,403,355,392,093	160,733,786,013	2,796,080,089	(519,914,192,481)	10,046,971,065,714
Long-term investments and advances to associated companies - net	-	-	51,508,236,089	-	51,508,236,089
Net deferred tax assets and prepayments of income taxes	24,110,078,887	5,614,637,880	-	-	29,724,716,767
Total Assets	10,427,465,470,980	166,348,423,893	54,304,316,178	(519,914,192,481)	10,128,204,018,570
Segment liabilities	3,958,326,488,823	81,115,990,891	690,000,000	(520,734,964,107)	3,519,397,515,607
Net deferred tax liabilities	599,608,568,337	-	-	-	599,608,568,337
Total Liabilities (excluding deferred gain on sale-and-leaseback transactions - net)	4,557,935,057,160	81,115,990,891	690,000,000	(520,734,964,107)	4,119,006,083,944
Capital expenditure	213,643,419,377	599,017,838	-	-	214,242,437,215
Depreciation, amortization and depletion expenses	382,827,928,626	5,144,899,627	-	-	387,972,828,253
Non-cash expenses other than depreciation, amortization and depletion expenses					
Provision for employee benefits	22,607,581,608	1,184,790,750	-	-	23,792,372,358
Provisions for doubtful accounts	-	360,000,000	-	-	360,000,000
Provision for post-retirement healthcare benefits	2,545,965,000	-	-	-	2,545,965,000
2005	Cement	Ready Mix Concrete	Other Business	Elimination	Consolidation
REVENUES					
Sales to external customers	3,962,657,035,285	202,898,363,150	-	-	4,165,555,398,435
Inter-segment sales	89,250,351,929	-	-	(89,250,351,929)	-
Total Revenues	4,051,907,387,214	202,898,363,150	-	(89,250,351,929)	4,165,555,398,435
RESULTS					
Segment results	799,320,235,557	(4,648,017,715)	-	1,895,144,840	796,567,362,682
Equity in net losses of associated companies	-	-	(5,266,581,261)	-	(5,266,581,261)
Corporate income tax expense					(253,035,061,384)
NET INCOME					538,265,720,037
ASSETS AND LIABILITIES					
Segment assets	10,630,190,193,513	154,813,893,101	2,796,455,509	(491,358,192,239)	10,296,442,349,884
Long-term investments and advances to associated companies - net	-	-	19,982,749,052	-	19,982,749,052
Net deferred tax assets and prepayments of income taxes	33,629,765,751	5,641,313,945	-	-	39,271,079,696
Total Assets	10,663,819,959,264	160,455,207,046	22,779,204,561	(491,358,192,239)	10,355,696,178,632

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18. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2005	Cement	Ready Mix Concrete	Other Business	Elimination	Consolidation
Segment liabilities	5,245,802,678,248	83,267,518,413	690,000,000	(491,941,379,297)	4,837,818,817,364
Net deferred tax liabilities	313,186,644,328	-	-	-	313,186,644,328
Total Liabilities (excluding deferred gain on sale-and-leaseback transaction - net)	5,558,989,322,576	83,267,518,413	690,000,000	(491,941,379,297)	5,151,005,461,692
Capital expenditure	93,286,869,206	3,031,120,179	-	-	96,317,989,385
Depreciation, amortization and depletion expenses	343,962,353,750	5,583,067,419	-	-	349,545,421,169
Non-cash expenses other than depreciation, amortization and depletion expenses	-	-	-	-	-
Provisions for doubtful accounts	-	6,131,877,800	-	-	6,131,877,800
Provision for employee benefits	23,230,992,700	827,120,250	-	-	24,058,112,950

GEOGRAPHICAL SEGMENTS

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

	2006	2005
REVENUES (based on sales area)		
Domestic		
Java	6,148,047,362,420	5,538,799,645,798
Outside Java	1,397,572,259,713	1,091,972,879,485
Export	656,229,198,253	490,736,967,148
Total	8,201,848,820,386	7,121,509,492,431
Elimination	(3,382,293,522,755)	(2,955,954,093,996)
Net	4,819,555,297,631	4,165,555,398,435
ASSETS (based on location of assets)		
Domestic	10,046,971,065,714	10,296,442,349,884
CAPITAL EXPENDITURE (based on location of assets)		
Domestic	214,242,437,215	96,317,989,385

Export sales were coursed through HCT, a related company which is domiciled in Singapore (see Note 23k).

Most of the Company's sales are coursed through DAP's sub-distributors. There were no aggregate sales to any individual customer/sub-distributor which exceeded 10% of net revenues in 2006 and 2005 (see Note 23i).

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19. COST OF REVENUES

The details of cost of revenues are as follows:

	2006	2005
Raw materials used	498,612,793,021	413,696,860,949
Direct labor	211,939,639,356	199,847,808,394
Fuel and power	1,434,363,221,229	1,175,098,593,154
Manufacturing overhead	660,405,256,102	635,224,396,407
Total Manufacturing Cost	2,805,320,909,708	2,423,867,658,904
Work in Process Inventory		
At beginning of period	108,997,225,500	75,301,148,375
At end of period	(108,838,382,098)	(97,917,797,003)
Cost of Goods Manufactured	2,805,479,753,110	2,401,251,010,276
Finished Goods Inventory		
At beginning of period	68,680,550,631	35,836,142,073
Others	(452,436,093)	(376,104,796)
At end of period	(40,116,320,591)	(41,660,516,685)
Cost of Goods Sold before Packing Cost	2,833,591,547,057	2,395,050,530,868
Packing Cost	238,572,211,688	213,002,115,221
Total Cost of Revenues	3,072,163,758,745	2,608,052,646,089

Liabilities related to manufacturing costs which had been incurred but not yet billed to the Company and Subsidiaries amounted to Rp74,281,126,498 and Rp79,984,039,942 as of September 30, 2006 and 2005, 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.

20. OPERATING EXPENSES

The details of operating expenses are as follows:

	2006	2005
<u>Delivery and Selling Expenses</u>		
Delivery, loading and transportation	570,802,243,201	368,205,161,141
Advertising and promotion	25,386,792,188	10,926,552,581
Salaries, wages and employees' benefits (see Note 21)	23,749,016,425	20,196,337,602
Rental	7,547,660,359	7,400,492,595
Taxes and licenses	5,220,440,019	3,464,633,470
Depreciation	4,261,616,287	3,545,176,584
Professional fees	4,204,399,538	4,208,634,137
Research and testing	3,218,254,578	2,129,836,457
Repairs and maintenance	2,394,505,487	1,345,824,045
Electricity and water	1,953,667,867	2,063,044,237
Medical	1,035,301,748	1,930,693,312
Miscellaneous (each below Rp1 billion)	5,154,088,776	4,582,401,185
Total Delivery and Selling Expenses	654,927,986,473	429,998,787,346

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20. OPERATING EXPENSES (continued)

	2006	2005
<u>General and Administrative Expenses</u>		
Salaries, wages and employees' benefits (see Note 21)	75,036,956,627	71,701,133,966
Rental	14,549,303,870	14,199,530,905
Professional fees	6,710,677,381	5,915,817,393
Training and seminars	5,076,397,027	5,212,088,314
Depreciation	5,064,235,569	5,259,965,920
Medical	4,727,949,889	2,083,916,045
Traveling and transportation	3,434,139,766	2,628,728,790
Repairs and maintenance	2,873,783,284	3,034,462,071
Communication	2,812,593,281	2,571,298,243
Donations	2,474,047,770	3,244,053,898
Public relations	1,662,402,353	2,501,110,968
Publications and sponsorships	1,312,582,124	1,150,030,508
Insurance	1,291,518,879	1,773,299,487
Taxes and licenses	1,102,325,745	990,366,318
Provision for doubtful accounts	360,000,000	6,131,877,800
Anniversary cost	88,868,000	2,119,055,859
Miscellaneous (each below Rp1 billion)	5,390,766,609	4,148,726,163
Total General and Administrative Expenses	<u>133,968,548,174</u>	<u>134,665,462,648</u>
Total Operating Expenses	<u>788,896,534,647</u>	<u>564,664,249,994</u>

21. ESTIMATED LIABILITY FOR EMPLOYEE BENEFITS

a. Retirement Benefit

The Company has a defined contribution retirement plan covering its full-time 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. Retirement benefits charged to operations amounted to approximately Rp18.1 billion and Rp16.2 billion for the nine months ended September 30, 2006 and 2005, 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, 2006 and 2005, the Plan assets totaled Rp454.3 billion and Rp379.9 billion, respectively.

The Company and Subsidiaries have appointed PT Mercer Indonesia, an independent actuary, to calculate the expected obligation for post-employment, severance, gratuity and compensation benefits of its qualified permanent employees.

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

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21. ESTIMATED LIABILITY FOR EMPLOYEE BENEFITS (continued)

a. Retirement Benefit (continued)

	Company	Subsidiaries
Discount rate	11% in 2006 and 10% in 2005	11% in 2006 and 10% in 2005
Wage and salary increase	9% in 2006 and 2005	9% in 2006 and 2005
Retirement age	55 years	55 years
Average employee turnover	1% for employees with ages from 20 years old up to 54 years old	2% - 5% for employees with ages from 20 years old, decreasing linearly to 0% at age 45
Table of mortality	Commissioners Standard Ordinary 1980 (CSO '80)	Commissioners Standard Ordinary 1980 (CSO '80)
Disability	10% of the mortality rate	10% at the mortality rate

The provisions for employee benefits recognized in the consolidated statements of income consisted of the following:

	2006	2005
Current service costs	5,361,922,608	7,342,987,450
Interest costs	12,395,744,250	10,817,004,000
Actuarial loss recognized	76,337,250	-
Amortization of past service costs and actuarial gains	5,958,368,250	5,898,121,500
Net employee benefits expense	23,792,372,358	24,058,112,950

A reconciliation of estimated liability for employee benefits is as follows:

	2006	2005
Present value of defined benefit obligation	154,342,470,675	158,426,145,530
Unamortized balance of the non-vested past service costs	(88,812,268,750)	(96,844,223,250)
Actuarial loss	(13,661,465,938)	(15,973,391,527)
Liability recognized in the consolidated balance sheets	51,868,735,987	45,608,530,753

Movements in the estimated liability for employee benefits are as follows:

	2006	2005
Balance at beginning of period	47,867,513,812	33,647,515,723
Provision during the period	23,792,372,358	24,058,112,950
Payments during the period	(19,791,150,183)	(12,097,097,920)
Balance at end of period (recorded as part of "Long-term Liabilities - Others" account in the consolidated balance sheets)	51,868,735,987	45,608,530,753

Non-vested past service costs are amortized over the average remaining years of service of active employees, which range from 12.19 - 16.02 years in 2006 and from 13.19 - 16.49 years in 2005.

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21. ESTIMATED LIABILITY FOR EMPLOYEE BENEFITS (continued)

b. Post-retirement Healthcare Benefit

Effective March 2005, the Company started to provide post-retirement healthcare benefits (the "Plan") to all of its qualified permanent employees. The plan is not funded. In December 2005, the Company appointed PT Watson Wyatt Purbajaga (WWP) to calculate the expected obligations for the post-retirement healthcare benefit.

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

Discount rate	11%
Claim cost trend	9%
Retirement age	55
Mortality rate	CSO '80
Disability rate	10% of mortality rate
Average employee turnover	1% for employees with ages from 20 years old up to 54 years old

The provision for employee benefits recognized in the consolidated statements of income for the nine months ended September 30, 2006 consisted of the following:

Current service cost	680,345,250
Interest cost	1,282,129,500
Vested past service costs and amortization of non-vested past service costs	583,490,250
Net post-retirement healthcare benefits	<u>2,545,965,000</u>

A reconciliation of estimated liability for post-retirement health care benefits is as follows:

Present value of defined benefit obligation	17,477,024,319
Unamortized balance of the non-vested past service costs	(10,728,437,750)
Actuarial gain	4,176,000
Liability recognized in the 2006 consolidated balance sheet	<u>6,752,762,569</u>

Movements in the estimated liability for post-retirement healthcare benefits are as follows:

Balance at beginning of period	4,409,314,000
Provision during the period	2,545,965,000
Payments during the period	(202,516,431)
Balance at end of period	<u>6,752,762,569</u>

Non-vested past service costs are amortized over the remaining number of years of service of active employees, which is 14.61 years.

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22. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES

In the normal course of business, the Company and Subsidiaries entered into transactions with related parties. The significant transactions and related account balances with related parties are as follows:

	Amount		Percentage to Total Assets/Liabilities and Related Income/Expenses	
	2006	2005	2006	2005
<u>Trade Receivables - Related Party</u>				
HCT Services Asia Pte., Ltd., Singapore	34,453,249,623	49,139,564,477	0.34%	0.47%
<u>Due from Related Parties</u>				
Officers and employees	49,571,466,752	58,680,035,201	0.49%	0.56%
Stillwater Shipping Corporation	-	10,310,000,000	-	0.10
Others (each below Rp1 billion)	1,647,520,298	466,561,528	0.02	0.01
Total	51,218,987,050	69,456,596,729	0.51%	0.67%
<u>Trade Payables - Related Party</u>				
HCT Services Asia Pte., Ltd., Singapore	1,565,264,054	2,806,687,701	0.02%	0.03%
<u>Due to Related Parties</u>				
PT Pama Indo Mining	4,419,975,798	4,249,752,212	0.04%	0.04%
<u>Long-term Loans</u>				
HC Finance B.V., Netherlands	1,385,250,000,000	1,546,500,000,000	13.68%	14.93%
<u>Net Revenues</u>				
HCT Services Asia Pte., Ltd., Singapore	656,229,198,253	490,736,967,148	13.62%	11.78%
<u>Cost of Revenues</u>				
PT Pama Indo Mining	30,187,959,518	24,319,235,106	0.98%	0.93%
HCT Services Asia Pte., Ltd., Singapore	12,948,389,000	11,764,156,560	0.42	0.45
Total	43,136,348,518	36,083,391,666	1.40%	1.38%
<u>Operating Expenses</u>				
Stillwater Shipping Corporation (see Note 23c)	20,041,067,000	20,028,354,000	2.54%	3.55%
HeidelbergCement Technology Center GmbH	757,899,252	735,143,558	0.10	0.13
	20,798,966,252	20,763,497,558	2.64%	3.68%
<u>Other Income (Expenses)</u>				
HC Finance B.V., Netherlands	68,893,107,887	42,143,664,552	43.79%	21.47%
PT Cibinong Center Industrial Estate	2,310,947,543	1,783,095,055	1.47	0.91
Total	71,204,055,430	43,926,759,607	45.26%	22.38%

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

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22. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES (continued)

Nature of relationship and type of transaction with the above related parties are as follows:

No.	Related Parties	Nature of Relationship	Type of Transaction
1.	HCT Services Asia Pte., Ltd., Singapore	Under Common Control	Sale of finished goods and purchase of raw materials
2.	HC Finance B.V., Netherlands	Under Common Control	Long-term loan
3.	HeidelbergCement Technology Center GmbH	Under Common Control	Professional fee
4.	PT Cibinong Center Industrial Estate	Associated Company	Rental of industrial estate and sale of water and electricity
5.	Stillwater Shipping Corporation	Associated Company	Transportation
6.	PT Pama Indo Mining	Associated Company	Mining service
7.	Officers and employees	Employees	Loan

In the EGMS held on March 29, 2006, the independent shareholders have approved the proposals to add 1 (one) affiliated company to HeidelbergCement AG, which owns 100% of the shares in HeidelbergCement South-East Asia GmbH, the company majority shareholder, namely Scancem Energy and Recovery AB (SEAR), a company having its business in the consultancy services and management, particularly on the alternative energy technology, as the new party in the recurring transactions. The transactions shall be conducted on an arm's length basis and the total amount of the transactions in any one financial year will not exceed 5% of the Company's stockholder's equity based on the latest audited consolidated financial statements.

In the EGMS held on February 23, 2005, the independent shareholders approved the proposals for recurring transactions (mainly purchase of raw materials) with HC Fuel Limited, HCT Services Asia Pte. Ltd., and HeidelbergCement Technology Center GmbH, the Company's related parties. Each of the transactions should be conducted on an arm's length basis and the total amount of the transactions in any one financial year will not exceed 5% of the Company's stockholder's equity based on the latest audited consolidated financial statements.

23. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

- a. On June 1, 2005, the Company entered into an agreement with PT Rabana Gasindo Makmur (RGM) for the supply of natural gas for the cement plants in Cirebon. The supply agreement provides for an 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 RGM. However, such payment can be treated as a prepayment and can be applied to the future gas consumption. On the other hand, if the Company's consumption is higher than the annual contract volume, the Company should pay the excess of natural gas consumed at 130% of the applicable price. This agreement is valid for 5 years.

In relation to the above agreement, on the same date, the Company entered into a gas transportation agreement with PT Rabana Wahana Consorindo Utama (RWCU) wherein RWCU agreed to build and own the distribution and receiving facilities for natural gas from the tie-in point located at the Central Processing Plant in Bangadua to the Company's natural gas receiving facilities at Cirebon. The Company will pay gas transportation fee as compensation of US\$0.52 per MMBTU of natural gas delivered. This agreement shall remain valid in accordance with the natural gas supply agreement between the Company and RGM.

For the nine months ended September 30, 2006 and 2005, total purchases of natural gas from RGM amounted to US\$729,228 (equivalent to Rp6,683,775,348) and US\$156,196 (equivalent to Rp1,576,017,539), while total transportation fee incurred amounted to US\$201,701 (equivalent to Rp1,848,703,733) and US\$43,203 (equivalent to Rp435,919,683), respectively.

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23. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- b. The Company has a three-year Coal supply agreement with PT Adaro Indonesia (Adaro) wherein Adaro agreed to supply 700,000 MT per year. The contract period is from January 1, 2005 until December 31, 2007. The agreement also stipulates, among others, the price and price adjustment formula, specifications for coal quality, and term for transfer of title and risk. Total purchases of coal from Adaro amounted to US\$19,366,300 and US\$14,433,224 for the nine months ended September 30, 2006 and 2005, respectively.
- c. The Company has signed vessel charter agreements with Stillwater Shipping Corporation, an associated company, Liberia for the charter of "M/V Tiga Roda" and "M/V Quantum One" vessels. On June 2, 2006 and September 5, 2006, the charter agreements for the "M/V Tiga Roda" and "M/V Quantum One" vessels were assigned from Stillwater Shipping Corporation to PT Bahana Indonor, an Indonesian company directly controlled by Stillwater Shipping Corporation. The charter agreement for the "M/V Tiga Roda" vessel is valid until May 2010, while the charter agreement for the "M/V Quantum One" vessel is valid until September 2010.
- d. The Company and PT Multi Bangun Galaxy, a Subsidiary, have agreements with PT (Persero) Pelabuhan Indonesia for the lease of land for the cement terminals located at the Tanjung Priok Port, Tanjung Perak Port, and Lembar Port. The lease period will end in December 2012 for the Tanjung Priok Port, in July 2012 for the Tanjung Perak Port, and in December 2021 for the Lembar Port.
- e. On November 30, 2004, the Company entered into two contracts with ABB Switzerland Ltd. (contractor) for the supply of Retrofit and automated laboratory system (autolab), and the supply of erection supervision services and commissioning of the autolab. The total value of these contracts amounted to EUR1,510,000. As of September 30, 2006, the equipment is still in testing and commissioning stage.
- f. In June 2004, a group of fishermen in Rampa Village, Kotabaru, South Kalimantan, blockaded the Company's jetty in Tarjun in protest for the loss of their livelihood due to the illegal dumping of dredging materials. Based on the claims submitted to the Company, the fisherman alleged that the Company illegally dumped materials outside the approved dumping locations, which resulted in damage to their fishing equipment and the decrease in their catch.

Accordingly, the Company has tried to pass on the claim to PT Boskalis International Indonesia (Boskalis), the contractor appointed by the Company to dredge the jetty for its alleged misconduct and improper dumping of dredging materials beyond the approved dumping location.

A fact-finding committee consisting of representatives from the Company, the association of fishermen and other related parties was established to investigate the claim that Boskalis has dumped the dredging materials beyond the approved dumping location. Through its litigation lawyers, the Company has sent three warning letters to Boskalis due to its failure to fulfill the "Safety, Security and Protection of Environment" clause as stated under the Dredging of Berthing Pocket and Turning Basin Tarjun Port Facility Contract. In the third letter, which was sent in September 2006 through its litigation lawyer, Otto Hasibuan & Associates, the Company requests for reimbursements from Boskalis of all costs and expenses paid by the Company to move the dredging materials to the designated dumping site.

In August 2005, the Company appointed PT Dewi Rahmi to move the dredging materials to the designated dumping site. The Company also appointed Universitas Lambung Mangkurat to supervise the work of PT Dewi Rahmi. Total expenses incurred to remove the dredging materials amounted to Rp7,102,127,660 for the year ended December 31, 2005, while the unpaid expenses amounting to Rp963,666,150 as of September 30, 2006 are presented as part of "Accrued Expenses" in the consolidated balance sheets.

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23. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

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

As stated in the Agreement, the Company agreed to carry out a project which is expected to result in the reduction of greenhouse gas emissions (the Project). The Project is composed of two components as follows:

- Introduction of new type of cement which contains a higher proportion of additive materials.
- Use of alternative fuels in clinker burning.

Subject to the terms and conditions of the Agreement, the Company shall generate a minimum number of Greenhouse Gases (GHG) Reductions from the Project and transfer the Emission Reductions (ERs) corresponding to these GHG Reductions to the Trustee with a total volume of 3 million tons at the certain contracted price.

The Project was agreed to commence in January 2005 and shall be terminated in 2011 or upon full delivery of the ERs to be generated by the Project.

The Project should be implemented in a manner consistent with, or upon entry of, the Kyoto Protocol in accordance with the applicable International UNFCCC/Kyoto Protocol Rules.

The agreement will be effective after all the following precedent conditions are fulfilled:

- Indonesia has ratified the Kyoto Protocol on or before December 31, 2005.
- Receipt by the Trustee of a Letter of Approval for the Project on or before March 1, 2006 which includes authorization of the Company's and the Trustee's participation in the Project, and in the reasonable opinion of the Trustee meets all other requirements of approval under the International UNFCCC/Kyoto Protocol Rules.

As of September 30, 2006, the Project is still undergoing the final verification and certification process.

- h. In 2006 and 2005, the Company entered into one-year agreements with several land transporters for the distribution of the Company's cement in Indonesia. Transportation expenses incurred are recorded as part of "Delivery and Selling Expenses" in the consolidated statements of income, while the unpaid transportation expenses amounting to Rp31,843,600,627 and Rp12,917,613,842 as of September 30, 2006 and 2005, respectively, are shown as part of "Other Payables to Third Parties" in the consolidated balance sheets.

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23. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- i. On June 18, 2004, DAP entered into new distributorship agreements with several companies for the non-exclusive area distribution of the Company's bagged cement and bulk cement for the domestic market. The 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 effective from July 14, 2004 until December 31, 2008, and may be extended for an additional period of three (3) years upon written agreement by both parties.

Total gross sales by the Company and DAP to these sub-distributors for the nine months ended September 30, 2006 and 2005 are as follows:

	2006	2005
PT Bangunsukses Niagatama Nusantara	414,271,604,103	326,709,440,412
PT Royal Inti Mandiri Abadi	306,833,443,440	236,362,839,416
PT Intimegah Mitra Sejahtera	285,183,258,402	248,547,696,228
PT Samudera Tunggal Utama	272,667,458,987	261,258,964,726
PT Primasindo Cipta Sarana	247,457,110,585	202,149,997,834
PT Adikarya Maju Bersama	228,923,115,677	212,548,514,198
PT Nusa Makmur Perdana	224,729,778,190	233,854,357,886
PT Kharisma Mulia Abadijaya	219,684,825,972	205,240,899,446
PT Saka Agung Abadi	211,910,502,724	139,891,470,182
PT Kirana Semesta Niaga	194,760,003,738	167,815,675,860
PT Sumber Abadi Sukses	194,543,385,532	172,819,542,576
PT Angkasa Indah Mitra	186,493,161,172	183,853,805,104
PT Citrabaru Mitra Perkasa	174,494,437,672	164,742,374,329
PT Cipta Pratama Karyamandiri	170,142,529,437	144,568,684,670
Total	3,332,094,615,631	2,900,364,262,867

The total outstanding receivables from these sub-distributors amounting to Rp445,477,794,373 and Rp377,884,091,190 as of September 30, 2006 and 2005, respectively, are recorded as part of "Trade Receivables - Third Parties" in the consolidated balance sheets.

- j. The Company and DAP entered into lease agreements with PT Serasi Tunggal Mandiri for the lease of office space and car park located at Wisma Indocement. Rental expenses charged to current operations amounted to Rp7,866,137,850 and Rp8,264,355,780 for the nine months ended September 30, 2006 and 2005, respectively.

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23. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- k. The Company has an exclusive export distribution agreement with HCT Services Asia Pte., Ltd. (formerly HC Trading International Inc.), an HC subsidiary, under the following terms and conditions (see Note 18):
- 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 export distribution agreement is effective for twenty (20) years.

Total sales discounts granted to HCT for the nine months ended September 30, 2006 and 2005 amounted to approximately US\$3.01 million and US\$2.36 million, respectively.

- l. The Company has an outstanding agreement with PT Rabana Gasindo Usama (Rabana) whereby Rabana will build and own the distribution and receiving facilities for natural gas at Tegal Gede - Citeureup with a capacity of 18 MMSCFD. The Company will pay compensation of US\$0.45 per MMBTU of natural gas delivered as gas transportation fee and US\$0.02 per MMBTU of natural gas delivered as technical fee. The agreement also provides for a minimum annual delivery of natural gas by the Company. If the Company is unable to utilize the minimum volume as stated in the agreement, Rabana will claim from the Company payment of gas transportation fee for the unconsumed volume. Such amount claimed should be agreed to by both parties within one month after the end of the year. This minimum purchase requirement will not be valid if the total payments made for the gas transportation fee exceed US\$10,000,000 plus interest and Rabana's overhead. The minimum purchase requirement was amended by an addendum signed by the Company and Rabana on February 17, 2005. The addendum stipulates that the minimum purchase requirement will no longer be applicable if the total cumulative payments starting from January 1, 2005 made for the gas transportation fee exceed US\$1,074,000 plus interest and overhead expenses.

In addition, the addendum declares that there is no claim over past obligations according to the original agreement (prior to addendum) except for US\$900,000 which will be paid by the Company in installments until January 2006. The gain arising from this settlement amounting to Rp23,808,349,379 is presented as part of "Other Income (Expenses) - Others - Net" in the 2005 consolidated statement of income. 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\$1,101,886 and US\$1,063,689 for the nine months ended September 30, 2006 and 2005, respectively.

- m. The Company also has agreements with PERTAMINA for the purchase of natural gas which provide for an 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 to future gas consumption. Such agreement will expire in 2014. Total purchases of natural gas from PERTAMINA for the nine months ended September 30, 2006 and 2005 amounted to Rp75,447,314,793 and Rp79,147,726,312, respectively.

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23. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- n. The Company has an outstanding sale and purchase of electricity agreements with PT PLN (Persero) (PLN) wherein PLN agreed to deliver electricity to the Company's Citeureup and Cirebon plants with connection power of 80,000 KVA/150 kV and 45,000 KVA/70 kV, respectively. The price of the electricity charges will be based on government regulation.

Total electricity purchased under the agreements amounted to Rp263.8 billion and Rp204.2 billion for the nine months ended September 30, 2006 and 2005, respectively.

- o. 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.
- p. 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 provision for recultivation amounting to Rp11,221,634,413 and Rp9,292,201,335 as of September 30, 2006 and 2005, respectively, which is presented as part of "Long-term Liabilities - Others" in the consolidated balance sheets.

24. DERIVATIVE INSTRUMENTS

The Company is exposed to market risks, 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, 2006, the Company has outstanding derivative instruments as follows:

- a. Cross Currency Interest Rate Swap

As described in Note 11, the Company has entered into a hedging transaction to hedge its US\$150 million debt to HC Finance B.V. by using the Cross Currency Interest Rate Swap (CCIRS) instrument with Standard Chartered Bank, Jakarta Branch (SCB), with the same period with the HC Finance B.V. loan, which is 4 years. Under the CCIRS, the Company will purchase U.S. dollars with a notional amount of US\$150 million from SCB at the maturity date on March 8, 2009 with a fixed exchange rate of Rp9,358 to US\$1. Also, SCB will pay the Company quarterly interest at the rate of 3 Months' LIBOR + 1.80% per annum. At the same time, the Company will pay interest to the SCB at the rate of 3 Months' Sertifikat Bank Indonesia (SBI) + 1.99% per annum on the above-mentioned notional amount using the above exchange rate. The above interest payment period is the same with the interest payment period of the HC Finance B.V. loan. The interest rate was amended by a confirmation letter signed by the Company and SCB on August 10, 2006. The confirmation letter stipulates that effective starting July 20, 2006, SCB will pay the Company quarterly interest at the rate of 3 Months' LIBOR + 1.15% per annum and at the same time, the Company will pay interest to the SCB at the rate of 3 Months' SBI + 1.33% per annum. As of September 30, 2006, the Company recognized the net liabilities on the CCIRS contract at market value of Rp46,318,973,650, which is presented as "Long-term Derivatives Liabilities - Net" in the 2006 consolidated balance sheet.

The CCIRS instrument can not be designated as a hedge for accounting purposes and accordingly, the reduction in the fair value of the CCIRS amounting to Rp130,490,481,760 were recorded as part of "Foreign Exchange Gain (Loss) - Net" presented in the nine months ended September 30, 2006 consolidated statement of income.

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24. DERIVATIVE INSTRUMENTS (continued)

- b. Forward exchange contracts with Standard Chartered Bank, Jakarta Branch entered on February 20, 2006 and August 22, 2006, and ABN AMRO Bank N.V., Jakarta Branch (ABN AMRO) entered on February 20, 2006, with notional amounts aggregating to JP¥1,450 million and US\$2 million which will mature on various dates from November 2006 to February 2007, at fixed exchange rates ranging from Rp80.32 to Rp87.75 for every JP¥1 and from Rp9,223 to Rp9,360 for every US\$1.
- c. Structured currency option contracts with Standard Chartered Bank entered on November 10, 2005, for the purchase of a total of US\$500,000 with the following terms:
- If USD/IDR spot rate is or above Rp11,500, the Company has the right to buy USD at the rate of USD/IDR spot rate minus Rp810 on the settlement date.
 - If USD/IDR spot rate is above Rp10,690 but below Rp11,500, the Company has the right to buy USD at the rate of Rp10,690 on the settlement date.
 - If USD/IDR spot rate is below Rp10,690, the Company is obliged to buy USD at the rate of Rp10,690 on the settlement date.

These contracts have no premium and will be settled in October 2006.

- d. Structured currency option contracts with JPMorgan entered on November 11, 2005, for the purchase of a total of US\$500,000 with the following terms:
- If USD/IDR spot rate is or above Rp11,500, the Company will buy USD at the rate of USD/IDR spot rate minus Rp1,000 on the settlement date.
 - If USD/IDR spot rate is above Rp10,500 but below Rp11,500, the Company will buy USD at the rate of Rp10,500 on the settlement date.
 - If USD/IDR spot rate is above Rp10,250 but below Rp10,500, the Company will buy USD at the spot rate on the settlement date.
 - If USD/IDR spot rate is below Rp10,250, the Company will buy USD at the rate of Rp10,250 on the settlement date.

These contracts have upfront fee at US\$60,000 and will be settled in October 2006.

- e. Structured currency option contracts with ABN AMRO entered on May 1, 2006, for the purchase of a total of JP¥700 million with the following terms:
- If JP¥/IDR spot rate is at or above Rp85.00, the Company has the right to buy JP¥ at the rate of JP¥/IDR spot rate minus Rp4.50 on the settlement date.
 - If JP¥/IDR spot rate is above Rp80.50 but below Rp85.00, the Company has the right to buy JP¥ at the rate of Rp80.50 on the settlement date.
 - If JP¥/IDR spot rate is at or below Rp80.50, the Company is obliged to buy JP¥ at the rate of Rp80.50 on the settlement date.

These contracts have no premium and will be settled on various dates from October 2006 to March 2007.

The derivative instruments as mentioned in items *b*, *c*, *d*, and *e* above can not be designated as hedge activities for accounting purposes and accordingly, changes in the fair value of such instruments are recorded directly to earnings. As of September 30, 2006, the Company recognized the net liabilities on the above derivative instruments at market value of Rp5,745,458,051 which is presented as part of "Derivatives Liabilities - Net" in the 2006 consolidated balance sheet.

The loss arising from the derivative transactions amounted to Rp38,069,572,764 and was recorded as part of "Foreign Exchange Gain (Loss) - Net" presented in the nine months ended September 30, 2006 consolidated statement of income.

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25. LITIGATION

On February 24, 2004, Ati binti Sadim dkk ("Plaintiffs"), who represented themselves as the heirs of the owners of land with an area of 2,665,044 square meters located in Cipulus and Pasir Kores, Lulut Village - West Java, filed a lawsuit against the Company for alleged unfair practices employed by the Company in acquiring the aforementioned land, specifically for the following reasons:

- The land price is too low and inappropriate.
- The purchase price was determined only by the Company.
- The Company did not involve the Plaintiffs in the land measurement process.
- The Company has not paid the price for land with an area of approximately 934,111 square meters which it has taken possession.

The total loss being claimed by the Plaintiffs due to their inability to use the land for a 30-year period amounted to Rp41,103,585,000.

Based on the decision of the District Court of Cibinong (the "Court") dated August 16, 2004, the Court rejected all of the above claims. The Plaintiffs submitted an appeal to the High Court of West Java. On March 22, 2005, the High Court of West Java confirmed the decision of the District Court of Cibinong to reject all of the above claims. On June 27, 2005, the Plaintiffs submitted an appeal to the Supreme Court, and as September 30, 2006, the Supreme Court has not yet rendered its decision.

26. ECONOMIC CONDITIONS

The operations of the Company and its Subsidiaries may be affected by future economic conditions in Indonesia, in this case the continuity of negative growth of cement consumption due to the weakening purchasing power after fuel price hikes that increased inflation. Economic improvements and sustained recovery of cement consumption are dependent upon several factors in such as fiscal and monetary actions including lower mortgage rate and fiscal incentives for real sector investment being undertaken by the Government and others, actions that are beyond the control of the Company and its Subsidiaries.

27. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

As of September 30, 2006, the Company and Subsidiaries have monetary assets and liabilities denominated in foreign currencies as follows:

	Foreign Currency	Equivalent in Rupiah
Assets		
Related Parties	US\$ 3,730,725	34,453,245,375
Third Parties	US\$ 6,370,101	58,827,882,735
	JP¥ 1,596,264,259	125,166,751,956
	EUR 993,055	11,650,223,343
Total		230,098,103,409
Liabilities		
Related Parties	US\$ 150,488,197	1,389,758,499,295
Third Parties	US\$ 38,992,952	360,099,911,720
	JP¥ 9,961,492,366	781,103,527,851
	EUR 834,938	9,795,242,135
Total		2,540,757,181,001
Net liabilities		2,310,659,077,592

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28. SUBSEQUENT EVENT

On October 20, 2006, the Company paid its long-term loan from banks and financial institution amounting to US\$1,842,105, JP¥5,050,000,000 and Rp18,421,052,632, which already include a partial principal prepayment of its term loan amounting to JP¥3,500,000,000 and fully prepayment of the Marubeni Contractor Facility amounting to JP¥1,178,000,000. In addition, the Company paid its obligations for interest and other financial charges covering the period July 20, 2006 to October 20, 2006 amounting to US\$2,648,833, JP¥32,708,763 and Rp11,948,131,999 (see Note 11).

29. RECLASSIFICATION OF ACCOUNT

Net derivative assets amounting to Rp12,046,935,654 and net long-term derivative assets amounting to Rp148,357,167,780 which were previously presented as part of "Other Receivables from Third Parties - Net" in the 2005 consolidated financial statements have been reclassified to conform with the presentation of accounts in the 2006 consolidated financial statements.