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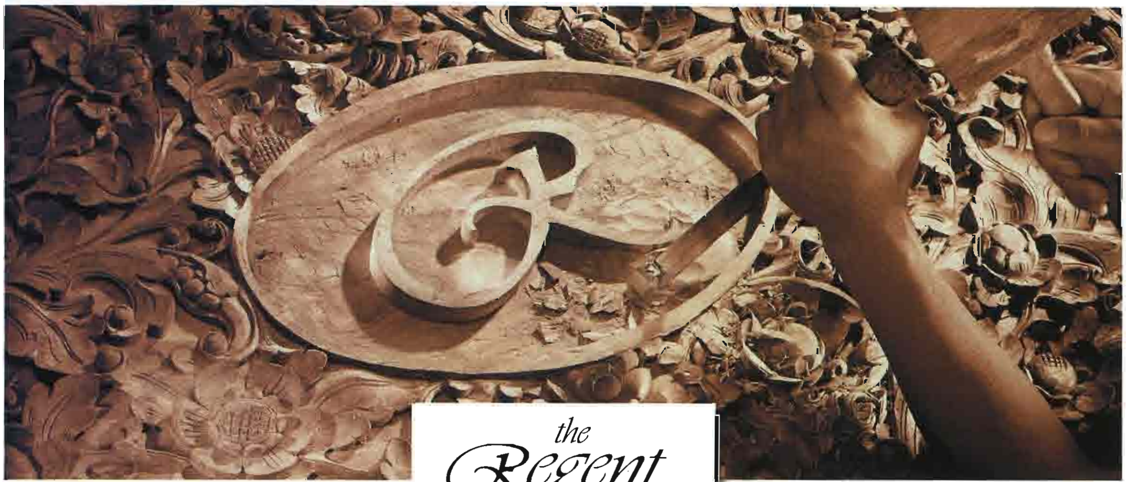

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INDONESIA

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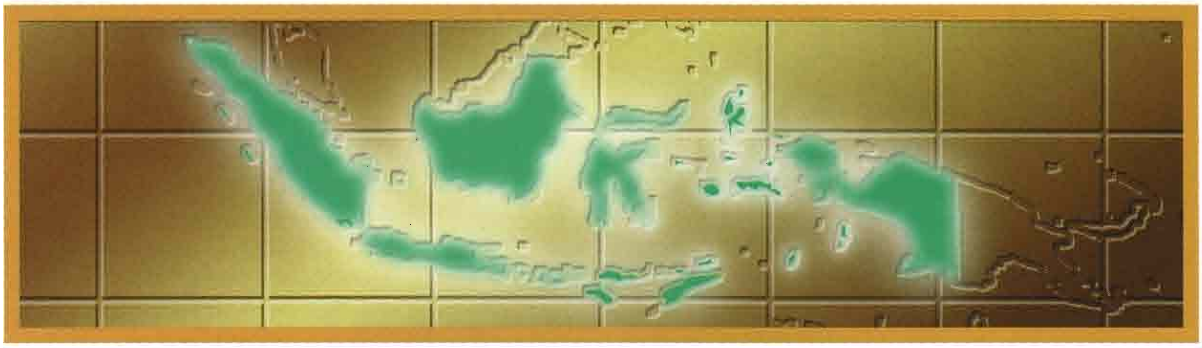

CHAPTERS

SPONSORS

The following special section was prepared by the Special Projects Department of Institutional Investor and Infrastructure Finance. Pages 4-7, 8, 10-18, 26, were independently written by Sam Passow.
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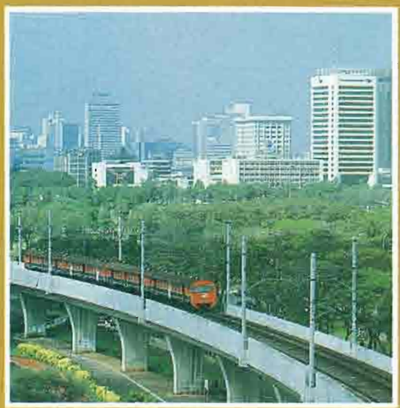
50 YEARS OF ACHIEVEMENT

As Indonesia celebrates its 50th anniversary of independence in August, it not only can take considerable pride in decades of achievement, but perhaps more importantly, can begin to look confidently toward its future on the world's economic stage.

The country's resilience to currency and commodity price fluctuations over the past few years has enabled it to face 1995 in an optimistic mood as exports, foreign investment, and, perhaps most important, a consumer boom show no signs of abating. Last year, the economy grew by 7.4 percent, up from 6.2 percent in 1993 and topping the government's average growth target of 6.2 percent for Repelita VI, the five-year development program that began in April 1994. The chairman of the Statistics Bureau, Soegito, predicts that economic growth in 1995 will again exceed 7 percent. "Currently, the industrial, power and construction sectors are driving the economy," he explains.

In June 1994 the government introduced a deregulation package that helped the nation meet stiff regional competition for foreign investment by eliminating a requirement that all foreign companies divest their shares to Indonesians. Foreign investment approvals in 1994 surged to $23.7 billion from just $8 billion the previous year. In the first two months of 1995, foreign investment approvals totaled $10.4 billion, up from $1.8 billion a year earlier. While the figures are certainly impressive, foreign bankers note that only about a third of those approvals are ever realized.



A construction boom is changing Jakarta's skyline.

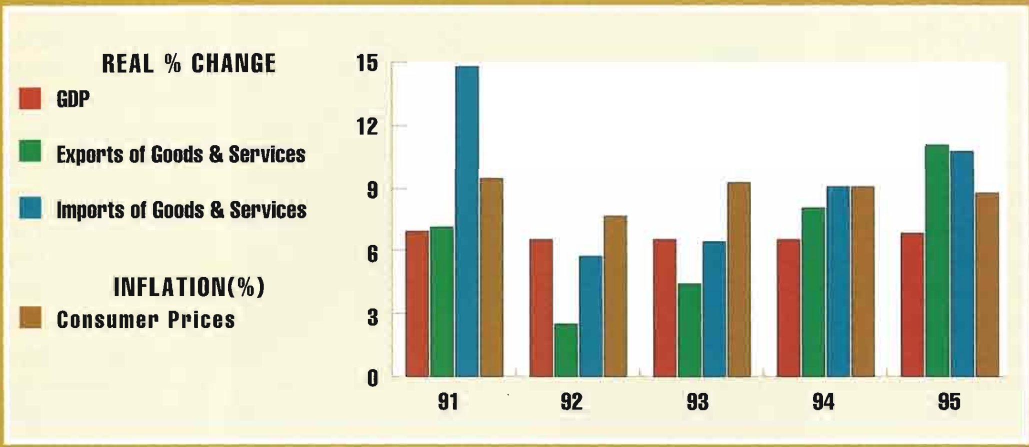
According to Dr. Dorodjatun Kuntjoro-Jakti, dean of the faculty of Economics at the University of Indonesia, Jakarta, "Indonesia's economy is especially sensitive to movements in the prices of exports and imports because of the 'open capital-account' system used to manage the balance of payments. With an end to foreign exchange controls in the 1970s, a free floating currency since the late 80s and deregulation of foreign investment in the 1990s, international trade now accounts for nearly 50 percent of GNP."

Exports last year rose by more than $3.2 billion to $40 billion, of which $30.3 billion came from non-oil products. Imports reached $31.8 billion, leaving a healthy surplus of $8.7 billion.

In May, in an effort to deregulate the economy in line with ASEAN free-trade targets, the government introduced a tariff reduction schedule for the next eight years that introduced across-the-board cuts on more than 6,000 products.

In the ten years from 1983 to 1993, the structure of the economy has changed dramatically. As late as 1988, oil revenues accounted for 80 percent of the nation's income, but have now been surpassed by the industrial sector, whose share of GDP rose by 9.6 percent over the decade to 22.9 percent in 1993. In that same period, the GDP contribution of the service sector rose by 2.1 percent to 16.8 percent. On the decline were both the agricultural and mining sectors. Agriculture as a percentage of GDP fell from 22.9 percent in 1983 to 17.9 percent in 1994, even though Indonesia is the world's second largest

ECONOMIC SUMMARY



SOURCE: THE ECONOMIC INTELLIGENCE UNIT

producer of palm oil and rubber. It's the world's third largest coffee producer and the fourth largest producer of cocoa.

The mining sector tumbled 11.2 percent over the 10-year period to only 9.6 percent of GDP in 1993, again despite the fact that Indonesia is the world's No.3 producer of tin and has some of the world's biggest gold, copper and nickel mines.

MAIN CONCERNS

Direct foreign investors have two main concerns about Indonesia: succession and corruption. Succession is the top priority because Soeharto has been in power for 30 years and is the architect and driving force behind the New Order. An entire generation has known only one leader, so it is hard for them to visualize control of the country in someone else's hand. Yet they know that, despite their devotion to the man, nature will eventually force a transition.

At 74, Soeharto is not only healthy, but has made little or no effort to dampen speculation that he will seek a seventh five-year term in 1998, nor has he publicly groomed or endorsed a potential successor.

While there are still few clues to the succession question, Soeharto reportedly told Premier Li Peng of China recently that "a leadership change mechanism is in place in Indonesia; it is institutionalized and has been put to the test a number of times. That the name that ultimately emerged [as leader] has stayed the same is another matter altogether."

As an increasing number of business leaders believes that Soeharto will not step down when his five-year term expires in 1998, intense interest and speculation is shifting to the choice of vice president. Soeharto is reported by members of his government to favor a civilian vice president. The current V.P., General Try Sutrisno — the former chief of the armed forces — is strongly backed by the military, and if Soeharto were to step down, is widely considered most likely to be able to maintain the political stability the country currently enjoys.

Also mentioned as a possible successor is the Minister for State Research and Technology, Bacharudin Habibie, who, with strong ties to Soeharto, would be strongly supported by the Muslim community which accounts for 85 percent of the population. As a civilian, though, he would face strong opposition from the military who view an Islamic political force as a threat to national security.

Under Indonesia's electoral system, the People's Representative Council will be elected in April 1997 and will then vote for the president in March 1998. The composition of the PRC will be the key determinant of succession. Presently, 20 percent of the legislative council are appointed members of the military, while the remaining 80 percent is divided among two parties. Soeharto's ruling GOLKAR party has 65 percent of the votes in the PRC. When combined with the military bloc, this gives him a commanding 85 percent majority.

As for the second concern, corruption, a recent report by Britain's *Economist Intelligence Unit* calls it a major disincentive to foreign investment. Many potential investors are disconcerted by the active involvement of members of the first family, with the exception of the President, in industry and commerce. It has been estimated that the wealth of the immediate members of the Soeharto family is second in Asia only to the fortune amassed by the Sultan of Brunei.

While none of their gains has been made illegally, few would deny that they have benefited handsomely from their close proximity to power. For this reason, the sensitivity of the succession issue continues to arise, as many in Indonesia and abroad question the long-term viability of business concerns and development projects that involve the Soeharto family once the president leaves the scene.

In the wake of the Mexican crisis, international lenders are examining emerging markets much more closely. While Indonesia tends to be near the top of the list of those countries coming under greater scrutiny, it is worth noting that, despite the seriousness of its current account deficit, it is in a far sounder macroeconomic position than Mexico was in December 1994.

Indonesia's foreign exchange reserves are increasing, both nominally and relative to the current account deficit. In 1994, these reserves stood at $12.97 billion, or more than fourth months of imports. By comparison, Mexico's foreign reserves declined from $26 billion in March 1994 to $14 billion in December 1994, covering only two months of imports. Using another measure, Indonesia's current account deficit of $3.6 billion is 2.35 percent of GDP, compared to Mexico's current account deficit

Indonesia's copper, nickel, tin, and gold deposits are among the world's largest.

at the time of the crash of $5.8 billion, or 7.7 percent of GDP. And, with its economy growing at around 6.75 percent in real terms in 1994, compared with 2.3 for Mexico, Indonesia has to sustain a relatively much smaller outflow of resources.

Rather than support an overvalued currency, the Central Bank of Indonesia has set a realistic depreciation target for the rupiah of 2 to 3 percent a year against the U.S. dollar. Devaluation is carried out steadily over the course of a year rather in a one-time shock treatment, and the Central Bank only intervenes to support the currency if the rupiah depreciates faster than planned or if intervention does not rapidly deplete forex reserves. The last time the rupiah was officially devalued was in 1986.

But just as Mexico sounded a global warning for emerging markets in 1994, the appreciating Japanese yen is the alarm bell of 1995. If investors seem unsure about Indonesia's ability to deal with this global currency crisis, it is merely a mirror image of the dissent among the country's own ministers. With 90 percent of Indonesia's exports denominated in dollars, export earnings will continue to take a hit in value terms. Minister of Planning Ginanjar Kartasasmita contends that the appreciation of the yen will also hurt the economy in another way, as many of Indonesia's large firms are large importers of Japanese goods, which will cost more and impede future efforts to reduce foreign debt.

An estimated 15 percent of the country's 1995-1996 state budget, projected at $34.44 billion, will be financed by foreign loans. Every time the yen rises 1 percent against the dollar, it adds $300 million to Indonesia's debt. The World Bank puts Indonesia's foreign debt, both public and private, at around $100 billion, making the country one of the largest debtors in the developing world. While most of the debt is long-term, about 40 percent of these loans are denominated in yen with annual interest rates of 2.5 to 3 percent.

A recent World Bank report recommended that Indonesia should set limits on external borrowing over the next few years and avoid providing guarantees to private projects and their associated lenders. It further recommended that the government should consider refinancing and prepaying expensive external debt.

In response, Finance Minister Mar'ie Muhammad declared that Indonesia "will remain extra cautious in managing its economy," but noted that the country has never defaulted on its repayments and that "the government has no intention to reschedule its foreign debt, including debts denominated in yen."

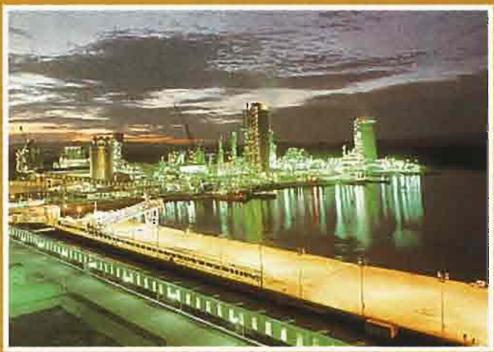
While the country's debt service ratio currently stands at just over 30 percent, it is considered manageable because world oil prices are comfortably above the government's projections of $16.50 per barrel for fiscal 1996. Oil accounts for 20 percent of the government's revenues. In fact, optimists in the government, like State Minister for Investment Sanyoto Sastrowardoyo, believe the "yen's appreciation will expedite Japanese businessmen's plans to relocate their manufacturing to Indonesia."

Meanwhile, Central Bank Governor Seodradjad Djiwandono attempts to alleviate the disquiet by noting that the Bank currently carries 35 percent of its $12.9 billion of foreign exchange reserves in yen and plans to increase that ratio.

As in other countries in Asia, the Indonesia government is currently lobbying multinational financial agencies like the World Bank and the Asian Development Bank, whose loans are sometimes partly yen-denominated, to denominate all loans in dollars.

PRIVATIZATION

Despite making tremendous headway toward creating a market-oriented society, 55 percent of Indonesia's economy is still under state control. The New Order is dedicated to ensuring that the state enterprises become profitable under deregulation and a more liberalized economy, but most big companies, such as the national airline, Garuda, must solve major operating inefficiencies before they are consistently profitable enough to be fit for public sale.



Privatization efforts have inspired optimism in the business sector.

Another major handicap for the government in its drive to speed the privatization process is the underdeveloped state of local financial intermediaries such as banks, securities companies, and mutual funds. To a large extent, this means that the majority of funding must be supplied by foreigners, who currently account for 70 percent of daily trading on the Jakarta Stock Exchange.

Recognizing that the ever growing number of enterprises put up for privatization greatly increases the ability of investors to pick and choose among them, the Indonesian government is taking steps to merge state companies to make them big enough to command overseas interest while remaining dominant players in key sectors of the local economy. The mergers of Gresik, Semen Tonasa and Semen Padang now under way will create the largest cement company in the country, topping Indocement, and serving the less developed areas of eastern Indonesia. Similar moves have been made in shipbuilding and may be seen in ports and in the construction sector in the future.

Overall, there is cause for optimism. The government was very successful in the privatization of telecommunications giant Indosat, which was floated last December on the New York Stock Exchange. Plans are currently being finalized for the public sale over the next two years of PT Telekom, Tambang Timah (tin industry,) and Bank Negara Indonesia.

INTERVIEW

WITH HARTARTO, COORDINATING MINISTER FOR INDUSTRY AND TRADE

Minister Hartarto

Q: With investors still wary of emerging markets, what is Indonesia doing to restore confidence and credibility?
A: First, we are implementing a balanced budget that includes setting a ceiling on government investment so that all investments can be repaid later on. Second, we are maintaining export growth and safeguarding our healthy balance of payments. Third, our new tax law, which reduces the tax rate to 10 percent for low income earners and to 25 percent for top earners, aims to increase government revenue by bringing in new taxpayers. In the long term this will pay off because it will broaden the tax base. Also, by reducing corporate taxes, we encourage investment by companies themselves, thus expanding the economy.

Q: What is the government doing to encourage new business as the basis for this expanded tax base?
A: We need to create 2.3 million jobs each year. We are now preparing a law that encourages the development of small and medium-size enterprises. We will encourage local bankers to finance these enterprises by giving revolving initial working capital loans at market rates but not solely based on collateral. We are also establishing venture capital to assist entrepreneurs. In the next five to ten years, we hope this will strengthen the middle class. This is important, not only economically, but also politically.

Q: Critics claim that less than half of the memoranda of understanding for investment in Indonesia signed with the government are ever implemented. Do you agree?
A: The actual figure is 48 percent for foreign investment and 46 percent for domestic investment, but this covers a period from 1967 to the present. If you look at the past three years, I think the rate of implementation would be 65 to 70 percent

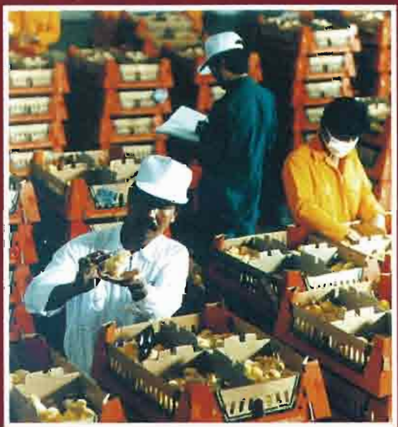
Q: In its search for more direct foreign investment, will Indonesia be offering more build-operate-transfer (BOT) and build-own-operate (BOO) projects?
A: Yes, non-recourse financing will be much more encouraged. With 7 percent annual average growth, Indonesia needs more investment in infrastructure — power generation, roads, harbors, airports, etc. But first we must identify projects that are economically viable for the private sector before we can offer them on a BOT or BOO basis. Electricity generation and geothermal production are, for all practical purposes, now in the private sector. We need more toll roads, especially in Java, and have called for bids on a tollway from Jakarta to Surabaya. Certain ports, like Jakarta and Surabaya, can also be developed by the private sector. Other ports are not viable now and will require government investment.

A BOO project we have high hopes for is the construction of our first copper smelter, 100 percent owned by Mitsubishi of Japan and Freeport McMoran and Fluor Daniel of the United States. The smelter will use copper concentrate from Irian Jaya to produce copper for our local cable industries. It will also produce sulfuric acids for our fertilizer industry.

Q: When do you think people will stop looking at Indonesia as an emerging market?
A: I think we will be a mature society before the year 2018. By then, we will be able to depend on our own resources and revenues instead of relying on foreign investment.

PT MULTIBREEDER ADIRAMA INDONESIA

Multibreeder Adirama Indonesia is one of the country's largest suppliers of high quality day-old chicks, parent and final stock, derived from the world's top breeders. Originally a subsidiary of Japfa Comfeed Indonesia and now a publicly traded company in its own right, Multibreeder has grown in line with the demand for premium purebred poultry among Indonesia's 190 million inhabitants.



Final inspection before delivery

In 1994, the company sold more than 80 million day-old chicks — a figure that is projected to increase to 150 million by 1997. Profits at Multibreeder have also grown steadily, from Rp4.3 billion ($2.08 million) in 1992 to Rp15.1 billion ($6.9 million) in 1994.

Factors contributing to Multibreeder's success include a state-of-the-art disease prevention program and 12 strategically located breeding farms. Situated near central markets and regional farming customers, these farms comprise a strong distribution and after-sales service network for Multibreeder throughout the vast Indonesian archipelago. Plans include the addition of several more breeding farms in areas where demand for purebred day-old chicks exceeds supply.

Annual shortages of purebred poultry meat have been the norm in Indonesia in recent years. With the country's economic growth topping 6 percent for the past five years, personal incomes have been increasing annually. These increases have prompted a switch from a diet high in starch to one featuring protein-rich alternatives like poultry. Despite this, however, per capita poultry consumption in Indonesia is well below that of neighboring Southeast Asian countries. This signals great potential for the poultry market as Indonesia's economy continues its upward trajectory and Indonesian lifestyles more closely reflect those in nearby countries.

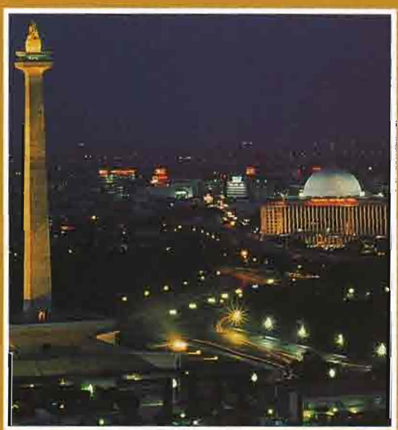
In response to projected increases in demand, the government recently instituted a policy calling for a concerted effort nationwide to upgrade both the quality and the quantity of purebred broilers and layers. With 50 percent annual growth for the past three years, Multibreeder is well positioned to help achieve this goal. In addition, the company's strict quality control ensures that Multibreeder's day-old chicks will continue to command premium prices.

In a rapidly growing consumer market like Indonesia, timing and quality are essential for a company's long-term success and Multibreeder's well developed breeding and distribution network places it at the forefront. While consumers in Indonesia are just beginning to discover poultry as a healthy choice, downstream demand is also increasing for value-added products such as fast foods. With this in mind, management at Multibreeder is determined to maintain its commitment to producing top-quality, purebred day-old chicks for use as layer and broiler stock. Says Radityo Hatari, the company's president director, "We are confident that, if we uphold our high standards of quality, the markets for our products can only multiply."

HISTORY

CREATING A NEW ORDER

Modern Indonesian history is a complex tapestry of events, interwoven with varying interpretations of its own recent past. It is a land of 194 million people from 200 different ethnic groups and five of the world's major religions, on 13,000 islands stretching 3,100 miles from east to west.



Jakarta, the capital of Indonesia

Officially, it all began on August 17, 1945, two days after Japan's surrender ended World War II. It was then that Sukarno and Mohammed Hatta proclaimed independence, but it took four more years, and a bitter war with the Dutch, before Indonesia became a truly independent nation. As the winds of change were sweeping through India and Indochina, 344 years of Dutch colonial rule came to an end on November 2, 1949, with the signing of the Hague Agreement.

Under the terms of the pact, the Dutch agreed to give up all of their Indonesian territories except the western half of the island of New Guinea, then known as West Irian. A month later, the Dutch flag was lowered for the final time, and Indonesia formally became a republic.

The first 20 years of Indonesian history are often divided in the parliamentary democracy period from 1945-59 and the "Guided Democracy" of 1959-65 under the country's first president, Sukarno — a charismatic and flamboyant personality, especially popular in predominantly rural areas. Although he never attained an outright electoral majority, he was able to maintain a solid power base through a coalition of Communists, Muslims, and the military.

In 1945 Sukarno defined Indonesian nationhood as being based on five principles, or Pancasila. They are: belief in one supreme God; justice and civility among people; the unity of Indonesia; democracy through deliberation and consensus among representatives, and social justice for all.

The day after Sukarno and Hatta proclaimed independence, the 1945 Constitution was announced. Its 37 articles provided for a powerful presidency, but were later modified by decree to a parliamentary system. This document also gave the military a guaranteed bloc of 20 percent of the seats in the People's Representative Council.

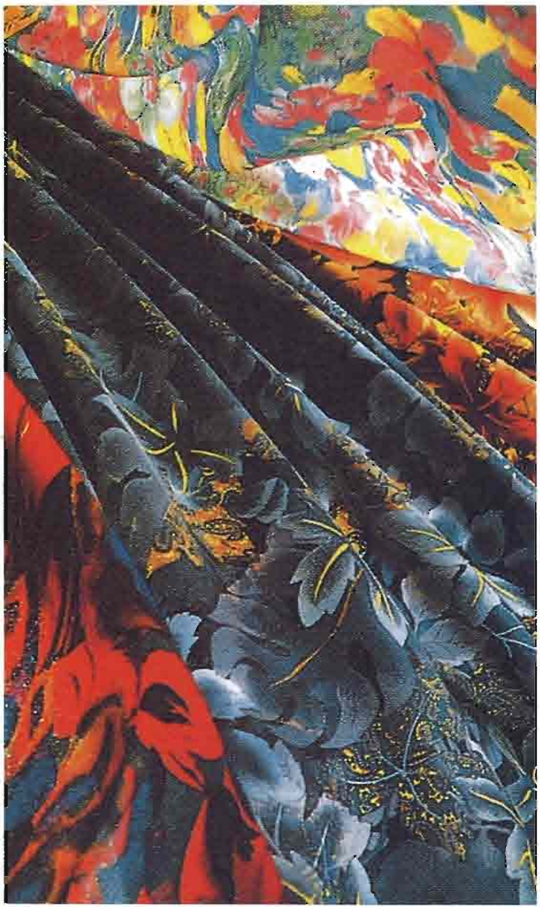
This was followed in 1950 by a lengthier document, 146 articles, calling for a full parliamentary system of government with the presidency reduced to a largely ceremonial role. It also established a system of checks and balances and assigned the military a role subordinate to the nation's civilian leadership. Above all, the 1950 Constitution gave Indonesians their first guaranteed human rights and individual freedom based on the 1948 United Nations Universal Declaration of Human Rights.

This farsighted document was unparalleled in its time in Asia. But its undoing proved to be Article 134, which called for a constitutional assembly, to be known as the Konstituante, to be convened to enact a permanent constitution.

In 1955, the country held its first, and perhaps only, free and fair election. No party won a majority, but with 22.3 percent of the ballots, Sukarno's Indonesian Nationalist Party pulled in the largest bloc of votes and retained control of the government. Three months later, Indonesians voted for the Konstituante.
(continues on page 14)

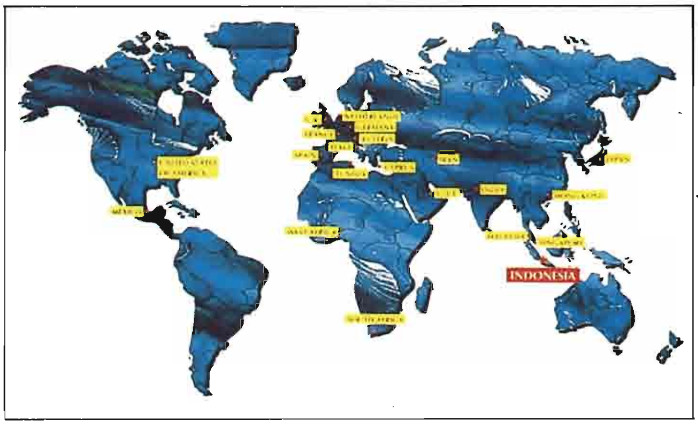
A Global Focus To Meet Global Needs

30 years in the textile business has made us totally integrated and self reliant. We manufacture and export chips, yarn, textiles, garments and even textile machinery to global markets.



As the world becomes more competitive and volatile, we continue to meet the challenges through innovation, designed to anticipate and exploit global trends.

We continue to steer towards achieving greater self reliance and international competitiveness. Not only for Texmaco - but also for Indonesia.



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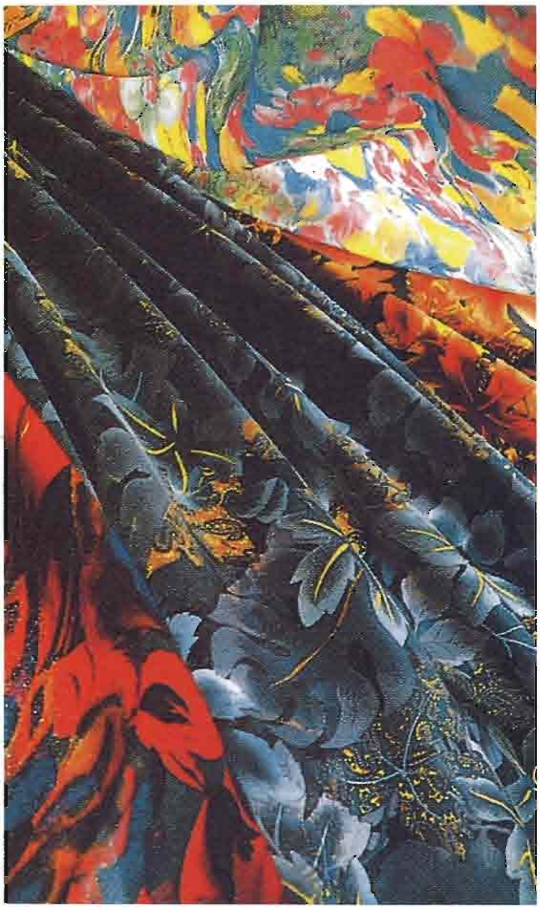

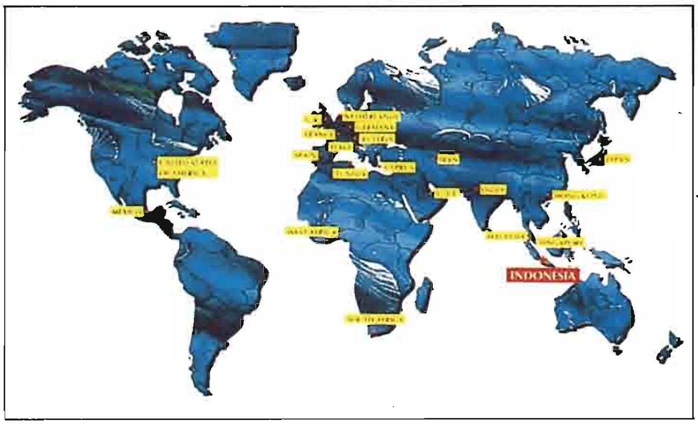

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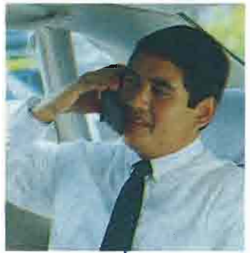

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- Agrochemicals

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- Sheraton Nusa Indah Resort Hotel and Bali International Convention Centre, Bali
- Bimantara headquarters, Jakarta
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- Elektrindo Tower, Jakarta

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- Multi-finance
- General insurance and insurance brokerage
- Food manufacturing
- Food distribution

President Soeharto

President Sukarno

(continued from page 10)

Ninety percent of the electorate turned out to choose 514 delegates from the four main political parties. But the divisions and debates over ideology and empowerment that were to form this permanent body of law spilt over to the day-to-day running of the government.

By the end of Sukarno's first decade in power, Indonesia's foreign policy had a decidedly anti-Western cast. Three events dominated the political agenda in 1958. First, Sukarno stepped up his campaign against the Dutch for control of Irian Jaya. Second, he launched an ill-fated invasion of newly independent Malaya — a former British colony — to protest the establishment of the new states of Sabah and Sarawak on the island of Borneo. Finally, he put down a rebel government in West Sumatra backed by the U.S. Central Intelligence Agency .

These events not only made the Jakarta government cozy up to their counterparts in Moscow and Beijing, it also unleashed a brand of economic nationalism that expropriated hundreds of American and European firms, severely curtailing foreign investment and much needed foreign aid.

While many in the Sukarno government perceived free-market capitalism as the driving force behind the colonialism they had just escaped, few had any ideas about how to manage the socialist-oriented economic plan chosen as its replacement. The Treasury was bankrupt, exports dropped, debt and inflation soared, per capita income was $50, and the economy all but ground to a halt.

With the government and the economy out of control, Sukarno came under increased pressure from the military to return to the 1945 Constitution. On January 5, 1959, nine months before the Konstituante was due to complete its task, Sukarno dissolved the assembly and abrogated the 1950 Constitution. The army was back in power, human rights were waived, and a 64-month period called "Guided Democracy" had begun.

In reality, it was a return to autocratic rule based on the Javanese feudalism Sukarno had grown up with. Indonesia's experiment with democracy was over. It would eventually be replaced by decades of political stability and economic prosperity, but at a horrific cost in human lives and political repression.

The events surrounding the fall of Sukarno and ascendency of Soeharto is still shrouded in mystery as claims on both sides are largely unsubstantiated. On the evening of September 30, 1965, a group of leftist army officers kidnapped and killed six generals and a lieutenant. The rebels claimed they were trying to preempt a planned coup by a Council of Generals, which did not formally exist. The next morning, Major General Soeharto, who headed the strategic reserve command, took control of the armed forces. Order was restored in less than 30 hours.

Blaming the coup on the Communist Party, the

army used the opportunity to vanquish their political opponents and unleash a nationwide vengeance campaign exploiting social tensions that had been building for years. In the end, an estimated 400,000 Indonesians were killed in a matter of months, in what is considered one of the worst bloodbaths of the 20th century. Tens of thousands of others were forced from their homes in a ruthless display of ethnic cleansing.

Indonesia is Southeast Asia's largest producer of oil and natural gas.

On March 11, 1966 an ailing Sukarno effectively relinquished control of the government to Soeharto, then 44, in a memorandum that bade him "to take all measures considered necessary to guarantee security, calm, and stability of the government and the revolution and the personal safety and authority [of Sukarno]." A day later, Soeharto banned the Indonesian Communist Party and its affiliates. The New Order had begun.

In March 1967, the People's Consultative Assembly elected Soeharto Acting President and, a year later, President. Relatively few incidents have marred the record of stability of Soeharto's New Order government. In large part, this is because the military continues to follow a policy known as Dwi Fungsi, or Dual Function, by which it reserves the right to play a part in the social and political life of the country. Military officers mirror government bureaucrats throughout the range of official positions right down to the village level. The majority of senior regional government posts, such as governors of the 27 provinces, are also held by active or retired officers.

The most notable exception to the general rule of stability was Soeharto's annexation of the Portuguese colony of East Timor in 1975 . Following years of brutal repression that has cost the lives of an estimated 100,000 people, armed rebellion in the territory has been tamed but resistance to Indonesian rule remains strong. Although the government maintains that the people of East Timor voted to be incorporated into Indonesia in a 1976 referendum, the United Nations still considers the island a Portuguese territory, and it remains a problem for Indonesia in the international arena.

While the government has actively dissuaded groups such as university students from political involvement by banning any such activity on campus, most people have accepted the idea that such constraints were necessary to allow much needed economic progress. However, with growing economic prosperity, strikes like the one in the North Sumatra city of Medan in early 1994 indicate a new phase of awareness on the part of labor. Strikes have also become more frequent in other industrial centers and are expected to continue to be a feature of Indonesian commercial life.

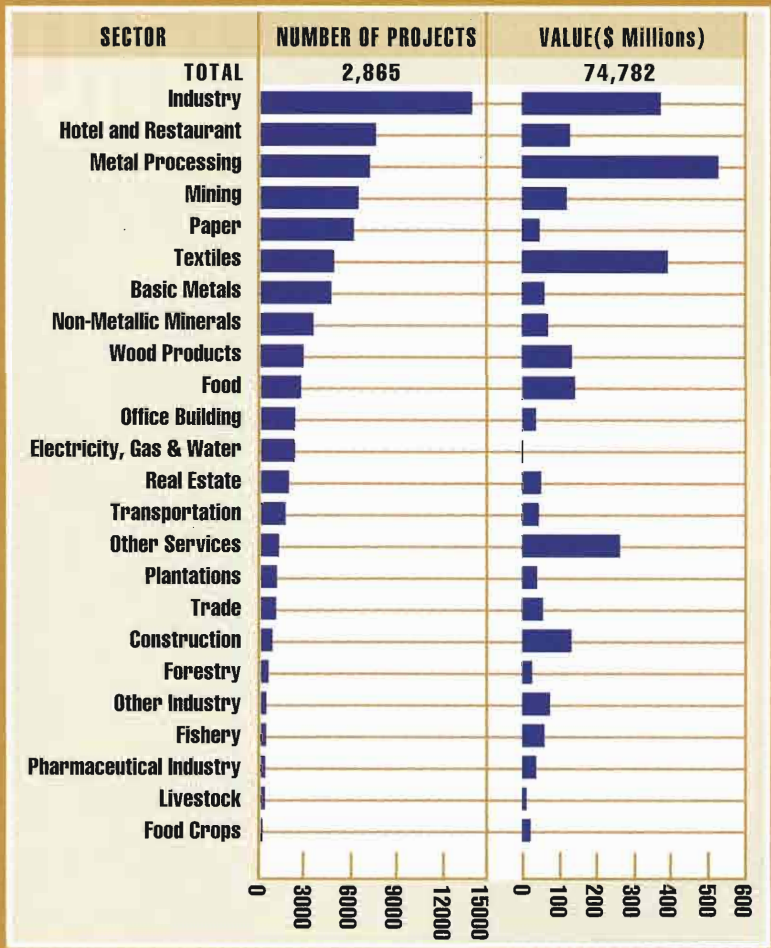
In his nearly 30 years in office, President Soeharto has changed the emphasis of the Indonesian government, abandoning an aggressive, and often confrontational, foreign policy stance and concentrating on internal development. Adopting a virulently anti-communist platform both at home and abroad, the government placed itself firmly in the Western camp. Foreign investment and international aid returned and per capita income rose to today's $821.

Economic development in the 1970s was spurred by the development of Indonesia's oil industry using Western technology. It is Southeast Asia's largest producer of oil and the world's largest exporter of liquefied natural gas.

Although the government was successful in reducing poverty, its highly protectionist policy of import-substitution industrialization, which favored certain corporations and fostered rampant corruption, made income distribution more inequitable. Tensions erupted in 1975, when political riots brought Jakarta to a standstill. That same year, the state-owned oil company, Pertamina, which had been reckless with its non-oil investments, defaulted on its loans and forced the government to reschedule its external debt.

Both the riots and the Pertamina crisis led to two

APPROVED FOREIGN INVESTMENT PROJECTS*



SOURCE: INVESTMENT COORDINATING BOARD

important developments. First, the government began further to strengthen its security network and the army assumed an even greater role. Second, technocrats at the Ministry of Finance and the Office of the State Secretary, the doorstep to the presidency, took a greater role in running the country.

By the mid-1980s, Indonesia, with the world's largest Muslim population, was experiencing an Iranian-inspired Islamic fundamentalist revolt, especially among the poor on Java and Sumatra. However, in a violent series of crackdowns, the Soeharto government was able to quell the threat.

In the last 10 years, the New Order has adopted a completely new economic approach, focusing on export-driven policies and liberalizing trade, financial markets and investment regulations. Since 1992 multinationals and medium-sized regional firms have invested more than $8 billion in Indonesia.

On the diplomatic front, the rewards for decades of political stability and sustained economic growth have become apparent in the past few years. In 1994 Soeharto acted as host for the 22-nation APEC summit, and for the past three years he has held the pivotal role of chairman of the Non-Aligned Movement, helping to redefine the organization of emerging nations in the wake of the fall of Communism and to establish a new global free-market environment.

CHASE

LEADING THE WAY IN INDONESIA

Chase Manhattan Bank established a branch in Indonesia in 1968. It has been privileged to grow with the country, helping to meet the evolving needs of its industries and markets and becoming a leader among the foreign banks operating in Indonesia.

Chase opened the offshore capital markets to Indonesian corporations for straight Eurobonds. First came a $30 million, three-year Eurobond for PT H. M. Sampoerna in March 1993, followed in November by a $170 million, five-year Eurobond for PT Semen Cibinong, also lead-managed by Chase and heavily oversubscribed from an initial $100 million. In 1994 Chase lead-managed a $125 million, seven-year Eurobond for PT Astra International that had the tightest spread of any Indonesian private sector bond and co-managed PT Freeport Indonesia's $120 million, seven-year Yankee bond.

Chase is the leading loan syndication bank in Indonesia. In January 1994 the Republic of Indonesia named Chase overall coordinator for a $400 million, seven-year standby facility. Later raised to $500 million because of heavy oversubscription, the issue has become a benchmark from which other Indonesian borrowers have benefited. *Euroweek*'s "Asian Capital Markets" poll named the facility "Asia's Best Syndicated Loan of 1994" and also named Chase "Best Arranger of Project Financing in Asia." In *Asiamoney*'s "Best in Asia Lending" poll, Chase ranked first in Indonesia.

Chase has also been recognized for bringing to market well structured new debt issues from emerging markets, and Indonesia in particular, by publications such as *Euromoney* and *International Financing Review* (IFR), which named Chase "Emerging Market Debt House of the Year" in December 1994.

In project finance, Chase was the lead financial advisor to the PT Paiton Energy Company consortium building a 1230 MW power station in Indonesia, one of the largest independent power projects in the world. In June 1995 Chase closed over $1.8 billion in non-recourse financing for the project, including a unique multi-tranche structure that includes export credit agencies, OPIC and commercial banks. Today, Paiton is the model for private sector power development in Indonesia and the largest Asian financing of its kind ever.

In 1994 Chase closed over $1.3 billion of aircraft financing for leading Asia-Pacific airlines, including a $225 million bridge financing for Garuda Indonesia. In risk management, Chase played a major role in developing the dollar/rupiah foreign exchange market.

Chase in Indonesia is a leader in providing value-added corporate finance, capital markets and risk management products that are tailored to its clients' needs. Chase's objective is to break new ground for its clients, whether by lengthening term limits for loan syndications, accessing new offshore bond markets, inventing new structures for large project financings, or combining a corporate relationship with a client's personal banking needs.

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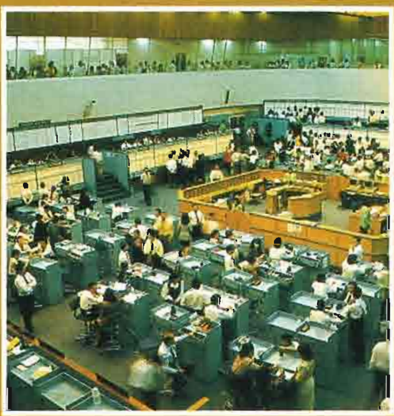
STOCK MARKET

A BOLD MOVE FORWARD

When the Jakarta Stock Exchange (JSX) moved to its new building on May 23, it was also a symbolic gesture of its aspiration to become a key financial center in Southeast Asia. With the move, the exchange became fully automated — a bold step if we consider that just one week earlier, bid and asked prices were handwritten on white boards, and the closing index, calculated manually, was not available until at least three hours after the market closed each day.



The Jakata Stock Exchange is one of the oldest bourses in Southeast Asia.

The JSX is one of the oldest bourses in the region, established by the Dutch in 1912. It was virtually dormant until the late 1970s when the government of Indonesia initiated measures to make it a more effective forum for raising capital and allowed foreign joint ventures to sell part of their equity to Indonesians. It also created tax incentives and a state-owned investment fund called Danareksa. The Capital Markets Executive Agency (Bapepam) was set up in 1976 as part of the Ministry of Finance to regulate the exchange. Bapepam had a key role in developing the securities market in the late 1980s and managed the JSX until 1992. Under its current chairman, Harvard-trained Bacelius Ruru, Bapepam plays a key supervisory role in maintaining a legal and regulatory framework for the capital markets.

Nevertheless, the stock market did not begin to flourish until 1988, when a number of deregulatory measures were introduced. They included the removal of daily price limits, simplification of listing and issuing requirements, clearer guidelines on foreign ownership, and the introduction of a 15 percent withholding tax on bank deposits. As a result of these measures and the economic euphoria of the late 1980s, the JSX became one of the fastest growing capital markets in the region, attracting both domestic and foreign investors. Foreign brokers and underwriters were then permitted to enter the capital markets through joint venture agreements with local brokers. Thanks to these changes, average daily trading value soared more than 3,000 percent, from Rp121.9 million in 1988 to Rp3.9 billion in 1989. Privatization of the exchange in July 1992 has helped to boost trading volume and the number of listed companies, which rose from 23 in 1983 to 224 in June 1995. The JSX is currently owned by 224 exchange members and shareholders.

In March 1992, the banking law was amended to allow foreign investors to buy up to 49 percent of the listed shares of banks, which had been closed to foreigners. More recent deregulatory measures which have influenced market activity includes the May 1993 financial deregulation package, which revived interest in the banking sector; the June 1993 package which lifted interest in automotive stocks; and the October 1993 package which focused on improving the investment climate and boosting exports.

MARKET OUTLOOK

As in most Asian markets, 1994 was a humbling experience for investors in Indonesia. Even the most cynical of analysts were bewildered as the market collapsed to a level far below the most pessimistic predictions. By the end of the year, the Jakarta Stock

THE JAKARTA STOCK EXCHANGE AT A GLANCE

YEAR	COMPOSITE INDEX	TOTAL TRANSACTIONS VOLUME (1,000 units)	TOTAL TRANSACTIONS VALUE (millions of Rp)	MARKET CAPITALIZATION (billions of Rp)	NUMBER OF NEW COMPANIES	COMPANY LISTINGS
1978	114.990	19.54	218.50	4.05	0	1
1980	103.540	1,656.29	5,733.80	41.04	3	6
1982	95.000	5,014.81	12,624.80	99.26	6	14
1984	67.680	1,218.83	2,139.30	91.06	5	23
1986	69.690	1,431.92	1,815.90	94.23	0	23
1988	305.120	6,944.59	30,591.96	481.56	0	23
1990	417.790	702,587.44	7,311,288.73	12,440.15	67	122
1992	274.335	1,706,269.48	7,953,299.56	24,839.45	14	154
1994	483.020	2,256,247.28	11,769,339.67	72,415.30	14	188

SOURCE: JAKARTA STOCK EXCHANGE

Exchange Composite Index had fallen to 470 from 589 the previous year. This contrasts sharply with 1993, when a euphoric market grew 115 percent to become one of the best performing in Asia.

Despite the sell-off, the outstanding trait of Indonesia's stock market in 1994 was the explosion in IPOs and rights issues. Most of the IPOs were very attractively priced at first, but their sheer numbers overwhelmed the market. An embarrassment of riches, it was more than investors could absorb. A total of 48 new companies raised Rp4.3 trillion ($1.96 billion) on the JSX, increasing the number of listed enterprises to a total of 218 by the end of 1994. Further, 31 new rights issues raised Rp5 trillion last year, for a total (including IPOs) of $4.8 billion, more than twice the figure of $2.1 billion in 1993.

While the eagerly awaited Indosat IPO made a triumphant debut on both the Indonesian and New York stock markets, snaring the attention of investors around the world, it failed to spark the broad-based rally widely anticipated by investors, mainly because of higher than expected interest rate hikes in the U.S. last year. Despite that, Indosat won a number of outstanding awards for "Deal of the Year" in Asia.

This year somewhat fewer IPOs are expected than in 1994. Although some 30 applications are presently in the pipeline, some may be postponed temporarily or even shelved. One that is expected to capture international attention is that of the domestic telephone monopoly, Telkom. The Finance Ministry has announced that the company is seeking a listing on stock exchanges in New York, London and Jakarta to raise up to $3 billion.

Another highly visible IPO issue is Bimantara Citra, controlled by President Soeharto's second son Bambang Tri Hatmodjo, which is planning to raise about $115 million. The listing will make the stock one of the 10 largest-cap issues on the JSX. Despite the political overtones associated with this issue, we expect investors to regard Bimantara as a rare investment opportunity in Indonesia's fast-growing telecommunications, media and broadcasting industries.

The Indonesian stock market is currently limited by its small capitalization, only Rp115.9 trillion ($52.4 billion) at present. Three years ago, however, it was even thinner: Rp16.4 trillion ($10 billion). In the same period, Indonesia has doubled its share of Asia's total capitalization to 3.8 percent. In the next 10 years, the Indonesian stock market is expected to become one of the largest in this part of the world.

Currently trading between 455 and 475, the market has firm support at the 450 level. We believe it should penetrate 500 by the third quarter of 1995.

— *David Chang, Vice President of Research at Sigma Batara, Jakarta*

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DEBT MARKETS

STILL IN THE TEETHING STAGE

REPRESENTATIVE RUPIAH BOND ISSUES

ISSUER	SECTOR	AMOUNT (billions of rupiah)	TENOR	OFFERING DATE
PT Citra Marga Nusaphala Persada	Toll Road Construction	275	8	8/93
Bank Tabungan Negara (BTN) (Series V)	Government Bank	150	5	7/93
Perusuhaan Listrik Negara (PLN) Series II	State Electricity Utility	600	7	10/93
PT Astra International	Automotive	250	5	2/94
Bank Papan Sejahtera (Series VII)	Quasi-Government Mortgage Bank	250	7	12/94
PLN (Series III)	State Electricity	300	5	3/94
PT Duta Anggada	Real Estate	100	6	3/95
Bank International Indonesia	Private Bank	380 (E)	5	In progress
PLN (Series IV)	Electric Utility	700 (E)	5	Expected 8/95
BTN (Series VI)	Government Bank	200 (E)	5	Expected 8/95

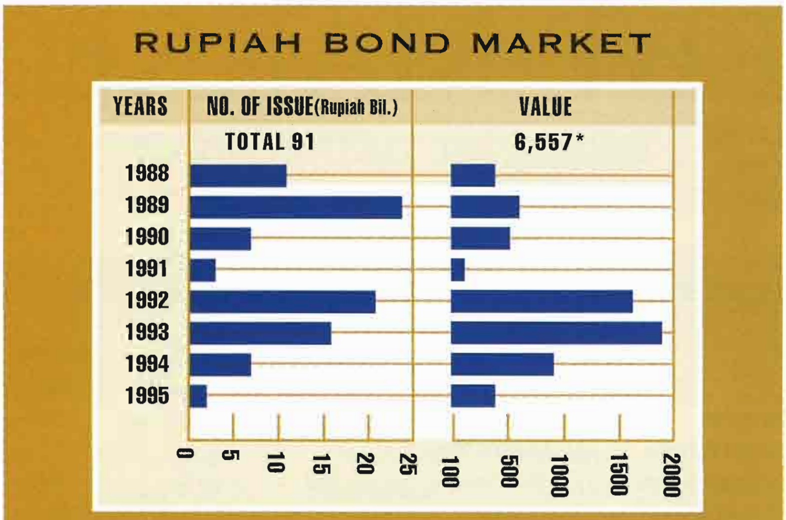
SOURCE: JAKARTA STOCK EXCHANGE

After a boom in new issues in 1993, the public rupiah bond market has become erratic because of changing regulations and adverse conditions in global bond markets. Still, blue-chip companies issued a series of successful Yankee and Eurobonds in 1994 and we expect a new round of such high-yield issues given Indonesia's recently reaffirmed sovereign ratings of BBB/Baa3.

Public Bonds. Under its official balanced budget policy, the government of Indonesia does not issue bonds to finance its budget. The Central Bank issues short-term money market certificates (SBI) through auctions for maturities from seven days to one year as part of its monetary policy; but only limited amounts of these have been sold to international investors. The rupiah bond market is thus handicapped by the absence of a medium-term government benchmark.

Indonesia's public bond market dates back to 1983 when a government-owned toll road company, PT Jasa Marga, issued fixed-rate bonds. Until 1988, only government or quasi-governmental companies were eligible to tap the market but this regulation was amended to include private companies approved by Bapepam. As of January 1995, there had been 91 issues with an outstanding value of approximately $2.3 billion. New issues peaked in 1992 at Rp1.9 trillion ($853 million), falling by over 50 percent to Rp930 billion in 1994 with only two new issues completed at mid-June 1995 for a total of Rp400 billion. Three new issues of over Rp1,200 billion are due for completion this summer. One of these, a $300-$350 million issue by the government electric utility, PLN, could function as a surrogate benchmark.

Most bonds are listed on the JSX or OTC market (known as the Bursa Parallel), but almost no trading goes on there. To spur market development, planned reforms include simplified registration



SOURCE: BAPEPAM
*VALUE OF BONDS OUTSTANDING AS OF 1/95: RP5,300 BILLION ($2.3 BILLION)

requirements for official market makers to obtain listings, an information system via the Bursa Parallel that will eventually expand to a computerized trading system, a move to a central clearinghouse, and scripless trading. Settlement now is cumbersome as issuers must confirm the validity of bearer bonds before settlement.

Almost all recent bonds have a five-year maturity and a hybrid fixed/floating rate, with the coupon resetting based off a composite of government and private bank time deposit rates. The rates are not always market-determined, handicapping international investors' efforts to hedge medium-term investments back to their home currencies. The government is studying the need for a pricing convention based either on a local interest rate convention being started among local banks (Jakarta Interbank Offer Rate) or the rupiah-dollar swap rates quoted since early 1995 by a group of offshore banks.

Private Placements. Privately placed securities, both commercial paper and medium-term notes, are the most vibrant segment of the Indonesian capital markets, growing to between Rp3,000 billion and Rp 10,000 billion ($1.3 billion-$4.5 billion) in response to the still-restrictive public offering requirements. The Central Bank is drafting new regulations governing who may issue such paper and requiring a bank to be appointed arranger and paying agent to verify issuer information and facilitate settlements.

Both CP and MTNs can be issued in either rupiah or dollars, although government-controlled companies and all banks are subject to limits on the amount of foreign-denominated securities that can be sold abroad. Most MTNs mature in one to three years and have been sold to international investors willing to hold to term. More flexible documentation and the ability to move quickly without a rating have made this the most attractive sector for foreign investors. Issuers include banks, finance companies, manufacturers, agrobusiness, infrastructure companies, and real estate developers. A special-purpose finance company successfully issued three-year notes backed by credit card receivables earlier this year and hopes to expand to car loans and mortgages as new laws on securitized lending are adopted later this year.

International Issues. Credit constraints from implementing BIS standards and stricter lending limits in the Indonesian banking system from 1992 to 1994, particularly at state banks, and a limited appetite for medium-term private sector risk among international banks, made several major Indonesian companies turn to the international bond market in late 1993 and 1994. As of mid-1995, however, given the spillover effect of the recent Latin American crisis on public new issue spreads for Indonesian companies, there had been no long-term fixed-rate international issues. Major expansion programs under way in areas like power, water, roads, and telecommunications will need longer-term funding, and we expect to see new issues into Europe and the U.S. later this year. PT Satelindo, the IDD and cellphone operator in which Deutsche Telekom bought a 25 percent stake in March, has already announced plans to tap either local or international markets by next year.

—Elizabeth M. Wood, managing director and head of Asian Fixed Income Research, Bear Stearns Asia Ltd.

FLUOR DANIEL

HOW A FRONTRUNNER STAYS AHEAD

In the jungles of Irian Jaya, they drop from helicopters to deal with the problems of building one of the world's largest copper mines. In the mountains of East Java, they're constructing Indonesia's first private power plant. Back in Jakarta, they are busy renovating one of the capital's finest hotels.

Paiton: one of the latest Indonesian projects to employ Duke Fluor Daniel's expertise.

Though very different from each other, these projects illustrate the range of services provided in Indonesia by the giant engineering, construction and diversified services company, Fluor Daniel. Its client list is a Who's Who of the bluest blue chips: Pertamina, PT Paiton Energy Company, PT Freeport Indonesia, Mission Energy Company, Unocal Corporation, Arco and others.

While it would be easy to be content with such a roster, Fluor Daniel is not. It wants to expand its client base to include Indonesia's emerging new companies. "Providing competitive, cost-effective services of real value lays the foundation for lasting business relationships," says Charlie Sands, president of Fluor Daniel Indonesia. "Our century of experience enables us to meet the diverse needs of our clients for quality, efficiency, cost, and safety."

Fluor Daniel's history in Indonesia began in 1970 when it engineered and built a refinery for Pertamina, in Cilacap while also constructing a crude oil stabilization plant for Unocal Indonesia.

Appropriately, Fluor Daniel marked its 25th anniversary in Indonesia by finalizing a new contract with Pertamina, this time to debottleneck the Cilacap refinery and add a lube oil complex and asphalt plant. Recently launched is a project for Unocal Geothermal to build a geothermal power plant in West Java with a local engineering company, PT Inti Karya Persada Tehnik.

Since 1970, Fluor Daniel has engineered, built or maintained oil refineries, airports, gas fields, pipelines, and dozens more projects that at times have involved workforces of up to 8,000 people. "We want to improve these established relationships," says Fluor Daniel vice president Rod Ragan, "but we also want to convey the same excitement and commitment to new businesses that we give our current clients. We're eager to apply our experience to more infrastructure-related projects such as light rail, commercial, light industrial, airports, and water and effluent treatment."

Ragan believes that Fluor Daniel's 25 years of local experience, combined with its global network capability, set the standard for new companies on the scene. Add a cost-driven philosophy, innovative technology, project finance experience, ability to manage complex projects and train thousands of craftworkers and engineers, and recent internal reengineering, and it stands alone.

To Fluor Corporation chairman and CEO Les McCraw, who co-chaired last year's APEC Pacific Business Forum, it means doing things "better, faster, cheaper and safer" than anyone else.

For further information, please contact:
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Tel.: (62-21) 850-4540; Fax: (62-21) 850-9108

INFRASTRUCTURE

A MODEL GOVERNMENT-PRIVATE SECTOR PARTNERSHIP

U.S.-based PT Freeport Indonesia's copper mining operation

The first major foreign investment in Indonesia under Suharto's New Order in 1967 was the copper mining operation of U.S- and Indonesia-based PT Freeport Indonesia (PTFI) on remote Irian Jaya. The company's relationship with the government is viewed by many in Indonesia as a textbook example, not only of the way foreign investors can thrive, but of the future conditions under which companies will be allowed to operate.

With the economy getting into gear, the New Order wanted added value for its resources, increased technology transfer, and all financing to come from abroad. It was the first time the Suharto government had leveraged its position in this way, although it has since done so with other mining companies operating in the country.

PTFI's initial concession, or contract of work, was for 30 years. In December 1991, when the company extended its lease for another 30 years with options for two 10-year extensions, the Indonesia government stipulated that, if economically feasible and not yet constructed by others before the year 2000, PTFI would be responsible for ensuring that a copper smelter plant was built in Indonesia so that the country could both meet the metal needs of its industry and substantially cut back on foreign exchange outflows by reducing its imports.

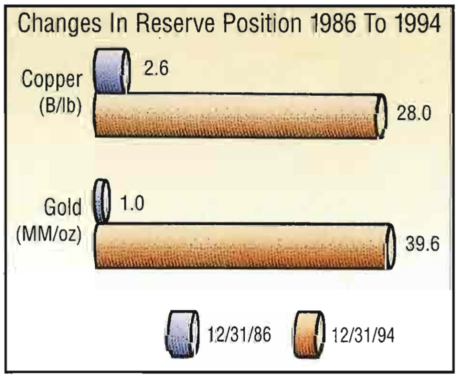
Indonesia currently imports about 100,000 tonnes of copper a year, but this is expected to grow by 12 percent a year until 1998. After the new smelter goes into operation in 1998, it will not only meet local demand, but will make Indonesia a net exporter of the finished metal which is a higher foreign exchange earner than the metal concentrate now sent overseas. The smelter will also produce sulfuric acid, for a nearby fertilizer plant, saving more imports.

Operation of the $550 million state-of-the-art smelter — a build-own-operate joint venture between Mitsubishi Materials Corp. of Japan (70 percent stake) and Fluor Daniel of the U.S. (10 percent) — will provide an important home for the company's expanding level of concentrate production.

The company also gained an extension of the contract, the right to explore a further 6.5 million acres on Irian Jaya, and the right to sell back to Indonesian entrepreneurs over $650 million worth of infrastructure and commercial projects of the $3 billion the company has spent on developing the island over the past 20 years. An affiliate of the company later won a contract to explore an additional 2.5 million acres in Irian Jaya.

This past March, in a deal worth over $1.3 billion, PTFI's parent company — Freeport-McMoran Copper & Gold Inc. (FCX) — sold 10.4 percent of its equity to Britain's RTZ, the world's biggest mining company, and a 40 percent stake in the future development of the Indonesian mines. In May, the new partners announced a feasibility study to look at the possibilities of increasing mining and milling capacity at the company's Grasberg mine in Irian Jaya — the third largest open-pit copper reserve and the largest gold reserve of any mine in the world — from 118,000 tonnes of ore a day to between 175,000 and 200,000 tonnes. Ore production of 118,000 tonnes a day translates to about 1.1 billion pounds of copper and 1.5 million ounces of gold.

TREND SETTER



Sometimes the best way to set a trend is to follow one.

Our enlarged 7.3-million-acre contract of work area in Indonesia sits squarely on line with the New Guinea Mineral Trend— a trend that has already yielded massive finds and provided Freeport-McMoRan with the largest single gold reserve and one of the largest copper reserves of any mine in the world.

What's more, we are increasing mill throughput from 72,500 to 115,000 metric tons of ore per day. Yet even at this increased rate, our reserves will last more than 25 years.

Through our exploration successes and timely increases in production capacity, we are providing substantial rewards for our shareholders.

We invite you to learn more about Freeport-McMoRan Copper & Gold and how we are managing our success.

FREEPORT-McMoRAN COPPER & GOLD
A Natural Leader®

For a copy of our Annual Report, call 1-800-603-4460 or write Freeport-McMoRan Investor Relations, Dept. D-3, P.O. Box 61119, New Orleans, LA 70161.