

IX. LINES OF BUSINESS AND PROSPECTS

1. GENERAL REVIEW

From its inception, the Company has been active in trading, and throughout its history it has acted as holding company for various Subsidiaries. As of the date of publication, the Company owns 26 Subsidiaries whose lines of business can be grouped into seven general divisions: media & broadcasting, telecommunications, infrastructure, transportation & automotives, chemicals, hotels & property and financial services & investments.

Supported by its financial, technological and human resources, the Company has applied a dynamic business strategy to keep abreast of current developments. It has selectively invested in high-potential businesses, poised to become leading, profitable enterprises in the future. These investments also contribute their part to Indonesia's economic development and the improved prosperity of society.

2. LINES OF BUSINESS

At first, active in trading, the Company engaged in exports and imports according to orders placed. During the growth that followed, the Company invested its capital in a diverse range of enterprises, and now provides direct and indirect supervision and guidance to its Subsidiaries. The Company also provides management and operational support to these Subsidiaries and affiliates. Thus, aside from dividends received from Subsidiaries, the Company also earns revenues from trading, and fees for services and support provided to its Subsidiaries and affiliates.

The Company also holds rights to manage and re-lease an office building located at Jl. Kebon Sirih No. 17-19, Central Jakarta.

The following table displays Company operating revenues from 1990 up to 1994.

Operating Revenues: 1990-1994

(in thousands of rupiahs)

	1990	1991	1992	1993	1994
Dividend income *	2,054,000	3,210,960	7,297,531	7,953,580	10,277,494
Revenues **	3,527,369	13,433,551	26,327,956	25,892,329	18,938,672
Total	5,581,369	16,644,511	33,625,487	33,845,909	29,218,166

* Dividend income from Subsidiaries whose stock is less than 20% owned by the Company

** Revenues from Company activities, excluding dividends or profit share from Subsidiaries

The Company's equity participation is in companies established to develop lines of business still new to the Indonesian private sector, and in this the Company has involved itself in such pioneering ventures as:

- ✎ media and broadcasting via PT Rajawali Citra Televisi Indonesia, the first private television broadcasting station in Indonesia,
- ✎ telecommunications under the auspices of PT Pasifik Satelit Nusantara (a subsidiary of PT Elektrindo Nusantara), the first private company in Indonesia to own and operate satellites,

- ✧ infrastructure development through PT Trans Javagas Pipeline, which provides natural gas pipeline systems; PT Trihasra Bimanusa Tunggal that constructs oil pipeline systems; and PT Prasadha Pamunah Limbah Industri (a subsidiary of PT Aqualindo Mitra Industri), active in the treatment of industrial waste.

The Company has teams of experienced professional executives assigned with the tasks of managing and developing these high-potential, pioneering ventures.

In addition, the Company has invested in a number of industrial enterprises operating in strategic areas of the economy, and with strong prospects in Indonesia.

The following profiles outline the operations and lines of business of the Subsidiaries:

2.1 MEDIA AND BROADCASTING DIVISION

In this day and age, information can be transmitted by a number of media, like newspapers, radio and television. Television is an effective information medium, and has undergone rapid growth in recent years. By way of PT Rajawali Citra Televisi Indonesia, the Company became the first private television broadcasting enterprise in Indonesia.

The following presents the main activities of PT Rajawali Citra Televisi Indonesia:

PT RAJAWALI CITRA TELEVISI INDONESIA (RCTI)

RCTI is the pioneer private television broadcaster in Indonesia; as a Subsidiary, it is 69.82% owned by the Company. RCTI's success story began when it was first permitted to broadcast, initially using decoders, in 1989. To broaden its transmission range, in 1991 RCTI obtained permission to use the Palapa B2P domestic satellite, and aided by 18 relay stations serving the cities and surrounding areas of Medan, Batam, Palembang, Bandung, Semarang, Solo, Yogyakarta, Surabaya, Malang, Denpasar, Pontianak, Balikpapan, Banjarmasin, Manado, Ujung Pandang, Kupang, Ambon and Jayapura, RCTI broadcasting now covers virtually all of Indonesia.

RCTI is currently extending its network of relay stations, and Padang, Pekanbaru, Lampung, Cilegon, Cirebon, Garut, Pekalongan, Purwokerto, Kediri, Samarinda and Palu should come on line by the end of 1995. Slated for 1996 are further relay stations in Banda Aceh, Jambi, Bengkulu, Jember, Palangkaraya, Mataram and Kendari. Besides those additional relay stations, RCTI plans shortly to boost transmission power at its stations in Medan, Jakarta, Bandung, Semarang and Surabaya.

The relay stations in Medan, Batam, Palembang, Semarang, Solo, Yogyakarta, Malang, Manado and Ujung Pandang are the result of cooperation between RCTI and PT Surya Citra Televisi (SCTV). Under the terms of this cooperation, RCTI and SCTV jointly bear the costs of station construction, and then share the facilities—at a considerable saving of investment capital and operational cost to both parties.

Programming presented by RCTI includes news and government, entertainment, sports, education, religion, culture, business and teletext information broadcasting. RCTI also cooperates with Malaysian state television—TV3—primarily in producing religious broadcasts, cinetrons (television drama and soap operas) and quiz shows.

RCTI maintains a balance between local and imported programming, local productions accounting for fully 47% of programmes aired in 1994. For the future, RCTI plans a steady increase in locally produced content, to 80% by the year 2000. This must be done gradually, since production costs far outweigh the cost of simply importing finished products. To this end, in addition to expanding its own production facilities, RCTI is currently pioneering joint production efforts with several production houses to create quality local content. The national cultural content of these locally produced shows is well able to win the hearts of Indonesian viewers.

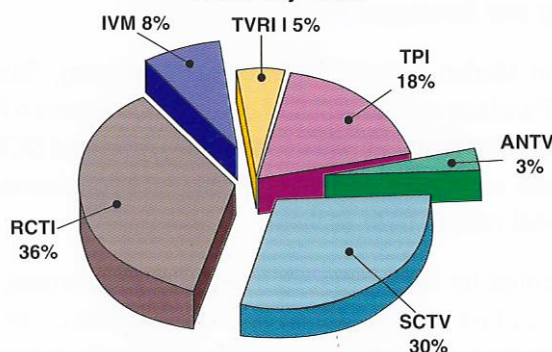
In programming, RCTI has a Programming Committee with personnel drawn from the programming, marketing, sales and business development divisions. This committee analyses viewer response to current programming, and the findings are used as a guide in planning future programming.

According to a top ten rating survey conducted by Survey Research Indonesia over the first three months of 1995 (January-March), the programmes aired by RCTI enjoyed the highest ratings, as detailed in the following table:

Top Ten Television Programmes In Indonesia (January - March 1995)			
Ranking	Programme	TV Network	TV Rating
1	Si Doel Anak Sekolahan	RCTI	53
2	Kanan Kiri Oke	RCTI	37
3	White Snake Legend	SCTV	37
4	Bella Vista	RCTI	35
5	Pendekar Ulat Sutra	SCTV	33
6	Tak Tik Boom	RCTI	32
7	Born to Defence	RCTI	29
8	Death Warrant	RCTI	28
9	Gara-Gara	RCTI	28
10	Untukmu Segalanya	RCTI	28

With RCTI's attractive programming choices, broadcasting time already averaging 20 hours/day, together with a broad network, Survey Research Indonesia determined that for February 1995, RCTI attracted the largest percentage of television viewers of any Indonesian network—private or government.

**Indonesian Television Viewer Network Preference:
February 1995**



Note: Televisi Pendidikan Indonesia (TPI), Surya Citra Televisi (SCTV), Anteve (ANTV) and Indosiar Visual Mandiri (IVM) are private television stations in Indonesia other than RCTI.

With such impressive performance, RCTI aims to attract corporations wanting to promote their products through television advertising. In line with RCTI's extended broadcasting hours, the number of advertising spots is also on the increase as shown in the table below:

**Advertising Time: Available and Realised
1992-1994**

Year	Total Broadcasting Hours per Year	Available Advertising Time per Year		Realised Advertising Time per Year	
		Hours	(%)	Hours	(%)
1992	4,144.40	828.88	20.00	569.50	68.71
1993	5,008.00	1,001.60	20.00	596.90	59.59
1994	6,854.00	1,370.80	20.00	646.00	47.12

Source : RCTI data

Since approximately 90% of RCTI revenue comes from advertising sales, the considerable leeway to boost the number of used advertising spots, as made clear in the above table, allows RCTI room for substantial improvement in overall business performance. The following table presents a breakdown of RCTI revenues from 1990 to 1994 :

**RCTI Operating Revenues:
1990 - 1994**

Year	Advertising Revenues	Growth %	Non-advertising Revenues	Growth %	Total Revenues	Growth %
1990	27,588,860	-	20,212,287	-	48,801,147	-
1991	76,661,082	177.87	2,792,436	(86.18)	79,453,518	66.22
1992	105,955,553	38.21	1,625,489	(41.79)	107,581,042	35.40
1993	157,450,268	48.60	2,450,416	50.75	159,900,684	48.63
1994	226,703,122	43.98	2,166,555	(11.58)	228,869,677	43.13

(in thousands of rupiahs)

For 1994, television advertising expenditures in Indonesia are estimated to have totalled Rp 816 billion (source: PPPI-Media Scene 1993-1994). Of that, approximately 20% was absorbed by advertising agents, 15% went for advertising/spot bonuses and miscellaneous expenditures, leaving only approximately Rp 530 billion, or 65% of total advertising expenditures for the private television networks. Estimated from total RCTI advertising income in 1994, RCTI's market share is approximately 40% of total Indonesian television advertising (source: adapted from PPPI-Media Scene 1993-1994 data, and the 1994 RCTI Financial Statement).

To maintain and increase its market share, the Strategic Planning Marketing Team (SPMT) analyses RCTI's current market share and plans how RCTI can penetrate new segments of the market.

RCTI also applies the service excellence system, a computerised service designed to meet the needs of its advertising clients. This integrated service enables RCTI to:

- ❑ receive and confirm orders from advertisers quickly and efficiently
- ❑ reschedule advertising broadcasts delayed or interrupted because of technical difficulties, for re-airing at no additional charge
- ❑ assist in arranging advertising campaigns for various products, in line with client needs and budgets
- ❑ make no charge for programmes or advertisements pre-empted for airing of Special Reports.

2.2 TELECOMMUNICATIONS DIVISION

In this era of globalisation, telecommunications services—like telephone and fax—which can transfer information quickly and accurately are gaining increasing importance in supporting accelerating industrial growth. To speed up telecommunications, primarily between the regions of Indonesia, the government is steadily increasing the number of available telephone lines and improving available communication technology. To contribute to this burgeoning nation-wide development, the Company has expanded its operations to include telecommunications since 1986.

The following outlines the Company Subsidiaries operating in telecommunications:

2.2.1 PT Bimagraha Telekomindo (BGT)

The Company's equity participation in BGT (formerly PT Artha Jakarta Makmur) amounts to 20%. BGT, as stipulated in its Articles of Association, provides telecommunications services, satellite operations and support services. BGT currently has a 45% share in PT Satelit Palapa Indonesia (Satelindo), also a telecommunications company.

Satelindo's diverse ventures can be summarised as follows:

Satelindo

Satelindo is controlled by four partners who own, as of the date of publication, the following portions of its stock: BGT 45%, Telkom 22.5%, Indosat 7.5% and Deutsche Telekom AG 25%. Satelindo was established to meet Indonesia's mounting telecommunications needs, and in 1994 it was still in a pre-operational phase, commencing commercial operations only at the beginning of 1995. Satelindo aims to provide an integrated one-stop service for all a customer's satellite telecommunications needs—national, regional or local. Satelindo's operations can be broken down into three main areas:

1. Satellite Telecommunications Services

Satelindo will shortly bring the Palapa C1 and Palapa C2 satellites into operation, replacing Palapa B2P and B2R that will end their operational lives in 1995 and mid 1996. Satelindo will operate these units via a Main Control Unit in Jalan Daan Mogot, West Jakarta. The Main Control Unit is still under construction, with completion slated for mid 1995.

The costs of bringing Palapa C1 and C2 into operation are borne by Satelindo in conjunction with PT Pasifik Satelit Nusantara (PSN), costs being divided in proportion to the number of transponders owned by each company: Satelindo—56 and PSN—12 units.

The second generation Palapa C satellites together have a 68 transponder capacity (34 transponders each). Their footprints take in the Asia-Pacific region (ASEAN, China, Korea, Japan, India, New Zealand and Australia) and have been prepared specifically to support broadcasting services in that region. For flexibility, the Palapa C units have two beams covering Northern and Southern Asia, and those two beams can be used as alternates (switches) by 12 of the Palapa C transponders.

The Palapa C1 unit will replace Palapa B2P. With B2P operation soon to cease, several parties currently leasing B2P transponders, the American TV broadcasters CNN, HBO, TNT & Cartoon, ESPN and Viacom, have already expressed their interest in leasing transponders on the new Palapa C1 satellite (source: *Bisnis Indonesia*, 25th March 1995).

In leasing its transponders, Satelindo's competitors are Intelsat's Panamsat-2 and -4, Jcsat and Asiasat units. Nevertheless Satelindo remains confident that it will maintain its current market share because Palapa C1 already has its own market niche.

Satelindo also offers satellite launch support, and derivative services with leased circuits that provide: point to point, point to multipoint and close user group communications; uplinking TV and communication engineering.

2. Cellular Telecommunications Services

Satelindo now also offers cellular telecommunications services to position itself to take advantage of the growing demand for these services. In early November 1994, Satelindo began marketing 30,000 cellular connections by offering SIM cards using GSM technology. Compared to earlier-generation cellular communications available in Indonesia, GSM digital technology offers greater capacity and quality, yielding both improved security and higher quality voice transmission.

In marketing, Satelindo has targeted highly mobile business clients, who use cellular telecommunications as a key business tool. Satelindo's flexible marketing system makes it easy for potential subscribers to obtain and process application forms—often in only a day. After paying a connection fee, the new subscriber can immediately install the SIM card in the out station of his choice, whether Philips, Nokia, Ericsson, Siemens, Alcatel or Motorola. Apart from one-day application processing, Satelindo has also set up a Customer Care Department, which pro-actively seeks solutions to subscriber problems.

3. International Telecommunications Services

In October 1994 Satelindo introduced its own International Direct Dial (IDD) service to Indonesian consumers. Now international callers can choose between Indosat's 001 access code, or Satelindo's 008 code for their direct dial international telecommunication needs.

As regards international telecommunication services, Satelindo is supported by cutting edge, digital technology. This technology is employed at: Central Telecommunication International Gateways, earth stations which can be linked with Intelsat satellites over the Pacific and Indian Oceans; fibre optic marine cables interconnected with other marine cable networks like those of APC and NPC; digital microwave transmission; and fibre optic communications integrating Satelindo's international network with Telkom's domestic network. With all this sophisticated support, IDD as offered by Satelindo offers high peak-hour capacity.

As well as the successful Home Country Direct service, soon to be available are International Toll Free and prepaid calling, credit calling cards, leased circuits and occasional use TV broadcasting.

In Indonesia, only Indosat and Satelindo have been licensed to provide IDD service. In the Decree of the Minister of Tourism, Post and Telecommunications Decree, KU.208/134/22/MPPT-94, dated 30th June 1994, it was stressed that for the next ten years the government will issue no further permits to companies active in basic international telecommunications. Satelindo as the newcomer to the marketplace will strive to make all Indonesian IDD users familiar with its 008 access code, and win market share by putting customer needs first.

2.2.2. PT Elektrindo Nusantara (EN)

EN is 51% owned by the company. EN itself is a holding company for a number of other telecommunications players: 23.08% of PT Pasifik Satelit Nusantara, 25% of PT NEC Nusantara Communication, 10% of PT Alcatel Enkomindo, 51% of Nusantara Submarine Cable Service and 65% of PT Komselindo.

At first, EN was the sole distributor of earth station equipment manufactured by Hughes Aircraft. With the closing of the earth station division by Hughes, EN acquired the technology and took over production of this equipment, which uses the Single Carrier Per Channel (SCPC) system. To back up its manufacturing activities, EN technical staff are specially trained, both in Indonesia and abroad, to ensure that they are able to produce according to customer needs.

Following training as well as extensive field experience, EN was able to design, construct and install a comprehensive DAMA system for on-demand satellite access, including a master control station in Cibinong. This master control station can serve 2,500 earth stations, working with 14,000 SCPC modems. Under contract by Telkom, EN is also constructing small, SBK-100 small earth stations at seventeen locations in eastern Indonesia.

Based on its experience in constructing those small earth stations, EN is embarking on the development of several types of earth station equipment of its own, including SCPC modems, up and down converters, DARC's and echo cancellers.

These echo cancellers are used to eliminate echo interference and improve signal quality, especially on long-distance transmissions. So far, EN has installed 7,500 echo cancellers on earth stations owned by PT Telkom.

To realise its mission to participate in national telecommunication development by technological mastery, EN initially cooperated with Sattel Technology, US, in developing small analogue telephone exchanges. At a later, more sophisticated stage of technological mastery, EN developed a small digital telephone exchange—the STK-1000—with a capacity of up to 2,000 lines. This unit followed on the design of the DAMA system for domestic satellite communication system. The STK-1000 is ideal for sparsely populated remote areas, and has been successfully put to use on five Telkom projects in Cicalengka, Ungaran, Pandaan, Ubud and Baturiti, with a capacity of 2,500 telephone lines in all. EN has concluded a working agreement with Telkom to install STK-1000 units at a further 32 locations, with a total capacity of 16,200 lines. EN's production capacity currently stands at 40,000 lines per year to be increased progressively to 100,000 by 1997. Besides EN, the government-owned PT INTI also produces small telephone switching units in Indonesia. Features offered by the EN STK-1000 unit are call waiting, hunting, conference call, malicious call tracing, call barring, follow me service, and a billing system.

STK-1000 is also compatible with various other telecommunication systems, and EN has marketed this adaptable product in other developing countries, like the Philippines, Malaysia, Thailand, Vietnam, Myanmar and Laos.

Realizing that excessive dependence on a limited product range is risky, in 1991 EN expanded its operations to include satellite data transmission systems. This point to point data transfer system using VSAT technology was dubbed 'Smartcom' by EN, and is aimed at such users as foreign oil companies, banks, mining operations and forestry concessionaires. Installation of more than 100 Smartcom links to date attests to the excellence of this EN-developed system.

EN first entered the cellular telephone sector in 1991. Its first project, a revenue sharing undertaking in cooperation with Telkom, resulted in the installation of 52,500 lines in Jakarta, Bandung, Medan and Ujung Pandang. In anticipation of increased and regular demand for cellular telephone connections, this revenue sharing project was followed up by the formation of a limited company, PT Komselindo. This enterprise was founded in January 1995, and is jointly owned by EN (65%) and Telkom (35%). Further details of PT Komselindo can be found in section 2.2.2.1.

Aside from this revenue sharing venture with Telkom in cellular phones, in 1991 EN also joined in the PBH-1 project to install 20,000 of the 100,000 new telephone lines planned by Telkom in the Gambir, Kelapa Gading and Tebet areas in Jakarta. Then again in 1992 EN joined forces with Telkom, this time in the PBH-3 revenue sharing project. In this project EN took on the installation of 35,000 of the 200,000 new phone lines planned for the Gambir, Tebet, Palmerah and Cengkareng areas in Jakarta.

To support business development, EN is committed to staying on top of the best, most efficient technology available. The research and development team keeps a close watch on the latest developments in communications technology, supported by an ample 5% of total EN revenues. This vigilance has yielded results—healthy growth in EN revenues over the last five years:

EN Operating Revenues: 1990-1994

(Rp Thousands)

	1990	1991	Growth (%)	1992	Growth (%)	1993	Growth (%)	1994	Growth (%)
STKBN	0	1,807,273	-	145,435,809	7,947.25	88,936,152	(38.85)	97,114,908	9.20
Revenue Sharing	0	0	-	16,455,376	-	20,643,833	25.45	21,688,778	5.06
Projects	4,862,528	24,968,234	413.48	12,134,718	(51.40)	6,785,136	(44.08)	14,056,375	107.16
Smartcom	0	3,880,112	-	6,253,987	61.18	7,536,369	20.51	7,172,708	(4.83)
Other	1,899,074	1,388,074	(26.91)	644,770	(53.55)	263,260	(59.17)	22,164	(91.58)
Total	6,761,601	32,043,693	373.91	180,924,660	464.62	124,164,750	(31.37)	140,054,933	12.80

* Projects encompassing supplying, installation and maintenance of telecommunications equipment under turnkey contracts.

The above table shows that EN revenues in 1992 increased dramatically by 464.62% over 1991. This was driven mainly by commencement of cellular phone sales, including out-station sales and EN's share of monthly billings, with Telkom receiving 44% and EN receiving 56%. After 1993 the majority of cellular phone income was derived from monthly billings.

In addition to the above products, EN will launch other new telecommunications products and services to take advantage of substantial opportunities in the telecommunications market. These new products and services will include:

- * *Advanced Smartcom*, to be marketed in 1995: this is an advancement on previous Smartcom technology, and can transfer data, voices and facsimile from multi point to multi point.
- * *SENA*: this new product follows on the STK-1000, with capacity increased to 5,000 phone lines.
- * New radio frequency (RF) technology—the *Wireless Local Loop (WILL)*: one form of this system is the *Personal Communication System (PCS)*, similar to the cordless phone, but with an increased range of up to 30 km.
- * *Cellular Digital Package Data (CDPD)*: new generation technology for the cellular network. With this technology, the cellular network can be used to send data from one computer to another.

EN is also building an office building in the Mampang Prapatan area in Jakarta. Slated for completion in the third quarter of 1995, this building will house EN head office.

In addition to the above ventures, EN also has equity participation in several other telecommunications companies, whose business activities are outlined below.

2.2.2.1. PT Komunikasi Selular Indonesia (Komselindo)

PT Komselindo, established on 25th January 1995, is 65% owned by EN, and 35% by Telkom. Komselindo will enter the burgeoning cellular telephone sector, so far dominated by revenue sharing ventures (PBH) between EN and Telkom.

Through such ventures, EN has to date installed 52,200 phone lines, supported by sixty-two radio base stations (RBS) and seven switching units in Jakarta, West Java, Medan and Ujung Pandang as shown below:

RBS and Switching Unit Distribution

	Jakarta & West Java	Medan & Environs	Ujung Pandang & Environs	Total
RBS	56	5	1	62
Switching	5	1	1	7

Although the area served by the EN cellular network is still limited, with the use of the roaming system, cellular phone range can be extended to areas whose RBS units are run by other companies. Growth in number of cellular connections so far installed and in use can be seen in the following table:

Growth in Installed Cellular Telephones: 1991 - 1994

Year	Jakarta & West Java		Medan & Environs		Ujung Pandang & Environs	
	Installed	Used	Installed	Used	Installed	Used
1991	10,000	1,550	-	-	-	-
1992	16,000	16,000	-	-	-	-
1993	26,000	26,000	7,500	1,200	2,000	320
1994	43,000	43,000	7,500	2,902	2,000	950

The table clearly shows that for the Jakarta and Bandung regions, EN is already working to full installed capacity, while demand for the AMPS cellular phone system remains strong. To support this vigorous demand, more RBS units are needed. Because of the revenue sharing system, the procedures for building RBSs are arduous, especially as regards obtaining the necessary permits. They are therefore inefficient in light of the rapid growth of this business. Given the continuing rapid growth in this sector, this revenue sharing venture is being furthered under the auspices of PT Komselindo, an independent company with the flexibility necessary for unconstrained expansion.

To meet the burgeoning demand for cellular telephone lines, EN plans to construct 79 RBS units by the year 2000. This investment is required if EN is to meet its targeted growth in installed capacity of 18,000 cellular connections per year.

2.2.2.2. PT Pasifik Satelit Nusantara (PSN)

PSN is the first private concern in Indonesia permitted to own and operate a communication satellite. EN holds 23.08% of PSN stock, with Telkom owning 30.80%, PT Hughes Communication International Inc. (Hughes) 11.53%, Telesat Canada 11.53%, and 23.06% controlled by other shareholders.

PSN is currently permitted to operate one satellite, the Palapa Pasifik 1 (PP1), with a coverage area including the Asia Pacific region, especially northern Asia and Hawaii.

This inclined orbit unit, operating at C-band frequencies, was launched in 1983, and has 24 transponders. Under its former name of Palapa B1, it was owned and operated by Telkom. At the end of its estimated useful life in 1991, modifications extending its useful life to 1995 were made by PSN, who then changed its name to PP1, taking over operation of the unit in 1992.

The PP1 satellite has 24 transponders, and on average only about 65% of the total capacity can be used. Currently nine of its transponders are leased by TV broadcasters—four from Taiwan, four from the Philippines and one from India—for terms averaging three years.

Anticipating future market openings, PSN in cooperation with Satelindo have jointly bought and brought into operation the Palapa C1 and C2 satellites. Under the terms of this working agreement, PSN retains rights to six of the thirty-four transponders on the C1 unit to be launched in 1995, and six transponders on the C2 unit.

The prime targets for PSN marketing are broadcasting interests outside the Asian region. The PSN marketing team have to make themselves familiar with broadcasting companies, command comprehensive information on satellite technology development, and have knowledge of potentially interested broadcasting companies and the satellite facilities that they currently lease. Having gained this information, the PSN team can then approach potential clients. Of course, for competitiveness with foreign firms in the same line of business, PSN offers attractive leasing rates and technical support to its customers.

To expand its business abroad, PSN will cooperate under the aegis of Asian Cellular Satellite (ACeS) with a consortium of several ASEAN corporations, including Philippines Long Distance Telephone (PLDT) from the Philippines, and Jasmine from Thailand. This project aims to launch four new-generation satellites, comprising the Asian Mobile Satellite System (AMSS).

2.2.2.3. PT NEC Nusantara Communications (NNC)

NNC is a joint venture between Indonesian and Japanese companies. EN has a 25% shareholding, NEC Corporation - Japan 45%, Sumitomo Corporation - Japan 20% and PT Humpuss 10%.

Since starting operation in June 1992, NNC has designed, assembled and installed NEAX 61 digital switching equipment. This switching equipment uses the latest technology developed by NEC Corporation of Japan, and yields cleaner, clearer voice transmission. NEAX 61 switching equipment is of larger capacity than the STK-1000 units developed by EN, and its 20,000 line potential capacity suits it for larger regions than the STK-1000. NNC also provides technical support services and maintenance.

Almost all NNC efforts are currently dedicated to furthering Telkom projects installing NEAX 61 switching units in Telecommunications Divisions I-X. Present NNC production capacity stands at 300,000 lines per year—in line with the projects it has in hand.

Currently, 75% of the switching unit components are imported from Japan, and 25% are locally produced. As part of the programme to reduce dependence on foreign imports, NNC is implementing its Progressive Manufacturing Plan (PMP). This technology transfer programme will gradually enable NNC to produce or assemble switching equipment using domestic components. With this programme in place, NNC has targeted a 40% local content in switching components—to be achieved by the fifth year of operation.

Anticipating future opportunities, NNC has adopted several marketing measures to support its operations:

- * **After Sales Service** to maintain installed equipment to ensure that it complies with determined standards. This service will also yield feedback on product quality, invaluable to NNC in developing future products.
- * **A Technical Assistance Service Centre (TASC)** will be established expressly for customer service. TASC will provide round-the-clock telephone consultation and technical service. The TASC technical team will assist subscribers directly, including providing temporary replacement parts while out-of-service parts are being serviced.

2.2.2.4. PT Alcatel Enkomindo (AE)

AE is an Indonesian-French joint venture with Alcatel Telspace of France holding a 70% interest, EN 10% and PT Telekomindo Prima Bhakti 20%.

AE began commercial operations in March 1994 as a sub-contractor for Alcatel Telspace, installing, adjusting, commissioning and performing technical maintenance on transmission equipment. Alcatel Telspace operates in microwave communication equipment and is itself a Subsidiary of the French telecommunications giant, the Alcatel Group.

AE is now working on Telkom's Trans Sulawesi project, linking Ujung Pandang with Manado. AE is installing the digital microwave network, while Alcatel Telspace is building the microwave stations. Other digital microwave network installation projects shortly to be taken on by AE are the Nusa Tenggara project, the Java-Bali Expansion, the Trans-Sumatra Expansion, the Trans-Sulawesi project, the Ujung Pandang-Flores project, and the Fibre Optics Communication System (SKSO) northern circuit project. Also currently in the works are three Additional Works projects and the Satelindo Mobile Telephone GSM project.

2.2.2.5. PT Nusantara Submarine Cable Service (NSCS)

NSCS is jointly owned, 51% by EN and 49% by Toyo Menka Kaisha Ltd.

As stipulated in its Articles of Association, NSCS operates in the installation and maintenance of submarine cables.

2.3. INFRASTRUCTURE DIVISION

Adequate infrastructure is crucial to industrial growth, whether in the oil-gas or non oil-gas sectors. Given Indonesia's current eagerness to promote board-based industrial growth, infrastructure provision connected with anything from pipeline and factory construction to industrial waste treatment is essential to promote overall efficiency. The Company has interests in several companies in the infrastructure line, and outlines of these Subsidiaries and their business activities follow.

2.3.1. PT Trans Javagas Pipeline (TJP)

Previously, Indonesia exported some 80% of its natural gas in liquified form to various countries including Japan, Taiwan and Korea, while domestic use was limited to the fertiliser industry. Recently, there has been sluggish growth in the demand for natural gas on the export market. In addition, natural gas has emerged as a fuel of choice for electrical generation. The Company has therefore begun to turn its attention to the domestic market.

Greater exploitation of natural gas as an alternative fuel on the domestic market will save oil, allowing Indonesia to sustain oil exports. Natural gas is also regarded as a cleaner and more economical fuel for use both in domestic electrical generation and industry. So far however, domestic use has been restricted by the distance of gas reserves from the centre of domestic consumption—Java.

Recently, new natural gas reserves were discovered at Kangean, off the shores of Bali (estimated reserves: 2 trillion cubic feet) and Madura (estimated reserves: 1.2 trillion cubic feet), both locations north of Java. This has given the Company the opportunity of building a natural gas pipeline in East Java, slated as the future upstream end of a transmission network carrying gas to all areas of the island.

It is hoped that the presence of this transmission system will also allow economic exploitation of small gas wells lying along the route.

TJP, which is 49% owned by the Company, has already completed the first phase of this gas transmission system, the 430 km link connecting the Atlantic Richfield Bali North Inc. (ARBNI) production facilities in Pagerungan with consumers in East Java. A portion of the throughput fees obtained in exchange for gas flowing through its transmission network will be used to repay TJP's bank debt.

This East Java pipeline has an installed capacity of approximately 600 MMSCFD, of which only about a half, or 300 MMSCFD, is in use now. The year 1998 should see full exploitation of pipeline capacity, when the electricity generation plant at Grati comes on stream and new industries in the area are operational.

In its first year of operation the East Java pipeline network carried 77.7 million MMBTU of gas, climbing to a projected 95 million MMBTU in 1995, and as high as 180 million MMBTU by 1998.

The following table presents TJP operating revenues from 1992 through 1994:

**TJP Operating Revenues:
1992-1994***

(Rp thousands)

Year	Contract Revenues	Gas Flow Revenues	Total Revenues	Growth (%)
1992	568,044,296	-	568,044,296	-
1993	304,932,558	-	304,932,558	(46.32)
1994	-	54,310,928	54,310,928	(82.19)

* TJP began operation in 1992

Note: Transmission network construction was only finished in late 1993; for the 1992-1993 construction period, TJP received contract income, throughput fee income for gas transmission only commencing in 1994.

2.3.2. PT Trihasra Bimanusa Tunggal (TBT)

To meet growth in domestic fuel demand that has averaged 9% annually over the past several years, the government has constructed the new Exor oil refinery at Cirebon, West Java, and increased the capacity of the Cilacap facility.

To date, fuel has been shipped by tanker from point of production to destination ports in East, Central and West Java. However, demand is rapidly rising and the Company sees that loading and unloading capacity will be exhausted in the near future.

To handle this demand, the Company, through its Subsidiary, TBT, has built the 210 km Jakarta-Cirebon fuel pipeline. This pipeline was constructed under the terms of a December 1992 cash contract, and this US\$80,000,000.00 project was completed ahead of schedule by August 1994.

This preliminary phase will be followed up by fuel pipelines in West Java, Central Java, Jakarta and Yogyakarta at a total cost of approximately US\$380 million. These projects will involve 350 km of 10 and 12 inch pipe, pumping stations with a combined output of 25,000HP, and a sophisticated integrated on-line inventory control system. This pipeline network will distribute the total yearly production of both the Exor and Cilacap refineries, totalling 15 million kilolitres per year, to the marketing regions of West Java, Central Java, Jakarta and Yogyakarta. The three-year construction phase of this project is slated for completion in 1996.

This pipeline network will offer more efficient, economical and dependable fuel distribution—as has been the experience of industrialised countries employing similar systems.

TBT operating revenues from 1992 to 1994 are as follows:

TBT Operating Revenues: 1992-1994*

(in thousands of rupiahs)

Year	Contract Revenues	Growth (%)
1992	64,933,164	-
1993	142,895,995	120.07
1994	25,641,570	82.06

* TBT began operation in 1992.

Note: The Jakarta-Cirebon pipeline was completed in August 1994, thus for the 1992-1994 construction period TBT only received contract income.

2.3.3. PT Toyo Kanetsu Indonesia (TKI)

This was established as a joint venture between Pertamina, leading Japanese tank builder PT Toyo Kanetsu KK, and Nissho-Iwai Co., Ltd. of Tokyo; however the Company has invested heavily in TKI since 1990, its current interest standing at 51% of TKI equity.

At its 26,600 square metre production centre on Batam Island, TKI's 324-strong workforce designs and constructs various types and sizes of tanks and other apparatus for the petrochemical, oil and natural gas industries. Currently TKI produces high-pressure low-temperature tanks for LPG and LNG storage, high or low-pressure storage tanks for volatile liquids, tanks for land or sea-based oil or petrochemical refining, tanks for liquid or dry gas storage—to name just some of its products. Of course, all these products can be customised to meet client requirements. With the technological back-up of Toyo Kanetsu KK of Japan, TKI is capable of fabricating tanks of up to 127,000 cubic metres storage capacity. After sales tank maintenance and repairs are an integral part of TKI's total service package.

TKI generally secures its working contracts by tender from project contractors like JGC, Chiyoda Engineering and Toyo Engineering, as well as through the Bimantara Group. Its basic raw material, steel plate, is obtained both from Japan and PT Krakatau Steel, and auxiliary materials are imported from Singapore. Raw and auxiliary materials are pre-fabricated at the Batam production facility, and then transported by land or sea for welding and assembly into completed tanks on location.

Growing investment and development in the petroleum and petrochemical sectors is generating greater demand for storage tanks. Pertamina (on its Dumai, Arun and Exor I projects), and private sector firms like PT Peni, PT Chandra Asri, PT Asahimas Subentra, PT Caltex Pasific Indonesia, PT Polytama Propindo, Singapore Refining Co., Ethylene Malaysia, Shell Thailand, Sonatrach Algeria are all satisfied past clients of TKI. Projects are currently in progress for PT Bakrie Kasei Corporation, PT Sumer Ciptadjaja and PT Asahimas Subentra Chemical, while still in tender are the Balikpapan II project and the PT Chandra Asri expansion. Operating revenues from projects handled over the 1990-1994 period are detailed in the following table:

TKI Operating Revenues: 1990-1994

(in thousands of rupiahs)

year	Operating Revenues	Growth (%)
1990	5,514,818	-
1991	14,081,873	155.35
1992	63,361,591	349.95
1993	45,776,554	(27.75)
1994	38,186,993	(16.58)

TKI's revenues are closely linked to completion of either short or long-term projects, hence the sharp fluctuations in operating revenues from year to year.

Most TKI clients are main project contractors that have long established working relationships with TKI over many years and many projects. TKI seeks to maintain and build this trust by striving tirelessly for customer satisfaction, whether in terms of product quality or on time delivery. Additionally, TKI is always seeking out new clients by bidding on newly tendered projects.

2.3.4. PT Sankyu Indonesia International (SII)

First established a foreign-owned joint venture between Sankyu Incorporated of Japan and Pertamina, SII first attracted the attention of the Company in 1985, and Company equity participation in SII now amounts to 20%. SII manufactures, assembles, installs and maintains industrial machinery and equipment for the oil-gas and non oil-gas sectors. It is also active in general and marine transport, and heavy equipment haulage.

Contracts taken on by SII have ranged from oil-gas sector projects for Pertamina, to mining projects like the aluminium smelter at Kuala Tanjung-Asahan, North Sumatra (SII is still involved in equipment fabrication and maintenance on that smelter project). Other projects currently in the works are for PT Krakatau Steel, PT Asahimas Subentra Chemical, PT Bakrie Kasei Corporation, PT Chandra Asri, PT Alumico, Indonesia Toray Synthetic and PT Kotobuki Elektronik Indonesia. On all those projects, SII provides total transportation service, transporting raw materials and finished products to and from the port and the factory. SII also takes care of packing, heavy equipment supply, pile driving and construction and installation of machinery. TKI has also contracted SII to provide crane services using its own machinery.

To back up these business activities, SII has branch offices on project locations: in Cilegon, including warehouse facilities; in Asahan, with engineering and maintenance facilities; on the Asahi Subentra Chemical (ASC) and Bakrie Kasei Corporation (BKC) projects; at the Port of Jakarta, including cargo handling facilities on the Chandra Asri project and at Balongan, Indramayu.

Sankyu Incorporated of Japan, the principal shareholder of SII, has numerous Subsidiaries throughout America, Europe and Asia. The extensive Sankyu Inc. international network lends a strong edge to marketing SII's services. Fully 70% of current SII business operating revenues originate from international network clients, while the other 30% comes from the local market.

The following table presents SII performance over the last five years:

**SII Operating Revenues:
1990-1994**

(in thousands of rupiahs)

Year	Operating Revenues	Growth (%)
1990	22,562,948	-
1991	22,803,192	1.06
1992	37,473,400	64.33
1993	34,234,237	(8.64)
1994	50,420,887	47.28

2.3.5. PT AQUALINDO MITRA INDUSTRI (AMI)

The Company has a 70% equity participation in AMI, which in turn owns shares of PT Waste Management Indonesia (WMI) and PT Prasadha Pamunah Limbah Industri (PPLI), both active in the environmental and waste management fields. AMI is so far in a pre-operational phase.

2.3.5.1. PT Waste Management Indonesia (WMI)

WMI was established as a foreign investment project, a 70% controlling interest held by Waste Management International BV, the remaining 30% in the hands of AMI. Waste Management International BV is itself a Subsidiary of Waste Management International plc, an English-based international concern, active in the environmental and waste management fields. In carrying out its work, Waste Management International plc always adheres to the standards set by its parent company, the American-based WMX Technologies Inc., so these standards are the ones also adopted by WMI.

WMI was founded to provide comprehensive consultation services on all phases of waste management. WMI provides technological consultation in constructing and operating industrial waste management facilities, including facilities for handling dangerous or poisonous substances, or toxic and hazardous wastes, which as stipulated in Government Regulation No. 19 of 1994 are explosive, combustible, poisonous or infectious materials resulting from various industrial processes.

WMI acts as a consultant to PPLI in developing integrated industrial waste management systems. WMI has been successful in putting into practice systems to transport waste safely from customer locations to PPLI sites, where processing and disposal of the toxic and hazardous wastes can be safely carried out. WMI also provides consultation to industrial and non-industrial clients who wish to set up on-site waste treatment facilities.

2.3.5.2. PT Prasadha Pamunah Limbah Industri (PPLI)

PPLI was founded as a foreign investment joint venture between Waste Management International plc, which has a 70% stake, AMI, with a 25% share, and the Republic of Indonesia, holding the remaining 5%. Waste Management International's management team, working from the PPLI location in Cileungsi, Bogor, West Java, includes experts with broad experience in integrated industrial waste processing.

PPLI began commercial operation in January 1994, with these goals and providing these services:

- constructing a safe, modern and efficient toxic and hazardous waste storage and disposal centre,
- developing a safe, modern and efficient toxic and hazardous waste transport system,
- planning, constructing and operating the above services in accordance with international environmental and safety standards.

To support operations, PPLI has the following waste treatment facilities:

- a waste stabilisation service with a capacity of 60,000 tons per year, capable of handling both solid and semi-solid inorganic wastes,
- a safe, 53 hectare landfill site with a 3.5 million ton potential capacity, usable for 30 years at the current rate of demand. The area currently prepared for use has a capacity of 155,000 tons. This landfill disposal site can handle solid or semi-solid inorganic wastes.
- a 22,000 ton per year fuel blending unit to convert both solid and liquid organic wastes into synthetic fuel, which can partially replace fuel used in cement kilns. Through this process, toxic and hazardous organic wastes are destroyed in an environmentally friendly way. It also allows cement kiln operators to save on their energy costs.

In addition to the above facilities, PPLI also owns a laboratory, office complex, warehouse, workshop and drum handling facility. PPLI also takes care of toxic and hazardous waste transfer from customer factories to the PPLI location.

In 1994, its first year of operation, PPLI served over 100 waste-producing firms, and processed 9,900 tons of toxic and hazardous wastes—a mere 11% of its annual capacity. The automotive, auto parts, textile, metal, electroplating, petrochemical, pesticide, pharmaceutical and various chemical industries have all called on the services of PPLI.

The PPLI marketing team introduces the waste-management concept and services offered to prospective, waste-generating industrial enterprises. PPLI also goes to considerable effort to educate the public on waste management issues through seminars, courses and brochures.

2.4. TRANSPORTATION & AUTOMOTIVE DIVISION

The need for safe and effective transportation is intensifying in Indonesia, driven by the growth of various sectors, in particular industry. Adequate facilities for land, sea and air transport are essential for the movement of passengers and goods, both domestically and to foreign destinations. Given the essential nature of this sector, the Company has equity participation in a number of transportation companies.

The following section outlines the activities of Subsidiaries in the transportation and automotive division:

2.4.1. PT BIMANTARA CAKRA NUSA (BCN)

BCN is a 100% owned by the Company, acting as a subholding company with equity in enterprises operating in motor vehicle assembly, sole agencies, distribution of commercial or passenger vehicles and motorcycles, and auto parts.

BCN provides management consultancy to its Subsidiaries, including tax, legal and financial consultancy. BCN also participates actively in the management of some of its Subsidiaries.

The following table shows the operating revenues of BCN as contributed by its various Subsidiaries, namely: PT Citrakarya Pranata (CKP), PT Indonesian Republic Motor Company (IRMC), PT Daikin Clutch Indonesia (DCI), PT Dharma Sarana Perdana (DSP), PT Citramobil Nasional (CMN), PT Tricitra Karya (TCK), PT Kawasaki Motor Industry (KMI) and PT Intirub.

BCN Operating Revenues: 1992-1994

(in thousands of rupiahs)

Year	Operating Revenues	Growth (%)
1992	1,291,970	-
1993	22,214,895	1,619.46
1994	90,081,647	305.50

* BCN began operation in 1992, and the income statement for the year ending 31st December 1992 is not a consolidated statement, as BCN acquired its subsidiaries only in 1993.

On 1st February 1995, BCN signed a joint venture agreement with Autoliv AB (a Swedish firm supplying motor vehicle safety equipment) for the establishment of PT Autoliv Indonesia (AI). AI will operate in assembling and marketing motor vehicle safety belts.

BCN is also in the process of acquiring a 60% stake in PT Cakra Eska Trans, active in land transport, packaging, shipping and workshop operations.

BCN now has nine subsidiaries, as outlined below.

2.4.1.1. PT Citrakarya Pranata (CKP)

BCN holds a 70% stake in Bandung-based PT Citrakarya Pranata (CKP). CKP commenced commercial operations on 15th June 1988 as authorised distributor of Mercedes Benz commercial, passenger and all-purpose vehicles, and as a Ford sales agent. Their area of operations encompasses all of West Java, except for the Sukabumi municipality and district, Bogor and Tangerang. To back up its motor vehicle distribution, CKP also carries a comprehensive line of spare parts, selling them directly to consumers, or to garages providing after sales service. Users of vehicles purchased from CKP range from individuals and businesses to state corporations.

The following table presents CKP sales from 1990 to 1994:

CKP Sales: 1990-1994

(units)

	1990	1991	1992	1993	1994
Commercial Vehicles	143	167	108	101	127
Passenger Vehicles	119	60	27	52	266
Total	262	226	135	153	393

The sales picture improved substantially over the three years up to and including 1994, due to improved motor vehicle market conditions, and an increased allocation of Mercedes Benz vehicles.

Product promotion is done through advertising in a variety of mass media—including electronic media—by brochures, and during routine calls on regular customers. To ensure total client satisfaction, CKP is on call 24 hours a day, enabling prompt response to customer calls.

For its line of Ford products, CKP additionally offers a buy-back guarantee, pledging to buy back new vehicles from customers within a pre-determined period.

To diversify its interests still further, in 1995 CKP plans to expand its line to include Hyundai passenger vehicles.

2.4.1.2. PT Indonesian Republic Motor Company (IRMC)

This Jakarta-based operation is 38% owned by BCN. IRMC is the sole distributor of Ford motor vehicles, and additionally stocks spare parts and provides workshop facilities. IRMC's biggest customers are taxi companies, where Ford vehicles command fully 60% of the market (source: *Prospek*, December 10, 1994).

IRMC imports most of the Ford components in completely knocked down (CKD) form from Ford International Automotive Operations, via the leading Japanese concern, Sumitomo; remaining components are obtained from local producers. These components are then assembled by PT Gaya Motor, which also assembles products for Daihatsu, Peugeot, BMW, Nissan Diesel and Isuzu.

According to the Decree of the Minister of Finance, No. 645/KMK.01/1993, in effect since 1st January 1994, import duties on sedans are reduced only if their local component content exceeds 20%. However, taxis are free of import duties even though local content does not meet the 20% requirement.

IRMC has so far designated 27 distributors across Indonesia, approximately 60% of which also offer after sales service, like repairs and maintenance. Year-to-year growth of IRMC sales is displayed in the following table:

**IRMC Sales:
1991-1994**

(units)

	1991	1992	1993	1993
Laser GL Sedan (taxis)	1,884	2,101	1,862	2,927
Laser Sonic Sedan	80	28	57	52
Laser Gala Sedan	128	57	57	57
Laser Champ Sedan	90	23	73	60
Telstar Sedan	100	124	133	102
Total	2,242	2,343	2,183	3,198

2.4.1.3. PT Daikin Clutch Indonesia (DCI)

DCI, in which BCN controls a 20% interest, was established as a foreign investment venture in 1987. Other investors in DCI are Daikin Manufacturing & Co. Ltd., owning 25% of the shares, Itochu Corporation with 15%, PT Tunas Pandawa Busindo with 20%, Astra International Inc. with 10% and Indomobil Suzuki International holding the remaining 10% of DCI equity.

DCI specialises in assembling clutch discs and covers for both commercial and passenger vehicles produced by Daihatsu, Isuzu, Mazda, Hino, Ford, Nissan, Mitsubishi and Suzuki. As of 1994, capacity totalled 200,000 clutch cover units per shift, and 180,000 clutch disc units per shift.

By value, 75% of the required components are imported from Japan, India and Korea, but since DCI satisfies the requirements of the Decree of the Minister of Finance, No. 645/ KMK.01/1993 regarding local content, these components are exempted from import duties.

One hundred and sixty-six dedicated workers, and technical guidance from the leading Japanese firm, Daikin Manufacturing Co. Ltd., support DCI in its operations. The result: DCI products conform to international standards, as indicated by the Japan Industrial Standard.

DCI's two product types fall into these three classifications:

- 1 *OEM* — standard components for installation in new motor vehicles,
- 2 *GNP* — motor vehicle spare parts sold under brand-names by sole agents,
- 3 *AM* — motor vehicle spare parts sold under the Daikin and Daikin Clutch Indonesia (DCI) brand names.

Propelled by robust growth in car sales over the last three years, sales of clutch disc and clutch cover units has grown substantially, as evidenced by these figures for 1990-1994:

**DCI Sales:
1990-1994**

(units)

Product Type	1990	1991	1992	1993	1994
Clutch Discs	236,038	195,669	162,517	212,498	316,759
Clutch Covers	162,779	144,408	112,812	154,772	260,384
Total	399,053	240,107	275,329	367,270	577,143

Total DCI production is aimed at the domestic market, with PT Astra International, PT Indomobil Suzuki International and PT Krama Yudha Tiga Berlian being the main buyers. DCI manufactures under the following brand names, total production broken down as follows:

**DCI Sales by Brand Name:
1990-1994**

(units)

Make of Vehicle	1990	1991	1992	1993	1994
Daihatsu	181,097	95,040	66,173	77,003	150,208
Isuzu	23,292	40,556	43,831	65,686	76,272
Nissan	8,014	2,376	2,067	2,724	8,309
Mitsubishi	45,528	67,635	54,907	61,571	109,908
Mazda	3,028	7,300	1,820	7,448	10,378
Suzuki	127,692	122,852	104,679	148,368	212,926
Hino	10,402	4,348	1,852	4,470	9,142
Total	399,635	340,107	275,329	367,270	577,143

DCI sells *GNP* products directly to motor vehicle producers, while eight distributors in Java and Bali handle the *AM* line. According to vendors of assembly components, DCI controlled a 65% share of the market in 1994. To enlarge its marketing coverage, DCI plans to establish sales agencies in Sumatra and Kalimantan in 1995, and in Ujung Pandang, Manado, Ambon and Jayapura in 1996—DCI's presence will then be felt nationwide. To keep pace with demand in the automotive industry, DCI will boost capacity to 580,000 units per shift in 1995.

As with all industries, DCI assembly operations unavoidably have impact on the environment, both positive and negative. DCI demonstrates its good corporate citizenship in this matter, adhering fully to the government regulations regarding waste products and residues set forth in the Decree of the Minister of the Environment, No. KEP-03/MENKLH/11/91, dated 1st February 1991, and the Decree of the Minister of Industry, No. 134/M/SK/V/1988, regarding the Prevention and Treatment of Industrial Pollution.

2.4.1.4. PT Dharma Sarana Perdana (DSP)

BCN also holds a 10% interest in the stock of domestic-owned DSP, which assembles clutch disc, clutch cover, window regulator and clutch facing units at its Jakarta factory, whose production capacity is broken down in the following table:

DSP Production Capacity:

(number of units per year)

Product Type	Production Capacity
Clutch Discs	250,000
Clutch Covers	250,000
Window Regulators	250,000
Clutch Facings	720,000

DSP's 255-strong workforce receives technical assistance from Aisin Seiki Co. Ltd., Japan's premier clutch manufacturer. Approximately 90% of its raw materials, CKD and components are imported, the remainder sourced locally or made in-house. DSP custom assembles products according to the specifications of its customers, the two largest of which are Toyota and Mitsubishi Diesel.

DSP now has to prepare itself for expected growth in the domestic automotive industry, and be ready to take advantage of the potential of the Brand to Brand Complementation Scheme Asean (BBC Asean) for car makers. To this end, DSP has signed a memorandum of understanding with Aisin Seiki Co. Ltd. of Japan to invest in the development of several new products: clutch components (pressure plates), body components (door locks and door frames), window regulators, engine components (flywheels) and air conditioner components (brackets and pulleys), as well as boosting production capacity to four or five times current levels.

Regarding Environmental Impact Analysis, DSP obtained approval for both its Environmental Management Plan and its Environmental Monitoring Plan, in letter No. 143/-1.777.6, dated 28th September 1992.

2.4.1.5. PT Citramobil Nasional (CMN)

CMN of Jakarta, 50% of which is owned by BCN, is the sole agent with rights to sell and distribute Hyundai Motor Co. vehicles. This appointment also includes technical assistance and distribution contracts. CMN is currently in the pre-operational phase and is slated to begin commercial operation in July 1995.

Hyundai automobile components, imported in CKD form, are assembled by PT Tricitra Karya.

The Hyundai marketing network consists of the following:

1. Seven-function (7-F) distributors handling vehicle sales and distribution, vehicle maintenance, spare parts, customer financing, trade-in of used vehicles, car rental and accessory/sport kit sales,

2. Showrooms for product sales,
3. Authorised workshops for after sales service,
4. Authorised part shops for spare part distribution.

The current Hyundai distribution network consists of eleven 7-F distributors, and six showrooms in Jakarta, Bandung, Semarang, Yogyakarta, Surakarta, Malang, Surabaya, Denpasar and Lampung.

As a first step, in July 1995 CMN will promote the 1,600cc Hyundai Elantra in Java, Bali and Sumatra, three areas which comprise fully 70% of the passenger vehicle market, and where Elantra sales are projected to reach 3,000 units. Currently, a number of other products vie for the same, 1,600cc, small sedan market segment as CMN products—among them the Toyota Great Corolla, Honda Genio, Mitsubishi Evolution, Mazda Interplay and Ford Laser Gala—however, to attract buyers, CMN products will be sold at competitive prices.

2.4.1.6. PT Tricitra Karya (TCK)

BCN holds a 30% interest in this Jakarta-based corporation established under the domestic investment scheme. TCK will assemble four-wheeled motor vehicles, and its commercial operations are to start in July 1995.

TCK production facilities include a body shop, paint shop, engine shop, trim & final shop and finally, a testing shop. Capacity is approximately four units per hour, with an effective eight-hour working day.

For assembly of Hyundai passenger vehicle bodies, TCK obtains its components in CKD form from CMN, an importer and another BCN-associated company. Hyundai Motor Company of Korea will provide technical assistance on motor installation. Hyundai products assembled by TCK include the 1,300cc to 2,000cc class, Accent, Elantra and Sonata models. Additionally, TCK also assembles Ford passenger vehicles, according to orders received from the associated firm, IRMC.

2.4.1.7. PT Kawasaki Motor Indonesia (KMI)

KMI is a joint venture established under the foreign investment scheme, with BCN holding 15% of the shares. The other partners are the Japanese motorcycle manufacturer, Kawasaki Heavy Industry Co. Ltd., which owns 51% of the stock, PT Sumber Selatan Nusantara with a 5% interest, and PT Danmotor Vespa Indonesia controlling the remaining 29%. KMI is the assembler and sole distributor of Kawasaki motorcycles, and in its operation receives technical assistance from Kawasaki Heavy Industries Ltd. Commercial operation began in April 1995 with the production and distribution of a smaller, scooter-type motorcycle.

The local content of the motorcycles to be produced stands at 54%, calculated according to Ministry of Industry regulations.

KMI promotional efforts target students and workers, the largest market segment. Official dealers in every province and official Kawasaki workshops offering after sales service form an invaluable network, supporting KMI in its promotion and marketing.

2.4.1.8. PT Intirub (Intirub)

Intirub is a 37.5% owned by the Company, and began by manufacturing tyres using technology supplied by Uniroyal Goodrich, an American tyre company. Intirub has the annual capacity to produce 168,00 radial tyres for sedans and jeeps, 360,000 light truck tyres and 120,000 truck and bus tyres.

Intirub sources approximately 70% of its required raw materials, like natural rubber, carbon black and nylon cord, from local suppliers, the remainder being imported from Korea, Japan, Germany and the United States.

Assemblers of motor vehicles for Daihatsu, Isuzu, Nissan, Ford and Mercedes Truck install Intirub tyres as original equipment, while on the replacement market, Intirub's 25 distributors and 100 outlets provide it with a marketing presence throughout Indonesia. Intirub products are exported directly and through its agent, PT Astra Export Company, to the Cameroon, Chile and nations in the Middle East.

To fortify its position in the marketplace, Intirub shortened the production cycle in May 1995, boosting its efficiency and bringing the production capacity of its three daily shifts to estimated 1995 levels of 180,000 radials and 432,000 light truck tyres. Truck and bus tyre production capacity will hold steady at 120,000 per year.

Intirub plans to pursue cooperation with other International tyre corporations, both to give it access to new technology and improve its public image. For more long-term flexibility, Intirub plans to relocate to new more spacious quarters, operation in the new location slated for 1998.

Like other industrial activities, Intirub's tyre manufacturing has its effects on the environment. In connection with this, Intirub has obtained Letters of Recommendation, No. 565/-17775/VIII/88 for its Environmental Study (*Pengkajian Evaluasi Lingkungan*), and No. 160/-17776, dated 25th November 1992, approving Intirub's Environmental Management Plan, and Environmental Monitoring Plan.

2.4.1.9. PT Arthacakra Multifinance (AM)

AM, established in April 1995, is 49% controlled by BCN, and its commercial operations are slated to begin in July 1995. AM is active in consumer financing and corporate leasing, especially for the automotive products of Hyundai, Ford and Kawasaki, marketed by BCN subsidiaries.

2.4.2. PT JASA ANGKASA SEMESTA (JAS)

Founded under the domestic investment scheme, JAS manages pre-flight and post-flight aircraft ground handling, and related services. From its head office in Jakarta, it directs the operations of its branches at Soekarno-Hatta Airport in Jakarta, Ngurah Rai Airport in Denpasar, Juanda Airport in Surabaya and Sam Ratulangi Airport in Manado. Currently, 45% of JAS shares are owned by the Company.

Ground handling is highly regulated so that each activity is conducted by personnel highly qualified for their tasks. This is to ensure safety, security, convenience, hospitality, punctuality, efficiency and effectiveness. Realisation of all tasks meets standards set in the International Air Transport Association (IATA) Ground Handling Agreement, effective worldwide.

To increase both the range and quality of its service to its airline clients, JAS was granted the Aircraft Maintenance Organization (AMO) Certificate by the Directorate of Airworthiness and Certification, under Directorate General of Civil Aviation. JAS is now authorised to carry out line maintenance of B747, B737 and B310 aircraft.

JAS operations currently encompass a wide range of aircraft services:

1. Ground Handling Services

This category includes passenger service, airport operations, load control, inter-airport communication, loading and unloading, simple inspection and cleaning of aircraft engines and aircraft safety services. Cargo handling is taken care of by PT Avia Jaya Indah, while aircraft cleaning is the responsibility of a JAS subcontractor. To further its operations, JAS is currently exploring cooperation in ground handling at the Kuala Lumpur Airport in Malaysia.

2. Ground Support Equipment (GSE) Leasing

JAS leases needed GSE to its customers on either an hourly or per occasion basis. To this end, JAS has signed a memorandum of understanding with PT Garuda Indonesia.

3. Ticketing

JAS cooperates with Singapore Airlines, Silk Air and Emirates Airlines in handling airport ticket sales.

4. Flight Approval

JAS arranges flight permits, primarily for ad-hoc and charter flights, with the Director General of Civil Aviation, Armed Forces Headquarters and the Ministry of Foreign Affairs.

5. VIP Lounge

Prior the entering the boarding lounge, First and Business Class passengers receive special facilities and services, including snacks, drinks and local telephone use, in the VIP Lounge. JAS cooperates with PT Mandai Prima in providing this service at the Soekarno-Hatta Airport in Jakarta.

6. Greeting and Escort Service

In the promotion, marketing and sales of this service, JAS works closely with PT Megaayu Menggala.

7. Line Maintenance

The main tasks involved in line maintenance are the routine inspection of aircraft, leasing of engineering stores and the provision of skilled and semi-skilled mechanics to airline companies. In connection with this, JAS has signed a memorandum of understanding with Singapore Airline Services Company (SASCO) of Singapore.

JAS serves 17 international air carriers, including Singapore Airlines, Cathay Pacific Airlines, Lufthansa, Malaysia Airlines, Air France, PEAC/TNT Sky Pak, Airfast Indonesia, EVA Airways Corporation, Silk Air, British Airways, Emirates Airways, Gulf Air, Kuwait Airways, LTU, Bel Air and Pacific East Asia Cargo Airlines. Among Indonesian domestic carriers, JAS so far serves Sempati Air.

Based on volume of activity per station, the Soekarno-Hatta Airport contributes 77.54% of JAS revenues, followed by Ngurah-Rai Airport at 16.44%, Juanda Airport at 5.71% and Sam Ratulangi Airport at 0.31%.

JAS also caters to ad-hoc and charter flights, in addition to scheduled airline services. The significant rise in the number of such flights has been made possible by cooperation with several foreign interests, like Air Routing International, Universal, ALG-Singapore and Jeppesen.

JAS has furthermore established a Pension Fund for its employees, though this body is still pre-operational, and has 10% equity participation in the travel bureau, PT Nustra Travel.

JAS operating revenues have grown satisfactorily from year to year, as can be seen in the following table:

**JAS Operating Revenues:
1990-1994**

(Rp thousands)

	1990	1991	Growth %	1992	Growth %	1993	Growth %	1994	Growth %
Ground Handling Services	11,218,366	17,266,809	53.92	27,583,761	59.75	36,012,472	30.56	41,678,427	15.73
Ground Support Equipment	541,646	499,709	(7.74)	865,541	73.21	3,873,871	347.57	4,892,589	26.30
Ticket Commission	134,098	202,663	51.13	282,782	39.53	375,102	32.65	527,283	40.57
Flight Clearance	129,313	170,083	31.53	231,649	36.20	344,024	48.51	387,289	12.58
Licence & Information Service Fee	49,484	61,464	24.21	115,654	88.17	150,020	29.71	143,478	(4.36)
Greeting & Escort Service	27,462	70,292	155.96	183,179	160.68	120,128	(34.42)	135,918	13.14
Line Maintenance	-	-	-	-	-	-	-	96,472	-
Total	12,100,368	18,271,021	50.99	29,262,566	60.16	40,875,617	39.69	47,861,456	17.09

JAS is a permanent member of the IATA Ground Handling Council (IGHC), participating in their annual meetings to keep abreast of worldwide market developments. For ease of operations, JAS maintains close relations with the head offices of its customer corporations.

In expanding its customer base, JAS takes care to improve its customer service quality. It does this through staff training and education programmes offered by both airline companies and the IATA, at home and abroad.

JAS promotes itself through print and electronic mass media, and takes part in travel industry promotional forums, like the Travel Mart, arranged by various agencies.

2.4.3. PT CARDIG AIR (CA)

The Company has 50% equity participation in the Jakarta-based CA, provider of warehousing services, cargo loading and unloading, cargo ground handling, cargo handling and warehouse space rental.

CA leases four warehouse facilities, 22,070 square metres in Jakarta, 699 square metres in Surabaya, 460 square metres in Denpasar and 240 square metres in Manado. The Manado facility is leased from PT Angkasa Pura I and PT Angkasa Pura II.

So far, the majority of CA revenues are derived from the Soekarno-Hatta Airport, which contributes approximately 94% of total operating revenues. Ngurah Rai Airport comes a distant second, providing 2.7% of operating revenues, while Juanda Airport and Sam Ratulangi Airport contribute 3.1% and 0.2%.

In addition to its warehousing operations, Cardig also has 90% equity participation in PT Cardig Express Nusantara (CEN).

PT Cardig Express Nusantara (CEN)

CEN's range of services includes air freight, door-to-door service, inland transportation, customs clearance, packaging, local handling, and agent and various supporting services. From its head office in Jakarta, CEN oversees a service network with branch offices in Surabaya, Bali and Bandung.

In handling air freight, CEN cooperates with Garuda Indonesia, and is supported by eight sub-agents in the Jakarta region.

Airports are restricted areas, and a good reputation is necessary to gain approval to work in them. CA is one of the companies licensed to provide warehousing and loading and unloading services at Indonesian airports. Twenty years of service have furnished the CA reputation, and supported by the confidence of the Government of Indonesia, CA has become one of the two largest concerns in this sector (the other being Garuda Indonesia).

To defend its good name, and keep the trust which it has won, CA vigilantly safeguards the goods which pass in and out of its warehouses. This is to prevent smuggling and other security irregularities which could interfere with CA operations and tarnish its reputation.

To give it the competitive edge, quality of customer service quality is CA's first priority. With its new, efficient equipment, CA can provide its customers with prompt, safe and assured warehousing service. Additionally, pricing is competitive for the level of service provided.

These pains taken to offer security and high quality service have paid off in growth of CA operating revenues, which reached 14.4% in 1994. A breakdown of CA operating revenues can be seen in the following table:

**CA Operating Revenues:
1990-1994**

(Rp thousands)

	1990	1991	Growth %	1992	Growth %	1993	Growth %	1994	Growth %
Warehouse Services	4,474,215	10,046,548	124.54	16,749,603	66.72	15,654,553	(6.54)	18,048,047	15.29
Cargo Ground Handling	1,753,099	2,170,350	23.80	3,166,921	45.92	4,018,043	26.88	5,664,547	40.98
Cargo Handling	597,645	837,420	40.12	1,414,322	68.89	1,815,552	28.37	1,593,871	(12.21)
Hangar Rental	415,289	540,224	30.08	786,144	45.52	962,147	22.39	988,051	2.69
Transport service	1,255,880	422,023	(66.40)	352,206	(16.54)	32,158	(90.87)	497,078	1,445.74
Agency Service	-	1,065,799		812,833	(23.73)	433,626	(46.65)	411,743	(5.05)
Total	8,844,356	15,082,363	70.53	23,282,029	54.37	22,916,079	(1.57)	27,203,336	18.71

CA warehousing revenues are generally based on quantity of, and length of time goods are in storage at CA facilities.

In line with the growth of the warehousing and loading/unloading industry, CA plans to expand in 1996 by establishing new branches at the Polonia Airport in Medan, the Hasanuddin Airport in Ujung Pandang and the Hang Nadim Airport in Batam. These moves are hoped to boost both CA market share and operating revenues.

2.4.4. PT INDONESIA AIR TRANSPORT I.A.T. (IAT)

IAT was established as a foreign investment joint venture between Schreiner Aviation Group of the Netherlands, and local interests, but the Company has owned 100% of IAT stock since 1984.

IAT has obtained the permission of the Director General of Civil Aviation, to operate an air charter and helicopter service, providing non-scheduled service both in Indonesia and abroad.

IAT currently owns twenty aircraft, six of which are helicopters, the remainder being twin engine fixed-wing aeroplanes. IAT has hangar and workshop facilities at Pondok Cabe Airport for aircraft repair and maintenance, supported by a stock of spare parts. Operations for the entire IAT fleet, however, are based at the Halim Perdana Kusuma Airport. IAT also maintains helicopter operational centres at the Sepinggan Airport in Balikpapan, the Ngurah Rai Airport in Bali, in Surabaya, Tanjung Enim, Pagai Island (South Sumatra) and in Irian Jaya.

With the support of hangar facilities, a completely equipped workshop together with reliable technical staff, IAT can handle most of the repairs and maintenance of its fleet itself. IAT even handles aircraft repair and maintenance for third parties. In the future, IAT hopes that repair and maintenance can become a self-standing profit centre. IAT's comprehensive workshop gives it an advantage over other airlines with less complete facilities, who must rely on third parties for aircraft repairs and maintenance.

IAT provides domestic or international unscheduled flights for almost every need: including executive transport, aeromedical evacuation, seismic flights, aerial photography and surveying, passenger transport, cargo, off-shore and remote area helicopter service, according to customer request.

IAT aircraft service can be classified as follows:

1. **Spot Ad-hoc Charter System:**
payment is calculated per hour of aircraft use, with rates in line with the market standards for given types of aircraft.
2. **Short, Medium or Long Term Contract System:**
customers pay a fixed monthly fee, with an additional hourly/variable fee depending on hours of use and aircraft type.

Given current market conditions, the long term contract system offered by IAT is the most profitable, yielding approximately 70% of IAT revenues, the remainder coming from aircraft charters. Of total revenues, approximately 60% originates from oil companies, 25% from the mining sector, the remaining 15% coming from forestry and other companies. IAT operating revenues from 1990 to 1994 are displayed in the following table:

**IAT Operating Revenues:
1990-1994**

(Rp thousands)

Year	Operating Revenues	Growth (%)
1990	16,576,092	-
1991	22,559,739	36.10
1992	22,541,752	(0.08)
1993	25,393,134	12.65
1994	24,003,926	(5.47)

IAT employs the services of 35 fixed-wing aeroplane pilots, 23 helicopter pilots and 65 certified mechanics. All IAT pilots possess either the Commercial Pilot License (CPL) or the Airline Transport Pilot License (ATPL). Pilots are given regular refresher training, and a number of jet aircraft pilots have even been sent abroad for higher training. With the provision of periodic training, and the conscientiousness of its pilots and technicians, IAT is the only charter airline in Indonesia to have received Helicopter Association International (HAI) recognition for flight safety seventeen consecutive times.

Superior customer service and maintenance of its aircraft are always the first priorities at IAT. Major customers, like Shell, Mobil Oil, Gulf, Total Indonesia and others routinely inspect the condition of IAT aircraft—whether those leased or otherwise—before extending their contracts. IAT has met the standards and been awarded the Air Operators Certificate (AOC); it also possesses the Basic Maintenance Manual (BMM), the Basic Operational Manual (BOM), the Maintenance Organisation Manual (MOM), and certification in other areas, like ground handling. This certification all helps to build IAT credibility in the eyes of customers.

2.4.5. PT SAMUDRA PETRINDO ASIA (SPA)

The Company currently has 99.93% equity participation in SPA, formerly known as PT Samudra Petroleum. SPA commenced commercial operation with trading, its focus being on the petroleum industry. Since obtaining a shipping licence in 1990, SPA has concentrated fully on shipping and related services, including:

1. Ship Owning:

SPA owns the 4,200 ton (dead weight) 'Samudra Ayu,' currently leased by Pertamina for two years, with the option of extension. SPA cooperates with Thome Ship Management Ltd. in the management of this ship.

2. Brokerage Service:

SPA has been granted a Tanda Daftar Rekanan (Registration of Associated Company) for land, sea and air transportation equipment leasing. It is registered with Pertamina and KPS as a chartering agent for tankers and drilling rigs, and provides the same service for private industry as well, chartering ships to convey dry/bulk or chemical cargoes.

3. Ship Agent:

As the owner of 'Samudra Ayu,' SPA holds a shipping licence, and is thus entitled to operate as a shipping agent. In line with current agent regulations, SPA handles the processing of operating permits for foreign ships, provisioning of both ships and crews and other miscellaneous services.

4. Ship Crew Recruitment:

In recruiting and placing ship crew and personnel, SPA first checks the physical condition and health of potential crew members. Crew training is provided, and crew member and related insurance is arranged.

Pertamina is SPA's largest current client: in 1994, SPA controlled a 29.04% share of Pertamina charters. To diversify and achieve a balance between government and private sector dealings, over the last two years SPA has increasingly promoted itself to private sector industries in fields like forestry, chemicals and mining. SPA's private sector clients include ARCO, PT Chandra Asri, PT Tripolita, Dolphin Drilling Ltd., Navigation Maritime Bulgare, Stolt Nielsen Inter Asia Service, Jebsen Norway.

In 1994, SPA acted as agent for 211 ships making 244 port calls—17.87% growth over the previous year's level of business. In furnishing crew for ships, 1994 saw SPA prepare 689 personnel through on the job training, and use of an officer and crew cadre/rating system—successfully furthering the drive towards all-Indonesian ship crews. Coming into 1995, SPA added the growing field of ship management—so far dominated by foreign interests—to its roster of business activities.

SPA's improving performance over the past few years is presented in the following table:

**SPA Operating Revenues:
1990-1994**

(Rp thousands)

Explanation	1990	1991	Growth %	1992	Growth %	1993	Growth %	1994	Growth %
Operating Revenues									
- Shipping Brokerage Fees	2,941,438	3,601,567	22.44	3,740,048	3.85	3,161,304	(15.47)	3,280,067	3.76
- Charter Fees for Own Vessels	765,565	1,943,779	153.90	1,990,647	2.41	1,932,111	(2.94)	2,470,167	27.85
- Crew Recruitment and Agency Fees	42,605	554,822	1,202.25	653,491	17.78	1,265,558	93.66	1,582,850	25.07
- Other	155,765	463,367	197.48	392,493	(15.30)	450,046	14.66	674,396	49.85
Total	3,905,372	6,563,537	68.06	6,776,679	3.25	6,809,019	0.48	8,007,480	17.60

In addition to its shipping activities, SPA also has equity participation in several other ventures:

2.4.5.1. Osprey Maritime Limited (Osprey)

SPA equity participation in Singapore-based Osprey stands at 10.12%. Active in shipping, Osprey recently listed its shares on the Stock Exchange of Singapore, on 22nd April 1994. Thirteen ships support Osprey operations, and they are leased for the transport of LNG, LPG, crude oil and other commodities. Through its equity participation in Osprey, SPA is poised to gain access to a larger market share.

2.4.5.2. PT Fast Marine Service (FMS)

Jakarta-based FMS has the same line of business as SPA, operating the 125,000 cubic metre capacity LNG ship 'Hoegh Gandria,' owned by Liquimarine Gandria Shipping Co. of Norway. Hoegh Gandria has been leased by Pertamina for a twenty-year period, from 1986 to 2006, and is used to transport LNG from Arun to South Korea. SPA equity participation in FMS currently stands at 40%.

SPA also invests in the shares of the following two firms:

- Shaun Investment, SA (SI): SI is a shipping concern based in Panama, and the SPA interest is planned to reach 50%. SI owns one ship, the 'Camar Ayu,' with a dead weight of 27,000 tons, currently leased by GFB Resources for a period of one year. The Camar Ayu is used for floating storage and off loading (FSO).
- PT Transpa Andalan (TA): SPA's portion of TA stock is planned to reach 45%, with the majority 55% being held by PT Raja Garuda Mas. TA activity in the transport of raw materials and products in the pulp industry, will allow SPA to expand its dry cargo line of service. Experienced SPA staff has already been put in place to handle foreign shipments of TA pulp cargo.

SPA's lines of business are excluded from the Environmental Impact Assessment process (*AMDAL*), but as a measure of SPA concern for the environment, it is currently endeavouring to gain the International Safety Management (ISM) Certificate. In addition, wherever SPA acts as an agent, its ships must carry complete oil pollution control equipment and be insured to the standards set by both the International Maritime Organization (IMO) and the Safety of Life at Sea (SOLAS).

2.5. THE CHEMICALS DIVISION

The Company has a number of subsidiaries active in basic chemicals, a key sector in modern Indonesia given the mushrooming of domestic downstream industries while Indonesia remains heavily dependent on imports for some important chemicals. The Company plans to develop this crucial industry through the subsidiaries whose activities are detailed below:

2.5.1. PT Bima Kimia Citra (BKC)

BKC, formerly PT Bimageha Citra Lindo Kimia Konsolidat, is 30% owned by the Company.

BKC trades in chemical products and has equity investments in other companies. It currently trades in two main items, gilsonite and dustex, both used in road construction and maintenance.

Gilsonite is an asphalt additive which renders roads stronger and more resistant to tyre friction, while dustex is a lignin-based product used to stabilise dirt roads and reduce dust, especially useful for road construction in rural areas, plantations and transmigration sites.

BKC also has equity participation in four other chemical firms: PT Tri Polyta Indonesia, PT Bima Kimia Nufarm, PT Bimalindo Citra Industri and PT Redeco Petrolin Utama.

The following table details BKC operating revenues from 1990 to 1994:

BKC Operating Revenues: 1990-1994

(Rp thousands)

Year	Goods Sold	Management service	Investment	Total Income	Growth (%)
1990	-	30,000	-	30,000	-
1991	71,889	613,500	-	685,389	2,184.63
1992	57,509	148,500	318,895	524,904	(23.42)
1993	137,200	21,978	14,290,989	14,450,167	2,652.92
1994	85,418	59,341	24,300,462	24,445,221	69.17

* The 1990 financial statement only covers six months, since BKC only started operations in mid-1990.

2.5.1.1. PT Tri Polyta Indonesia (Tripolyta)

Tripolyta is a basic chemicals producer that began commercial operation in August 1992, producing polypropylene, a basic raw material for the plastics industry. The Tripolyta factory occupies 16 ha in the Anyer area of Cilegon, West Java, and employs 470 workers. BKC currently holds 31.23% of Tripolyta shares.

In August 1994, Tripolyta became the first Indonesian company to list its shares on the Nasdaq National Market, New York, under the code TPIFY. Tripolyta listed 6,500,000 American Depositary Shares (ADS)—one ADS equalling ten common shares—at an IPO price of US\$21.00 per ADS. This share offering represented 65,000,000 common shares, or 26.2% of its total stock. Since listing its stock on the Nasdaq National Market, Tripolyta share prices have never fallen below the IPO price.

Tripolyta Share Prices

(US\$)

Quarter	High	Low
1994		
III	27.63	21.75
IV	30.75	23.00
1995		
I	26.25	21.00

Tripolyta operates two production reactors, each having a capacity of 80,000 tons per year. With the 'debottlenecking' undertaken in 1993, Tripolyta production capacity was boosted from 160,000 to 215,000 tons per year.

Tripolyta uses gas-phase production technology from UNIPOL®—jointly developed by Union Carbide Corporation (UCC) and Shell Chemical Company—for which it pays royalties to UCC, and in exchange receives technical assistance from UCC and Shell Chemical Company.

Tripolyta so far only produces homopolymer type polypropylene, known under the brand name *Trilene*, available as film resin, yarn resin, fibre resin, injection moulding resin, etc. These products are the raw materials for a number of plastic products, including food packaging, laminated paper, children's toys, together with all manner of household equipment and utensils.

Propylene is the principal raw material for polypropylene production, and to date it is still imported, subject to a 5% import tariff. With Chandra Asri becoming operational in 1995, Tripolyta expects to source approximately 300,000 tons of this raw material annually from that domestic supplier.

Film resin was Tripolyta's most important product, accounting for 60% of total sales. Tripolyta sales, broken down by product type, are shown in the following table:

**Tripolyta Product Sales:
1993-1994**

(Rp thousands)

Product Type	1993		1994	
	Sales (tons)	Sales (Rp)	Sales (tons)	Sales (Rp)
Film Resin:				
IPP	82,414	144,933,000	101,826	231,873,000
BOPP	15,882	28,384,000	26,551	62,998,000
Yarn Resin	49,220	85,652,000	66,683	147,952,000
Fibre Resin	4,554	7,695,000	4,516	10,222,000
Injection Moulding Resin	11,179	19,183,000	12,797	27,041,000
Other	674	590,000	805	1,031,000
Total	163,923	286,437,000	213,178	481,117,000

Tripolyta markets its products both directly and through its distribution network, now consisting of six distributors attending to small-scale sales to over 400 customers. For bulk sales, Tripolyta deals directly with buyers.

Tripolyta is bringing out practical new products resulting from the efforts of its research and development division. For customers with special needs who meet minimum volume requirements, Tripolyta will produce to custom specifications.

2.5.1.2. PT Bima Kimia Nufarm (BKN)

Formerly known as PT Multisida Agrolindo, this 30%-owned BKC subsidiary assumed its current name in 1993 because of cooperation with Fernz Corporation Limited of New Zealand, through its subsidiary, Nufarm Australia Ltd. This cooperation was intended to support business expansion and develop industrial technology.

The BKN factory occupies one hectare in the Serang area of West Java, and employs a workforce of 72 in the production mainly of herbicide and fertiliser. Herbicides are pesticides used to destroy weeds.

BKN's two main herbicide products are 'Kleenup' and 'Lindomin,' which accounted for fully 65% and 15% of total sales in 1994. Kleenup is glyphosate-based and is particularly suitable for the control of *alang-alang* grass (tall, invasive wild grass), while Lindomin is useful for the elimination of a variety of broad-leaved weeds, including those of the *teki* type.

Production technology used by BKN was obtained from Nufarm Ltd., an Australian pesticide and chemical manufacturer. Installed capacity is 6,000 kilolitres of herbicides per year, with 1994 production levels at 570 kilolitres of Kleenup, 300 kilolitres of Lindomin, with other products, including special orders, coming to 1,200 kilolitres.

Chemical raw materials—some imported from Nufarm Australia Ltd., the remainder obtained domestically—account for approximately 75% of total production costs.

BKN customers include private plantation companies, World Bank and ADB projects, and staple and plantation crop farmers. For 1993, total herbicide consumption was 5,326 tons, of which 65% was applied to plantation crops, and approximately 35% to food crops (source: the Directorate of Agrochemical Industry, Ministry of Industry).

BKN markets its products to consumers through sales agents. As part of its services to its customers, BKN provides brochures supplying complete instructions on applications and use of each type of herbicide, in addition to technical support.

2.5.1.3. PT Bimalindo Citra Industri (BCI)

BCI is a joint venture between BKC and the Salim Group, each holding a 50% interest. BCI's main business activity is 20% equity participation in PT Styrimdo Mono Indonesia (SMI), the remaining portion being held by Tomen Corporation (75%) and Idemitsu Petrochemical Co. (5%), both of Japan.

The following is a brief outline of the operations of this BCI subsidiary:

PT Styrimdo Mono Indonesia (SMI)

SMI, starting operations in 1993 in its factory in Merak, West Java, is the sole Indonesian producer of monomer styrene. With an installed capacity of 100,000 tons per year, actual production reached 80% of this in 1994. Almost the entire production is marketed domestically, approximately 62% being consumed by the polystyrene industry.

SMI is also currently constructing a factory for the production of ethyl benzene (EB), the raw material for monomer styrene. This factory will have an annual capacity of 110,000 tons, and is slated to begin production in early 1996.

2.5.1.4. PT Redeco Petrolin Utama Inc. (RPU)

This subsidiary, a joint venture between BKC and the Salim Group, leases liquid chemical storage tanks to customers. Equity is divided equally between the two shareholders, each holding 50%.

RPU's principal activity is the leasing of its 26 chemical storage tanks, with a combined capacity of 30,000 kilolitres, to companies operating mainly in the vicinity of its terminal. These tanks are used for the temporary storage of chemicals to be used in production processes, and all of them meet the API 650 Dome Roof Tank standard. RPU also has a jetty capable of accommodating vessels up to 35,000 dwt, and provides onsite customs processing facilities.

Most RPU revenues are derived from leasing of tanks, and from fees levied for handling chemicals, as required by its customers.

RPU's approximately 21 customers are factories or trading firms which conduct operations in the vicinity of the RPU terminal. Its main current customers are RPU affiliates.

Although other firms offer similar services, this poses little threat to RPU given its strategic, naturally favourable location. Situated on the east of Pujut Cape, Merak, its facilities are shielded from west winds and can offer year-round moorage. For storage of materials, companies tend to select places situated closer to their operations. Additionally, for some companies it is less economical to build their own facilities than to use the services offered by RPU.

2.5.2. PT POLYCHEM LINDO INC. (PLC)

PLC was established under the terms of the domestic investment scheme, and it is 60% owned by the Company. It has produced polystyrene commercially since 1st January 1985 at its 6.5 ha factory site in the Serang area, West Java. It currently employs a workforce of 225.

PLC has four production lines: two lines with capacities of 7,500 tons per year produce general purpose polystyrene (GPPS); one line with a capacity of 4,500 tons per year produces high impact polystyrene (HIPS); and one line with a capacity of 2,000 tons per year produces expandable polystyrene (EPS)—giving an overall production capacity of 21,500 tons per year. Production capacity, and growth in actual production and sales for GPPS, HIPS and EPS produced by PLC over the last five years are shown in the following table:

PLC Capacity, Production and Sales: 1990-1994

Year	Production Capacity *				Production				Sales			
	GPPS	HIPS	EPS	TOTAL	GPPS	HIPS	EPS	TOTAL	GPPS	HIPS	EPS	TOTAL
1990	15,000	4,500	2,000	21,500	7,008	4,583	746	12,337	6,905	4,763	694	12,362
1991	15,000	4,500	2,000	21,500	7,687	4,322	513	12,522	6,990	3,938	390	11,318
1992	15,000	4,500	2,000	21,500	7,840	5,067	985	13,892	8,026	4,635	637	13,298
1993	15,000	4,500	2,000	21,500	13,257	3,986	1,070	18,313	12,573	4,368	902	17,843
1994	15,000	4,500	2,000	21,500	14,941	4,851	1,818	21,620	14,100	6,158**	1,836	22,094

* PLC production facilities permit actual production at levels 10% above capacities as noted in the table.

** This sales figure, far above actual production, was because of PLC pre-marketing in anticipation of planned expansion of production capacity in 1995. PLC has temporarily imported products to meet this demand.

PLC produces GPPS and HIPS under the 'Polyron' trade name, and EPS under the name 'Polypor'. Those items are commonly used in the manufacture of household equipment, packaging material for food and drink, electronic equipment (i.e. TV and radio cabinets), cassette boxes, blank cassettes and related items.

The main raw material for polystyrene production is monomer styrene, sourced domestically from the PLC affiliated company, PT Styrindo Mono Indonesia (SMI) described earlier.

To ensure consistent quality, PLC applies strict quality control from selection of raw material to final stages of production, employing a battery of tests to confirm that production meets specifications. PLC recycles any substandard goods which may be detected to minimise waste.

Indonesian polystyrene consumption reached 62,029 tons in 1993 (source: *DC/ICN* No. 146, April 18, 1994), of which PLC supplied approximately 17,843 tons, giving it a 28.77% market share. The following table details PLC product sales from 1990 to 1994:

PLC Sales by Product Type: 1990-1994

(Rp thousands)

	1990	1991	Growth %	1992	Growth %	1993	Growth %	1994	Growth %
GPPS	17,993,398	14,791,337	(17.79)	13,864,678	(6.26)	21,940,734	58.24	31,091,424	41.71
HIPS	13,725,997	9,493,913	(30.83)	8,719,083	(8.16)	8,097,086	(7.13)	14,663,460	81.09
EPS	2,103,794	1,105,808	(47.44)	1,539,794	39.24	2,203,324	43.09	5,212,888	36.59
Gross Sales	33,823,169	25,391,059	24.93	24,122,555	(5.00)	32,241,144	33.66	50,967,772	58.08
Discount	-	69,967	-	13,819	-	16,401	-	9,166	-
Net Sales	83,823,169	25,321,092	25.14	24,108,736	(4.79)	32,224,743	33.66	50,958,606	58.14

PLC marketing is done both directly and through distributors. Sales in the Jakarta region are handled directly by PLC, except for small-scale sales for which PLC employs the services of distributors. Outside the Jakarta region, sales are done via distributors in Surabaya, Semarang, Bandung and Medan. Three month contracts are used for sales of sufficiently large scale.

To keep competitive, PLC takes care to cultivate good customer relations, providing after sales service via regular visits and technical consultation. PLC also welcomes input on its service and on product specifications, so deficiencies can be corrected quickly and efficiently.

In the chemical industry, product quality can always be improved to boost competitiveness. To this end, PLC contacts its customers regularly to keep abreast of the particular specifications they require. Research and development efforts at PLC have resulted in the formulation of a flame retarding HIPS, for which it received a certificate of recognition from Underwriter Laboratories in the US in 1994. This certification enables PLC to sell its products, especially HIPS, to the US. PLC is also cooperating with Idemitsu Petrochemical Co., Japan, in the research and development of new products.

As with industrial activities in general, PLC production can affect the environment, and negative impact must be met with appropriate action. Since the introduction of the Environmental Impact Analysis regulations, PLC has complied with these requirements and was issued a Decree concerning Environmental Impact Analysis, No. 660/7622/BKLH/89 by the Regional Secretary of the Provincial Government of West Java on 15th November 1989.

2.5.3. PT MULTI NITROTAMA KIMIA (MNK)

The Company currently owns 40% of the shares of MNK, an enterprise established under the terms of the domestic investment scheme. Beginning operations in June 1990, MNK currently employs the services of more than 100 workers.

MNK operates an integrated factory situated on a five hectare site in the Kujang Cikampek Industrial Estate, in Dawuan Cikampek, West Java. These facilities are owned by PT Pupuk Kujang, and are leased by MNK for a twenty-year period. The MNK administrative and marketing centre is in Jakarta.

MNK currently produces these two products:

1. Nitric Acid (HNO₃):

The majority of MNK nitric acid production is used as a raw material for ammonium nitrate. Remaining nitric acid production is sold, generally for use in the organic synthesis of substances like colouring, nitrate cellulose and polyurethane, or in metal processing.

2. Ammonium Nitrate (NH₄NO₃):

This substance is frequently used in the mining industry, in the extraction of coal or metal ores, or in quarrying.

MNK installed capacity stands at 55,000 metric tons for nitric acid (60% concentration), and 26,400 metric tons for ammonium nitrate. In 1994, actual ammonium nitrate production exceeded installed capacity, made possible by increased efficiency and improvements in product quality. Growth in the production of both nitric acid and ammonium nitrate is displayed in the following table:

**MNK Production Growth:
1991-1994***

Year	Nitric Acid		Amonium Nitrate		Total Production	Growth (%)
	Production (MT)	Growth (%)	Production (MT)	Growth (%)		
1991	23,115	-	13,767	-	36,882	-
1992	34,361	48.70	20,707	50.40	55,068	49.31
1993	42,116	22.60	24,425	18.00	66,541	20.83
1994	43,020	2.10	26,981	10.50	70,001	5.20

* MNK began commercial operations in 1991.

The main raw material for nitric acid production is ammonia, all of which is obtained from PT Pupuk Kujang, a 30% shareholder of MNK.

To guarantee consistent product quality, exhaustive laboratory tests are carried out at every stage from raw material to finished product. In addition, system control is computerised at MNK for data accuracy and to facilitate control of the production process.

Sales of nitric acid and ammonium nitrate have grown satisfactorily since MNK operation began; this data can be seen in the following table:

**MNK Product Sales:
1991-1994**

(Rp thousands)

Year	Nitric Acid			Ammonium Nitrate			Total Sales	Growth %
	Local	Export	Total	Local	Export	Total		
1991	751,291	253,954	1,005,245	9,185,672	2,145,672	11,331,344	12,336,589	-
1992	1,261,281	137,202	1,353,483	22,395,878	1,216,281	24,398,649	25,752,132	108.75
1993	1,544,157	42,338	1,586,495	31,404,770	699,031	32,103,801	33,690,296	30.83
1994	1,733,478	10,638	1,744,116	32,965,125	-	32,965,125	34,709,241	3.02

* MNK began commercial operations in 1991.

The majority of MNK's eighty current customers are mining companies, while other consumers include quarrying companies and cement plants. MNK also imports ammonium nitrate, since its production capacity of only 26,400 metric tons per year falls short of domestic demand.

Direct sales is the rule for all MNK production: to expand its network of customers, MNK closely follows mining sector developments and promptly contacts new mining companies that show potential to become new customers.

MNK complies with all government regulations concerning industrial impact on the environment, particularly PP No. 29/1986 regarding Environmental Impact Analysis, and has gained approval for its Environmental Evaluation Study for the Pupuk Kujang Industrial Estate, as set out in Approval No. 259/SJ/VI/1990.

2.5.4. PT DANAPAINTS INDONESIA (DANAPAINTS)

Danapaints was established under the terms of the foreign investment scheme, with the Company holding a 28.15% interest. With the agreement of the other shareholders, the Company was given the opportunity to purchase additional shares, and now it controls 50% of Danapaints.

Danapaints began commercial operations by producing paint for the construction industry, and automotive paint for car assembly factories and paint workshops. The next step was manufacture of specific paints for the lumber, metal, maritime, shipyard and petroleum industries. Danapaints produces paints in types and colours according to customer specifications.

Production capacity will increase from 10,000 to 12,000 tons in 1995; the growth in Danapaints production and sales from 1990 to 1994 can be seen in the following table:

**Danapaints—Production and Sales Growth:
1990-1994**

(tons)

Year	Production Capacity (per shift)	Production	Sales
1990	7,000	4,954	4,879
1991	7,500	5,534	5,378
1992	8,000	7,351	6,368
1993	8,500	8,573	8,150
1994	10,000	9,698	9,847

* To meet strong demand in 1993, Danapaints extended normal working hours.

To support production, approximately 60% of raw materials are imported directly by Danapaints, 25% is sourced domestically, while the remainder is obtained through specialised import agents.

To ensure high product quality, the two Danapaints factories are outfitted with modern paint-making machinery. Research and development facilities, quality control inspection and a modern, fully-equipped central training laboratory also contribute to uniform quality control. Danapaints consistently conducts quality control of raw materials, products in the production line and finished products, as well as conducting performance trials of painting applications.

The following table displays the robust growth of Danapaints operating revenues over the last five years:

**Danapaints Operating Revenues:
1990-1994**

(Rp thousands)

Product Line	1990	1991	1992	1993	1994
Automotive	24,569,041	30,613,790	30,662,166	38,804,690	46,324,387
Wood Finishes	4,646,176	5,472,456	4,940,955	5,752,892	4,734,908
Architectura	1,931,955	2,151,621	3,666,945	5,695,405	9,757,367
Marine & Heavy Coatings	2,499,888	4,861,849	4,992,532	5,331,550	5,125,950
Total	33,647,093	43,099,716	44,262,538	55,584,137	65,942,612
Growth	-	28.09%	2.70%	25.58%	18.64%

On average, approximately 70% of Danapaints total operating revenues have been derived from sales of automotive paint to assembly factories, bodyworks and paint workshops. Danapaints' automotive paints are its premier product line, capturing a 21.2% share of the automotive paint market in 1994. The projected 10%-15% annual growth of the Indonesian automotive sector over the next few years challenges Danapaints to defend and even enlarge its current market share. The following table details Danapaints 1994 market share by product type:

**Danapaints Market Share:
1994**

Product Line	%
Automotive	21.2
Wood Finishes	11.0
Architectural	3.0
Marine & Heavy Coatings	11.0

Source: market survey conducted by the Danapaints marketing team.

So far, Danapaints' entire production has been marketed domestically. Approximately 65% of its sales have been handled by the affiliated companies, PT Sumber Selatan Nusantara and PT Bimantara Artika Citra, appointed main distributors for all of Indonesia. In the Greater Jakarta region ('Jabotabek'), Danapaints itself directly handles marketing.

The rapid growth of the paint industry has brought on tighter competition. To keep ahead of its rivals, Danapaints endeavours to play a key role in all the sectors it enters. To build distinctive images for each of its products, Danapaints markets its products under brand names especially tailored for particular sectors: for example, 'Danabrite' and 'Danalux' are paint lines especially for buildings and the construction industry, while the 'Danagloss' name is used exclusively for automotive paints marketed to auto paint workshops.

Its status as a Company subsidiary gives Danapaints certain advantages when it comes to marketing, as paint needed for projects of either the Company or its subsidiaries will be procured from Danapaints. Aside from this internal marketing, targeting the Company and its subsidiaries, Danapaints also promotes its products through television and print media advertising.

Danapaints supplies after sales technical assistance to its customers, and this attentive service, together with its superior product quality, has yielded good customer relations and constructive feedback. In this way, product quality, service and customer satisfaction are maintained at a consistently high level.

2.6. THE HOTELS & PROPERTY DIVISION

The Company also has equity participation in a number of firms active in property. The robustness of this sector is evidenced by the proliferation of office buildings, apartments, hotels, shopping centres and housing developments in Jakarta and in urban centres all over Indonesia. The next section outlines the activities of Company subsidiaries active in this field.

2.6.1. PT PLAZA INDONESIA REALTY (PIR)

PIR was established under the domestic investment scheme, and is numbered among the real estate interests in Indonesia which have listed their shares on the Jakarta Stock Exchange. The Company currently holds 27.55% of PIR equity.

PIR owns the Plaza Indonesia shopping centre and the Hotel Grand Hyatt Jakarta—two mutually-supporting developments, integrated in a single complex. Its location in Jalan MH. Thamrin Kav. 28-30 puts it in a strategically situated golden triangle business district easily accessible from many directions.

Plaza Indonesia is widely known among various strata of society—especially middle class and above—as a centre for obtaining a wide variety of goods, ranging from famous name fashions and accessories, books, household needs, children's toys to interior design accessories. Banks and restaurants form part of the comprehensive range of services available to the public.

The Plaza's crowning touch is the spacious Atrium, used on average thirty times a year as an exhibition venue. The Sogo Department Store—famous Asia-wide—completes the retail amenities offered by this shopping centre.

PIR success in creating an attractive shopping environment with elegant interior design can be measured by the number of parties leasing commercial space at the Plaza—currently over 100 retailers of international reputation.

Plaza Indonesia Shopping Centre Occupancy Rates: 1990-1994

Year	Occupancy Rate (%)
1990	91.60
1991	97.80
1992	98.60
1993	99.10
1994	99.20

Source: PIR Data, 1994

The five-star Hotel Grand Hyatt Jakarta, owned by PIR, is managed by Hyatt of Hongkong. This 450-room hotel features an exclusive style, and offers diverse business, entertainment and sports facilities.

The Hotel Grand Hyatt Jakarta focuses on the needs of the business traveller, always striving for an atmosphere of comfort and calm. In conducting its marketing, the Hotel Grand Hyatt Jakarta employs the 'Hymark' worldwide sales network, which permits convenient hotel reservations throughout the worldwide Hyatt International network.

PIR success in running this integrated shopping centre/hotel complex has resulted in consistently growing operating revenues over the last five years:

**PIR Operating Revenues:
1990-1994**

(Rp thousands)

Year	Shopping Centre		Hotel		Total Revenues	Growth (%)
	Revenues	Growth (%)	Revenues	Growth (%)		
1990	16,700,103	—	—	—	16,700,103	—
1991	24,327,336	45.67	54,491,130	—	78,818,466	371.96
1992	27,907,026	14.71	89,328,415	63.93	117,235,441	48.74
1993	28,193,737	1.03	96,221,026	7.72	124,414,763	6.12
1994	32,652,885	15.82	107,716,126	11.95	140,369,011	12.82

A fundamental rule of ecosystems is that any activity will affect other aspects of the environment. Given this, when embarking on construction, PIR submitted an Environmental Evaluation Study to the Environmental Impact Analysis Commission,

Jakarta, and obtained their approval in the Decree No.441/-1.777-6/90, dated 1st June 1990. In addition, that same commission also approved PIR's Environmental Management and Environmental Monitoring Plans, in letter no. 300/-1.777.6, dated 11th November 1994.

2.6.2. PT NUSADUA GRAHA INTERNATIONAL (NGI)

NGI, 36.56% owned by the Company, was established as a foreign investment company. Operating in hotels, it owns the Sheraton Nusa Indah Resort (SNIR) and the Bali International Convention Centre (BICC).

SNIR and the adjoining BICC are located in strategic Nusa Dua, easily accessible with various forms of transportation from the rest of Bali, and only fifteen minutes from the Ngurah Rai Airport.

1. Sheraton Nusa Indah Resort (SNIR)

This 369-room hotel began operation in January 1991, and its complete amenities make it one of the only four resorts of five-star rating in Nusa Dua.

Management of both SNIR and BICC is handled by Sheraton Overseas Management Cooperation, a hotel management team of international reputation. This management team, together with complete amenities and high quality service, enables SNIR to compete with other resorts. Consistently rising occupancy rates through its four years of operation bear this out: from 40.6% in 1992, occupancy rose to 65.5% in 1993 and 84.2% in 1994. This puts the SNIR in the high-occupancy category of hotels in the Nusa Dua region, as can be seen in the following table:

**Average Occupancy Rates for Nusa Dua Hotels:
1994**

Hotel	Occupancy Rate (%)
Bali Hilton	86.9
Sheraton Lagoon	85.0
SNIR	84.2
Bali Sol	81.1
Grand Hyatt	84.2
Intercontinental	61.6

Source: SNIR Data, 1994

Besides tourists, SNIR also accommodates professional travellers attending conferences at the BICC, such guests accounting for 30% of SNIR occupancy. With this diversity of clients, SNIR is able to maintain constant occupancy rates throughout the year.

2. Bali International Convention Centre (BICC)

Inaugurating operations at the same time as SNIR in 1991, the BICC has twelve meeting rooms, a main hall for between 1,400 and 2,300 people, several exhibition halls and an open area suitable for outdoor exhibitions. With its complete support facilities, the BICC is the only comprehensive convention centre of its size in Bali—what more, benefiting from shared facilities with SNIR. This synergistic pooling of resources was the brainchild of NGI, and represents true value-added collaboration.

With its superior amenities, the BICC has hosted numerous national and international conferences, for bodies such as PATA, APEC, the Non-Aligned Movement, IBM, Sony, Airbus France, to name but a few. For 1995 and 1996, a number of parties have already confirmed their intentions to hold their conferences at BICC, including ten medical conferences of between 200 and 1,200 participants, the IATA Conference and the ASPAC Recognition Conference.

With their truly professional facilities and service, SNIR and BICC won national recognition for excellence in 1994, receiving awards for Best Hotel—for occupational safety, Best General Manager, and Best Employee—for Assistant Chief Engineer NGI. This is the first time ever in the Indonesia hotel sector, that these three high honours have been bestowed concurrently on the same resort and convention centre.

High interest expense means that NGI is still posting losses for the time being, but operating revenues have been growing steadily from year to year, as shown in the following table:

**NGI Operating Revenues:
1990-1994**

(Rp thousands)

Year	Operating Revenues	Growth (%)
1990*	—	—
1991	8,939,374	—
1992	15,040,258	*
1993	21,473,469	42.77
1994	23,995,739	35.03

* NGI was not yet commercially operational.

NGI will use additional capital obtained from its shareholders to repay its current bank debt, and reduce its debt interest. This will enable financial performance to improve, and support the improving operational performance led by the NGI management team.

2.6.3. PT DUTA NUSABINA LESTARI (DNL)

DNL—formerly known as PT Indoprima Tirtarama—is 30% owned by the Company, and is active in real estate, industrial estates and general construction. In that latter capacity, it can act as contractor, planner, site operator and building works contractor in the construction of buildings, houses, roads, bridges, runways, dams and other major works.

Not yet commercially operational, DNL is currently engaged in the Russian Federation Embassy project. Embassy offices and facilities are in construction on 16,080 square metres of DNL land, located in Jl. H. R. Rasuna Said, Kuningan. All construction costs are borne by DNL until the complex is ready for occupancy, and is officially handed over to the Russian delegation. This transfer is slated for September 1995.

In exchange for all the expenses incurred in developing that complex, DNL will receive the 19,640 of land occupied by the former Russian Embassy on Jl. M.H. Thamrin. This tract has been earmarked for apartment, office and hotel development, complete with an extensive shopping centre aimed at the middle and upper income brackets. This project will draw on the expertise of staff experienced in the construction and management of the Plaza Indonesia and Hotel Grand Hyatt Jakarta complex.

All the elements to be constructed in this strategically-located project will be fully integrated and mutually supporting, so this comprehensive development will efficiently meet the need for residential, commercial and shopping/retail space. In close proximity to the Plaza Indonesia—Jakarta's luxury shopping centre—and the five-star Hotel Grand Hyatt Jakarta, DNL plans to make this luxury project complement those two earlier facilities: in all, the luxury heart of Jakarta, catering to the needs of the middle to upper income brackets.

To finance project construction, DNL plans to issue further shares, most of which will be offered to PIR. In addition, the Company will sell the majority of its DNL stock to PIR. PIR equity participation in DNL will be conducted in full accordance with capital market regulations applying to PIR as a public company.

2.6.4. PT USAHA GEDUNG BIMANTARA (UGB)

UGB is active in building construction and leases, and its shares are currently 100% owned by the Company.

UGB has yet to commence commercial operations, and is now occupied with constructing an office complex on a 1.75 ha site in Kebon Sirih, Central Jakarta. The construction phase is slated for completion in November-December 1996, with operations commencing in January 1997. This office complex will be named 'Bimantara Tower,' and will consist of two structures: a twenty-nine-floor office building with three basement floors and a two-floor Podium. The second phase of this development will consist of a 1.75 ha hotel and apartment complex.

Available office space will total approximately 31,390 square metres, with the ground floor of Bimantara Tower to be offered to banks, and the other floors to house the offices of Company subsidiaries. Bimantara Tower will be equipped with a building automation system (BAS) to make for more efficient control of energy use, and a network of vertical and horizontal cables will form part of the infrastructure for integrated computerisation within the building. Building occupants—Company subsidiaries—will thus have access to complete data to meet their information needs.

The 8,035 square metre, two-floor Podium will have a 1,200 square metre mosque on its second floor, capable of accommodating approximately 2,500 worshippers. It will also house a medical centre, sports club, food court, travel bureau and banking and retail facilities—meeting the needs of Bimantara Tower tenants, other office buildings and the surrounding community.

2.7. FINANCIAL SERVICES AND INVESTMENT DIVISION

The strong growth in the Indonesian economy is the driving force behind a corresponding boom in investment. In addition, the 1988 deregulation of the financial sector had a positive impact, spurring growth in the banking, financial services and insurance sectors in Indonesia. Growing public awareness of the benefits of such services, and trust in the companies providing them, has also contributed to the strength of this sector. Having long foreseen a strong future for the financial and insurance industry, the Company has invested in financial services companies since the 1980s.

Outside the financial sector, the Company has invested strategically in other corporations with strong future prospects. One such company is PT Nestle Indonesia. The Company's equity participation in Nestle is a strategic move to boost Company image and performance, since Nestle itself possesses a reputation of international stature.

The following offers an outline of Subsidiaries active in financial services and investment:

2.7.1. PT CITRA INTERNATIONAL FINANCE AND INVESTMENT CORPORATION (Cificorp)

Cificorp, based in Jakarta, received its operating license on 16th February 1990, and the Company's equity in this firm currently totals 55%.

The operational activities of Cificorp are briefly outlined as follows:

1. Leasing:

Cificorp finances the leasing of buildings, machinery, equipment, computers and vehicles, with leases ranging between one and seven years, depending on client condition and means. Approximately 6% of Cificorp-leasing accounts receivable are for leases in excess of three years. In 1994, Cificorp offered interest rates of between 17% and 24.5% to its clients, which included Bimantara Group affiliates, private corporations and state owned enterprises.

2. Factoring:

Cificorp offers its clients discounting rates of between 18%-26.5% on rupiah factoring, and 12% on factoring in US Dollars. Collection periods normally range from one to three months. Most clients using this service are suppliers for oil companies such as Pertamina, Caltex and Mobil Oil.

3. Consumer Finance:

Currently Cificorp offers consumer finance for home and vehicle purchases, with interest rates of 10.5% annually for US dollar loans, and ranging between 14% and 25% for rupiah loans. For this service, clients are drawn from the Bimantara Group, and creditworthy members of the public.

In marketing this service, Cificorp regularly approaches both distributors and suppliers in various industrial sectors. In promoting consumer financing, Cificorp can offer dealers mutually beneficial cooperation arrangements: for example, clients can obtain credit packets to purchase motor vehicles from dealers who have working arrangements with Cificorp, including Astra Group dealers.

This and other marketing strategies have proven highly effective, the results being evident in Cificorp's steady growth in clients and revenues from year to year, as displayed in the following tables:

**Cificorp Client Growth:
1990-1994**

Year	Total Clients	Growth (%)
1990	349	-
1991	639	83.09
1992	750	17.37
1993	634	(15.47)
1994	837	32.02

Cificorp Operating Revenues: 1990-1994

(Rp thousands)

Operating Revenues	1990	1991	Growth %	1992	Growth %	1993	Growth %	1994	Growth %
Operating Leases	1,906,586	3,154,971	65.48	2,749,811	(12.84)	7,476,845	171.90	10,732,288	43.54
Capital Leasing	1,102,910	3,265,260	196.06	2,957,880	(9.41)	2,620,701	(11.40)	11,724,830	348.08
Consumer Finance	227,617	537,220	136.02	1,372,270	155.44	1,618,992	17.98	2,864,104	76.91
Factoring	213,278	806,689	278.23	1,282,567	58.99	704,898	(45.04)	1,001,397	42.06
Venture Capital	-	32,548	-	35,000	7.53	-	-	-	-
Interest Revenues	829,844	615,955	(25.77)	826,101	34.12	1,517,466	83.69	870,033	(42.67)
Other Revenues	590,240	1,141,031	93.32	1,321,129	15.78	1,684,044	24.75	885,686	(46.26)
Total	4,870,439	9,553,674	96.16	10,544,758	10.37	15,586,946	47.82	28,096,338	80.26

To defend and increase its market share, Cificorp strives continually to improve its customer service. Particular care is taken in processing applications to ensure that surveys and paperwork are completed promptly and efficiently.

In granting financing, Cificorp takes pains to safeguard the collectibility of funds by means of careful assessment of a potential client's creditworthiness. The success of this prudent strategy can be seen in the low level of bad debt: only Rp 117 million has been written off in the past five years out of a total of Rp 249.5 billion in financed sales.

So far the majority of Cificorp consumer financing clients have come from the retail sector. However, in the interests of expanding its market share, in 1994 Cificorp shifted its focus to financing for large corporate clients.

2.7.2. PT CITRA INTERNATIONAL UNDERWRITERS (CIU)

This Jakarta-based member of the Bimantara Group received its operating licence from the Director General of Monetary Affairs, Ministry of Finance, on 26th September 1988, becoming a member of the Insurance Council of Indonesia on 18th October of that year. Company equity participation in CIU currently amounts to 55%.

CIU offers various types of general insurance, and reinsures coverage that extends beyond the capacity of CIU itself. CIU offers the following types of general insurance:

- Fire insurance
- Motor vehicle insurance
- Freight insurance
- Flight insurance
- Engineering insurance
- Personal accident insurance
- Ship hull insurance
- Miscellaneous insurance

To develop and broaden its market share, CIU always makes customer service excellence its top priority. CIU always endeavours to settle insurance claims promptly and equitably, and so far it has never been party to a legal suit.

Besides good service, CIU offers competitive premiums with the most favourable terms and limitations compatible with the degree of risk posed by a given client's business activities. CIU success in carrying out this strategy is seen in its year-to-year growth in gross premium revenues.

The following table displays CIU gross premiums and gross claims from 1990-1994:

**CIU Gross Premiums and Claims
1990-1994:**

(Rp thousands)

Year	Gross Premiums	Growth (%)	Gross Claims	Growth (%)
1990	7,632,305	-	2,991,266	-
1991	14,175,833	85.73	3,098,591	3.59
1992	16,703,110	17.83	8,495,256	174.16
1993	21,530,379	28.90	5,379,657	(36.67)
1994	23,063,146	7.12	2,264,422	(57.91)

The above table shows how gross premiums receipts have grown, indicating the increasing number of insurance transactions handled by CIU. Management is always selective in choosing which risks it will insure, and their prudence in this is evidenced by the declining level of gross claims which they have had to cover of recent years.

In 1994, approximately 25.66% of CIU premium revenues were derived from state owned enterprises, 33.15% from the Bimantara Group, 31.12% from various private industrial companies, and the remaining 10.07% from individual policy holders. The following is a list of CIU's major clients:

- PT Plaza Indonesia
- PT Tri Polyta Indonesia
- PT Elektrindo Nusantara
- PT Chandra Asri
- PT Rajawali Citra TV Indonesia
- PT Surya Citra TV
- Garuda Indonesia Airways
- Perusahaan Listrik Negara
- Asean Aceh Fertilizer
- PT Satelindo
- PT Barito Pacific Timber
- Branta Mulia
- PT Merpati Nusantara Airlines
- Others

The competitiveness of an insurance company depends to a great extent on the management of premium revenues. CIU invests these funds in securities and time deposits with both state and private banks.

In cases when insurance coverage exceeds CIU's own capacity for claim payouts, CIU is supported by reinsurance. This is arranged with insurance and reinsurance companies in Indonesia and abroad, and with certain foreign insurance brokerages. CIU cooperates with the following reinsurance corporations and brokerages:

Domestic Reinsurance Companies

- PT Reasuransi Umum Indonesia
- PT Tugu Jasatama Reasuransi Indonesia
- PT Reasuransi Nasional Indonesia
- PT Maskapai Reasuransi Indonesia

Foreign Insurance Brokerages

- Greig Fester International Limited
- Swire Blanch Asia Pte. Ltd.
- Willis Faber Reinsurance Co.

Foreign Reinsurance Companies

- Union Reinsurance Co., Switzerland
- Aachener Ruckversicherungs Gesellschaft Aktiengesellschaft, Germany
- The Tokio Marine & Fire Insurance
- TOA Fire & Marine Reinsurance Co.
- Unione Italiana Di Riassicurazione, Italy
- La Reunion Francaise Societe Anonyme d'Assurances et de Reassurances, France

To support its business operations, CIU also works with insurance brokerages, in particular the affiliated Bimantara Graha Insurance Brokers (BGIB), which has contributed 60% of total CIU revenues.

2.7.3. PT Bimantra Graha Insurance Brokers (BGIB)

This Jakarta-based insurance brokerage was established in 1983; 62.5% of equity is held by the Company.

Besides acting as an insurance broker, BGIB also has 30% equity participation in PT Citra International Finance & Investment Corporation.

BGIB has two main lines of business:

1. Insurance Coverage:

In this, BGIB is commissioned by its clients to seek out the most appropriate insurance coverage, in line with the risks of loss faced, and at competitive premiums. BGIB must first analyse the risks inherent in a client's business activities and calculate the value of losses which may be incurred. Only then can BGIB recommend the policies and terms most beneficial to the client, both in terms of coverage and premiums. If the proposed policy meets with approval, the BGIB can represent the client in concluding the transaction.

2. After Sales Service:

For the client who wishes to file a claim, BGIB will provide assistance in settling his claim with the concerned insurance company as promptly as is possible.

BGIB has successfully offered a wide variety of general insurance for engineering, satellite launches, construction risks, machinery damage, personal accidents, motor vehicles, heavy machinery, aircraft frames, ship hulls and others.

BGIB is part of a cooperation network with Rollins Hudig Hall, the prominent American insurance and reinsurance brokerage house, and Nicholson Leslie Group in London, licensed to act as a Lloyd's broker. Those links allow BGIB to seek out the most beneficial terms for its clients on the world insurance market. In 1994, approximately 75.80% of BGIB revenues were from state corporation premiums, 21.80% were from the Bimantara Group, the remainder coming from a variety of private sector industries. BGIB's positive performance over the last five years is displayed in the following table:

**BGIB Operating Revenues:
1990-1994**

(Rp thousands)

Year	Operating Revenues	Growth (%)
1990	3,624,522	-
1991	4,289,813	18.36
1992	4,130,454	(3.71)
1993	4,581,964	10.93
1994	6,065,801	32.38

Some of BGIB's largest clients from the government-owned sector are Garuda Indonesia, Merpati Nusantara Airlines, fertiliser and petrochemical factories and Perusahaan Listrik Negara, while major customers from the Bimantara Group itself include PT Indonesia Air Transport, PT Rajawali Citra Televisi Indonesia, PT Tri Polyta Indonesia, PT Satelit Palapa Indonesia, PT Plaza Indonesia Realty and others.

For its services, BGIB receives commission ranging between 2% and 20%, depending on the type of insurance transaction involved.

In introducing its services to potential customers, BGIB first offers consultation on the insurance system and its procedures. BGIB provides regular training to ensure that employees are up-to-date on insurance regulations and new insurance products, enabling them to provide accurate information to BGIB clients and prospective customers.

2.7.4. PT NESTLE INDONESIA (NI)

The Company's investment in NI (formerly PT Food Specialties Indonesia) began in 1985, and it now holds a 13.72% stake in this venture. The majority shareholder in NI is Nestle S.A. (57.65%), a leading Swiss food company established for 128 years.

NI products include Dancow powdered milk, Cap Nona and Carnation sweetened condensed milk, Cap Beruang milk, Lactogen formula, Milo, Cerelac baby cereal, Maggi Maxi food seasonings, and others. To manufacture these products, NI has a licensing agreement with Nestle S.A. that includes the use of the Nestle trademark.

Production takes place at two factories in East Java, one in Waru, Sidoarjo and the other at Kejayan, Pasuruan. Two companies handle distribution: PT Sumber Pangan Besar (SPS) and PT Rola Perdana (RP). These are 50% and 37.25% owned by NI.

Since the Company became a shareholder in NI, it has provides considerable support for marketing, particularly in the area of strategy. The success achieved by Dancow powdered milk in gaining a 44.6% market share in 1994 (Source: Survey Research Indonesia, 1994), has much to do with this marketing support. Another successful NI product, sweetened condensed milk, now holds an 18% market share.

NI has recorded a strong business performance since 1990, as shown in the table below:

NI Operating Revenues 1990-1994

(thousands of rupiahs)

Year	Operating Revenues	Growth (%)
1990	194,548,463	-
1991	239,885,023	23.30
1992	298,480,550	24.43
1993	334,275,179	12.07
1994	423,051,723	26.56

2.7.5. PT SUMBER PANGAN SEGAR (SPS)

SPS was founded on 11th March 1993 as a foreign investment joint venture with 20% of equity held by the Company.

SPS is engaged mainly in the trading and distribution of products manufactured by its shareholders—NI, IJR and MRA. This company is based in Jakarta and operates a distribution network through its branches in major cities around Indonesia. Key distribution points include Jakarta, Surabaya, Bali, Palembang, Pontianak, Balikpapan, Ujung Pandang, Manado, Jayapura and Ambon.

SPS has planned a merger with PT Rola Perdana (RP), expected to take place around mid-1995.

3. PROSPECTS

Indonesia is the fourth most populous country in the world after China, India and the United States. During the last five years the population has grown at an average annual rate of 1.8 per cent and currently stands in excess of 192 million people. Against this background, the Government is continuously striving to promote the economic growth of the nation and raise the living standards of the people of Indonesia.

As a part of this the Government has implemented a policy of trade deregulation, with a series of deregulatory packages. These have made investment in Indonesia even more attractive, both for domestic and overseas investors in the oil-gas and non oil-gas sectors. In June 1994, Government Regulation No. 20 was passed, introducing the deregulation of foreign ownership. At the same, further deregulation packages were passed which reduced customs and excise duties, and completely removed tariffs for some types of imported goods. These measures have greatly boosted foreign investment, as can be seen from the number of foreign investment approvals issued by the Investment Coordinating Board in 1994. That year, foreign investment approvals totalled US\$26.14 billion, up 221.13 per cent when compared with the 1993 total of US\$8.14 billion. (Source: Central Bureau of Statistics, March 1995).

Domestic investment has also increased as a consequence of the stable economic and political situation in Indonesia. This can be seen from the fact that total domestic investment approvals issued by the Investment Coordinating Board in 1994 reached Rp 56.06 trillion, an increase of 42.10 per cent when compared to the 1993 total of Rp 39.45 trillion, (Source: Central Bureau of Statistics, March 1995).

This investment growth will in turn increase the nation's economic output, while also creating more employment for the people of Indonesia. This trend is reflected by the growth in Indonesia's Gross Domestic Product (GDP) and per capita income, as shown in the table below:

GDP growth and income per capita

Year	GDP growth (%)	Income per capita (US\$)	Growth(%)
1990	7.2	484.91	7.44
1991	6.9	521.18	7.48
1992	6.3	559.05	7.27
1993	6.6	580.14	3.77

(Source: Central Bureau of Statistics, January 1995)

Both the GDP and per capita income figures in the above table are calculated with 1983 as the baseline year. However, since the manufacturing and construction sectors have overtaken the agricultural and mining sectors in terms of contribution to the GDP, calculating GDP and per capita income with 1983 as the baseline year is inaccurate. For this reason, the Central Bureau of Statistics now uses 1993 as the baseline year. Based on this, Indonesia's GDP and income per capita in 1994 reached US\$919 and US\$884 respectively. According to these figures, Indonesia has achieved the status of a middle income country, an encouraging indicator of economic progress.

The Company operates as a holding company with 26 subsidiaries in a diversified range of businesses. These are grouped together into seven divisions: media & broadcasting, telecommunications, infrastructure, transportation & automotive, chemicals, hotels & property, and financial services and investments. In its position as holding company, the Company's prospects are very closely tied to those of its various business divisions, which are described below.

3.1. MEDIA AND BROADCASTING DIVISION

The Indonesian economy, marked by the encouraging growth of the last few years, has fostered new investment in various sectors. This has fostered stronger competition between companies in some sectors. One of the marketing strategies an enterprise may use to increase market share is advertising, for which television is one of the most effective media.

Compared to other forms of advertising, television is a more attractive medium as product information is presented in an audio visual form. This is a quicker and easier method for an audience to assimilate product information.

During the last five years, television advertising has moved to the top of the advertising business market.

Growth of advertising expenditure by type of media 1990-1994

(in billions of rupiahs)

Media	1990		1991		1992		1993		1994	
	Value	%	Value	%	Value	%	Value	%	Value	%
Newspaper	320	50.1	360	43.1	377	36.7	484	35.0	553	33.3
Magazine	94	14.7	91	10.9	95	9.3	108	7.8	114	6.9
Radio	105	16.4	105	12.6	100	9.7	113	8.2	122	7.3
Cinema	8	1.3	9	1.1	10	1.0	10	0.7	11	0.7
Television	51	8.0	212	25.4	390	38.0	613	44.4	816	49.1
Outdoor	61	9.5	58	6.9	55	5.4	53	3.8	47	2.8
Total	639	100.0	835	100.0	1,027	100.0	1,381	100.0	1,663	100.0

(Source: PPPI - Indonesian Advertising Association - Media Scene 1993-1994)

Manufactured products (food and drink, medicines, cosmetics, etc.) account for more than 50 per cent of all television advertising expenditure, (Source PPPI - Indonesian Advertising Association - *Media Scene 1993-1994*). This is based on government commitment to promoting manufacturing as the driving force of the Indonesian economy.

During Repelita VI, (the sixth Five Year Development Plan), it is estimated that the growth of manufacturing industries will reach 9.4 per cent in 1994/1995, 8.9 per cent in 1995/1996, 8.8 per cent in 1996/1997, 10 per cent in 1997/1998, and 9.7 per cent in 1998/1999, (Source: ICN No. 141 - February 1994).

Another factor supporting a rise in advertising expenditure is the increase in consumer purchasing power. The rapid growth of the national economy will support this increase in consumer purchasing power. With a population of 190 million at the end of Repelita V, (the fifth Five Year Development Plan), and with the trend of growth in per capita income, Indonesia is an attractive market for advertisers. It is estimated that television advertising expenditure will grow by 27 per cent annually during the next five years, compared to an estimated 20 per cent for all media.

Taking the above factors into account, the management of RCTI is optimistic of strong business prospects, especially now that RCTI's broadcast coverage has been extended to cover almost all areas of Indonesia. In addition, RCTI is a private TV broadcaster with a licence to broadcast a maximum of 20 hours per day. In order to extend and protect its market share as well as to strengthen its competitiveness in the Indonesian broadcasting industry, RCTI will expand broadcasting coverage and strengthen its programming team for the creation and broadcasting of quality programs.

With a loan from the Company amounting to 13.04 per cent of net funds raised from the Public Offering, RCTI is planning to expand production facilities, studio equipment and the number of relay stations. The increase in relay stations aims to reach the broadcasting coverage target of 155,006 sq.m by 1996 and is also part of a marketing strategy aimed at maintaining and expanding current market share. With additional production facilities and studio equipment, RCTI will be able to increase production and thus be on target for 80 per cent local content programming by the year 2000.

3.2. TELECOMMUNICATIONS DIVISION

The current high mobility of the Indonesian public is increasing the demand for modern telecommunications equipment. Telecommunications play an important role in the dissemination of information throughout the many isolated regions of the Indonesian archipelago, as well as supporting economic and business growth. It also provides a means of communicating with the outside world. This fact gains even more importance when taking into account the free trade markets Indonesia is now working towards within the ASEAN (AFTA) and Asia Pacific (APEC) regions, as well as through GATT/WTO.

Telkom, the state-owned telecommunications enterprise, has been entrusted with the responsibility of developing, constructing and managing Indonesian telecommunications. By the end of Repelita V, Telkom had successfully increased Indonesian telephone capacity to 3,252,300 lines.

Comparing the Indonesian population of 190 million at the end of Repelita V with the availability of telecommunications services, capacity is still far short of demand. Therefore, a target has been set of five million new telephone lines during Repelita VI. This does not include the planned 600,000 new mobile telephone lines, (Source: ICN No. 155 - 5th September 1994).

Substantial investment is required to achieve the target set for telecommunications infrastructure during Repelita VI. Because of this, the government is working with the private sector in a series of joint operations (KSOs) to develop telecommunications infrastructure. This includes the installation of telephone lines, submarine cables and cellular telephone facilities.

This provides an opportunity for BGT, EN and other subsidiary companies to provide products and services required for the expansion of domestic telecommunications. Government commitment to provide a more even distribution of telephone lines provides an opportunity for EN products such as the STK-1000 small telephone exchange, Smartcom and mobile telephones.

Approximately 20 per cent of the targeted five million new telephone lines are to be installed in rural areas. To accomplish this, the government plans to build small telephone exchanges through joint operations between EN and PT INTI, the main suppliers in the industry.

In addition to small telephone exchanges, EN will also continue to develop its thin road communications business. This is point to point data transfer through its Smartcom product, designed to meet the needs of companies requiring high quality data or voice communications between head offices and branches or remote factories. Smartcom has been well received by customers as an alternative, low cost communications system. It is anticipated that Smartcom will contribute substantially to EN revenues in the future.

Rising business activity increases the necessity for personal mobility, which in turn increases the demand for mobile telephones. Time efficiency is important to mobile telephone subscribers, especially those in areas not yet linked to telecommunications networks. Prospects for the mobile telephone industry are favourable. Telkom is currently negotiating with Customs and Excise to end the classification of mobile telephones as luxury goods and thus make these telephones available at lower prices, (Source: Data Consult/ICN No. 5 - 5th September 1994). Projected growth in demand for mobile telephones is strong, as seen in the projection below.

Projected Potential Mobile Telephone Buyers By Region 1995-1998

(in thousands)

Region	1995	1996	1997	1998
Java and Bali	382.6	412.3	444.4	479.1
Sumatra	96.3	104.5	113.5	123.6
Sulawesi	25.2	27.2	29.3	31.7
Kalimantan	27.7	30.3	33.1	36.3
Nusa Tenggara and East Timor	11.5	12.5	13.5	14.6
Maluku and Irian Jaya	8.1	8.9	9.7	10.5
Total	551.3	595.7	643.6	695.5

Source: Data Consult, ICN No. 5 - 5th September 1994.

Currently, two cellular telephone systems dominate the market. These are the analogue AMPS system and the digital GSM system. AMPS mobile telephones have been available from EN since 1991, and GSM mobile telephones from Satelindo since 1994. EN plans to sell 120,000 AMPS mobile telephones before the end of 1996. In addition, AMPS mobile telephones will be upgraded to become digital, with higher capacity and improved security provided by the Code Digital Multi Access (CDMA) system.

Currently, Satelindo owns 55 Base Transceiver Stations located in the Greater Jakarta area. The network is being expanded to cover Serang, Bandung and Surabaya. This development is planned for completion by the end of 1995, by which time Satelindo estimates it will have a total of 100,000 subscribers. Satelindo plans to have sold 350,000 mobile telephones by the end of 1998.

Satellite communications play an indispensable role in the Government's plan for the development of both domestic and international telecommunications. In anticipation of rapid future growth in satellite technology, BGT has purchased and is operating Palapa satellites C1 and C2 through Satelindo in cooperation with PSN. There are four markets for the Palapa C satellite: domestic broadcast, domestic voice and data transmissions, international/regional broadcast and international/regional voice and data transmissions. Six domestic television companies, TVRI, RCTI, SCTV, Anteve, TPI and Indosiar use Palapa for domestic broadcasting. Thirty five transponders are allocated for domestic voice & data transmission use. In line with government development policy, it is planned to increase the number of these transponders by nine each year on a regular basis. There are also 19 transponders for international/regional broadcast use. These transponders are leased to Australia, Malaysia, New Zealand, the Philippines, Thailand, the USA and Papua New Guinea. There is an estimated potential for leasing another 14 transponders to foreign broadcasters.

The number of transponders available for international/regional voice & data transmissions is now ten, while 14 transponders are leased to Malaysia, the Philippines, Thailand, Papua New Guinea, Vietnam and Cambodia.

Satelindo has also introduced IDD services via access code 008. By offering various additional benefits and features, Satelindo hopes to be considered more than just an alternative IDD supplier. The growth of IDD demand can be seen below:

Year	Demand (in minutes)	Four year growth
1984	61,000,000	-
1988	110,000,000	20 %
1992	298,700,000	43 %

Currently PSN through its consortium project ACeS, which manages the AMSS satellite to provide mobile telephone services via the satellite network, estimates that in its first six years (1998-2004) of operation it will be able to provide about 600,000 mobile telephone lines (Source: CIC No. 112 - 26th August 1994). The AMSS satellite will soon be capable of providing direct mobile telecommunications on land, at sea and in the air.

In addition, the expansion of the existing telephone network through the advancement of technology presents an opportunity for both NNC and AE to provide installation services for NEAX 61 switching networks, microwave networks and submarine fibre optic cables.

The Company plans to lend EN approximately 36.96 per cent of the funds raised from the Public Offering for business development in the telecommunications division. EN will use these funds as a loan or as equity participation in Komselindo. It will also begin to develop the CDPD project, aimed at diversifying its telecommunications equipment products; and construct a building to house its head office.

3.3. INFRASTRUCTURE

3.3.1 Oil and Natural Gas Pipelines

In line with the rapid growth of the Indonesian economy, there has also been considerable expansion in the oil, gas and petrochemical industries. In the oil-gas sector, Pertamina is planning investments in a number of new oil and gas drilling projects throughout Indonesia, as well as expanding and modifying existing projects. The main purpose of this development is to increase foreign exchange revenues derived from the oil-gas industry. In addition, it will close the gap in refining capacity needed for domestic fuel supplies and to increase the added value of domestically refined crude oil. Some of the projects that will be realised through this development include the Cilacap Refinery, Balikpapan I and II Refineries, Sorong Exor-II Refinery, Tanjung Uban Exor-III Refinery and the Dumai Exor-IV Refinery.

The major factor supporting business performance in infrastructure sector is demand from the oil-gas sector. Three factors influence demand for oil and natural gas pipelines in Indonesia. These are the level of exploration and development, the need for new gas finds and the level of infrastructure growth.

Domestic fuel demand has grown considerably. With this increase, the government has activated a range of new oil-gas exploration and drilling initiatives. However, future transportation needs will create similar demand in the oil-gas sector. Transportation via a pipeline network is more advantageous than other forms of transportation, not only in terms of cost and time efficiency, but also in terms of overall safety. The management of the Company therefore anticipates the demand for pipeline network construction will increase in the future, both for land and sea-based networks.

To meet future demand, TBT is planning to construct a 350 kilometre refined oil pipeline network. This will connect West Java, Central Java, Jakarta and Yogyakarta. Total investment will be approximately US\$380 million. The construction costs of the pipeline network will be covered by some of the funds to be received by TBT from the proceeds of the Public Offering, comprising equity participation. This amount will account for 9.78 per cent of the funds raised in the Public Offering.

The construction of this new pipeline network will make for a more efficient and quicker flow of fuel from the Cilacap and Exor refineries. Fuel will be piped to market regions in West Java, Central Java, Jakarta and Yogyakarta. It is estimated that construction will take three years, and the project is scheduled to start in 1996.

Compared to petroleum, natural gas is a cheaper and cleaner alternative energy source for non oil-gas industry. Indonesian petroleum reserves are limited and therefore natural gas is gaining importance as an alternative source of energy.

During Repelita VI, it is estimated that Indonesian consumption of natural gas will increase to the equivalent of 162.6 million barrels of oil. The government therefore plans to construct a 2,060 kilometre natural gas pipeline network to cope with this growth. This represents an opportunity for TJP to satisfy future demand for fuel pipelines.

3.3.2 The Environment

As Indonesia is a developing country, the number of factories constructed increases every year. With this rapid industrial growth, especially in the chemical processing industries, increasing quantities of organic and heavy metal are being consumed by domestic industry, with a corresponding rise in toxic and hazardous wastes.

In Jakarta and West Java, about 500 factories have an estimated potential for generating up to 225,000 tons of toxic and hazardous wastes each year. This is based on a field survey carried out by Data Consult and *Bapedal* (the Environmental Management Agency). Of this total, approximately 85 per cent of the waste will not have been properly treated. Currently Greater Jakarta is the centre of all industrial activities, and thus the amount of waste generated in this area is very large.

Careless disposal of waste poses a threat to the local environment. It can also endanger the health of people and animals living in the vicinity. Because of this, effective and professional industrial waste treatment is very important to the nation's development.

During the last few years, the government has been very concerned about proper disposal of industrial waste and conservation of the environment. This is because it is realised that a healthy and clean environment is a vital factor and one which can stimulate foreign investment in Indonesia. A variety of regulations and programs have been initiated and are implemented by Bapedal to increase public awareness of the importance of the environment in national development. The government has also ordered that any factory unable to properly treat its toxic and hazardous waste must send it to the nearest industrial waste treatment center.

In the past, responsibility for industrial waste treatment rested with the factories themselves. However, in many cases the cost of developing individual waste treatment facilities is more expensive and less efficient compared to using facilities belonging to other, more professional parties.

Seeing this need, the Company has established PPLI with equity participation through AMI. PPLI is the first toxic and hazardous waste treatment company to be established in Indonesia, (Source: DC/ICN No. 149 - 6th June 1994).

By providing this toxic and hazardous waste treatment services, WMI and PPLI are in fact improving the image of companies involved. These companies are no longer viewed as enterprises that pollute the environment. The service offered utilises an alternative waste treatment and disposal method. This method is more economical compared to the costs of a company organizing its own waste treatment. As a consequence, PPLI achieved a much higher turnover than originally targeted, especially following the measures introduced in Government Regulation No. 19 of 1994.

With technological support from WMX Technologies Inc., and with the motto "The Environment Is Our Future," WMI stands ready to provide services in the treatment and disposal of non-hazardous waste for both commercial and household clients. Indonesia is acquiring new technology and service industries which generate more employment and provide opportunity to learn new business skills aimed towards a cleaner and better conserved environment.

3.3.3 Chemical Storage Tanks

There has been a significant increase in the demand for oil and gas storage tanks. This takes into account the many mining, oil and natural gas projects that currently exist. In addition, there has been significant growth in petrochemical projects such as PT Tri Polyta Indonesia, PT PENI, PT Chandra Asri and PT Bakrie Kasei Corporation.

With a wealth of experience in manufacturing storage tanks and the support of the latest technology, TKI is confident of gaining more orders for the construction of tanks for these projects.

The number of tanks being constructed, together with the possibility of further regulations affecting tank production, will generate higher demand for the production and repair of storage tanks. The diversification initiative into the storage tank production by TKI is a timely move.

3.3.4 Construction, Mechanical Engineering and Transportation

The government is encouraging economic growth by making Indonesia more attractive to foreign and domestic investors, through continuing deregulation, such as Government Regulation No. 20 of 1994. As a result, Indonesia has enjoyed a robust investment boom.

It is therefore hoped that investment growth in the mining, excavation, manufacturing, electricity, gas and water sectors will support future growth in the revenues of SII, another of the Company's infrastructure subsidiaries. The growth of investment in the above sectors can be seen in the table below:

**Investment Approvals for Mining, Excavation, Manufacturing,
Electricity, Gas and Water**

	1991		1992		1993		1994	
	Projects	Value	Projects	Value	Projects	Value	Projects	Value
Domestic investment companies (Rp billions)	489	27,806	239	19,315	293	24,107	442	34,077
Foreign investment companies (US\$ millions)	277	3,970	191	7,981	185	5,698	326	23,413

Source: Central Bureau of Statistics, Economic Indicator, March 1995.

Given these conditions, it is anticipated that the growth in new projects, expansion of existing projects and international trade will generate stronger demand for the use of SII services in logistics, equipment installation and in-factory works.

In anticipation of a rise in contracts from new and existing clients which will increase turnover, SII is investing portions of its income to purchase machines and new equipment.

3.4. TRANSPORTATION & AUTOMOTIVE DIVISION

3.4.1 Automotive

It is usual that the demand for land transportation, both passenger and business vehicles, increases sharply during periods of rapid economic growth. By and large, strong growth is anticipated in future demand for vehicles, especially passenger cars.

Ford cars manufactured by IRMC account for 60 per cent of the taxi market, and there is also tremendous future potential. As regards private cars, BCN through CKP is already established in the market with high prestige cars such as Mercedes Benz. Rising per capita income means that purchases of this type of vehicle have not declined, despite high prices. As for the middle class, BCN through CMN is entering the market with automotive products from the South Korean manufacturer Hyundai with competitive prices and high quality compared to other vehicles in the same class. This is because of the rise in the yen, which has in turn increased the cost of Japanese cars. This has created a favourable situation for the lower-priced Hyundai cars, which will therefore be keenly competitive on the market, thus assuring strong prospects.

There are also encouraging prospects for motorcycles, as many people in the lower to middle income groups use motorcycles as their primary mode of transport.

The growth of the automotive components industry is closely tied to that of the automotive industry. Based on data from the Jakarta Police Headquarters, there are more than three million cars in Indonesia. This large market gives AM great potential in the supply of components. In addition, car production will continue to rise. As can be seen in the chart below, according to the estimates of national car manufacturers annual sales will pass the half million mark by the year 2000.

**Projected Vehicle Sales
1995-2000**

Category	1995	1996	1997	1998	1999	2000
Commercial	315	321	337	353	389	428
Passenger	55	68	71	75	82	91
Total	370	389	408	428	471	518

The new car market will also create a separate market for OEM products. From the above data it can be calculated that by the year 2000 the demand for clutches, for example, will have risen to 6,500,000 units. So both DCI and DSP as clutch assemblers have the opportunity to take advantage of the growth in the automotive industry.

In general, the automotive industry in Indonesia has enormous opportunities for growth. This is because of the country's very large population and steadily rising per capita income that assure bright prospects for the foreseeable future.

The Company is investing 14.35 per cent of the proceeds of the Public Offering in BCN, in which it owns 100 per cent of the shares. This is because of excellent automotive industry prospects and a deregulation package that provides incentives for the development of the automotive components industry.

These funds will be used by BCN to increase the performance of its subsidiaries. CMN, CKP, IRMS and KMI will use the BCN funds to implement marketing strategies for Hyundai and Ford cars, and Kawasaki motorcycles. TCK will increase car assembly facilities, especially Hyundai. DCI will intensify the marketing of its clutches. BCN will also use Company funds to effect a joint venture with Autoliv AB of Sweden to manufacture safety belts.

In the future, BCN will also expand into the car rental business and open a used car sales operation to support its automotive business activities.

3.4.1 Air Transportation and Support Services

In line with global macro economic performance, the Indonesian macro economy is improving. This bodes well for growth in non oil-gas exports. During Repelita V, Indonesian non oil-gas exports grew by an average 19.5 per cent per year. For the period 1992 to 1993, Indonesian non oil-gas exports reached US\$24.8 billion, while during the same period non oil-gas imports totalled US\$23.8 billion. (Source: *Bisnis Indonesia* - 26th October 1994)

This growth in trade has also strengthened demand for air transportation services and cargo levels have soared on both domestic and international airlines. It is expected that the APEC agreement for greater free trade will increase the flow of goods in and out of Indonesia. In turn, this will encourage strong growth in demand for cargo handling services. In view of this growth, the CA management is optimistic of increased profitability and a stronger market share. During 1996, CA's expansion plans include opening new offices in Medan, Ujung Pandang and Batam. In addition, CA is in the process of forming a strategic alliance with a foreign airline. This joint venture will operate in flight support services, in particular warehousing and related lines of business.

The airline business in Indonesia is growing in line with the increasing public demand for air transportation. In addition, Government policies supporting the tourism sector have seen a remarkable increase in the number of foreign tourists, which in turn has also boosted total flights to Indonesia.

The total number of aircraft flights in Indonesia, including international flights, increased 8.3 per cent from 467,511 in 1992 to 506,442 in 1993. Total passenger traffic grew by 20.7 per cent from 20,799,685 in 1992 to 25,104,737 in 1993. It is projected

that during the next five years, domestic air transportation will increase by 7.15 per cent per year, and international air transportation by 12.6 per cent per year, (Source: DC/ICN No. 145 - 4th April 1994). In view of this future growth, Indonesia is required to expand its airline fleets and introduce more efficient aircraft and passenger services.

The business activities of JAS are a very important to customer satisfaction in the airline business. Just one impact of the recent Limited Open Gate Policy is the addition of new passenger terminals and the change in status of the Domestic Terminals to International Terminals. These developments work very favourably for the growth and profitability of JAS. Since it was formed in 1985, JAS has grown rapidly. Today has it has competitive advantages in both equipment and human resources as well as high quality customer services. JAS stands well positioned to take advantage of a promising future.

In addition to equity participation in CA and JAS, the Company also holds shares in IAT, an aircraft charter company. As a developing country, Indonesia is dependent on the services of companies such as IAT, especially for projects located in remote inland areas. This is because of the large geographic size of Indonesia and the fact that many regions still have neither regular airline connections nor sufficient other modes of transportation.

The major business sectors making use of air charter services are forestry, mining and oil-gas. Oil and natural gas play important roles in development and are very closely related to the national economy. The search for new sources of oil-gas is becoming more difficult, but must continue to ensure continuity in production, (Source: ICN No. 121 - 5th April 1993). Just one example of the opportunities still available in the oil-gas industry is the recent discovery of new gas reserves. The majority of these are in offshore areas such as the Natuna project, as well as in Eastern Indonesia. These opportunities in the oil-gas industry are greatly enhanced by government incentives for investors in the oil industry. Most of these incentives are based on new government policies that apply to oil-gas exploration and the enhancement of recovery of existing reserves.

Oil-gas exploration and production are dependent on air transportation services, particularly such as those provided by IAT. In general, exploration for new oil-gas deposits takes place either in remote jungle or marine environments. It is becoming more difficult to reach locations such as these by any means other than air. The current increase in oil-gas exploration activities will generate more business for the aviation industry.

This situation will provide many opportunities for IAT in the near future. In addition to the oil-gas sector, many mining activities also require air services. This is again because exploration usually takes place in remote areas that are inaccessible other than by air charter.

To position itself for new opportunities, IAT plans to increase and develop the types and sizes of aircraft in its fleet. This is so as to be able to meet the requirements of customers or regular contracted users. There are various ways of funding fleet expansion. These include bank loans, cash payments and leasing, alternatives that will facilitate the implementation of IAT's plans.

3.4.2 Marine Cargo

The Government is very active in maintaining Indonesia's position as the largest LNG exporter in the world and in developing new oil-gas fields. This assures strong prospects for SPA, which is active in the shipping business, especially as regards oil-gas cargoes. Prospects are enhanced by the fact that Pertamina plans to soon increase the ratio of ships chartered to ships owned. (Currently 70 per cent of the fleet is owned and 30 per cent chartered. This will change to 30 per cent owned and 70 per cent chartered.)

There has been growth in the transportation of chemicals, coal and other industrial products, and it is anticipated that this trend will continue. An existing contract covers the transportation of naphtha and ethylene for PT Chandra Asri. PT Bahtera Adiguna has signed a Memorandum Of Understanding for the shipping of coal to the Suralaya power station, and an Integrated Industrial Carrier agreement exists with PT Raja Garuda Mas for raw materials and pulp mill output of that company.

With its equity participation in Osprey, SPA also has a comparative advantage as it is able to expand operations through many overseas companies.

3.5. CHEMICALS DIVISION

3.5.1 Basic Chemicals

Indonesia is the only member of OPEC in South East Asia, and one of the largest oil exporting countries in Asia. Nevertheless, declining oil prices during the 1980s adversely affected oil-gas exports, and especially those of crude oil and natural gas. Nevertheless, demand for oil-gas products is steadily rising. This has led to significant growth in the petrochemical industry.

The Government has therefore issued a series of new regulations to support the petrochemical industry in its efforts to reduce the country's dependence on imported petrochemical products. These efforts have materialised in the deregulation of the petrochemical industry to include the private sector. They also include protection in the form of increased import duties on various petrochemical products now produced in Indonesia. These include polypropylene, subject to an import duty of 20 per cent as well as a 20 per cent surcharge, and polystyrene, subject to 30 per cent import duty.

Supported by a strong market and this regulatory climate, the Indonesian petrochemical industry, and especially polypropylene and polystyrene production, is enjoying robust growth. This can especially be seen from the increased demand for plastic products using polypropylene and polystyrene as the primary raw materials. The table below shows that consumption of both polypropylene and polystyrene continues to outpace domestic production.

**Growth: Consumption and Production
of Polypropylene and Polystyrene in Indonesia
1990-1994**

Year	Polypropylene *)		Polystyrene **)	
	Consumption	Production	Consumption	Production
1990	210,000	-	26,865	15,121
1991	270,000	-	29,360	19,250
1992	304,000	-	40,412	25,190
1993	355,000	167,600	62,029	40,035
1994***)	386,000	247,000	65,000	58,000

*) Source: Chem Systems Inc.

**) Source: Data Consult/ICN No. 146 - 18th April 1994

***). Source: Data BKC 1994

It is anticipated that consumption of these two products will rise each year. However, Indonesian per capita consumption is still very small when compared to other countries and there is great potential for future growth (see the table below).

Per Capita Consumption of Polypropylene in 1993 and Polystyrene in 1994

Country	Polypropylene (Kg)	Polystyrene (Kg)
Japan	-	2.9
Korea	14.6	11.6
Singapore	7.1	14.3
Malaysia	4.4	7.1
Thailand	4.0	2.7
Philippines	1.8	0.6
Indonesia	1.9	0.4

Source: Data BKC - 1994

The Company, through Tripolyta and PLC, has the opportunity to participate in the growth of this industry. With a market share of 46 per cent, Tripolyta is one of the most dominant polypropylene producers in Indonesia. With the existing support of the government for these industries and with the supply of raw materials once PT Chandra Asri goes into operation, prospects are excellent.

In order to take advantage of existing opportunities, Tripolyta will install a third reactor to increase production capacity to 335,000 tons per year. The new reactor is scheduled to come on line by mid-1995 and will be used to produce copolymer. This is of a much higher quality than the homopolymer that is currently being produced. Tripolyta will also manufacture non standard products and provide after sales services to meet consumer demand.

Taking various factors into account, PLC has many opportunities for growth. Currently, there are only three companies that manufacture polystyrene and PLC already controls a 28.77 per cent share of the market. To gain a larger market share and supply the rising demand for polystyrene in Indonesia, PLC is to increase production capacity to 31,500 tons per year. HIPS and EPS lines will be installed which will each increase production by 5,000 tons. The Company will provide investment funds for PLC to cover this expansion. These funds total 1.96 per cent of the proceeds of the Company's Public Offering.

Many investors have been attracted to the chemical industry and there has been a rapid expansion of the industry in the area surrounding the RPU terminal in Merak. In addition there has been an increase in the trade of liquid chemicals between many countries in South East Asia. This demonstrates the growing importance of shipping services in this sector. It is therefore expected that RPU will experience substantial growth. In anticipation of this expansion, RPU is building three new tanks that are scheduled for completion by the end of 1995. With this increase of 1,550 kilo litres, RPU's total storage capacity will be 31,550 kilo litres.

3.5.2. Herbicides

The plantations sector is the largest consumer of herbicides, and therefore growth in this sector exerts a major influence on the fortunes of the herbicides industry. The plantations sector enjoyed an average growth rate of 6.59 per cent each year from 1989 to 1993. In comparison, horticultural crops such as vegetables and fruits experienced an average annual growth rate of just 6.38 per cent and other food crops only 1.3 per cent during the same period. (Adapted from data provided by the Central Bureau of Statistics and the Ministry of Industry.)

There is also the government subsidy program to expand smallholder estates through the smallholder nucleus estate enterprise scheme. The demand for both herbicides and fertilisers from the agricultural sector will also increase. BKN is therefore very optimistic of the future growth of the herbicides industry.

3.5.3. Ammonium Nitrate

While Indonesia is experiencing rapid economic growth, world demand for mineral products such as copper ore and coal is also climbing significantly. Ammonium nitrate is one of the main raw materials for explosives used in mining operations. Rising demand for ammonium nitrate avails good opportunities for MNK, which is currently boosting output from 26,400 metric tons to 40,000 metric tons per year. This expansion is supported by a current domestic demand that now totals approximately 60,000 metric tons per year. In addition, MNK is optimistic that demand will rise to 100,000 metric tons per year if mines in Irian Jaya go into full operation.

Currently, MNK is the only manufacturer of ammonium nitrate in Indonesia. There are two suppliers, MNK as a manufacturer and importer, and PT Dahana as an importer. In addition to its own expansion plans, MNK is also looking at the possibility of a joint venture. This could result in establishing a 100,000 ton production capacity ammonium nitrate plant in Bontang, East Kalimantan, in 1996. Funding for this joint venture will come as an investment in MNK from the Company's Public Offering, accounting for 3.48 per cent of all proceeds. With this new plant, MNK would be able to supply all domestic demand for ammonium nitrate.

3.5.4. Paints

Basically, paint has two fundamental functions, as protection and as decoration. Growth in national infrastructure and per capita incomes will also generate stronger demand for paints. This is due to the expansion of service industries such as the building and construction, automotive and heavy machinery sectors.

The largest use of paint in Indonesia is in the property sector for public housing, real estate, office blocks, hotels, apartments and industrial estates. There has been very rapid growth in this sector and the demand for paint has increased correspondingly.

The automotive sector is very closely connected with the paint industry. The growing number of motor vehicles in Indonesia will generate increasing demand for body paints, as vehicles generally have to be repainted after a number of years. Based on data received from Jakarta Police Headquarters, the number of motor vehicles in Indonesia is now in excess of three million. (Source: CIC No. 166 - 6th January 1995). Automobile production is also increasing. In 1994, a 56 per cent increase was recorded, and it is estimated that there will be a further increase of between 10 per cent and 15 per cent in 1995. This will all boost Indonesia's motor vehicle population, generating a corresponding rise in demand for paints.

With imported paints subject to a 40 per cent import duty, domestic paints are relatively low-priced and affordable to all levels of society. There is therefore an abundance of opportunities in the paint industry, which will lead to strong domestic

competition. This has prompted Danapaints to continue its business development and embark on the necessary expansion.

The current production capacity of Danapaints is 12,000 tons per shift. However, production capacity will gradually increase to 18,000 tons in 1998. This expansion is aimed at meeting market demand and maintaining high quality and efficiency of production.

3.6. HOTELS & PROPERTY DIVISION

The current increase in the supply of office properties has resulted from a growth trend in various business sectors. This improved investment climate was mainly brought about by government policies. In particular, Government Regulation No. 20/1994 which amended the regulations governing share ownership and divestment, and opened new sectors to foreign direct investment. This new policy opened the door for foreign investors to invest capital in Indonesia or to relocate their industries to this country. (Source: *Indocommercial* - June and December 1994). As well as attracting foreign investment, this new deregulation package has also motivated national businessmen to expand their operations or to work together with foreign investors.

With this growth trend in business, there has also been an increase in the demand for prestigious office space. This is demonstrated by the fact that occupancy rates in office properties rose on average by 92.2 per cent in 1994. (Source: *PROSPEK* - 28th January 1995).

Developers of office properties have responded by building office facilities and infrastructure in various areas of Jakarta, which may result in an oversupply of office space. The following table shows the growth in total office space in Jakarta during the five year period starting in 1989:

Total Office Space
1989-1993

(in square metres)

Year	Total Office Space	Increase (%)
1989	1,083,056	-
1990	1,241,811	14.6
1991	1,467,566	18.1
1992	1,783,366	21.5
1993	1,951,667	9.4
	Average increase	15.9

Source: Data Consult, April 1994

This growth rate indicates the strength of competition in the supply of office space. It can be seen at its height in the Central Business District of Thamrin, Sudirman, Kuningan and Gatot Subroto, Jakarta's prime areas for office space. (Source: *Bisnis Indonesia* - 5th August 1994)

Apart from improving the business prospects for office space supply, investment growth is also conducive to accelerating future Indonesian economic development. Albeit indirectly, it could expand the upper income middle class sector and increase consumer spending, especially as regards high quality goods and services. This explains the growing demand for shopping centres such as Plaza Indonesia.

The investment boom will also result in more foreign businessmen coming to Indonesia to engage in business, with the result that there will be an increase in demand for international standard hotels. This is what led the Company, through its subsidiary PIR, to establish the Grand Hyatt Jakarta, at which more than 90% of guests are corporate clients doing business in Indonesia.

These promising prospects in the property sector have led the Company to construct a shopping centre and hotel in the strategic Jalan Thamrin location, through its subsidiary company PIR. In 1996, PIR is to commence the construction of Plaza Indonesia stage two. This will consist of an exclusive apartment tower, office space and extended shop area in Plaza Indonesia. In addition, through its subsidiaries DNL and UGB, the Company intends to construct office blocks, apartments and more hotels. All these projects are located in what is called the Golden Triangle, Jakarta's prime consumer location. The Company plans that all these projects will be integrated so as to be fully able to meet the needs of the people of Jakarta.

In addition to these favourable prospects for the apartment, office, hotel and shopping centre businesses in Jakarta, the Company through NGL also has a vision for potential business opportunities presented by the natural scenic beauty of the island of Bali.

The number of foreign tourists visiting Indonesia continues to rise each year. In 1991, there were a total of 2,569,870. This rose to 3,064,161 in 1992 and again to 3,403,138 in 1993. (Source: Ministry of Tourism, Post and Telecommunications). From these totals, approximately 24 per cent visited Bali between 1991 and 1993 as can be seen from the following table:

**Foreign Tourists in Bali
1991-1993**

Year	B a l i			
	A i r	% Increase	S e a	% Increase
1991	567,628	-	6,414	-
1992	740,806	30.51	12,193	90.10
1993	885,749	19.57	13,869	13.75

Source: Ministry of Tourism, Posts and Telecommunications

These figures do not include tourists reaching Bali by land. It is anticipated that this total will rise as part of the government program to promote tourism in Indonesia. This promotional program has gained recognition for Indonesia as an international tourist destination, particularly through the "Visit Indonesia Year 1991" promotion. The government has also provided various facilities for foreign tourists wishing to visit Indonesia. Efforts include visa free stays of up to three months for nationals of 31 different countries, and continuing tourism infrastructure development in both airline services and accommodation in Indonesia.

This program has successfully increased the numbers of foreign tourists visiting Indonesia. In 1994, it was estimated that the total of foreign visitors would reach 3,950,000. This would be an increase of 16.07 per cent compared to 1993. During Repelita VI it is expected the total of foreign tourists will rise to between 5.4 and 6.5 million. It is also expected that this will generate foreign exchange revenues of between US\$7.45 billion and US\$8.94 billion. These figures reflect an average growth rate of between 9 per cent and 13 per cent per year. (Source: *Bisnis Indonesia* - 8th October 1994.)

In addition to the "Visit Indonesia Year 1991" program, the government is now also implementing a promotional campaign in the major tourism markets of Singapore, Japan, Taiwan and Germany. The main objective of this campaign is to reinforce Indonesia's position as a tourist destination. The strategy includes making Indonesia more attractive to visitors and increasing the role of Indonesia in the international tourism market for both consumers and the tourism industry. It will also place in action an integrated marketing communications program that conveys the message of Indonesian tourism worldwide.

NGI anticipates that these opportunities in the tourism sector will increase future revenues of its five-star diamond property, complete with full convention facilities, which is situated in the strategic Nusa Dua resort area of Bali.

3.7. FINANCIAL SERVICES & INVESTMENTS DIVISION

3.7.1 Financial Services

A healthy economic climate builds entrepreneurial optimism and stimulates investment in capital goods. This factor also indirectly increases the demand for funding both as regards loans and leasing. Indonesia's growing population also increases future infrastructure requirements, especially in the housing sector. This situation has encouraged the financial services industry to offer a wide range of consumer finance products. In 1992, contract value rose by 10.88 per cent while in 1993 contract value increased by 48.62 per cent. It is estimated that in 1994 the total contract value of finance companies will reach Rp 14 trillion. This growth indicates that the role of finance companies in Indonesia is increasing steadily each year.

The factoring business is still relatively new in Indonesia, having only been introduced in 1989. However, growth has been rapid and during these first four years turnover has increased from Rp 55.3 billion in 1990 to Rp 2.24 trillion in 1993, an average growth rate of 265.2 per cent per year. (Source: ALI/Data Consult No. 166 - 13th February 1995). This growth is closely connected to the acute shortage of financial services that has emerged in the wake of the emergence of large manufacturing and trading companies. Currently only large companies take advantage of factoring services. However, in view of anticipated growth and current government policies, it is anticipated that in the near future many medium sized companies will take advantage of this type of service.

Cificorp's performance during the 1991 to 1994 period was very promising. This is demonstrated by growth in contract value of both leasing and consumer finance. During 1992, when the government enforced the tight money policy, the company's investment increased by 7.17 per cent. This indicates the strength of the management team at Cificorp and the effectiveness of their marketing strategy.

For the finance industry, interest rates represent a crucial factor. The ability of Cificorp's management to raise funds from cheap sources, especially from state banks, yields a comparative advantage in the highly competitive credit sector. In addition, as a member of the Bimantara Group, Cificorp has the opportunity to provide services to the many customers within this diversified corporate organisation.

Cificorp management is convinced that with increased investment in the near future and its professional management team, it will increase its performance and profitability in the years to come. The Company plans to use 7.61 per cent of the proceeds of the Public Offering to increase its share in Cificorp from 55 per cent to 75 per cent. Cificorp will use these funds to augment its working capital in support of operational activities so as to increase future revenues.

3.7.2 Insurance

The growth of Indonesia's GDP is the result of advancement in national development, with particular progress noted in various sectors such as property, transportation and communications. This has had a positive impact in terms of the resultant demand for insurance coverage, as is evident from the contribution of the insurance sector to GDP. In 1992 the contribution of gross premiums to GDP was 1.29 per cent and in 1993 this rose to 1.48 per cent. Growth in the insurance business is very closely connected to greater public awareness of the need for insurance.

Future ramifications of the AFTA agreement, the Uruguay Round and the recent meeting of APEC leaders that resulted in the Bogor Declaration will all create many opportunities for general insurance. This is because the ensuing free trade era will mean an increase in the flow of goods in and out of Indonesia, and insurance will gain further importance as coverage against risk of losses.

Currently the domestic insurance and reinsurance industry in Indonesia has only a limited capacity. This is indicated by the fact that currently only approximately 25 per cent of insurance can be underwritten domestically, while the remaining 75 per cent has to be underwritten overseas. (Source: *Business News* 5634 - 14th November 1994).

The local insurance industry faces both capital and human resource constraints. The lack of skilled personnel in underwriting and risk management has constricted the growth rate of the national insurance industry. However, with the enactment of Act No. 2/1992 concerning Insurance as well as Government Regulation No. 73 /1992 concerning Insurance Operations, the government has demonstrated its for the growth of domestic insurance companies, which are encouraged to advance through business specialisation, human resources development and maintaining a sound financial condition.

The Company's subsidiaries in this field, CIU and BGIB, are determined to be fully and professionally prepared for these challenges. CIU and BGIB will receive 2.61 per cent and 0.95 per cent respectively of the proceeds of the Company's Public Offering to use for business expansion. Both CIU and BGIB plan to allocate these funds as working capital. In addition, CIU will use some of these funds for the purchase of company vehicles and office equipment as well as updating its computer system. This will increase the speed at which CIU can provide its services, be it processing a claim, dealing with policy enquiries and also reinsurance. Profitability and performance of this subsidiary will therefore be increased.

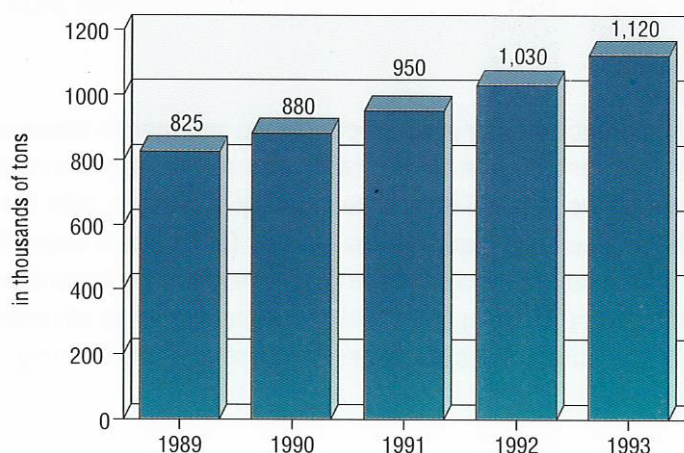
CIU and BGIB are already working together with reinsurance companies, both domestic and international. They are also providing their staff with training programs aimed at instilling greater professionalism.

As subsidiaries of the widely diversified Bimantara Group, both CIU and BGIB have many opportunities for growth generated by the business operations of sister companies.

3.7.3 Investment in the Food Industry

The government is very active in its efforts to make the public more aware of the importance of health through a series of programs. Therefore, the public are becoming more concerned about health, nutrition, and the quality of food and drinks. As a result, there has been strong growth in the consumption of dairy products during the last five years, as shown in the table below:

Consumers of Dairy Products in Indonesia (Milk, Cheese & Butter)



Currently consumption of dairy products is relatively low in Indonesia compared with other countries, as seen in the table below. Strong economic growth during the last few years provides the Indonesian milk industry with vast opportunities for continued growth.

Per Capita Consumption of Dairy Products

Country	Annual Per Capita Consumption of Dairy Products
Global (world average)	95 kg
Europe	290 liters
Developing countries (average)	42 liters
Malaysia	33 liters
Philippines	13 liters
Indonesia	4 liters

(Source: Nestle International)

In light of the above factors, business prospects for NI have great future potential. NI plans to widen its scope of business by setting up one spray tower in 1997. It is anticipated that this will increase production by 15,000 tons. In addition, NI is expanding into new products, such as sweetened condensed milk under the Dancow brand. Under this expansion plan, NI anticipates an average sales growth of around 20 per cent for 1995 and 1996.