

**Consolidated Financial Statements
With Independent Auditors' Report
Years Ended December 31, 2007 and 2006**

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

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOCEMENT TUNGGAL PRAKARSA Tbk.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2007 AND 2006**

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This report is originally issued in Indonesian language.

Independent Auditors' Report

Report No. RPC-8342

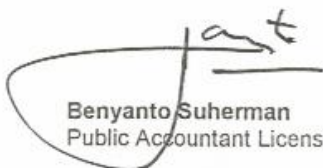
The Shareholders, and the Boards of Commissioners and Directors PT Indocement Tunggul Prakarsa Tbk.

We have audited the consolidated balance sheets of PT Indocement Tunggul Prakarsa Tbk. (the "Company") and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PT Indocement Tunggul Prakarsa Tbk. and Subsidiaries as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles in Indonesia.

Purwanto, Sarwoko & Sandjaja



Benyanto Suherman
Public Accountant License No. 05.1.0973

February 11, 2008

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

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2007 and 2006
(Expressed in rupiah)

	Notes	2007	2006
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2c,3	307,758,755,702	43,386,264,747
Time deposits	2c	5,912,495,280	8,786,299,848
Short-term investments	2d	-	1,300,650,000
Trade receivables	2e,4		
Related party	2f,23	23,265,368,983	35,942,984,396
Third parties - net of allowance for doubtful accounts of Rp12,664,975,199 in 2007 and Rp11,067,732,391 in 2006	24l	773,786,445,998	581,313,208,397
Other receivables from third parties - net of allowance for doubtful accounts of Rp6,083,100,875 in 2007 and Rp7,371,980,358 in 2006	2e,5,11	7,665,730,014	11,962,963,023
Derivative asset	2q,25	279,357,650	-
Inventories - net	2g,6	996,213,878,184	953,204,236,576
Advances and deposits	6,24a,24e	101,995,938,222	72,485,222,241
Prepaid taxes	11	18,497,151,738	14,984,540,549
Prepaid expenses	2h	13,214,375,049	18,336,034,367
TOTAL CURRENT ASSETS		2,248,589,496,820	1,741,702,404,144
NON-CURRENT ASSETS			
Due from related parties	2f,23	38,251,820,616	49,961,946,164
Deferred tax assets - net	2r,11	8,368,926,791	5,894,750,585
Long-term investments and advances to associated company - net of allowance for doubtful accounts of Rp13,720,944,026 in 2007 and 2006	2b,2f,7,23	49,897,260,036	49,020,750,634
Fixed assets - net of accumulated depreciation, amortization and depletion of Rp4,852,990,747,503 in 2007 and Rp4,328,988,778,381 in 2006	2i,2j,2k, 2l,8	7,577,508,175,469	7,679,069,065,279
Restricted cash and time deposits	13	-	479,000,000
Other non-current assets	2h,2m,8	93,411,849,626	72,152,413,936
TOTAL NON-CURRENT ASSETS		7,767,438,032,538	7,856,577,926,598
TOTAL ASSETS		10,016,027,529,358	9,598,280,330,742

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 BALANCE SHEETS (continued)
December 31, 2007 and 2006
(Expressed in rupiah)

	Notes	2007	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term loan	9	-	45,100,000,000
Trade payables to third parties	10	191,867,623,897	139,479,645,891
Other payables to third parties	8,17,24k	139,286,999,761	115,383,815,567
Accrued expenses	20	162,480,424,735	183,463,901,989
Taxes payable	2r,11	220,833,316,914	69,089,659,782
Derivative liabilities - net	2q	-	3,738,655,113
Current maturities of long-term debts			
Loans from banks and financial institutions	2f,12,23	-	252,930,774,797
Obligations under capital lease	2k,8,13	45,144,609,831	2,993,554,562
TOTAL CURRENT LIABILITIES		759,612,975,138	812,180,007,701
NON-CURRENT LIABILITIES			
Long-term debts - net of current maturities			
Loans from banks and financial institutions	2f,12,23	1,412,850,000,000	1,972,974,161,926
Obligations under capital lease	2k,8,13	78,269,142,728	5,912,495,283
Long-term derivative liability	2q,25	23,179,198,262	75,939,001,160
Due to related parties	2f,23	8,547,033,416	5,482,141,192
Deferred tax liabilities - net	2r,11	677,292,357,880	606,268,637,255
Estimated liability for employee benefits	2o,22	64,279,212,682	54,187,223,918
Estimated liability for post-retirement healthcare benefits	2o,22	10,252,037,620	7,557,608,000
Provision for recultivation	24s	28,252,796,827	17,843,913,938
Deferred gain on sale-and-leaseback transactions - net	2k	6,029,538,243	7,172,805,899
TOTAL NON-CURRENT LIABILITIES		2,308,951,317,658	2,753,337,988,571
MINORITY INTEREST IN NET ASSETS OF SUBSIDIARY	2b	21,455,695,267	-

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

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2007 and 2006
(Expressed in rupiah)

	Notes	2007	2006
SHAREHOLDERS' EQUITY			
Capital stock - Rp500 par value per share			
Authorized - 8,000,000,000 shares			
Issued and fully paid - 3,681,231,699 shares	14	1,840,615,849,500	1,840,615,849,500
Additional paid-in capital	2t, 15	1,194,236,402,048	1,194,236,402,048
Other paid-in capital	16	338,250,000,000	338,250,000,000
Revaluation increment in fixed assets	2i	229,970,296,236	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	20,967,649,981	973,936,686
Retained earnings			
Appropriated	18	175,000,000,000	150,000,000,000
Unappropriated		1,961,251,966,961	1,113,000,473,431
TOTAL SHAREHOLDERS' EQUITY		6,926,007,541,295	6,032,762,334,470
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		10,016,027,529,358	9,598,280,330,742

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

These consolidated financial statements are originally issued in Indonesian language.

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2007 and 2006
(Expressed in rupiah)

	Notes	2007	2006
NET REVENUES	2f,2n,19, 23,24l,24n	7,323,643,805,514	6,325,329,027,717
COST OF REVENUES	2f,2n,20,23, 24g,24o, 24p,24q	4,569,998,519,300	4,177,533,518,004
GROSS PROFIT		2,753,645,286,214	2,147,795,509,713
OPERATING EXPENSES	2f,2n,21,22, 23,24k,24m		
Delivery and selling		949,314,476,298	887,351,398,943
General and administrative		219,517,146,233	192,768,213,358
Total Operating Expenses		1,168,831,622,531	1,080,119,612,301
INCOME FROM OPERATIONS		1,584,813,663,683	1,067,675,897,412
OTHER INCOME (EXPENSES)			
Interest income		15,150,629,543	26,943,365,574
Interest expense and other financial charges	12,13,23	(195,648,740,269)	(301,027,932,756)
Foreign exchange gain (loss) - net	2p,2q,25	(28,816,408,979)	49,289,270,983
Others - net	2d,2f,2i,2m, 2n,23,24d	30,713,631,328	9,630,123,767
Other Expenses - Net		(178,600,888,377)	(215,165,172,432)
EQUITY IN NET EARNINGS OF ASSOCIATED COMPANIES - NET	2b,7	11,478,935,011	9,686,380,530
INCOME BEFORE CORPORATE INCOME TAX EXPENSE		1,417,691,710,317	862,197,105,510
CORPORATE INCOME TAX EXPENSE	2r,11		
Current		372,187,036,200	158,754,697,800
Deferred		63,201,292,706	110,640,390,935
Total Corporate Income Tax Expense		435,388,328,906	269,395,088,735
INCOME BEFORE MINORITY INTEREST		982,303,381,411	592,802,016,775
MINORITY INTEREST	2b	583,968,274	-
NET LOSS OF SUBSIDIARY BEFORE ACQUISITION	2b	801,094,815	-
NET INCOME		983,688,444,500	592,802,016,775
BASIC EARNINGS PER SHARE	2u	267.22	161.03

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

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2007 and 2006
(Expressed in rupiah)

	Notes	Capital Stock	Additional Paid-in Capital * (Notes 15 and 16)	Revaluation Increment in Fixed Assets	Differences Arising from Restructuring Transactions among Entities under Common Control	Differences Arising from Changes in the Equity of Subsidiaries	Retained Earnings		Total Shareholders' Equity
							Appropriated	Unappropriated	
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		-	-	-	-	-	-	592,802,016,775	592,802,016,775
Change in the equity of a Subsidiary arising from foreign currency translation adjustment	2b	-	-	-	-	(1,458,076,150)	-	-	(1,458,076,150)
Appropriation of retained earnings for general reserve	18	-	-	-	-	-	25,000,000,000	(25,000,000,000)	-
Distribution of cash dividend	17	-	-	-	-	-	-	(184,061,584,950)	(184,061,584,950)
Change in the equity of a Subsidiary arising from the decline in market values of its investments in available-for-sale securities	2b,2d	-	-	-	-	(3,901,950,000)	-	-	(3,901,950,000)
Balance as of December 31, 2006		1,840,615,849,500	1,532,486,402,048	229,970,296,236	1,165,715,376,569	973,936,686	150,000,000,000	1,113,000,473,431	6,032,762,334,470
Net income		-	-	-	-	-	-	983,688,444,500	983,688,444,500
Change in the equity of a Subsidiary arising from foreign currency translation adjustment	2b	-	-	-	-	781,772,148	-	-	781,772,148
Appropriation of retained earnings for general reserve	18	-	-	-	-	-	25,000,000,000	(25,000,000,000)	-
Distribution of cash dividend	17	-	-	-	-	-	-	(110,436,950,970)	(110,436,950,970)
Change in the equity of a Subsidiary arising from the realization of loss for decline in market values of its investments in available-for-sale securities	2b,2d	-	-	-	-	19,211,941,147	-	-	19,211,941,147
Balance as of December 31, 2007		1,840,615,849,500	1,532,486,402,048	229,970,296,236	1,165,715,376,569	20,967,649,981	175,000,000,000	1,961,251,966,961	6,926,007,541,295

* including Other Paid-in Capital

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

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2007 and 2006
(Expressed in rupiah)

	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		7,790,624,949,924	6,811,980,979,629
Payments to suppliers and contractors, and for salaries and other employee benefits		(5,438,827,966,828)	(4,936,213,134,179)
Cash provided by operations		2,351,796,983,096	1,875,767,845,450
Receipts of interest income		12,514,596,530	22,924,457,557
Proceeds from claims for tax refund	11	8,277,619,958	18,852,275,968
Payment of taxes		(770,970,777,494)	(517,012,118,202)
Payment of interest expense and other financial charges		(223,305,433,001)	(207,888,924,625)
Net receipts from other operating activities		25,175,355,000	20,222,897,936
Net Cash Provided by Operating Activities		1,403,488,344,089	1,212,866,434,084
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale-and-leaseback transactions		295,635,987,070	4,015,726,000
Cash dividends received	7	11,384,197,757	2,099,307,170
Proceeds from sale of fixed assets		8,426,380,000	1,933,553,401
Proceeds from sale of marketable securities		7,331,399,974	138,377,257
Net withdrawals (placement) of time deposits		2,873,804,568	(8,786,299,848)
Purchases of fixed assets		(250,110,218,026)	(277,126,849,133)
Advance to purchase aggregates quarry	24a	(11,663,243,908)	-
Advance to purchase shares of stock	24e	-	(1,800,000,000)
Investment in shares of stock		-	(18,150,000)
Net Cash Provided by (Used in) Investing Activities		63,878,307,435	(279,544,335,153)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term loan and long-term borrowings		90,720,000,000	352,164,804,781
Payment of short-term loan and long-term borrowings		(1,030,135,722,776)	(872,572,006,605)
Payment of obligations under capital lease		(172,569,952,913)	(11,956,542,200)
Payment of cash dividends	17	(110,397,385,591)	(183,953,312,820)
Net payment for derivative transactions		(3,647,390,000)	(53,724,729,500)
Net Cash Used in Financing Activities		(1,226,030,451,280)	(770,041,786,344)
NET EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS		21,513,191,956	(5,199,415,065)
NET RECLASSIFICATION OF CASH AND CASH EQUIVALENTS TO OTHER ASSETS (RESTRICTED CASH AND TIME DEPOSITS)		-	(612,705,016,407)

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

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PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years Ended December 31, 2007 and 2006
(Expressed in rupiah)

	Notes	2007	2006
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		262,849,392,200	(454,624,118,885)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	43,386,264,747	498,010,383,632
CASH AND CASH EQUIVALENTS OF NEWLY ACQUIRED SUBSIDIARY		1,523,098,755	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	307,758,755,702	43,386,264,747
Activities not affecting cash and cash equivalents:			
Tax assessments directly deducted from the proceeds of claims for tax refund	11	8,842,309,507	-
Transactions affecting restricted cash and time deposits account:			
Deposit of proceeds from long-term borrowings	12	-	1,141,479,940,019
Interest earned	12	-	1,559,750,096
Payment of bank loans	12	-	(1,943,252,376,230)
Payment of interest	12	-	(93,012,389,053)

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

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007 and 2006
(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. 227 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.3 dated May 3, 2007 of Amrul Partomuan Pohan, S.H., LLM concerning, among others, the change in the limits of authority of the Company's board of directors. This amendment has been reported to and recorded in the database of the Legal Entity Administration System (SISMINBAKUM) of the Department of Laws and Human Rights of the Republic of Indonesia under registration No. W7-HT.01.04-7590 dated May 29, 2007.

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 and 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, and aggregates quarrying.

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 17.1 million tons of cement. The manufacture of ready mix concrete and aggregates quarrying businesses comprise the operations of the Company's three 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., LLM., the shareholders approved, among others, the offering of 59,888,100 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 trillion, 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
Years Ended December 31, 2007 and 2006
(Expressed in rupiah, unless otherwise stated)

1. GENERAL (continued)

In the EGMS held on June 25, 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.

In the EGMS held on June 26, 2000, the shareholders approved the increase in the Company's authorized capital stock from Rp2 trillion divided into 4 billion shares with par value of Rp500 per share to Rp4 trillion divided into 8 billion shares with the same par value. Such increase in the Company's authorized capital stock was approved by the Ministry of Law and Legislation in its decision letter No. C-13322 HT.01.04.TH.2000 dated July 7, 2000.

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 Warrants 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 Warrants C totaled 8,180 shares.

As of December 31, 2007 and 2006, the members of the Company's boards of commissioners and directors are as follows:

Board of Commissioners

President	Daniel Hugues Jules Gauthier
Vice President	Sudwikatmono
Vice President	I Nyoman Tjager
Independent Commissioner	Sri Prakash
Commissioner	Lorenz Naeger
Commissioner	Bernhard Scheifele
Commissioner	Ali Emir Adiguzel

Board of Directors

President	Daniel Eugene Antoine Lavalle
Vice President	Tedy Djuhar
Director	Hans Oivind Hoidalén
Director	Nelson G. D. Borch
Director	Christian Kartawijaya
Director	Kuky Permana Kumalaputra
Director	Benny Setiawan Santoso
Director	Ernest Gerard Jelito

PT INDOCEMENT TUNGGAL PRAKARSA Tbk. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007 and 2006
(Expressed in rupiah, unless otherwise stated)

1. GENERAL (continued)

Total salaries and other compensation benefits paid to the Company's boards of commissioners and directors amounted to Rp32 billion and Rp28 billion for the years ended December 31, 2007 and 2006, respectively. As of December 31, 2007 and 2006, the Company and Subsidiaries have a total of 6,433 and 6,637 permanent employees, respectively (unaudited).

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 and Financial Institutions Supervisory Agency's (BAPEPAM-LK) regulations, and Guidelines for Financial Statements Presentation and Disclosures for publicly listed companies issued by the BAPEPAM-LK 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 December 31, 2007	Effective Percentage of Ownership (%) as of December 31, 2007
<u>Direct</u>					
PT Dian Abadi Perkasa (DAP)	Cement distribution	Indonesia	1998/1999	635,411,796,878	99.99
PT Indomix Perkasa (Indomix)	Ready mix concrete manufacturing	Indonesia	1992/1992	71,448,852,185	99.99
Indocement (Cayman Islands) Limited	Investment in associated company	Cayman Islands	1991/1991	55,759,038,469	100.00
PT Gunung Tua Mandiri (GTM)	Aggregates quarrying	Indonesia	2006/2007	49,691,218,941	51.00
<u>Indirect</u>					
PT Pionirbeton Industri (PBI)	Ready mix concrete manufacturing	Indonesia	1996/1996	92,862,188,327	99.99
PT Multi Bangun Galaxy (MBG)	Trading	Indonesia	1999	1,458,101,806	99.99

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

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

MBG was acquired in 2004 and 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.

As of December 31, 2007, MBG has not yet started its commercial operations.

On July 25, 2007, the Company acquired 51% ownership in GTM through the subscription of 3,060 new shares of GTM with par value of Rp1,000,000 per share at the total acquisition cost of Rp42,840,000,000.

The details of the shares acquisition from GTM are as follows:

Acquisition cost	42,840,000,000
Fair value of net assets	<u>40,766,747,355</u>
Difference between the acquisition cost and fair value of net assets	<u><u>2,073,252,645</u></u>

Since the difference between the acquisition cost and fair value of net assets of GTM is considered immaterial, the management of the Company decided to charge the difference to current period operations.

Net loss of GTM prior to the Company's acquisition amounting to Rp801,094,815 is presented as "Net Loss of Subsidiary before Acquisition" in the 2007 consolidated statement of income.

GTM started its commercial operations in November 2007.

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 Company" in the consolidated balance sheets. The details of these subsidiaries are as follows:

	Year of Incorporation	Country of Domicile	Total Assets as of December 31, 2007
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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

The proportionate share of the minority shareholder in the equity of GTM is presented as "Minority Interest in Net Assets of Subsidiary" in the consolidated balance sheets. When cumulative losses applicable to minority interest exceed the minority shareholder's interest in the Subsidiary's equity, the excess is charged against the majority shareholder's interest and is not reflected as an asset, except in rare cases when the minority shareholder has a binding obligation to make good in such losses. Subsequent profits earned by the Subsidiary under such circumstances that are applicable to the minority interest shall be allocated to the majority interest to the extent minority losses have been previously absorbed.

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 in connection with restructuring transactions among entities under common control and 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 current year operations if the conditions stated in the PSAK are fulfilled.

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 as part of this account (see item d below).

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Cash Equivalents

Time deposits with maturities of three months or less at the time of placement 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 an 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 under terms and conditions similar to those granted to third parties, are disclosed in Note 23.

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.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

	Years
Land improvements; quarry; and buildings and structures	8 - 30
Machinery and equipment	5 - 15
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. 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 on the basis of 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 method and useful lives as mentioned above for depreciation.

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)

l. 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 2007 and 2006, 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 and taxes, 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. Costs and expenses are generally recognized and charged to operations when they are incurred.

o. Provision for Employee Benefits

The Company has a defined contribution retirement plan (Pension Plan) covering all of its qualified permanent employees and an unfunded employee benefit liability determined in accordance with the existing Collective Labor Agreement (CLA). The unfunded employee benefit liability was 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 employer 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.

The Company also provided post-retirement healthcare benefits wherein employees who reach normal retirement age as of January 1, 2003 and 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 as that which an employee used to have prior to his retirement, for a period not exceeding 60 days per year.

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

Under PSAK No. 24 (Revised 2004), the cost of providing employee benefits under the CLA/Law/post-retirement healthcare benefits are determined using the projected-unit-credit actuarial valuation method. Actuarial gains or 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 10% of the present value of the defined benefit obligation 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 benefits 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)

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 any capitalization made under PSAK No. 26 (Note 2I).

As of December 31, 2007 and 2006, the rates of exchange used are as follows:

	<u>2007</u>	<u>2006</u>
Euro (EUR1)	13,759.76	11,858.15
U.S. dollar (US\$1)	9,419.00	9,020.00
Japanese yen (JP¥100)	8,306.74	7,579.53

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 currency contract and cross currency interest rate swap 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.

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Segment Reporting

The Company and Subsidiaries' businesses are grouped into three major operating businesses: cement, ready mix concrete and aggregates quarry, and other businesses. Financial information on business segments is presented in Note 19.

t. Stock Issuance Costs

All costs related to the issuance of equity securities are offset against additional paid-in capital.

u. 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 2007 and 2006.

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.

3. CASH AND CASH EQUIVALENTS

The details of cash and cash equivalents are as follows:

	<u>2007</u>	<u>2006</u>
Cash on hand	1,054,452,209	945,527,897
Cash in banks		
PT Bank Central Asia Tbk		
Rupiah	19,631,684,681	18,398,346,973
Euro (EUR229,554 in 2007 and EUR5,139 in 2006)	3,158,612,213	60,942,827
U.S. dollar (US\$213,829 in 2007 and US\$60,855 in 2006)	2,014,059,119	548,909,304
PT Bank Mandiri (Persero) Tbk		
Rupiah	18,657,338,774	5,268,311,427
U.S. dollar (US\$82,757 in 2007 and US\$323,021 in 2006)	779,485,828	2,913,650,322
Euro (EUR33,271 in 2007 and EUR52,531 in 2006)	457,794,645	622,925,577
ABN-AMRO Bank N.V.		
Euro (EUR213,975 in 2007 and EUR28,921 in 2006)	2,944,248,086	342,952,521
Rupiah	2,198,561,260	1,649,410,336
U.S. dollar (US\$140,665 in 2007 and US\$259,970 in 2006)	1,324,927,685	2,344,926,784
Japanese yen (JP¥9,215,014 in 2007 and JP¥9,805,537 in 2006)	766,347,270	743,213,619

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3. CASH AND CASH EQUIVALENTS (continued)

	2007	2006
Standard Chartered Bank		
U.S. dollar (US\$271,452 in 2007 and US\$27,714 in 2006)	2,556,802,338	249,980,460
Rupiah	220,417,082	53,986,239
The Hongkong and Shanghai Banking Corporation Ltd., Jakarta Branch		
Rupiah	300,015,593	3,614,520,665
Others		
Rupiah	1,952,039,171	3,646,208,951
U.S. dollar (US\$53,718 in 2007 and US\$53,487 in 2006)	505,969,748	482,450,845
Rupiah time deposits		
ABN-AMRO Bank N.V.	139,000,000,000	-
PT Bank Central Asia Tbk	81,500,000,000	1,500,000,000
PT Bank NISP Tbk	479,000,000	-
U.S. dollar time deposits		
ABN-AMRO Bank N.V. (US\$3,000,000)	28,257,000,000	-
Total	307,758,755,702	43,386,264,747

Ranges of interest rates per annum:

	2007	2006
Rupiah time deposits	6.25% - 9.00%	8.25% - 13.00%
U.S. dollar time deposits	4.20% - 5.15%	3.70% - 5.10%

4. TRADE RECEIVABLES

The details of trade receivables are as follows:

	2007	2006
<u>Related Party (Note 23)</u>		
Cement business		
HCT Services Asia Pte., Ltd., Singapore (US\$2,470,047 in 2007 and US\$3,984,810 in 2006)	23,265,368,983	35,942,984,396
<u>Third Parties</u>		
Cement business		
Rupiah	704,421,842,573	511,187,209,753
U.S. dollar (US\$995,983 in 2007 and US\$623,050 in 2006)	9,381,163,972	5,619,907,933
Ready mix concrete and aggregates quarry businesses	72,648,414,652	75,573,823,102
Allowance for doubtful accounts	(12,664,975,199)	(11,067,732,391)
Net	773,786,445,998	581,313,208,397

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4. TRADE RECEIVABLES (continued)

The movements of allowance for doubtful accounts are as follows:

	2007	2006
Balance at beginning of year	11,067,732,391	13,835,340,496
Provision during the year	1,597,242,808	2,663,022,870
Receivables written off during the year	-	(5,430,630,975)
Balance at end of year	12,664,975,199	11,067,732,391

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.

The aging of trade receivables based on their currency denominations as of December 31, 2007 and 2006 is as follows:

	2007		
	Currency		
	Rupiah	U.S. Dollar (Equivalent Rupiah)	Total
Current	703,981,853,153	18,609,446,988	722,591,300,141
Overdue:			
1 - 30 days	35,517,720,377	13,578,101,865	49,095,822,242
31 - 60 days	9,906,666,343	458,984,102	10,365,650,445
61 - 90 days	7,685,920,481	-	7,685,920,481
Over 90 days	19,978,096,871	-	19,978,096,871
Total	777,070,257,225	32,646,532,955	809,716,790,180

	2006		
	Currency		
	Rupiah	U.S. Dollar (Equivalent Rupiah)	Total
Current	492,698,772,489	13,910,457,827	506,609,230,316
Overdue:			
1 - 30 days	45,052,488,560	27,652,434,502	72,704,923,062
31 - 60 days	10,397,041,132	-	10,397,041,132
61 - 90 days	7,570,024,617	-	7,570,024,617
Over 90 days	31,042,706,057	-	31,042,706,057
Total	586,761,032,855	41,562,892,329	628,323,925,184

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5. OTHER RECEIVABLES

The details of other receivables are as follows:

	2007	2006
Payments for tax assessments being contested	5,502,658,681	5,502,658,681
Claim for tax refund (Note 11)	-	5,849,231,775
Others	8,246,172,208	7,983,052,925
Total	13,748,830,889	19,334,943,381
Allowance for doubtful accounts	(6,083,100,875)	(7,371,980,358)
Net	7,665,730,014	11,962,963,023

The movements of allowance for doubtful accounts are as follows:

	2007	2006
Balance at beginning of year	7,371,980,358	7,371,980,358
Receivables written off during the year	(938,879,483)	-
Reversal of allowance on doubtful accounts collected during the year	(350,000,000)	-
Balance at end of year	6,083,100,875	7,371,980,358

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.

6. INVENTORIES

Inventories consist of:

	2007	2006
Finished goods	71,194,385,497	66,209,610,931
Work in process	99,827,261,175	113,362,558,381
Raw materials	213,267,610,499	215,808,190,887
Fuel and lubricants	146,739,752,063	163,152,907,815
Spare parts	511,099,755,806	445,332,570,557
Total	1,042,128,765,040	1,003,865,838,571
Allowance for losses	(45,914,886,856)	(50,661,601,995)
Net	996,213,878,184	953,204,236,576

With the exception of inventories owned by Indomix, PBI and GTM amounting to Rp11.15 billion, all of the inventories are insured against fire and other risks under a combined insurance policy package (Note 8).

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6. INVENTORIES (continued)

The movements of allowance for inventory losses are as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	50,661,601,995	38,184,113,445
Provisions during the year	-	14,258,869,633
Reversals during the year	(3,943,885,995)	(1,781,381,083)
Inventories written off during the year	(802,829,144)	-
Balance at end of year	<u>45,914,886,856</u>	<u>50,661,601,995</u>

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 December 31, 2007 and 2006 amounting to Rp42,115,621,149 and Rp35,359,059,771, respectively, are presented as part of "Advances and Deposits" in the consolidated balance sheets.

7. LONG-TERM INVESTMENTS AND ADVANCES TO ASSOCIATED COMPANY

The details of this account are as follows:

<u>2007</u>				
	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	(7,295,127,141)	22,728,872,859
Stillwater Shipping Corporation	50.00	105,500,000	18,132,990,069	18,238,490,069
PT Pama Indo Mining	40.00	1,200,000,000	7,691,747,108	8,891,747,108
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
<i>b. Cost Method</i>				
Various investees	various	38,150,000	-	38,150,000
Sub-total		<u>31,832,437,500</u>	<u>18,064,822,536</u>	<u>49,897,260,036</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>49,897,260,036</u>

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

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>				
Stillwater Shipping Corporation	50.00	105,500,000	21,110,148,850	21,215,648,850
PT Cibinong Center Industrial Estate	50.00	30,024,000,000	(10,208,562,145)	19,815,437,855
PT Pama Indo Mining	40.00	1,200,000,000	6,751,513,929	7,951,513,929
PT Indo Clean Set Cement	90.00	464,787,500	(464,787,500)	-
<i>b. Cost Method</i>				
Various investees	various	38,150,000	-	38,150,000
Sub-total		<u>31,832,437,500</u>	<u>17,188,313,134</u>	<u>49,020,750,634</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>49,020,750,634</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

The details of the equity in net earnings of associated companies, net of goodwill amortization, for the years ended December 31, 2007 and 2006 are as follows:

	2007	2006
Stillwater Shipping Corporation	5,344,069,070	5,934,060,720
PT Pama Indo Mining	3,221,430,937	2,805,446,256
PT Cibinong Center Industrial Estate	2,913,435,004	946,873,554
Total	<u>11,478,935,011</u>	<u>9,686,380,530</u>

The Company and Subsidiaries received cash dividends from PT Pama Indo Mining amounting to Rp2,281,197,757 in 2007 and Rp2,099,307,170 in 2006, and from Stillwater Shipping Corporation amounting to US\$1,000,000 (equivalent to Rp9,103,000,000) in 2007.

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 December 31, 2007, 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.

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8. FIXED ASSETS

Fixed assets consist of:

	Balance as of December 31, 2006	Additions/ Reclassifications*	Disposals/ Reclassifications	Balance as of December 31, 2007
2007 movements				
<u>Carrying Value</u>				
Direct Ownership				
Land and land improvements	225,592,282,841	3,799,456,421	4,100,000,000	225,291,739,262
Leasehold improvements	3,104,184,761	6,861,000	-	3,111,045,761
Quarry	75,196,165,196	23,175,757,423	-	98,371,922,619
Buildings and structures	2,884,173,419,302	28,722,042,973	-	2,912,895,462,275
Machinery and equipment	7,724,448,530,774	232,618,749,846	5,524,386,484	7,951,542,894,136
Transportation equipment	449,912,014,588	10,696,400,694	29,632,222,299	430,976,192,983
Furniture, fixtures and office equipment	237,761,538,141	25,614,738,818	2,003,175,215	261,373,101,744
Tools and other equipment	90,212,774,791	15,615,882,764	163,801,669	105,664,855,886
Sub-total	11,690,400,910,394	340,249,889,939	41,423,585,667	11,989,227,214,666
Assets under Capital Lease				
Machinery and equipment	-	253,252,365,107	-	253,252,365,107
Transportation equipment	19,244,164,620	33,354,279,102	480,000,000	52,118,443,722
Sub-total	19,244,164,620	286,606,644,209	480,000,000	305,370,808,829
Construction in progress	298,412,768,646	106,183,150,585	268,695,019,754	135,900,899,477
Total Carrying Value	12,008,057,843,660	733,039,684,733	310,598,605,421	12,430,498,922,972
<u>Accumulated Depreciation, Amortization and Depletion</u>				
Direct Ownership				
Land improvements	25,367,203,600	2,353,977,471	-	27,721,181,071
Leasehold improvements	2,848,932,256	149,187,941	-	2,998,120,197
Quarry	19,310,196,578	2,007,018,596	-	21,317,215,174
Buildings and structures	816,931,175,051	95,550,216,120	-	912,481,391,171
Machinery and equipment	2,898,009,407,456	376,928,193,906	4,604,868,734	3,270,332,732,628
Transportation equipment	327,384,712,111	40,040,644,636	27,013,521,158	340,411,835,589
Furniture, fixtures and office equipment	185,179,642,028	21,722,920,637	1,939,535,864	204,963,026,801
Tools and other equipment	53,626,159,974	11,182,257,559	154,429,669	64,653,987,864
Sub-total	4,328,657,429,054	549,934,416,866	33,712,355,425	4,844,879,490,495
Assets under Capital Lease				
Machinery and equipment	-	2,329,464,778	-	2,329,464,778
Transportation equipment	331,349,327	5,625,442,903	175,000,000	5,781,792,230
Sub-total	331,349,327	7,954,907,681	175,000,000	8,111,257,008
Total Accumulated Depreciation, Amortization and Depletion	4,328,988,778,381	557,889,324,547	33,887,355,425	4,852,990,747,503
Net Book Value	7,679,069,065,279			7,577,508,175,469

* including GTM's fixed assets as of July 25, 2007 with a total fair value of Rp58,521,235,333

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8. FIXED ASSETS (continued)

	Balance as of December 31, 2005	Additions/ Reclassifications	Disposals/ Reclassifications	Balance as of December 31, 2006
2006 movements				
<u>Carrying Value</u>				
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	4,585,787,091	-	2,884,173,419,302
Machinery and equipment	7,598,973,011,201	150,539,512,526	25,063,992,953	7,724,448,530,774
Transportation equipment	445,546,068,642	18,215,967,108	13,850,021,162	449,912,014,588
Furniture, fixtures and office equipment	218,579,593,300	20,104,317,915	922,373,074	237,761,538,141
Tools and other equipment	64,138,529,143	26,174,939,302	100,693,654	90,212,774,791
Sub-total	11,509,643,462,140	220,694,529,097	39,937,080,843	11,690,400,910,394
Assets under Capital Lease				
Machinery and equipment	366,518,240	-	366,518,240	-
Transportation equipment	7,126,904,800	18,764,164,620	6,646,904,800	19,244,164,620
Sub-total	7,493,423,040	18,764,164,620	7,013,423,040	19,244,164,620
Construction in progress	143,529,316,123	353,609,046,748	198,725,594,225	298,412,768,646
Total Carrying Value	11,660,666,201,303	593,067,740,465	245,676,098,108	12,008,057,843,660
<u>Accumulated Depreciation, Amortization and Depletion</u>				
Direct Ownership				
Land improvements	23,572,533,808	1,794,669,792	-	25,367,203,600
Leasehold improvements	2,590,369,120	258,563,136	-	2,848,932,256
Quarry	17,357,081,668	1,953,114,910	-	19,310,196,578
Buildings and structures	721,819,652,671	95,111,522,380	-	816,931,175,051
Machinery and equipment	2,569,424,305,191	348,605,852,832	20,020,750,567	2,898,009,407,456
Transportation equipment	301,433,082,278	39,289,965,548	13,338,335,715	327,384,712,111
Furniture, fixtures and office equipment	163,487,186,953	22,595,473,376	903,018,301	185,179,642,028
Tools and other equipment	47,214,846,898	6,494,364,563	83,051,487	53,626,159,974
Sub-total	3,846,899,058,587	516,103,526,537	34,345,156,070	4,328,657,429,054
Assets under Capital Lease				
Machinery and equipment	91,629,560	126,235,473	217,865,033	-
Transportation equipment	1,736,726,200	948,735,244	2,354,112,117	331,349,327
Sub-total	1,828,355,760	1,074,970,717	2,571,977,150	331,349,327
Total Accumulated Depreciation, Amortization and Depletion	3,848,727,414,347	517,178,497,254	36,917,133,220	4,328,988,778,381
Net Book Value	7,811,938,786,956			7,679,069,065,279

Construction in progress consists of:

	2007	2006
Machineries under installation	106,394,820,584	274,629,534,016
Buildings and structures under construction	5,630,173,435	10,633,153,059
Others	23,875,905,458	13,150,081,571
Total	135,900,899,477	298,412,768,646

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8. FIXED ASSETS (continued)

Below are the percentages of completion and estimated completion periods of the construction in progress as of December 31, 2007:

	<u>Estimated Percentage of Completion</u>	<u>Estimated Completion Period</u>
Machineries under installation	10 - 90%	1 to 12 months
Buildings and structures under construction	10 - 90	1 to 12 months
Others	30 - 95	1 to 18 months

The unpaid balances to contractors and suppliers for the construction, purchase, repairs and maintenance of fixed assets amounting to Rp23,106,619,824 and Rp33,101,458,564 as of December 31, 2007 and 2006, respectively, are presented as part of "Other Payables to Third Parties" in the consolidated balance sheets.

Depreciation, amortization and depletion charges amounted to Rp557,889,324,547 in 2007 and Rp517,178,497,254 in 2006.

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 Rp99,591,512,500, US\$1,921,235,854, EUR521,325,682 and JP¥60,930,000 as of December 31, 2007. In management's opinion, the above insurance coverage is adequate to cover any possible losses that may arise from such risks.

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

The Company and Subsidiaries own building/construction rights or "Hak Guna Bangunan" (HGB), land use rights or "Hak Pakai" (HP) and land ownership rights or "Hak Milik" (HM) over land covering approximately 3,241.69 hectares, and local mining rights or "Surat Izin Penambangan Daerah" (SIPD) covering approximately 10,581.40 hectares at several locations in Indonesia, with legal terms ranging from 5 to 30 years. Management believes that such rights can be extended upon their expiration.

As of December 31, 2007, the Company is still in the process of obtaining the titles of ownership or rights over land covering a total area of approximately 287,356 square meters. The Company is also in the process of acquiring land rights covering a total area of approximately 2,545,695 square meters. The total expenditures amounting to Rp38,654,054,935 as of December 31, 2007 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 December 31, 2007 and 2006 amounting to Rp14,482,002,788 and Rp7,524,902,055, respectively, are presented as part of "Other Non-current Assets" in the consolidated balance sheets.

The assets under capital lease are collateralized to the related obligations under capital lease (Note 13).

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9. SHORT-TERM LOAN

This account represents the outstanding loan balance drawn from a revolving loan facility in 2006 amounting to US\$5,000,000 (consisting of US\$2,500,000 from ABN-AMRO Bank N.V., Jakarta Branch and US\$2,500,000 from Standard Chartered Bank, Jakarta), which is part of a syndicated loan facility as described in Note 12. The loan bore interest at the annual rate of 6.25% and was due on January 22, 2007. The loan was guaranteed by a corporate guarantee of HeidelbergCement AG, the Company's majority shareholder. The loan was fully repaid upon the due date.

10. TRADE PAYABLES TO THIRD PARTIES

This account consists of the following:

	2007	2006
Cement business		
Rupiah	147,589,113,063	106,677,430,432
U.S. dollar (US\$1,750,946 in 2007 and US\$1,184,111 in 2006)	16,492,157,766	10,680,678,063
Euro (EUR996,188 in 2007 and EUR581,653 in 2006)	13,707,305,043	6,897,330,539
Other foreign currencies	885,977,696	113,282,825
Ready mix concrete and aggregates quarry businesses		
Rupiah	13,193,070,329	15,110,924,032
Total Trade Payables to Third Parties	191,867,623,897	139,479,645,891

The aging analysis of trade payables based on their currency denomination as of December 31, 2007 and 2006 is as follows:

	2007		
	Rupiah	Foreign Currencies (Rupiah Equivalent)	Total
Current	102,773,366,511	4,432,102,193	107,205,468,704
Overdue:			
1 - 30 days	42,170,704,428	18,794,310,681	60,965,015,109
31 - 60 days	1,138,505,053	1,465,309,686	2,603,814,739
61 - 90 days	715,335,647	8,904,032	724,239,679
Over 90 days	13,984,271,753	6,384,813,913	20,369,085,666
Total	160,782,183,392	31,085,440,505	191,867,623,897
	2006		
	Rupiah	Foreign Currencies (Rupiah Equivalent)	Total
Current	87,091,467,150	9,290,204,446	96,381,671,596
Overdue:			
1 - 30 days	14,596,273,892	4,949,428,393	19,545,702,285
31 - 60 days	3,281,567,115	2,623,144,889	5,904,712,004
61 - 90 days	11,191,307,066	181,555,866	11,372,862,932
Over 90 days	5,627,739,241	646,957,833	6,274,697,074
Total	121,788,354,464	17,691,291,427	139,479,645,891

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10. TRADE PAYABLES TO THIRD PARTIES (continued)

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

Suppliers	Materials Supplied
Pertambangan Minyak dan Gas Bumi Negara (PERTAMINA)	Fuel
PT Adaro Indonesia	Coal
PT Baramulti Sugih Sentosa	Coal
PT Masa Jaya Perkasa	Coal
PT Trubaindo Coal Mining	Coal
PT Arutmin Indonesia	Coal
PT Politama Pakindo	Woven paper
Fujian Qingshan Paper Industry Co., Ltd.	Kraft paper
Itochu Co.	Gypsum

11. TAXATION

a. Taxes Payable

	2007	2006
Income taxes		
Article 21	13,797,645,131	3,810,792,661
Article 22	1,472,393,925	1,050,542,171
Article 23	1,358,137,786	2,110,211,050
Article 25	19,965,288,998	13,826,970,672
Article 26	618,395,203	782,704,606
Article 29	149,125,150,272	68,075,741
Value added tax	34,422,597,284	47,440,362,881
Others	73,708,315	-
Total	220,833,316,914	69,089,659,782

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 years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Income before corporate income tax expense per consolidated statements of income	1,417,691,710,317	862,197,105,510
Income of Subsidiaries before corporate income tax expense - net	(20,605,992,095)	(27,364,594,469)
Reversal of inter-company eliminating entries during consolidation	5,878,187,252	(5,933,687,695)
Income before corporate income tax expense attributable to the Company	1,402,963,905,474	828,898,823,346

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11. TAXATION (continued)

	2007	2006
Add (deduct):		
Temporary differences		
Provision for recultivation - net (Note 24s)	10,408,882,889	5,127,657,297
Provision for employee benefits - net	8,404,178,551	4,138,525,150
Provision for post-retirement healthcare benefits - net	2,694,429,890	3,148,293,735
Payments of obligations under capital lease	(171,980,741,105)	(10,044,519,772)
Depreciation of fixed assets (including leased assets)	(63,230,400,727)	(128,420,128,570)
Provisions for doubtful accounts and inventory losses (write-off of accounts and inventories against allowance) - net	(6,035,594,622)	12,477,488,550
	<u>(219,739,245,124)</u>	<u>(113,572,683,610)</u>
Permanent differences		
Non-deductible expenses		
Employee benefits	23,997,566,613	50,202,292,026
Public relations	4,732,613,071	3,516,640,788
Donations	2,745,778,681	5,690,585,022
Others	2,525,911,294	1,366,964,286
Income already subjected to final tax	(9,429,196,719)	(20,404,361,731)
Equity in net earnings of associated companies - net	(6,134,865,940)	(3,752,319,810)
	<u>18,437,807,000</u>	<u>36,619,800,581</u>
Estimated taxable income of the Company	1,201,662,467,350	751,945,940,317
Estimated tax loss carry-forward at beginning of year	-	(256,930,304,261)
Correction by the Tax Office	-	6,359,790,385
Estimated taxable income	<u>1,201,662,467,350</u>	<u>501,375,426,441</u>

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

As of February 11, 2008, the Company has not yet submitted its 2007 corporate income tax return to the Tax Office, however, management represents that the Company's 2007 corporate income tax return will be prepared based on the computation as stated above.

The Company's estimated taxable income for 2006, as stated above, was lower by Rp3,286,196,137 than the amount reported in its 2006 corporate income tax return. As a result, the Company reported corporate income tax payable amounting to Rp729,054,387 in its 2006 corporate income tax return and paid this amount, instead of reporting the estimated claim for income tax refund amounting to Rp199,303,533, as shown below. The amount paid and the estimated claim of Rp199,303,533 were charged to the 2007 operations.

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11. TAXATION (continued)

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

	2007	2006
Current		
Company	360,481,240,100	150,395,127,800
Subsidiaries	11,705,796,100	8,359,570,000
	<u>372,187,036,200</u>	<u>158,754,697,800</u>
Deferred		
Company	65,675,468,912	111,130,899,860
Subsidiaries	(2,474,176,206)	(490,508,925)
	<u>63,201,292,706</u>	<u>110,640,390,935</u>
Total	<u>435,388,328,906</u>	<u>269,395,088,735</u>

d. The calculation of estimated corporate income tax payable (claims for income tax refund) is as follows:

	2007	2006
Current income tax expense		
Company	360,481,240,100	150,395,127,800
Subsidiaries	11,705,796,100	8,359,570,000
Total	<u>372,187,036,200</u>	<u>158,754,697,800</u>
Prepayments of income tax		
Company	212,349,219,342	150,594,431,333
Subsidiaries	13,177,141,675	12,063,244,858
Total	<u>225,526,361,017</u>	<u>162,657,676,191</u>
Estimated corporate income tax payable		
Company	148,132,020,758	-
Subsidiaries	993,129,514	68,075,741
Total	<u>149,125,150,272</u>	<u>68,075,741</u>
Estimated claims for income tax refund - presented as part of "Prepaid Taxes" in the consolidated balance sheets		
Company	-	199,303,533
Subsidiaries	2,464,475,089	3,771,750,599
Total for the current year	<u>2,464,475,089</u>	<u>3,971,054,132</u>
Claims for income tax refund from prior years:		
Company		
2005	-	10,414,347,319
Subsidiaries	3,768,434,243	361,252,286
Total	<u>6,232,909,332</u>	<u>14,746,653,737</u>

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11. TAXATION (continued)

On March 26, 2007, the Company received tax assessment letter from the Tax Office for the overpayment of income tax article 29 for the fiscal year 2005 amounting to Rp10,414,347,319 and increase in the 2005 taxable income to Rp943,166,022,464. The difference 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 carry-forward. The Company also received tax assessment letter from the Tax Office for the underpayment of income tax article 26 and value added tax for the fiscal year 2005 amounting to Rp8,842,309,507 and Rp74,369,322, respectively.

On April 16, 2007, the Company received a decision letter from the Tax Office wherein the Tax Office approved to refund the Company's overpayment of income tax article 29 for the fiscal year 2005 amounting to Rp10,414,347,319. This overpayment was offset against the outstanding assessments for the underpayment of income tax article 26 and value added tax for the fiscal year 2005 amounting to Rp8,842,309,507 and Rp74,369,322, respectively. The Company received the refund on April 27, 2007 amounting to Rp1,497,668,490.

On April 26, 2007, the Company filed an objection to the Tax Office for corrections made to the 2005 taxable income totaling Rp5,292,461,212 out of the total corrections of Rp16,328,657,367. As of February 11, 2008, the Tax Office has not rendered any decision on the matter.

On May 1, 2007, the Company also filed an objection to the assessment for underpayment of income tax article 26 and value added tax for the fiscal year 2005 as stated above. On October 8, 2007, the Company received a decision letter from the Directorate General of Taxation wherein it rejected the Company's objection relating to income tax article 26. In November 2007, the Company submitted an appeal to the Tax Court. As of February 11, 2008, the Tax Court has not rendered any decision on the matter.

In October 2007, the Company received a decision letter from the Tax Office wherein the Tax Office approved the Company's objection relating to the 2005 value added tax assessment and reduced the assessment for underpayment of value added tax from Rp74,369,322 to Rp4,727,226. The refund was received by the Company in November 2007.

In March 2006, the Company received tax assessment letter from the Tax Office wherein the Tax Office approved to refund the claim for 2004 income tax amounted to Rp 8,328,177,255 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 carry-forward in 2006.

In December 2006, DAP received tax assessment letter from the Tax Office wherein the Tax Office approved to refund DAP's 2005 claim for tax refund amounting to Rp5,849,231,775 which is presented as part of "Other Receivables from Third Parties" in the 2006 consolidated balance sheet. The refund was received by DAP in February 2007.

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, out of the total claim of Rp3,830,534,868 and the refund was received by DAP in June 2006.

In March 2006, DAP received tax assessment 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, and the refund was received by DAP in May 2006.

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11. TAXATION (continued)

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 contested the result of the tax assessment and the disapproved portion of the claim remained as part of "Prepaid Taxes" in the 2005 consolidated balance sheet. On August 16, 2006, the Tax Court issued a decision in favor of DAP and the refund was received by DAP in October 2006. The Tax Office, however, filed an objection to the Tax Court's decision and asked for a judicial review by the Supreme Court. As of February 11, 2008, the Supreme Court has not rendered any decision on the matter.

- e. The reconciliation between income before corporate income tax expense (after the reversal of inter-company eliminating entries during consolidation) multiplied by the applicable tax rate and corporate income tax expense as shown in the consolidated statements of income for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Income before corporate income tax expense	1,417,691,710,317	862,197,105,510
Reversal of inter-company eliminating entries during consolidation	5,878,187,252	(5,933,687,695)
Combined income, net of loss, before income tax of the Company and Subsidiaries	<u>1,423,569,897,569</u>	<u>856,263,417,815</u>
Tax expense at the applicable tax rate	427,087,486,067	256,826,525,024
Tax effects on permanent differences:		
Non-deductible expenses	14,203,507,997	19,007,464,625
Income already subjected to final tax	(3,838,099,647)	(7,216,463,107)
Equity in net earnings of associated companies - net	(1,840,459,782)	(1,125,695,943)
Others	(224,105,729)	(27,820,259)
Tax corrections	-	1,931,078,395
Corporate income tax expense per consolidated statements of income	<u>435,388,328,906</u>	<u>269,395,088,735</u>

- f. Deferred tax assets (liabilities) consist of:

	December 31, 2006	Deferred Tax Benefit (Expense) Credited (Charged) to 2007 Profit and Loss	December 31, 2007
Deferred Tax Assets:			
Company			
Estimated liability for employee benefits	14,398,065,929	2,521,253,565	16,919,319,494
Allowance for doubtful accounts and inventory losses	13,156,064,068	(1,810,678,387)	11,345,385,681
Reserve for recultivation	5,353,174,181	3,122,664,867	8,475,839,048
Obligation under capital lease	2,635,889,954	33,629,075,557	36,264,965,511
Estimated liability for post-retirement healthcare benefits	2,267,282,321	808,328,967	3,075,611,288
Others	833,851,800	-	833,851,800
Sub-total	<u>38,644,328,253</u>	<u>38,270,644,569</u>	<u>76,914,972,822</u>
Subsidiaries	7,642,479,221	1,742,455,890	9,384,935,111
Total	<u>46,286,807,474</u>	<u>40,013,100,459</u>	<u>86,299,907,933</u>

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11. TAXATION (continued)

	December 31, 2006	Deferred Tax Benefit (Expense) Credited (Charged) to 2007 Profit and Loss	December 31, 2007
Deferred Tax Liabilities:			
Company			
Difference in net book value of fixed assets between tax and accounting bases	(639,347,120,920)	(21,318,155,022)	(660,665,275,942)
Net book value of assets under capital lease	(5,565,844,588)	(82,627,958,459)	(88,193,803,047)
Sub-total	(644,912,965,508)	(103,946,113,481)	(748,859,078,989)
Fair value adjustment on acquisition	-	-	(5,348,251,713)
Subsidiaries	(1,747,728,636)	731,720,316	(1,016,008,320)
Total	(646,660,694,144)	(103,214,393,165)	(755,223,339,022)
Net Deferred Tax Assets:			
Subsidiaries	5,894,750,585	2,474,176,206	8,368,926,791
Net Deferred Tax Liabilities:			
Company	(606,268,637,255)	(65,675,468,912)	(677,292,357,880)
	December 31, 2005	Deferred Tax Benefit (Expense) Credited (Charged) to 2006 Profit and Loss	December 31, 2006
Deferred Tax Assets:			
Company			
Estimated liability for employee benefits	13,156,508,384	1,241,557,545	14,398,065,929
Allowance for doubtful accounts and inventory losses	9,412,817,503	3,743,246,565	13,156,064,068
Reserve for recultivation	3,814,876,992	1,538,297,189	5,353,174,181
Obligation under capital lease	-	2,635,889,954	2,635,889,954
Estimated liability for post-retirement healthcare benefits	1,322,794,200	944,488,121	2,267,282,321
Tax loss carry-forward	77,079,091,278	(77,079,091,278)	-
Others	833,851,800	-	833,851,800
Sub-total	105,619,940,157	(66,975,611,904)	38,644,328,253
Subsidiaries	6,566,388,568	1,076,090,653	7,642,479,221
Total	112,186,328,725	(65,899,521,251)	46,286,807,474
Deferred Tax Liabilities:			
Company			
Difference in net book value of fixed assets between tax and accounting bases	(600,757,677,552)	(38,589,443,368)	(639,347,120,920)
Net book value of assets under capital lease	-	(5,565,844,588)	(5,565,844,588)
Sub-total	(600,757,677,552)	(44,155,287,956)	(644,912,965,508)
Subsidiaries	(1,162,146,908)	(585,581,728)	(1,747,728,636)
Total	(601,919,824,460)	(44,740,869,684)	(646,660,694,144)
Net Deferred Tax Assets:			
Subsidiaries	5,404,241,660	490,508,925	5,894,750,585
Net Deferred Tax Liabilities:			
Company	(495,137,737,395)	(111,130,899,860)	(606,268,637,255)

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

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12. LONG-TERM LOANS FROM BANKS AND FINANCIAL INSTITUTIONS

This account consists of loans from:

	<u>2007</u>	<u>2006</u>
Related party (Note 23)		
U.S. dollar	1,412,850,000,000	1,353,000,000,000
Third parties		
Rupiah	-	331,578,947,368
U.S. dollar	-	299,084,210,555
Japanese yen	-	242,241,778,800
Sub-total	-	872,904,936,723
Total	1,412,850,000,000	2,225,904,936,723
Less current maturities	-	252,930,774,797
Long-term maturities	1,412,850,000,000	1,972,974,161,926

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

	<u>2007</u>		<u>2006</u>	
U.S. dollar				
<u>Related party</u>				
HC Finance B.V.	US\$	150,000,000	US\$	150,000,000
<u>Third parties</u>				
ABN-AMRO Bank N.V., Jakarta		-		16,578,947
Standard Chartered Bank, Jakarta		-		16,578,947
Total U.S dollar loans	US\$	150,000,000	US\$	183,157,894
Rupiah				
<u>Third parties</u>				
PT Bank Central Asia Tbk		-		331,578,947,368
Total rupiah loans		-		331,578,947,368
Japanese yen				
<u>Third parties</u>				
ABN-AMRO Bank N.V., Jakarta		-	JP¥	1,598,000,000
Calyon Deutschland, Germany		-		1,598,000,000
Total Japanese yen loans		-	JP¥	3,196,000,000

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

	<u>2007</u>	<u>2006</u>
Japanese yen	1.38% - 1.87%	1.01% - 3.80%
U.S. dollar	6.08% - 6.56%	5.25% - 6.88%
Rupiah	8.83% - 12.36%	10.75% - 13.65%

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

Prior to their refinancing in April 2006, the Company's debts as described below represented restructured debts under a Post HZ Entry Master Facility Agreement (HZMFA) dated December 29, 2000.

In compliance with the requirements as stipulated in the HZMFA, the Company opened and maintained eleven (11) escrow accounts with JPMorgan Chase Bank, N.A.

On March 8, 2005, HeidelbergCement (HC) Finance B.V., a related party, purchased a portion amounting to US\$150,000,000 of the restructured debt under the HZMFA.

The HC Finance B.V. loan has a term of four (4) years and will be fully repaid at the end of the fourth year (2009). This loan bears interest at the rate of 1.8% above the 3 Months' LIBOR with the same interest payment schedule as that of the other HZMFA creditors. Starting July 1, 2006, the interest rate was reduced from 3 Months' LIBOR + 1.80% per annum to 3 Months' LIBOR + 1.15% per annum.

To reduce the exposure to exchange rate fluctuations relating to the above-mentioned refinancing transaction with HC Finance B.V., the Company entered into a Cross Currency Interest Rate Swap (CCIRS) transaction with a notional amount of US\$150 million with Standard Chartered Bank, Jakarta Branch. The CCIRS contract has the same period as the HC Finance B.V. loan (Note 25).

On March 29, 2006, the Company obtained the approval of independent shareholders to obtain a corporate guarantee from HeidelbergCement AG (HC), a majority shareholder, in connection with the Company's plan to refinance its debt under the HZMFA. The corporate guarantee is issued to:

- Standard Chartered Bank as Coordinating Lead Arranger of the syndicated loan with a total amount equivalent to US\$158 million (consisting of US\$60 million, Rp350 billion and JP¥7,068 million).
- Marubeni Corporation for the bilateral loan of JP¥1,178 million.

On April 7, 2006, the Company (as the Borrower) together with HeidelbergCement AG (as the Guarantor), signed the syndicated loan facility ("the Facility") agreement with Standard Chartered Bank (as the Coordinating Lead Arranger and Facility Agent), and with ABN-AMRO Bank N.V., Jakarta Branch, PT Bank Central Asia Tbk and Calyon Deutschland acting as the Lead Arrangers with a total amount equivalent to US\$158 million. The Company also paid Standard Chartered Bank front-end and agency fee of Rp5,836,364,240 (consisting of US\$250,000, JP¥28,272,000 and Rp1,400,000,000) which is recorded as part of "Other Income (Expenses) - Interest Expense and Other Financial Charges" in the 2006 consolidated statement of income. 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.

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

The above Facility agreement (the "agreement") covers certain matters, among others:

- (i) cross default between the Company and the Guarantor should the Company or the Guarantor not be able to pay any of its financial indebtedness with an outstanding amount in excess of US\$25,000,000 on the due date
- (ii) negative pledge whereby the Company shall not, among others:
 - a. pledge, sell, transfer, dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Company
 - b. sell, transfer, or otherwise dispose of any of its receivables or recourse them
 - c. items (a) and (b) do not apply for transactions in the ordinary course of business.

On July 5, 2007, the agreement was amended concerning, among others, the minimum amount of the outstanding financial indebtedness in which cross default may occur, which was increased from US\$25,000,000 to US\$50,000,000.

On April 11, 2006, the Company (as the Borrower) signed a bilateral loan facility agreement with Marubeni Corporation (as Lender) to partially refinance the Marubeni Contractor Facility in the amount of JP¥1,178 million that was set to mature on December 29, 2012 and the JBIC P11 Guarantee Facility in the amount of JP¥2.4 billion, which were guaranteed by Marubeni Corporation. However, the loan from the Marubeni Contractor Facility was fully paid in October 2006 and from the JBIC P11 Guarantee Facility was fully paid in December 2006.

The bilateral loan bore annual interest at Long-Term Prime Rate (LTPR) plus 0.9%. The guarantee fees paid to Marubeni Corporation arising from the previous loans were reduced from 1% to 0.7% per annum in 2006.

The Facility and the Marubeni Contractor Facility mentioned above were secured by the Corporate Guarantee of HC. The Company paid a guarantee fee of 0.2% per annum of the available loan facility balance as compensation to HC.

On April 20, 2006, the Company terminated the existing HZMFA and repaid the outstanding principal balance of Rp1,801,595,022,984 (consisting of US\$98,723,524, JP¥11,078,193,765 and Rp52,895,195,219) by using the drawdown from the Facility as stated above and the Company's cash through the escrow accounts which were required to be maintained under the HZMFA.

In May 2006, following the full repayment of the outstanding balance of the HZMFA loan and the termination of the HZMFA, the Company closed all the escrow accounts, and the remaining cash balances in those accounts totaling Rp339,511,121 were transferred to "Cash and Cash Equivalents".

On December 14, 2007, the Company fully repaid its outstanding loan from the Facility totaling Rp441,049,280,051 (consisting of US\$17,789,474, JP¥1,108,000,000 and Rp 179,894,736,840).

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13. OBLIGATIONS UNDER CAPITAL LEASE

The future minimum lease payments required under the lease agreements as of December 31, 2007 and 2006 are as follows:

<u>Years</u>	<u>2007</u>	<u>2006</u>
2007	-	3,778,240,875
2008	54,767,027,321	3,412,955,776
2009	48,288,264,350	3,208,944,509
2010	35,093,325,831	-
Total	138,148,617,502	10,400,141,160
Add residual value	2,153,609,000	50,000,000
Less amounts applicable to interest	16,888,473,943	1,544,091,315
Present value of minimum lease payments	123,413,752,559	8,906,049,845
Current maturities	45,144,609,831	2,993,554,562
Long-term maturities	78,269,142,728	5,912,495,283

a. The Company

In November 2006, the Company entered into finance lease transaction with PT ABN-AMRO Finance Indonesia (AAFI) covering certain transportation equipment units for a total amount of Rp15,180,159,620. The lease period is for 36 months and the Company has an option to purchase the leased assets by payment of the residual value of Rp10 million for each equipment at the end of the lease period.

In December 2006, the Company entered into a sale-and-leaseback transaction with AAFI for the sale-and-leaseback of transportation equipment units for a total leaseback value of Rp3,650,660,000. The lease period is for 36 months and the Company has an option to purchase the leased assets by payment of the residual value of Rp10 million for each equipment at the end of the lease period.

In July 2007, the Company entered into a finance lease transaction with AAFI covering certain transportation equipment units for a total amount of US\$1,580,923 (equivalent to Rp14,761,401,186). The lease period is for 36 months and the Company has an option to purchase the leased assets by payment of the residual value of US\$1,000 for each equipment at the end of the lease period.

In July 2007, the Company entered into a sale-and-leaseback transaction with AAFI for the sale and leaseback of certain machinery and transportation equipment units for a total leaseback value of US\$5,213,754 (equivalent to Rp48,222,913,116). The lease period is for 36 months and the Company has an option to purchase the leased assets by payment of the residual value of US\$1,000 for each equipment at the end of the lease period.

In August 2007 and October 2007, the Company entered into sale-and-leaseback transactions with AAFI for the sale-and-leaseback of certain machinery equipment units for a total leaseback value of Rp220,272,329,907. The lease period is for 36 months and the Company has an option to purchase the leased assets by payment of the residual value of Rp1,000,000,000 for each equipment at the end of the lease period.

Based on the lease agreements, the Company will not sell, assign or transfer any right or obligation under the lease agreements, or any lease created or contemplated therein or any right to the leased assets without AAFI's prior written consent.

The above obligations under capital lease are secured by the related leased assets (Note 8).

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13. OBLIGATIONS UNDER CAPITAL LEASE (Continued)

b. PBI

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.

The obligations under capital lease of PBI are secured by PBI's time deposits amounting to Rp479,000,000 in 2006 which are placed in PT Bank NISP Tbk (presented as part of "Restricted Cash and Time Deposits"), and the related leased assets. Based on the lease agreements, PBI is not permitted to sell or transfer its leased assets to other parties.

The above lease obligations were fully repaid on their due dates.

c. GTM

In October 2007, GTM entered into a finance lease transaction with PT Tifa Finance covering certain machinery and equipment units for a total amount of Rp3,350,000,000. The lease period is for 36 months and GTM has an option to purchase the leased assets by payment of the residual value of Rp350,000,000 for all the equipment units at the end of the lease period.

The above obligations under capital lease are secured by the related leased assets. Based on the lease agreement, GTM is not permitted to sell or transfer its leased assets to other parties.

14. CAPITAL STOCK

The details of share ownership as of December 31, 2007 and 2006 are as follows:

Shareholders	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	803,515,602	21.83	401,757,801,000
Total	3,681,231,699	100.00%	1,840,615,849,500

The Company's shares are listed on the Indonesia Stock Exchange (formerly Jakarta Stock Exchange and Surabaya Stock Exchange).

15. 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.

16. 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.

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17. CASH DIVIDENDS

Based on the minutes of the shareholders' annual general meetings held on May 3, 2007 and June 28, 2006, the shareholders agreed to distribute cash dividends amounting to Rp110,436,950,970 and Rp184,061,584,950 to be taken from the Company's retained earnings as of December 31, 2006 and 2005, respectively. The cash dividends were paid in 2007 and 2006. The unclaimed cash dividends amounting to Rp147,837,509 and Rp108,272,130 as of December 31, 2007 and 2006, respectively, are presented as part of "Other Payables to Third Parties" in the consolidated balance sheets.

18. 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 appropriation of the Company's retained earnings as general reserve during their annual general meetings held on May 3, 2007, 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.

19. SEGMENT INFORMATION

BUSINESS SEGMENTS

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

The main activities of each operating business are as follows:

- Cement : Produce and sell several types of cement
- Ready mix concrete and aggregates quarry : Produce and sell ready mix concrete and aggregates
- Other business : Invest in associated companies

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

<u>2007</u>	<u>Cement</u>	<u>Ready Mix Concrete and Aggregates Quarry*</u>	<u>Other Business</u>	<u>Elimination</u>	<u>Consolidation</u>
REVENUES					
Sales to external customers	7,028,236,045,370	295,407,760,144	-	-	7,323,643,805,514
Inter-segment sales	130,017,831,562	2,075,670,995	-	(132,093,502,557)	-
Total Revenues	7,158,253,876,932	297,483,431,139	-	(132,093,502,557)	7,323,643,805,514
RESULTS					
Segment results	1,433,785,192,831	(16,396,164,880)	-	(11,176,252,645)	1,406,212,775,306
Equity in net earnings of associated companies - net	-	-	11,478,935,011	-	11,478,935,011
Corporate income tax expense					(435,388,328,906)
INCOME BEFORE MINORITY INTEREST					982,303,381,411
MINORITY INTEREST					583,968,274
NET LOSS OF SUBSIDIARY BEFORE ACQUISITION					801,094,815
NET INCOME					983,688,444,500

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19. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

2007	Cement	Ready Mix Concrete and Aggregates Quarry	Other Business	Elimination	Consolidation
ASSETS AND LIABILITIES					
Segment assets	10,356,400,217,054	207,726,610,961	1,107,548,400	(625,970,185,622)	9,939,264,190,793
Long-term investments and advances to associated company - net	-	-	49,897,260,036	-	49,897,260,036
Net deferred tax assets and prepayments of income taxes	15,485,648,942	11,380,429,587	-	-	26,866,078,529
Total Assets	10,371,885,865,996	219,107,040,548	51,004,808,436	(625,970,185,622)	10,016,027,529,358
Segment liabilities	2,950,331,204,790	69,209,923,761	-	(634,298,731,878)	2,385,242,396,673
Net deferred tax liabilities	677,292,357,880	-	-	-	677,292,357,880
Total Liabilities - excluding deferred gain on sale-and-leaseback transactions - net	3,627,623,562,670	69,209,923,761	-	(634,298,731,878)	3,062,534,754,553
Capital expenditures	396,777,562,167	67,567,102,812	-	-	464,344,664,979
Depreciation, amortization and depletion expenses	549,990,339,650	7,898,984,897	-	-	557,889,324,547
Non-cash expenses other than depreciation, amortization and depletion expenses:					
Provision for post-retirement benefits	39,796,660,112	1,355,806,992	-	-	41,152,467,104
Provision for doubtful accounts	-	1,597,242,808	-	-	1,597,242,808
Provision for recultivation	11,037,548,039	-	-	-	11,037,548,039
Provision for healthcare benefits	3,071,751,000	-	-	-	3,071,751,000

* The aggregates quarry business is the business of GTM which was acquired only in 2007.

2006	Cement	Ready Mix Concrete	Other Business	Elimination	Consolidation
REVENUES					
Sales to external customers	6,045,246,775,914	280,082,251,803	-	-	6,325,329,027,717
Inter-segment sales	118,536,077,082	-	-	(118,536,077,082)	-
Total Revenues	6,163,782,852,996	280,082,251,803	-	(118,536,077,082)	6,325,329,027,717
RESULTS					
Segment results	850,986,330,279	1,524,394,701	-	-	852,510,724,980
Equity in net earnings of associated companies - net	-	-	9,686,380,530	-	9,686,380,530
Corporate income tax expense	-	-	-	-	(269,395,088,735)
NET INCOME	-	-	-	-	592,802,016,775
ASSETS AND LIABILITIES					
Segment assets	9,780,996,336,869	129,040,784,143	1,107,548,400	(382,764,380,438)	9,528,380,288,974
Long-term investments and advances to associated company - net	-	-	49,020,750,634	-	49,020,750,634
Net deferred tax assets and prepayments of income taxes	14,921,805,322	5,957,485,812	-	-	20,879,291,134
Total Assets	9,795,918,142,191	134,998,269,955	50,128,299,034	(382,764,380,438)	9,598,280,330,742
Segment liabilities	3,280,959,580,907	58,379,600,799	-	(387,262,628,588)	2,952,076,553,118
Net deferred tax liabilities	606,268,637,255	-	-	-	606,268,637,255
Total Liabilities - excluding deferred gain on sale-and-leaseback transactions - net	3,887,228,218,162	58,379,600,799	-	(387,262,628,588)	3,558,345,190,373

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19. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

<u>2006</u>	<u>Cement</u>	<u>Ready Mix Concrete</u>	<u>Other Business</u>	<u>Elimination</u>	<u>Consolidation</u>
Capital expenditures	386,621,035,655	7,721,110,585	-	-	394,342,146,240
Depreciation, amortization and depletion expenses	507,747,612,480	9,430,884,774	-	-	517,178,497,254
Non-cash expenses other than depreciation, amortization and depletion expenses:					
Provision for post-retirement benefits	30,772,849,680	1,579,721,220	-	-	32,352,570,900
Provisions for doubtful accounts and inventory losses	14,258,869,633	2,663,022,870	-	-	16,921,892,503
Provision for recultivation	6,108,869,043	-	-	-	6,108,869,043
Provision for healthcare benefits	3,394,620,000	-	-	-	3,394,620,000

GEOGRAPHICAL SEGMENTS

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

	<u>2007</u>	<u>2006</u>
REVENUES (based on sales area)		
Domestic		
Java	8,987,423,483,482	8,014,960,420,146
Outside Java	2,497,728,154,762	1,917,958,082,612
Export	995,144,587,894	835,741,067,587
Total	12,480,296,226,138	10,768,659,570,345
Elimination	(5,156,652,420,624)	(4,443,330,542,628)
Net	7,323,643,805,514	6,325,329,027,717
ASSETS (based on location of assets)		
Domestic	9,939,264,190,793	9,528,380,288,974
CAPITAL EXPENDITURE (based on location of assets)		
Domestic	464,344,664,979	394,342,146,240

Export sales were coursed through HCT, a related company which is domiciled in Singapore (Note 24n).

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 2007 and 2006 (Note 24l).

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20. COST OF REVENUES

The details of cost of revenues are as follows:

	2007	2006
Raw materials used	740,055,230,750	682,074,629,173
Direct labor	390,465,275,416	336,884,435,944
Fuel and power	1,961,817,765,774	1,894,949,018,717
Manufacturing overhead	1,078,590,815,178	937,422,881,784
Total Manufacturing Cost	4,170,929,087,118	3,851,330,965,618
Work in Process Inventory		
At beginning of year	113,362,558,381	108,997,225,500
At end of year	(99,827,261,175)	(113,362,558,381)
Cost of Goods Manufactured	4,184,464,384,324	3,846,965,632,737
Finished Goods Inventory		
At beginning of year	66,209,610,931	68,680,550,631
Others	5,244,202,533	1,089,989,504
At end of year	(71,194,385,497)	(66,209,610,931)
Cost of Goods Sold before Packing Cost	4,184,723,812,291	3,850,526,561,941
Packing Cost	385,274,707,009	327,006,956,063
Total Cost of Revenues	4,569,998,519,300	4,177,533,518,004

Liabilities related to manufacturing cost which had been incurred but not yet billed to the Company and Subsidiaries amounting to Rp81,565,953,138 and Rp81,147,578,853 as of December 31, 2007 and 2006, respectively, 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.

21. OPERATING EXPENSES

The details of operating expenses are as follows:

	2007	2006
<u>Delivery and Selling Expenses</u>		
Delivery, loading and transportation	834,464,412,772	766,681,154,927
Salaries, wages and employee benefits (Note 22)	43,660,365,722	38,033,187,047
Advertising and promotion	22,681,276,798	34,750,391,388
Rental	9,400,963,148	9,893,836,323
Taxes and licenses	7,500,881,153	7,346,386,807
Professional fees	7,486,044,408	5,691,238,019
Depreciation	5,669,176,352	5,637,059,656
Research and testing	4,874,412,942	4,733,359,781
Repairs and maintenance	3,606,789,590	3,148,129,810
Electricity and water	2,235,746,070	2,652,014,457
Medical expense	1,561,592,536	1,325,343,464
Spare bags	1,551,917,088	1,454,638,046
Communication	1,215,107,684	1,309,076,980

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21. OPERATING EXPENSES (continued)

	2007	2006
Business travel	1,108,225,195	1,290,593,532
Fuel and transportation	995,589,882	1,002,936,553
Miscellaneous (each below Rp1 billion)	1,301,974,958	2,402,052,153
Total Delivery and Selling Expenses	949,314,476,298	887,351,398,943
<u>General and Administrative Expenses</u>		
Salaries, wages and employee benefits (Note 22)	121,045,299,820	109,847,360,224
Rental	17,256,174,157	19,562,194,887
Donations	8,427,704,903	5,034,795,589
Taxes and licenses	8,278,253,802	1,391,435,497
Depreciation	6,865,485,902	6,453,989,074
Training and seminars	6,739,873,873	7,766,696,020
Repairs and maintenance	6,592,071,882	4,077,250,407
Travelling and transportation	6,127,952,386	5,447,390,846
Professional fees	6,031,278,720	8,295,100,046
Medical	5,663,795,044	5,944,606,363
Communication	4,649,286,735	3,749,049,197
Public relations	4,320,717,721	3,017,732,488
Publications and sponsorships	1,618,747,267	1,512,616,863
Provision for doubtful accounts	1,597,242,808	2,663,022,870
Stationery and office supplies	1,487,482,359	1,090,374,559
Insurance	1,391,910,877	1,624,815,993
Printing and photocopying	1,039,135,415	874,461,333
Miscellaneous (each below Rp1 billion)	10,384,732,562	4,415,321,102
Total General and Administrative Expenses	219,517,146,233	192,768,213,358
Total Operating Expenses	1,168,831,622,531	1,080,119,612,301

22. ESTIMATED LIABILITY FOR EMPLOYEE BENEFITS

a. Retirement Benefits

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. Total contributions paid by the Company to the plan amounted to Rp25.2 billion in 2007 and Rp24.2 billion in 2006, which were charged to operations.

The plan's assets are administered by Dana Pensiun Karyawan Indocement Tunggal Prakarsa, the establishment of which was approved by the Ministry of Finance on November 12, 1991, as amended by Decree No. Kep-332/KM.17/1994 dated December 1, 1994. As of December 31, 2007 and 2006, the Plan assets totaled Rp544.70 billion and Rp481.05 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 their qualified permanent employees for the years ended December 31, 2007 and 2006.

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22. ESTIMATED LIABILITY FOR EMPLOYEE BENEFITS (continued)

a. Retirement Benefits (continued)

The actuarial valuation was determined using the projected-unit-credit method which considered the following assumptions:

	<u>Company</u>	<u>Subsidiaries</u>
Discount rate	10.10% in 2007 and 11% in 2006	10.10% in 2007 and 11% in 2006
Wage and salary increase	8% in 2007 and 9% in 2006	8% in 2007 and 9% in 2006
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	Indonesian Mortality Table 1999 (TMI '99) in 2007 and Commissioners Standard Ordinary 1980 (CSO '80) in 2006	Indonesian Mortality Table 1999 (TMI '99) in 2007 and Commissioners Standard Ordinary 1980 (CSO '80) in 2006
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:

	<u>2007</u>	<u>2006</u>
Current service costs	10,264,755,000	7,149,230,000
Interest costs	18,301,719,000	16,590,033,000
Actuarial loss recognized	1,315,368,000	101,783,000
Amortization of past service costs	7,944,491,104	8,511,524,900
Curtailment or settlement loss	3,326,134,000	-
Total employee benefits expense	41,152,467,104	32,352,570,900

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

	<u>2007</u>	<u>2006</u>
Present value of defined benefit obligation	160,533,914,000	173,307,041,000
Unamortized balance of non-vested past service costs	(76,025,496,000)	(86,763,872,000)
Actuarial loss	(20,229,205,318)	(32,355,945,082)
Liability recognized in the consolidated balance sheets	64,279,212,682	54,187,223,918

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22. ESTIMATED LIABILITY FOR EMPLOYEE BENEFITS (continued)

a. Retirement Benefits (continued)

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

	2007	2006
Balance at beginning of year	54,187,223,918	47,867,513,812
Provision during the year	41,152,467,104	32,352,570,900
Payments during the year	(31,060,478,340)	(26,032,860,794)
Balance at end of year (presented as "Non-current Liabilities - Estimated Liability for Employee Benefits" in the consolidated balance sheets)	64,279,212,682	54,187,223,918

Non-vested past service costs are amortized over the average remaining years of service of active employees, which range from 10 - 18 years in 2007 and from 11 - 18 years in 2006.

b. Post-retirement Healthcare Benefits

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. The Company has appointed PT Watson Wyatt Purbajaga, an independent actuary, to calculate the expected obligations for the post-retirement healthcare benefits for the years ended December 31, 2007 and 2006.

The actuarial valuation was determined using the projected-unit-credit method which considered the following assumptions:

Discount rate	: 10.10% in 2007 and 11.00% in 2006
Claim cost trend	: 8% in 2007 and 2006
Retirement age	: 55 years
Mortality rate	: TMI '99 in 2007 and CSO '80 in 2006
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 post-retirement healthcare benefits recognized in the consolidated statements of income consisted of the following:

	2007	2006
Current service costs	794,664,000	907,127,000
Interest costs	1,617,488,000	1,709,506,000
Actuarial gains	(118,388,000)	-
Vested past service costs and amortization of non-vested past service costs	777,987,000	777,987,000
Total post-retirement healthcare benefits	3,071,751,000	3,394,620,000

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22. ESTIMATED LIABILITY FOR EMPLOYEE BENEFITS (continued)

b. Post-retirement Healthcare Benefits (continued)

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

	<u>2007</u>	<u>2006</u>
Present value of defined benefit obligation	16,248,468,000	14,957,332,000
Unamortized balance of non-vested past service costs	(9,755,954,000)	(10,533,941,000)
Actuarial gains	3,759,523,620	3,134,217,000
Liability recognized in the consolidated balance sheets	<u>10,252,037,620</u>	<u>7,557,608,000</u>

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

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	7,557,608,000	4,409,314,000
Provision during the year	3,071,751,000	3,394,620,000
Payments during the year	(377,321,380)	(246,326,000)
Balance at end of year (presented as "Non-current Liabilities - Estimated Liability for Post-retirement Healthcare Benefits" in the consolidated balance sheets)	<u>10,252,037,620</u>	<u>7,557,608,000</u>

Non-vested past service costs are amortized over the remaining number of years of service of active employees, which is 13.66 years in 2007 and 13.84 years in 2006.

23. 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:

	<u>Amount</u>		<u>Percentage to Total Assets/Liabilities and Related Income/Expenses</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Trade Receivables - Related Party</u>				
HCT Services Asia Pte., Ltd., Singapore	23,265,368,983	35,942,984,396	0.23%	0.37%
<u>Due from Related Parties</u>				
Officers and employees	36,167,583,590	46,600,017,958	0.36%	0.48%
PT Cibinong Center Industrial Estate	2,084,237,026	1,638,320,941	0.02	0.02
HC Trading	-	1,723,607,265	-	0.02
Total	<u>38,251,820,616</u>	<u>49,961,946,164</u>	<u>0.38%</u>	<u>0.52%</u>

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23. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities and Related Income/Expenses	
	2007	2006	2007	2006
<u>Long-term Investments in Associated Companies</u>				
PT Cibinong Center Industrial Estate	22,728,872,859	19,815,437,855	0.23%	0.21%
Stillwater Shipping Corporation	18,238,490,069	21,215,648,850	0.18	0.22
PT Pama Indo Mining	8,891,747,108	7,951,513,929	0.09	0.08
Total	49,859,110,036	48,982,600,634	0.50%	0.51%
<u>Due to Related Parties</u>				
PT Pama Indo Mining	8,174,008,928	5,482,141,192	0.27%	0.15%
Others	373,024,488	-	0.01	-
Total	8,547,033,416	5,482,141,192	0.28%	0.15%
<u>Long-term Loans</u>				
HC Finance B.V., Netherlands	1,412,850,000,000	1,353,000,000,000	46.04%	37.95%
<u>Net Revenues</u>				
HCT Services Asia Pte., Ltd., Singapore	995,144,587,894	835,741,067,587	13.59%	13.21%
<u>Cost of Revenues</u>				
PT Pama Indo Mining	45,121,304,689	41,346,764,287	0.99%	0.99%
HCT Services Asia Pte., Ltd., Singapore	16,294,969,180	16,261,776,700	0.36	0.39
HeidelbergCement Technology Center GmbH	9,040,854,774	5,401,699,914	0.20	0.13
Total	70,457,128,643	63,010,240,901	1.55%	1.51%
<u>Operating Expenses</u>				
PT Bahana Indonor (Note 24h)	20,159,103,999	7,992,365,000	1.72%	0.74%
Stillwater Shipping Corporation (Note 24h)	1,307,781,450	17,351,864,000	0.11	1.61
HeidelbergCement Fuels	536,410,437	554,583,332	0.05	0.05
PT Cibinong Center Industrial Estate	222,709,792	437,700,096	0.02	0.04
HeidelbergCement Technology Center GmbH	-	757,899,252	-	0.07
Total	22,226,005,678	27,094,411,680	1.90%	2.51%
<u>Other Income (Expenses)</u>				
PT Cibinong Center Industrial Estate	7,124,785,901	3,846,923,926	3.99%	1.79%
HC Finance B.V., Netherlands	(89,922,326,176)	(91,654,070,482)	(50.35)	(42.60)
HeidelbergCement AG	(1,428,769,960)	(2,038,393,265)	(0.80)	(0.95)
Net	(84,226,310,235)	(89,845,539,821)	(47.16%)	(41.76%)

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

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.	HeidelbergCement AG	Shareholder	Guarantee fee
2.	HCT Services Asia Pte., Ltd., Singapore	Under common control	Sale of finished goods and purchase of raw materials
3.	HC Finance B.V., Netherlands	Under common control	Long-term loan
4.	HeidelbergCement Technology Center GmbH	Under common control	Professional fee
5.	Heidelberg Cement Fuels	Under common control	Professional fee
6.	PT Cibinong Center Industrial Estate	Associated company	Warehouse rental and sale of water and electricity

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23. TRANSACTIONS AND ACCOUNTS WITH RELATED PARTIES (continued)

No.	Related Parties	Nature of Relationship	Type of Transaction
7.	Stillwater Shipping Corporation	Associated company	Transportation fee
8.	PT Pama Indo Mining	Associated company	Mining service fee
9.	PT Bahana Indonor	Associated company	Transportation
10.	Officers and employees	Employees	Loan

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 shareholders' equity based on the latest audited consolidated financial statements.

In the EGMS held on March 29, 2006, the independent shareholders approved the proposals to add 1 (one) affiliated company, namely Scancem Energy and Recovery AB (SEAR), as a new party for recurring transactions. SEAR is a company doing business in consultancy and management services, particularly on alternative energy technology. 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 shareholders' equity based on the latest audited consolidated financial statements.

24. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES

- a. On December 18, 2007, the Company entered into a "Conditional Sale and Purchase Agreement and Assignment Right on the Assets" (Agreement) with PT Handi Perkasa (HP), whereby the Company agreed to purchase the aggregates quarry owned by HP located in West Java, covering a total area of not less than 125 hectares; local mining rights, mining license, land-use permit and other related rights over the above land; buildings and infrastructures; and machineries, as described in the Agreement.

As of December 31, 2007, the Company has paid the down payment amounting to US\$1,250,000, which is recorded and presented as part of "Advances and Deposits" in the 2007 consolidated balance sheet. Final acquisition amount and other term of payments are subject to certain terms and conditions to be fulfilled by HP.

- b. In relation to the Company's coal grinding project in Citeureup Plantsite, on December 13, 2007, the Company and Polysius AG, Germany, signed a Letter of Intent for the supply of equipment and engineering services for a total contract amount of EUR2,765,000, and supervisory services in the erection, installation, commissioning and testing of the equipment supplied for a total contract amount of approximately EUR282,000. As of December 31, 2007, the coal grinding project is in the initial commissioning stage.
- c. In relation to the Company's clinker grinding project in Cirebon Plantsite, on December 6, 2007, the Company and Heibei Provincial Jidong Cement Group Ltd., China, signed a contract for the supply of equipment and engineering services for a total contract amount of US\$9,978,284, and a contract for supervisory services in the erection and commissioning of the equipment for a total contract amount of approximately US\$399,300. As of December 31, 2007, the clinker grinding project is in the initial commissioning stage.

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24. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- d. On July 21, 2006, the Company and PT Drymix Indonesia (DI) entered into a cooperation agreement for producing skim coat mortar. Based on this agreement, the Company will modify its existing Plant 6 at its own cost for the manufacture of white skim coat products with monitoring and approval from DI, while DI shall provide the chemical formula and sell the products in the domestic market. This agreement is valid for six (6) years commencing from the date of the first commercial production of the products. The Company will receive manufacturing fee, investment fee and commission fee as compensation as defined in the agreement.

On July 9, 2007, both parties signed a statement of commencement of commercial production of skim coat mortar. Total manufacturing fee, investment fee and commission fee received under the agreement in 2007 amounted to Rp51,686,040, Rp30,765,500 and Rp16,236,000, respectively, and are recorded as part of "Other Income (Expenses) - Others - Net" in the 2007 consolidated statement of income.

- e. The Company and PT Indomix Perkasa (a Subsidiary) have entered into a conditional sale and purchase of shares agreement with Justinus Heru Tanaka and Ari Tejo Wibowo, for the latter two persons to sell their 250 shares representing 100% ownership of PT Sahabat Muliasakti (SMS) for a total purchase price of Rp1,800,000,000. The agreement was signed on July 24, 2006, but its effectivity is conditional upon the fulfillment of the conditions stated in the agreement, which include, among others, obtaining the mining license for SMS.

As of December 31, 2007, certain conditions stated above have not yet been fulfilled. Therefore, the Company recorded the amount paid for the conditional purchase of the shares as part of "Advances and Deposits" in the consolidated balance sheets.

- f. On July 12, 2006, the Company entered into a spare parts purchase contract with S.E.M.T. Pielstick for the conversion of two (2) power plant engines in the Company's Citeureup plant from Heavy Fuel Oil (HFO) operation to gas operation. The total value of this contract amounted to EUR3,286,642. In relation to this contract, on the same date, the Company entered into a technical assistance contract with Centrales Diesel Export, a wholly-owned subsidiary of S.E.M.T. Pielstick, for a contract amount of EUR144,000. As of December 31, 2007, one engine is still in the finishing stage, and the other will be initiated in 2008.
- g. 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 consumed natural gas 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.

Total purchases of natural gas from RGM amounted to US\$1,054,838 (equivalent to Rp9,678,303,447) in 2007 and US\$1,040,290 (equivalent to Rp9,506,958,344) in 2006, while total transportation fee incurred amounted to US\$291,764 (equivalent to Rp2,676,977,503) in 2007 and US\$287,740 (equivalent to Rp2,631,457,343) in 2006.

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24. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- h. The Company has signed vessel charter agreements with Stillwater Shipping Corporation, Liberia, an associated company, 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 by Stillwater Shipping Corporation to PT Bahana Indonor, an Indonesian company acquired by Stillwater Shipping Corporation in 2006. 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 (Note 23).
- i. 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.
- j. 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 undertake 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 (Blended Cement Project)
- Use of alternative fuels in clinker burning (Alternative Fuel Project).

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 price as stipulated in the Agreement.

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 has already been effective since the following conditions precedent had been fulfilled:

- Indonesia has ratified the Kyoto Protocol on July 28, 2004.
- Receipt by the Trustee of a Letter of Approval for the Project on December 23, 2005, 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.

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24. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

The two components of the Project (Blended Cement Project and Alternative Fuel Project) have been registered with the UNFCCC on October 27, 2006 and September 29, 2006, respectively. Verification of Certified Emission Reduction (CER's) for the years 2006 and 2005 had been finalized by the designated operational entity TUEV SUED, Germany. As of February 11, 2008, such verifications of CER's have been submitted to the UNFCCC for its final approval.

- k. The Company has 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 Rp49,483,593,348 and Rp34,199,054,169 as of December 31, 2007 and 2006, respectively, are presented as part of "Other Payables to Third Parties" in the consolidated balance sheets.
- l. 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 in 2007 and 2006 are as follows:

	2007	2006
PT Bangunsukses Niagatama Nusantara	651,364,364,765	555,845,002,649
PT Royal Inti Mandiri Abadi	449,642,530,242	414,139,420,001
PT Primasindo Cipta Sarana	445,696,979,370	338,132,751,835
PT Intimegah Mitra Sejahtera	422,924,358,968	354,825,827,695
PT Samudera Tunggal Utama	390,172,906,751	351,468,194,867
PT Saka Agung Abadi	361,093,348,856	297,235,327,604
PT Adikarya Maju Bersama	353,379,176,127	299,913,633,140
PT Kirana Semesta Niaga	321,513,291,450	269,218,603,388
PT Kharisma Mulia Abadijaya	313,953,337,600	277,533,931,172
PT Nusa Makmur Perdana	309,828,717,450	296,468,794,190
PT Citrabaru Mitra Perkasa	289,666,525,600	225,456,596,872
PT Angkasa Indah Mitra	281,648,714,800	236,560,550,372
PT Sumber Abadi Sukses	248,271,287,600	242,779,169,932
PT Cipta Pratama Karyamandiri	235,542,423,510	221,414,042,195
Total	5,074,697,963,089	4,380,991,845,912

The total outstanding receivables from these sub-distributors amounting to Rp538,940,500,600 and Rp388,934,108,786 as of December 31, 2007 and 2006, respectively, are presented as part of "Trade Receivables - Third Parties" in the consolidated balance sheets.

- m. 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. The agreements will expire on November 16, 2009. Rental expenses charged to current operations amounted to Rp10,503,584,611 in 2007 and Rp11,069,679,151 in 2006.

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24. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

n. 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 (Note 19):

- HCT Services Asia Pte., Ltd. (HCT) will act as the Company's exclusive export distributor.
- The Company shall invoice HCT a net price equivalent to the U.S. dollar FOB sales price invoiced by HCT to its customers, less discount of:
 - 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 amounted to approximately US\$4.1 million in 2007 and US\$3.6 million in 2006.

o. 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 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\$1,772,095 in 2007 and US\$1,597,630 in 2006.

p. 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. This agreement will expire in 2014. Total purchases of natural gas from PERTAMINA amounted to Rp107,254,739,416 in 2007 and Rp102,065,807,916 in 2006.

q. 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 and will follow terms and conditions as governed in amendments to the agreement to be made from time to time.

Total electricity purchased under the agreements amounted to Rp354 billion in 2007 and Rp353 billion in 2006.

r. 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.

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24. SIGNIFICANT AGREEMENTS, COMMITMENTS AND CONTINGENCIES (continued)

- s. 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 Rp28,252,796,827 and Rp17,843,913,938 as of December 31, 2007 and 2006, respectively, which is presented as part of "Non-current Liabilities - Provision for Recultivation" in the consolidated balance sheets.

25. 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 December 31, 2007, the Company has outstanding derivative instruments as follows:

a. Cross Currency Interest Rate Swap

On March 8, 2005, the Company has entered into a Cross Currency Interest Rate Swap (CCIRS) transaction with Standard Chartered Bank, Jakarta Branch (SCB) to hedge its US\$150 million debt to HC Finance B.V. Under the CCIRS, the Company will purchase U.S. dollars with a notional amount of US\$150 million from SCB on March 8, 2009 (maturity date) for a fixed exchange rate of Rp9,358 to US\$1. Also, SCB will pay the Company quarterly interest in U.S. dollars computed at the rate of 3 Months' LIBOR + 1.80% per annum in exchange for the Company paying quarterly interest to the SCB in rupiah computed 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. Based on an amendment to the CCIRS dated August 10, 2006, effective July 20, 2006, the quarterly interest to be paid by SCB to the Company will be at the rate of 3 Months' LIBOR + 1.15% per annum, while the interest to be paid by the Company to SCB will be at the rate of 3 Months' SBI + 1.33% per annum. As of December 31, 2007 and 2006, the Company recognized the net liability on the CCIRS contract at fair value of Rp23,179,198,262 and Rp75,939,001,160, respectively, which is presented as "Long-term Derivative Liability" in the consolidated balance sheets.

The CCIRS instrument can not be designated as a hedge for accounting purposes and accordingly, the gain (loss) arising from the changes in the fair value of the CCIRS amounting to Rp52,759,802,898 in 2007 and (Rp160,110,509,270) in 2006, is presented as part of "Foreign Exchange Gain (Loss) - Net" in the consolidated statements of income.

- b. Forward exchange contract with Standard Chartered Bank, Jakarta Branch entered into on May 22, 2007, with notional amount of US\$500,000 which will mature on January 10, 2008 at the fixed exchange rate of Rp8,835 for every US\$1.

As of December 31, 2007, the Company recognized the net asset on the above derivative instrument at fair value of Rp279,357,650, which is presented as "Derivative Asset" in the 2007 consolidated balance sheet.

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25. DERIVATIVE INSTRUMENTS (continued)

The above derivative instrument can not be designated as hedge for accounting purposes and accordingly, the change in the fair value of such instrument is recorded directly to earnings.

The net gain arising from the derivative transactions in 2007 amounting to Rp370,622,763 is presented as part of "Foreign Exchange Gain (Loss) - Net" in the 2007 consolidated statement of income. The net loss arising from the derivative transactions in 2006 amounting to Rp43,433,189,826 is presented as part of "Foreign Exchange Gain (Loss) - Net" in the 2006 consolidated statement of income.

26. LITIGATION

On February 24, 2004, Ati binti Sadim dkk ("Plaintiffs"), who represented themselves as the heirs of the owners of land properties with a total 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 properties with a total area of approximately 934,111 square meters of 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 of February 11, 2008, the Supreme Court has not rendered its decision on the case.

27. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

The following summarizes the revised Statements of Financial Accounting Standards (PSAK) which were recently issued by the Indonesian Institute of Accountants:

- a. PSAK No. 50 (Revised 2006), "Financial Instruments: Presentation and Disclosures", contains the requirements for the presentation of financial instruments and identifies the information that should be disclosed. The presentation requirements apply to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interests, dividends, losses and gains; and the circumstances in which financial assets and financial liabilities should be offset. This standard requires the disclosure of, among others, information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies applied to those instruments. PSAK No. 50 (Revised 2006) supersedes PSAK No. 50, "Accounting for Certain Investments in Securities", and is applied prospectively for the periods beginning on or after January 1, 2009. Earlier application is permitted and should be disclosed.

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27. REVISED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS (continued)

- b. PSAK No. 55 (Revised 2006), "Financial Instruments: Recognition and Measurement", establishes the principles for recognizing and measuring financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard provides for the definitions and characteristics of a derivative, the categories of financial instruments, recognition and measurement, hedge accounting and determination of hedging relationships, among others. PSAK No. 55 (Revised 2006) supersedes PSAK No. 55, "Accounting for Derivative Instruments and Hedging Activities", and is applied prospectively for financial statements covering the periods beginning on or after January 1, 2009. Earlier application is permitted and should be disclosed.
- c. PSAK No. 16 (Revised 2007), "Fixed Assets", prescribes the accounting treatment for property, plant and equipment to enable the financial statements users to discern information about an entity's investment in its property, plant and equipment and the changes in such investment. This standard provides for, among others, the recognition of the assets, determination of their carrying amounts and related depreciation and impairment losses. Under this standard, an entity shall choose between the cost model or revaluation model as the accounting policy for its property, plant and equipment. This revised standard supersedes PSAK No. 16 (1994), "Fixed Assets and Other Assets", and PSAK No. 17 (1994), "Accounting for Depreciation", and is effective for the preparation and presentation of financial statements beginning on or after January 1, 2008.
- d. PSAK No. 30 (Revised 2007), "Leases", prescribes for lessees and lessors, the appropriate accounting policies and disclosure to apply in relation to leases. This standard provides for the classification of leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee, and the substance of the transaction rather than the form of the contract. This revised standard supersedes PSAK No. 30 (1990), "Accounting for Leases", and is effective for financial statements beginning on or after January 1, 2008.
- e. PSAK No. 13 (Revised 2007), "Investment Property", shall be applied in the recognition, measurement and disclosure of investment property. Among others, this standard applies to the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease and to the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease. This standard permits the entity to choose between the cost model and fair value model to all its investment property. This revised standard supersedes PSAK No. 13 (1994), "Accounting for Investments", and is effective for financial statements covering the periods beginning on or after January 1, 2008.

The Company and Subsidiaries are presently evaluating and has not determined the effects of the above revised PSAKs "a"- "d" on the consolidated financial statements. The Company and Subsidiaries, however, believe that there will be no significant effects of revised PSAK "e" on the consolidated financial statements.

28. ECONOMIC CONDITIONS

The operations of the Company and its Subsidiaries may be affected by future economic conditions in Indonesia that may contribute to volatility in currency values, and increase in coal and fuel prices that is related to increase in world crude oil price, and negatively impact economic growth. Economic improvements and sustained recovery are dependent upon several factors, such as fiscal and monetary actions being undertaken by the Government and others, actions that are beyond the control of the Company and its Subsidiaries.

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29. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

As of December 31, 2007, the Company and Subsidiaries have monetary assets and liabilities denominated in foreign currencies as follows:

	Foreign Currency	Equivalent in Rupiah	
		December 31, 2007 (Balance Sheet Date)	February 11, 2008 (Auditors' Report Date)
Assets			
Related parties	US\$ 2,470,047	23,265,368,983	22,825,700,687
Third parties	US\$ 4,714,786	44,408,570,841	43,569,338,905
	EUR 476,800	6,560,654,944	6,401,642,111
	JP¥ 9,215,014	766,347,270	792,959,769
Total		75,000,942,038	73,589,641,472
Liabilities			
Related parties	US\$ 152,231,404	1,433,867,595,783	1,406,770,405,843
	JP¥ 326,244	27,100,241	28,073,574
Third parties	US\$ 5,158,112	48,584,253,473	47,666,109,603
	EUR 2,273,169	31,278,256,715	30,520,154,930
	JP¥ 9,674,320	803,549,027	832,483,467
Total		1,514,560,755,239	1,485,817,227,417
Net liabilities		1,439,559,813,201	1,412,227,585,945

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

Foreign Currency	December 31, 2007	February 11, 2008
Euro (EUR1)	13,759.76	13,426.26
U.S. dollar (US\$1)	9,419.00	9,241.00
Japanese yen (JP¥100)	8,306.74	8,605.09

Had the assets and liabilities denominated in foreign currencies as of December 31, 2007 been reflected using the above middle rates of exchange as of February 11, 2008, the net foreign currency denominated liabilities, as presented above, would have decreased by approximately Rp27.33 billion in terms of rupiah (before considering the fair value of derivative instruments).

30. COMPLETION OF THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation of the consolidated financial statements that were completed on February 11, 2008.