Matahari

ANNUAL REPORT 2006

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EVERYDAY IS YOURS...
EVERYTHING IS MATAHARI.

Matahari

big things start from little ones.

Thanks to Matahari’s
DEDICATED AND HARDWORKING
staffs and managers
Matahari has been awarded as
the top retailer in Indonesia

Everything goes with cooperation.

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INTRODUCTION

Despite the challenging year 2006 where the impact of fuel price increases affecting most of the industries and consumers, Matahari continues to move forward to maintain its leading position by the successful expansion of stores as planned in its all core business formats. The year 2006 saw the openings of 4 new department stores, 10 hypermarkets and several supporting formats which totals the overall store network to 83 department stores, 10 children specialty stores, 27 hypermarkets, 38 supermarkets, 36 health & beauty centers and more than 110 family entertainment centers actively operating by 2006 yearend.

Both key business units – Matahari Department Store (MDS) and Matahari Supermarket (MSM) – finished the year in sound financial health. MDS delivered another phase of solid performance in sales & sound profitability, while MSM continued to chart outstanding sales growth and further positive profit contribution since its first profit made in 2005.

In order to secure its funding requirement for future expansion plan, Matahari have successfully issued a USD 150 Million, Unsecured, 3-year non-call 1-year Bonds with 9.5% coupon. In line with this, the Company also received a two notch-up upgrade international rating of B+ *with Stable Outlook* from **Standard & Poor's** and premiere rating of B1 *with Stable Outlook* from **Moody's.**

In the perspective of domestic and international recognition, Matahari also moved up a notch in its regional and international stature. The Company was honoured for the three consecutive years as the top retailer in Indonesia, having being awarded the prestigious ***Retail Asia Top 500 Gold Awards*** among the selected top 500-company rankings covering 14 Asia-Pacific economies. The annual Awards is presented by Retail Asia, the region's leading retail business magazine, in partnership with global research company Euromonitor International as the data provider and KPMG. Additionally, Matahari also received ***2006 Indonesia Retailers Award - Best Sales*** by **APRINDO** (Indonesia Retailers Association) whilst Matahari Department Store received the ***Indonesian Most Admired Company (IMAC) 2006 Award*** for its continuing efforts to better service the customers' needs.

Matahari is totally committed to spearheading the growth of Indonesia's modern retailing industry. Despite the demanding economic situation, its Board of Directors and management team have complete confidence in Indonesia as well as in our people's resilience and ability to overcome any socio-economic crises setbacks. The years ahead holds much promise for the nation's retailing industry and for the Company.

VISION

To be Consumers' Most Preferred Retailer.

MISSION

To consistently bring value fashion-right products and services that enhance the consumers' quality of lifestyle.

STRONG BRAND IMAGE IN FIVE DECADES AS MULTI-FORMAT RETAILER

COMPANY MILESTONES

1958
First store in Pasar Baru, Jakarta

1972
Pioneer of Department Store concept in Indonesia

1980
Opening of first store outside Jakarta - Sinar Matahari Bogor

1992
IPO at Jakarta Stock Exchange and Surabaya Stock Exchange

1995
Core Business Expansion to Supermarket Operation.

1st Rights Issue - Rp 75B

1996
Issuance of 5-year US$100 Million Bond

2nd Rights Issue - Rp226B

1997
Multipolar became majority shareholder

3rd Rights Issue - Rp902B

2000
Launch of Matahari Club Card (MCC)

2001
Settlement of 5-year US$ 100 Million Bond

2002
- New Management Team
- Core Business Restructuring: Matahari Department Store, Matahari Supermarket & TimeZone
- Independent and transparent Business Units

Issuance of 5-year Obligasi I - Rp 450 Billion

2003
- Consolidation Year
- Closure of Non-profitable stores
- Re-focus to internal infrastructure, resources & company's foundation

2004
- Launch of Hypermart
- Top 500 As-Pac Retail Award: #1-Indonesia.

Issuance of 5-year Obligasi II - Rp 300 B & Syariah I Rp 150 B

2005
- Successfull aggressive expansion
  - 10 Department store
  - 4 Kids2Kids
  - 13 Hypermart
  - 4 Cut Price
  - 1 Matahari Supermarket
- First Matahari Dept.Store in China
- Top 500 As-Pac Retail Award:#1-Indonesia.

2006
- Cont'd aggressive expansion: +18new Hyper/MDS/ Specialty Stores.
- Top 500 As-Pac Retail Award:#1-Indonesia.

- Issuance of 3-year USD 150 M, Unsecured Notes <10%

- Company Ratings:
  - B1 (Moody's)
  - B+ (S&P's)`

Company Business Milestone
Company Funding Milestone

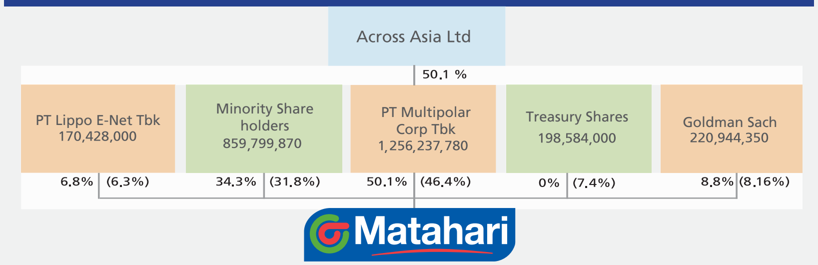
AWARDS

award starts from you.

HISTORY OF SHARE LISTING

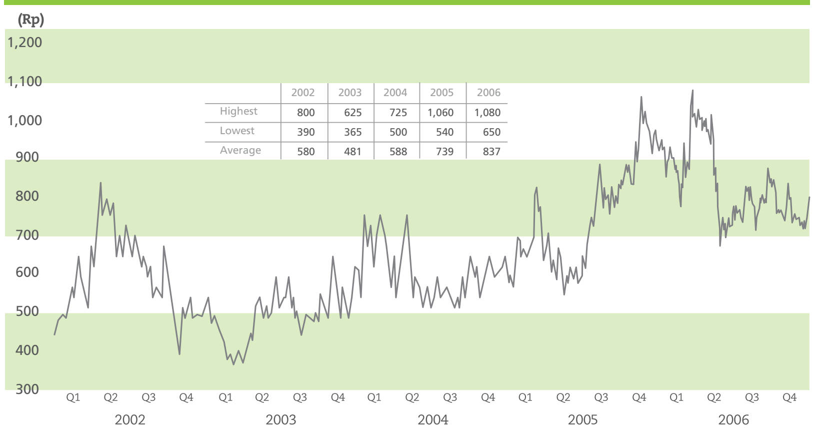
Description	Listing Date at BEJ	Listing Date at BES	Total Shares
Initial Public Offering	15 December 1992	18 December 1992	8,700,000
Company Listing	15 December 1992	18 December 1992	33,366,320
Conversion of Convertible Bond	19 July 1993	6 August 1993	926,457
Conversion of Convertible Bond	6 August 1993	6 August 1993	1,727,628
Conversion of Convertible Bond	13 August 1993	6 August 1993	824,250
Conversion of Convertible Bond	13 August 1993	13 August 1993	3,297
Conversion of Convertible Bond	25 August 1993	18 August 1993	1,648,500
Conversion of Convertible Bond	02 September 1993	24 August 1993	3,297
Conversion of Convertible Bond	13 September 1993	03 September 1993	3,297
Conversion of Convertible Bond	23 September 1993	20 September 1993	3,297
Conversion of Convertible Bond	24 November 1993	17 November 1993	2,884,875
Conversion of Convertible Bond	23 March 1994	22 March 1994	3,297
Conversion of Convertible Bond	30 March 1994	21 April 1994	3,297
Conversion of Convertible Bond	16 May 1994	11 May 1994	9,891
Bonus Share	15 July 1994	14 July 1994	100,215,406
Conversion of Convertible Bond	17 October 1994	10 October 1994	9,891
Rights Issue I	30 June 1995	30 June 1995	75,166,500
Rights Issue II	10 October 1996	10 October 1996	225,499,500
Stock Split	15 September 1997	15 September 1997	450,999,000
Rights Issue III	03 November 1997	03 November 1997	1,803,996,000
Total Listed Shares			**2,705,994,000**

SHAREHOLDING STRUCTURE



Note: Figures in bracket represent share ownership percentage including treasury shares.

SHARE PRICE PERFORMANCE



	2002	2003	2004	2005	2006
Highest	800	625	725	1,060	1,080
Lowest	390	365	500	540	650
Average	580	481	588	739	837

DIVIDEND HISTORY (For The Last 4 Years)

Fiscal Year	2002	2003	2004	2005
Net Profit (in Million Rp)	105,305	115,466	125,338	222,663
Dividend / Share (Rp)	12	13	14	25
Number of Shares	2,705,994,000	2,705,994,000	2,705,994,000	2,705,994,000
Total Cash Dividend (in Million Rp)	32,472	35,178	37,884	67,650
Dividend Payout Ratio (%)	30.8%	30.5%	30.2%	30.4%

FINANCIAL HIGHLIGHTS

				2005		2006
in billions Rp	2002	2003	2004	Audited	Exc. Divestment of Investment in a Company	Audited
Consolidated Statements of Income						
Net Sales	5,208	5,065	5,620	6,916	6,916	8,488
Cost of Sales	3,632	3,521	3,853	4,905	4,905	6,177
Gross Profit	1,576	1,545	1,767	2,011	2,011	2,310
Operating Expense	1,487	1,394	1,534	1,702	1,702	1,909
Operating Income	89	151	233	309	309	401
EBITDA	348	386	482	677	606	751
Other Income (Charges)	50	-	(51)	(60)	(131)	(212)
Equity in Net Income of Investees	3	3	4	6	6	6
Income Before Tax	142	154	186	255	184	196
Income Tax	15	16	40	29	29	38
Net Income	105	115	127	223	152	160
Number of shares (in Million)*	2,507.4	2,507.4	2,507.4	2,507.4	2,507.4	2,507.4
Earning per Shares (Rp)	40	45	51	89	62	64
Consolidated Balance Sheets						
Cash & Short Term Investments	860	753	1,251	588	517	1,306
Inventory	373	390	410	676	676	791
Current Assets	1,478	1,306	1,834	1,525	1,454	2,468
Total investment in associated companies	74	32	34	40	40	46
Total Assets	3,298	3,421	4,086	4,578	4,507	6,055
Account Payable - Trade	451	447	449	544	544	631
Current Liabilities	1,035	1,148	1,223	1,184	1,184	1,526
Total Liabilities	1,626	1,672	2,207	2,511	2,511	3,889
Stockholder's Equity - Net	1,672	1,749	1,879	2,067	1,996	2,166
Debt	536	637	1,073	1,203	1,203	2,495
Net Cash	324	116	178	(615)	(686)	(1,189)
Working Capital - net	443	158	611	341	270	942
Financial Ratio						
Net Income / Total Assets (%)	3.2	3.4	3.1	4.9	3.4	2.6
Net Income / Total Stockholder's Equity - net (%)	6.3	6.6	6.8	10.8	7.6	7.4
Current Ratio (x)	1.4	1.1	1.5	1.3	1.2	1.6
Liabilities / Stockholder's Equity - net (x)	1.0	1.0	1.2	1.2	1.3	1.8
Liabilities / Total Assets (x)	0.5	0.5	0.5	0.5	0.6	0.6
P / E Ratio (x)	20.0	17.8	15.7	9.0	12.9	12.5
Sales to Total Assets (x)	1.6	1.5	1.4	1.5	1.5	1.4
EBITDA to Sales (x)	6.7	7.6	8.6	9.8	8.8	8.8
Net Cash to Equity (%)	19	7	9	(30)	(34)	(55)
Others						
Number of Employees	16,900	14,984	14,982	18,193	18,193	20,400
Gross Space (sqm)	701,080	755,084	784,940	725,313	725,313	808,586
Number of Store Location	80	82	79	84	84	84

*Excluding Treasury Shares

DR. Cheng Cheng Wen
President Commissioner

LETTER FROM BOARD of Commissioners

Dear Valued Stakeholders,

Matahari achieved another year of good performance in 2006. Total revenue grew 22.7% to Rp 8.5 Trillion whilst net profit increased 6.1% to Rp 160.5 Billion (excluding one-time gain from HERO divestment of 2005), representing 1.9% of revenue comparing to 2.2% in 2005. EBITDA reached Rp 750.3 Billion, or 8.8% of total revenue, from Rp 606 Billion last year.

Matahari Department Store Division (MDS) opened four new stores in 2006 and added 22,256 square meters of selling space. Total revenue reached Rp 4.4 Trillion, which represented 7.9% growth from last year and underpinned by comparable store growth of 2.4%. Gross margin and EBITDA reached 33.1% and 11.1%, respectively. The division delivered a solid year of performance. It continues the drive to lead the department store industry in Indonesia with solid growth, improved service quality and sound financial performance. The MDS was awarded ***the Indonesian Most Admired Company (IMAC) 2006 Awards*** as a testament of its continuing efforts to better serve Indonesian consumers.

Matahari Supermarket Division (MSM) also had a good year in 2006. Its aggressive growth program continues. It opened 10 new hypermarkets and added 74,800 square meters of selling space to Hypermart. Comparable store growth reached 4.0%. Revenue grew over 49.4% from last year to Rp 3.7 Trillion. Gross margin reached 19.6% and delivered a positive EBITDA of 82.7 Billion for 2006.

Despite the relatively stable Rupiah exchange rate and peaceful political conditions, 2006 was another challenging year for the retail sector in Indonesia particularly the first half of the year. The fuel price increase, announced at year end of 2005, dampened consumers' spending and weakened their purchasing power. It also put inflation pressure on all sectors of the economy. These negative factors significantly affected the economy in the first half of 2006 but the economy started to turn around in the second half. We are confident that this positive trend will continue into 2007.

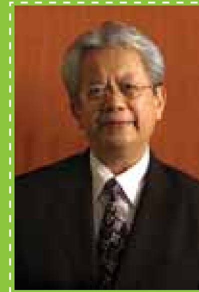
Watching closely of the economic development, Matahari prudently adjusted its expansion program in the first half but resumed the program in the second part of the year. The expansion program that had been carried out consistently in the last few years continued in 2006. Overall, Matahari opened 14 new stores and added more than 97,000 square meters of selling space in the year. This growth program put Matahari as the number one department store operator and the number two hypermarket operator in Indonesia.

With the improved domestic economic condition and favourable global economy, Matahari will continue this rapid expansion program. To support this expansion program, Matahari successfully issued a USD 150 Million bond with warm reception from the international market. The **Standard & Poor's** rating of B+ *with Stable Outlook* and **Moody's** rating of B1 *with Stable Outlook* helped Matahari to lower the bond funding cost. Additionally Matahari is in the process to make a new rights issue that will commence in early 2007 to raise another Rp 1 Trillion. The rights issue has been approved by Company's Extraordinary Shareholders Meeting at 2006 yearend.

For the third consecutive year, Matahari has been awarded as the top retailer in Indonesia and won the Gold Award in the ***2006 Retail Asia Top 500 Awards*** by Retail Asia, Euromonitor International and KPMG. Additionally, Matahari received ***2006 Indonesia Retailers Award*** – Best Sales from APRINDO (Indonesian Retailers Association).

Thanks to Matahari's dedicated and hardworking staff and managers, the Company is committed to deliver better fashion, value and quality products and services to delight our customers. We have ensured that our Board of Directors and Business Units' management team have performed their duties prudently and professionally within the Company's strategic goals in 2006. Additionally, our Audit Committee also reported that all business aspects had been performed prudently and correctly without any major deviations to the prevailing Company's standards and procedures in the effort to ensure the best implementation of good corporate governance practices in our businesses.

On behalf of the Board of Commissioners, I would like to express our greatest gratitude to all our shareholders, vendors, partners and employees who have stood by us through good and tough times and helped us to achieve our results in 2006. We look forward for your continuing supports in 2007 and years to come.



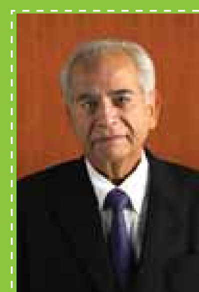
Jonathan L. Parapak
Independent Commissioner

John Bellis
Independent Commissioner

Jusuf Arbianto Tjondrolukito
Independent Commissioner

Mardi Sutanto
Independent Commissioner

Jeffrey K. Wonsono
Commissioner



Ganesh Chander Grover
Independent Commissioner

LETTER FROM BOARD of Directors

Benjamin J. Mailool
President Director

Dear Shareholders,

We are pleased to report the continuance of Company's ability to achieve another set of milestones in its business operation and financial condition. The performance in 2006 has further increased our confidence and positive outlook that the Company is performing in the right direction and prepared to move forward into year 2007.

The Company continued to demonstrate commendable sales growth of 22.7 percent reaching Rp 8.5 Trillion of which significant new sales were generated from the FMCG hypermarket business. This bigger contribution from lower margin volume-based FMCG hypermarket business has naturally averaged down the margin percentage from last year's 29.1% to 27.2%. Nevertheless gross margin amount is increased substantially. The operating expense was tightly control and decreased from last year's 24.6% to 22.5%. This improvement led to the increased in operating margin from 4.5% to 4.7% (Rp 401.4 Billion) and in EBITDA growth, 23.8%, from Rp 606 Billion (excluding extraordinary income from share divestment in 2005) to Rp 750.3 Billion.

In FY2006, the Company followed the accounting requirement under IAS 39 and PSAK 55 to perform mark-to-market on its hedging options & cross currency swap relating to USD 150 Million Notes issuance, which resulted to an interim marked-to-market change in its fair value which was stated under "Gain (loss) on forex – inclusive loss on change in fair value of swap/option – net" in the Company's FY2006 Audited Income Statement. Despite the increased in interest expenses associated with newly issued Bond and credit facilities in 2006, the Net Income has been successfully maintained at Rp 160.5 Billion, representing 6.7% growth in EPS (Rp 64/share), from last year's Rp 151 Billion (before extraordinary income of Rp 71 Billion from HERO share divestment).

On the aspect of Good Corporate Governance (GCG) implementation, the Company has and will continue to implement the GCG's main principles including but not limited to:

- The organization structure, whose main characteristic includes systematic, conducive, efficient and effective with clear job descriptions, roles and responsibilities for each member of Board of Commissioners, Board of Directors and strategic key executives, which is clearly defined and institutionalized. Each role within the Board is filled by multinational professional executives with high competency, capability and experience in each respective field.
- Company's Internal Audit division whose function is monitored and supervised directly by Audit Committee, which consists of members from Independent Commissioner and external, independent parties. The Audit Committee and Internal Audit division also work in closed relationship with multinational, independent auditor on the aspect of finance.
- Company's system procedures on operational guidelines for each line of business, which is executed consistently, transparently and accordingly to the procedures.

Consistent with the Company growth plan, all new stores have been successfully opened in year 2006 whilst several existing stores rejuvenated in order to maintain and improve market position. Furthermore, to secure funding requirement for future expansion plan, we had successfully issued a USD 150 Million, Unsecured, 3-year non-call 1-year Bonds with 9.5% coupon. It was three times over-subscribed and broke a new ground as the only high-yield bond offering from a retail company out of Southeast Asia. This was despite the instability of global financial market condition and Indonesia's perceived country risks which had subsequently halt other high-yield offerings in the pipeline. In line with this, the Company also received a two notch-up upgrade international rating of B+ *with Stable Outlook* from **Standard & Poor's** and premiere rating of B1 *with Stable Outlook* from **Moody's**.

To further strengthen the Company financial structure, the Rp 1-Trillion Rights Issue plan commencing 1st quarter 2007 was officially determined and approved. Those successful funding plans signify the stake holder's increased confidence on the Company's long term strategic plan to grow core retail business, to capitalize prevailing market opportunities and to maintain leading position as the prominent multi-format modern retailer in Indonesia.

The Company's two core retail business units – Matahari Department Store (MDS) and Matahari Supermarket (MSM) continued to demonstrate solid performance in their respective business throughout the year. Store expansion program was completed on schedule with the successful opening of 4 new MDS, 10 Hypermarts, and other complimentary formats: Boston Pharmacy and Timezone family entertainment centres. The above achievements reconfirm our domestic strength and in-depth market coverage: Matahari as the largest modern retailer in Indonesia with its extensive portfolio of 83 department stores, 10 children outlets, 27 hypermarkets, 33 supermarkets, 5 soft discount stores and more than 110 family entertainment centres operating nationwide at 2006 yearend.

Our continued focus and hardwork to lead Matahari to achieve its milestones have yielded international recognition from industry leaders. We are honoured and pleased to receive the prestigious Gold Award in the ***2006 Retail Asia Pacific Top 500 Awards*** for the three consecutive years by Retail Asia – the region's leading retail business publication, in cooperation with Euromonitor International and KPMG. It is a recognition that puts the Company firmly on the map among the region's leading and most dynamic retailing corporations. In 2006, Matahari also received ***2006 Indonesia Retailers Award – Best Sales*** from **APRINDO** (Indonesian Retailers Association) whilst MDS received ***Indonesian Most Admired Company (IMAC) 2006 Awards*** as a testament of its continuing efforts to better service its customers' needs.

We will be entering Year 2007 with our continued business expansion underpinned with optimistic steps in order to align Matahari's strategic direction with the increasing more competitive and tougher market environment. More new quality stores will be opened in strategic locations. The Company's success and achievements would not have been possible without the continuing support of our loyal customers and stakeholders as well as high commitment of our every employee and capabilities of our management team. On behalf of the Board of Directors, we would like to thank you for your support and confidence on us.

Lina Latif
Director

Hendra Sidin
Director

Andre Rumantir
Director

Carmelito J. Regalado
Director

CORPORATE DIRECTORS


Johanes Jany
Director

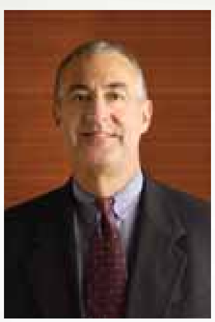

Danny Kojongian
Director


Avril Tjokrorahardjo
Director

THE COMPANY'S SUCCESS AND ACHIEVEMENTS
would not have been possible without
the continuing support of our loyal customers and stakeholders
as well as high commitment of our every employee and capabilities
OF OUR MANAGEMENT TEAM

MATAHARI DEPARTMENT STORE

Pete Huffstetler
CEO



" It is an honour and pride for me to be able to lead the largest department store business in Indonesia."

-Travis-

Travis Saucer
Interim CEO

LETTER FROM CEO

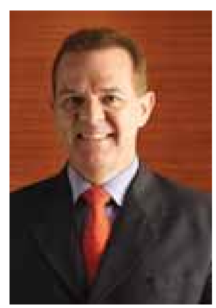
The year of 2006 proved to be a very challenging year given the economic and social issues that have surrounded Indonesia. The impact of the fuel price increases, earthquakes, bird flu, and underemployment, tested us all to show continued improvement in our business. However, Matahari Department Store (MDS) team stood to the challenge and not only achieved but surpassed our 2006 budget.

In 2006, MDS contributed a top line sales growth of 7.9 % while maintaining a very respectable 33.1% in gross margin. This along with continuing tight expense controls allowed us to achieve an EBITDA margin of 11.1% which is a respectable achievement by national and international standards.

Several factors contributing to our success were our efforts related to the procurement process which have been several years running and are paying big dividends in terms of sales, margins, and inventory control. This past year, we continued to consolidate the number of suppliers we are working with by further reducing the number by 10% from 2005. This allows for more focus of our time and funding resources on the most successful vendors. At the same time

MATAHARI SUPERMARKET

Noel Trinder
CEO



Philippe Prejent
Format Director-
Hypermart

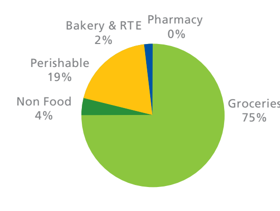
Meshvara Kanjaya
Format Director-
Supermarket

LETTER FROM CEO

Matahari Supermarket Division (MSM) posted another strong performance in 2006 with top line sales growth of +49.4% year on year following outstanding growth of +63% recorded in 2005.

Having posted its 1st profit contribution in 2005 since its inception 20 years ago, MSM profit contribution soared by 568.2% in 2006.

This strong performance was underpinned by the continued improvements of its Supermarket portfolio both in term of sales growth and profitability as the rationalization & modernization of its traditional supermarkets yielded significant gains. However the Hypermarket Format continued to be the major driver of both volume and profitability posting an increase in sales and store profitability of 84.6% and 60.5%, respectively for 2006.



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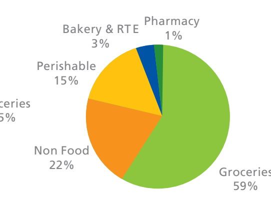
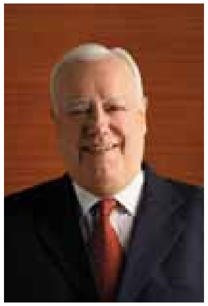
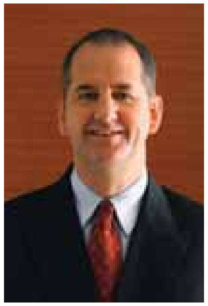


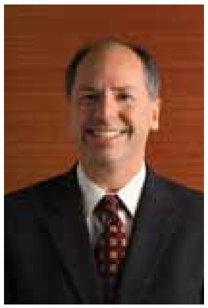
2006



Keith Jones
Director- Distribution & Logistics



Adrian C. McKay
Director- Marketing & Promotion



Danny L. Crayton
Director - Special Project

Purnomo Utoyo
Director- Strategic Planning

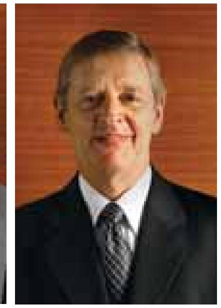
we continued our push to bring newness and excitement to our assortments. We pushed our merchants to expand our shoe and ladies apparel assortments. Both of these are key to our overall strategy and have generated strong results in sales and margin. In 2006 our shoe business and ladies apparel business increased by 22% and 12% respectively which further confirms that assortments remains key to our continued success.

This past year we also converted our distribution center into a cross-dock system that has led to improvements in both our inventory turn time and distribution cost. Currently we are able to process and ship our products from distribution center to stores within 2 days. This also has allowed us to convert our distribution center into a potential profit center by providing logistic services for third parties. Currently we have started this process for several companies and will expand our efforts in 2007.

The continuing efforts and achievements in 2006 also led MDS to receive the prestigious ***2006 Indonesian Most Admired Company (IMAC) Award*** from our valued customers. Being a responsible corporate citizen, MDS along with our valued suppliers shared our achievement and doubled our annual charity donation to Rp 4 Billion from last year through "Matahari Charity Day" event. This was donated to over 39 social institutions to help unfortunate children.

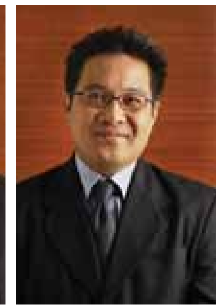
As we look forward into 2007 we are excited about the opportunities available to our company to capitalize for faster expansion of new stores. Given the current promising demographics within Indonesia, MDS still has the ability to

Carmelito J. Regalado
Director- Marketing & Merchandising



Keith Dolling
Director -
Distribution & Logistics

Richard H. Setadi
Director - Finance & Marketing



Irwin Abuthan
Director - Planning & Development

Gross Margins continued to grow driven by the shift in product mix where sales contribution from the higher margin Non Food category grew from 4.5% in 2002 to 21.9% in 2006.

MSM's focus on productivity improvements and cost containment resulted in Operating Expense ratios being held to previous levels despite the significant increase in fuel prices and its flow on effects on transport and other expense items.

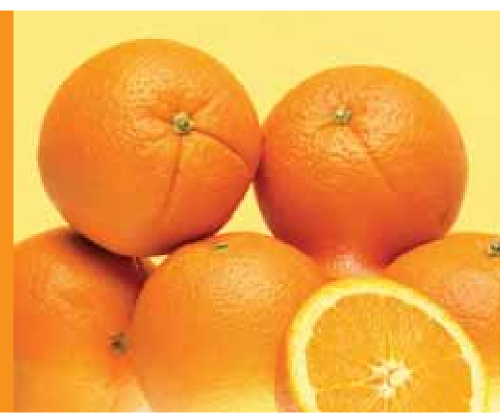
On the Logistic front, MSM has successfully opened its 3rd Central Distribution Center in Cakung, Greater Jakarta to support its aggressive expansion plans and relocated its Dry Grocery products into the 11,500 m2 facility. Further analysis is currently underway to consider another new facility in Surabaya to service its East Indonesian operation more effectively and efficiently where we expect the project should materialize over the next 2-3 years.

Technology enhancement continued with the successful completion of the 1st phase of upgrading process to the new **Retek v.10** as part of the Company's 3-year IT conversion program started in late 2005.

By 2006 year end, MSM actively operates 27 Hypermarts, 38 Supermarkets and 36 Boston Health & Beauty outlets. Format innovation continued to give MSM a competitive edge with the Hypermarket format evolving to the 3rd generation with further improvements in visual communication, merchandising and new product categories. The Supermarket modernization program, currently being commenced at several stores, as well as a complete facelift and assortment improvements in its Health & Beauty format stores will continue to enhance its overall position in the market.

Market share of the total modern retail key account (82 FMCG Categories) measured by AC Nielsen continued to grow and has more than doubled since 2004.

One of the ongoing challenges we face given our aggressive expansion is fulfilling our Human Resources requirements, to this end our internal development program of Future Managers is paying dividends. Over 600 young graduates have been carefully selected put through an intense Retail Management Development Program.



open 30 stores over the next several years. We also have the ability and the need to show continued improvement of our assortments in our private brands, which will allow us to maintain differentiation from our competitors while benefiting from its higher margins. These are just a few of the opportunities that exist for MDS for 2007 and beyond.

It has been an exciting and rewarding experience over the last 4.5 years serving as the CEO of MDS. Much has been accomplished by the MDS team and we can hold our heads high knowing that our company stacks up against the best both domestically and internationally. However, the best is yet to come and I believe significant opportunities for both sales and profit growth still exist for MDS. I would just like to thank all the shareholders and the board of management, for their continuing support.

It is with great confidence that I hand over the reigns to Mr. Travis Saucer as the new CEO of MDS. He comes to us with a proven track record of success and the expertise needed to take MDS to the next level. I know that the MDS team will embrace Travis and feel very confident with his leadership.

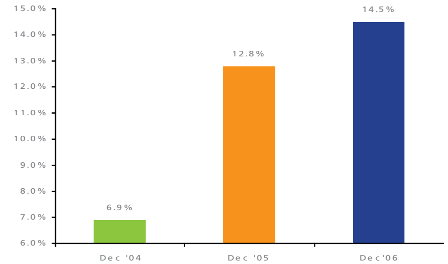
So, again thank you for this wonderful opportunity and my sincere hope for the continued success of Matahari Department Stores.

Martin Laihad
Director - Procurement

Sunny Setiawan
Director -
Store Operation

Christian Kurnia
Director -
Merchandising

MSM Market Share



Kasmin Rasilim
Director -
Risk Management

Iwan Goenadi
Director- Management
Information System

Mulyadi Haryanto
Senior Vice President-
Human Resources

MSM is proud to have been selected as one of 6 nominees on the short list of Retailers for World Retail Awards, Emerging Market Retailer of the Year category, the winner of which will be announced in Barcelona Spain in March 2007.

In line with our vision to be the nation's No. 1 Multi Format Retailer by 2010, a series of aggressive new stores expansion is planned for 2007, which will add a further 12-15 Hypermarkets, 1 Supermarket and 12 Health & Beauty stores to the existing store network. In addition to the above planned expansion, 4 existing Hypermarket stores will be upgraded to the latest 3rd generation format and 9 Supermarket stores will be remodeled to the current new format rolled out in 2006. The Cilandak Town Square Supermarket store will undergo a significant transformation as a flagship store catering for the high end demographic target customers.

The theme for 2007 is "Securing the Vision" where 12 specific areas of focus have been identified to achieve standards or results better than before and better than our competitors.

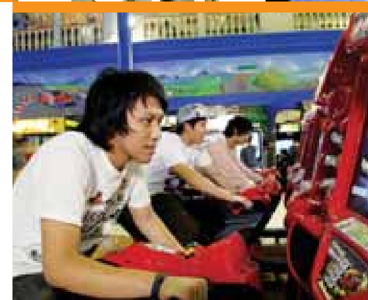
Total sales in 2007 is expected to grow by a further 35 - 40%, supported by significant improvement in Business Unit Contribution. Once again we have experienced the favor of God on the business and we honor and thank Him for His faithfulness.

We also thank all our valued business partner's, management and staffs who continue supporting our efforts in achieving our vision of making MSM the No. 1 Multi Format Retailer in Indonesia.

HYPE

STYLISH

TIMEZONE



aéro
NEVADA
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ST.YVES
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BOSTON DRUGS
PHARMACIES
h hypermart
Low prices and more ...
CUT PRICE
TOKO DISKON
DELI BON
hot food
BAKER'S DELIGHT
OVEN FRESH


matahari
supermarket
VALUE PLUS

AUDIT COMMITEE REPORT

Pursuant to the execution of good corporate governance, since 2001 PT. Matahari Putra Prima Tbk ("Company") has been endorsing the function of Audit Committee whose main duties, among others, are to assist the Board of Commissioners in ensuring the sustained controlled system in executing the good corporate governance, to improve the quality and integrity of the Company's financial reports as well as to identify other matters that need immediate attention.

In performing its duties, the function and objectives of Audit Committee have been continuously updated in accordance to Chairman of Bapepam's Regulation No. Kep-29/PM/2004 dated September 24, 2004 with Addendum No. IX.1.5 and Circular Letter No. SE-07/PM/2004 dated December 22, 2004 concerning the formation and Operating Guidelines of Audit Committee, as well as Addendum II of the Resolution of the Jakarta Stock Exchange Board of Directors No. Kep-305/BEJ/07-2004 concerning General Stipulations on Registration of Equity other than shares issued by the Company, which become the legal foundation of Audit Committee.

Based on the working plan stipulated in the Audit Committee Charter, in 2006 the Audit Committee has conducted the following process :

1. Reviewed the Financial Report, projection and other relevant financial information.
2. Actively defined the scope of audit function which includes (a) aspects where internal control is a significant requisite (b) potential areas to increase sales and expenses efficiency (c) high risk aspects of job authority abuses (d) aspects of misconduct activities (e) operational, financial and information technology aspects.
3. Reviewed all audit findings and the implementation of audit recommendation.
4. Reviewed the due diligence of Public Accountant endorsed by the Board of Directors.
5. Analyzed the Company's level of compliance toward Capital Market regulations and other regulations pertaining to the Company's business.

Having reviewed the above matters and discussed intensively with the Company's management, Internal Audit and Public Accountant, the Audit Committee has submitted its report to the Board of Commissioners on February 16, 2007 with the following results :

1. The Company's businesses have been conducted under effective internal control function, whose quality is continuously upgraded.
2. The Financial Reports have been well complied and presented an accordance with generally acceptable accounting practices in Indonesia.
3. The Company always complies with the existing Capital Market regulations and other regulations relating to the Company's business.
4. The nomination of Public Accountant for year 2006 was based on the aspects of independency and competence, as well as approval from the Board of Commissioners, which had been authorized by shareholders in Annual General Meeting held on March 31, 2006.
5. No job authority abuses and misconduct activities were found which requires special attention and consideration from the Board of Commissioners.

Audit Committee of PT. Matahari Putra Prima Tbk,

Ganesh Chander Grover
Chairman

Ridwan Masui
Member

DR. (HC) Willi Toisuta
Member

GOOD CORPORATE GOVERNANCE

The Good Corporate Governance ("GCG") is an important element in order to establish Matahari as a corporation with a well-organized and accountable institutional process to all stakeholders. The implementation of GCG in Matahari is not only for the purpose of complying toward various regulations set by the capital market authorities, but also demonstrates the Company's consciousness as an integrated element within its daily operation.

STRUCTURE OF THE COMPANY'S GOVERNANCE

Within Matahari's corporate structure, the Company's elements comprise of General Meeting of Shareholders, Board of Commissioners and Directors. The General Meeting of Shareholders represents the highest element whose authority is delegated to the Board of Commissioners and Board of Directors as regulated within the Company's Article of Association.

Board Of Commissioners

As regulated within the Article of Association, the Board of Commissioners performs the supervisory and advisory functions to the Directors in performing their duties. The supervisory function is enforced to all operational aspects while the advisory function is focused on the strategy and optimization of effectiveness and efficiency of Directors' working plan to achieve the Company's target. In performing their duties, the Board of Commissioners is responsible to the General Meeting of Shareholders.

The Board of Commissioners conduct regular bi-monthly meetings, and incidental meeting at any time deemed necessary by the Chairman or 2 (two) other Commissioners. Notice of announcement for the regular meeting, which is properly scheduled on the beginning of every year, is conducted by Corporate Secretary who acts on behalf of the Chairman. Notice of announcement for the incidental meeting is called by the Chairman or 2 (two) other Commissioners. The Board Meeting is chaired by the Chairman or by a Commissioner chosen by other members during the meeting. The Board Meeting is quorum to make any decisions if it is attended by more than 50% (fifty percent) by the members of the Board. In the meeting, each member has one voting right, and is able to represent one additional voting right from other member, if granted. Minutes of meeting is produced and signed by the Commissioner who chairs the meeting and one other member who is also present during the meeting. Within the year 2006, the average of attendance and decisions quorums were more than 80% (eighty percent).

The Board of Commissioners consists of Chairman and 6 (six) members, in which 5 (five) members representing more than 30% (thirty percent) from all members as independent commissioners, as regulated by Circular of Chairman of BAPEPAM No. SE-03/PM/V/2000 dated May 5, 2000 and JSX Regulation No 1-A dated July 19, 2004.

Board of Directors

As directed in the Article of Association, the Board of Directors has the empowerment to represent the Company both within and outside the court of justice with its main function is to lead, manage and deliver the Company reaching its vision and mission.

The Board conducts regular weekly meetings to discuss and find solution for matters which need immediate attention/solution/coordination within business units. To discuss the Company's operational performance and other strategic matters, the Board also conducts monthly meetings chaired by the President Director. Additionally, any incidental meetings can be called upon request by one or more Board members. The Board meeting is quorum to make bound decisions if attended by more than half of the members. Similar to the Board of Commissioners' meeting, the average of attendance and decisions quorums were more than 80% (eighty percent) in 2006.

The Board of Directors' structure consists of 5 (five) members, which is legally and officially appointed by the shareholders through the General Meeting of Shareholders, and is strengthened by senior executives capable in their respective field duties with authorities and empowerments comparable to the directors.

Audit Committee

The Audit Committee is one of the committee founded by the Company as regulated by BAPEPAM Regulation No. IX.1.5. The Committee holds an important and strategic role in assisting the Board of Commissioners in performing the following supervisory function:

- Review the Company's Financial Results and other corresponding financial information
- Review the Company's compliance to the Capital Market's existing regulations as well as other binding regulations
- Review the effectiveness of the Company's internal control and activities as well as Internal Audit's findings
- Review the reports of company risks, complaints and general financial performance, and provide subsequent reports to the Board of Commissioners.

Within 2006, the Committee Audit has conducted 4 (four) meetings with more than 75% attendance rate by its members. The Committee consists of an independent commissioner and 2 (two) independent members, performs its function in accordance to the Charter approved by the Board of Commissioners dated April 29, 2005. The Company has also reported the Audit Committee's latest structure through its letter No. 021/IV/2006-CSExt dated April 21, 2006 to Jakarta Stock Exchange with copies sent to BAPEPAM, Surabaya Stock Exchange and PT. Bank Negara Indonesia (Persero) Tbk as Company's trustee, with members as follows:

1. Chairman : Ganesh C. Grover (Independent Commissioner)
2. Member : DR. (HC) Willi Toisuta
3. Member : Ridwan Masui

In 2006, the Audit Committee has performed the following functions:

- Review the Financial Results and quarterly management's reports.
- Actively define and empower the Internal Audit's job function/audit coverage.
- Review audit findings and execution of audit recommendations.
- Conduct regular meetings to communicate with external auditor to discuss any important audit findings as well as financial results audited by Purwantono, Sarwoko & Sandjaja as the Company's External Auditor.
- Review the nomination of external auditor recommended by the Board of Directors.
- Review the Company's compliance toward the capital market's rules and regulations.

Corporate Secretary

Corporate Secretary is the Company's liason officer in performing its duties as intermediary with Capital Market authorities, investors and public. The existence of Corporate Secretary is "conditio sine quanon" for Matahari in implementing its transparency function.

In-line with BAPEPAM Regulation IX.1.4., Corporate Secretary is responsible for the following important functions:

- To keep abreast of developments in the capital market, in particular its statutory laws and regulations.
- To provide public with relevant information regarding the condition of the Company.
- To advise the Directors regarding compliance to Law No. 8, 1995 and accompanying regulations.
- To act as the contact party between the Company and BAPEPAM and the public.

IMPLEMENTATION OF GCG IN MATAHARI:

Transparency

Matahari highly prioritizes the principle of transparency in conveying relevant information to its stakeholders. Vital information is continually dispersed through press releases, public exposés and meetings with investors, related institutions, the press as well as the general public. We will continue to maximize our corporate transparency relying on the principles of relevancy, materiality and compliance with regulations stipulated by the authorities.

As part of the GCG implementation, the Company, through its Investor Relation & Public Relation Division, has taken advantage of key media to distribute material information to its investors, shareholders and general public. The information dissemination is carried out through press releases, correspondences to BAPEPAM, JSX & SSX, quarterly & annual financial reports, press conferences, analyst meetings, public exposes and roadshow programs, using various technology medium such as fax, email and the Company's website (www.matahari.co.id). Every year, the Company publishes its annual report in Bahasa Indonesia and English versions, which can be obtained from the Company's Corporate Communication Division.

Fairness

In addition to transparency, the Company puts fairness as a primary component in the implementation of GCG. Each employee and management is required to exhibit a high level of professionalism and integrity in performing their duties. A requisite Code of Conduct has been established since 2002 to serve this very purpose. Each member of Commissioners, Directors and Matahari staffs is required to obey to all requirements within the Code of Conducts and sign a form of Code of Conduct every year. With this Code of Conduct, the Company expects that all Matahari personnel can perform their duties inline with their professional responsibilities. Additionally, the principle of fairness is also reflected in the Company's decision making process, which adopts a systematically hierarchical structure from the Board of Directors to the Board of Commissioners.

Accountability

The Company emphasizes the principles of firmness and clarity relating to the privileges, obligations, authority and responsibility of Directors, Commissioners and stakeholders. Intensive meetings to address and decide on strategic initiatives and measurements are held intensively on a regular basis through weekly Board of Directors meetings and monthly Board of Directors and Board of Commissioners meetings. Furthermore, the Company continues to strengthen the Internal Audit function by enhancing its role as monitoring party directly reporting to the Audit Committee and Independent Commissioner.

Responsibility

As a reputable player in the industry, the Company conducts its business within permissible corridors and in strict compliance with applicable laws and regulations. Additionally, we are continuously engaged in establishing corporate social responsibility of fulfilling and enhancing public welfare on a nationwide scale. We involve ourselves in various charity programs such as providing relief aids to victims of natural disasters and contributing to educational facilities and infrastructure.

Within its implementation, during 2006 the Company held several social activities among others as follows:

- April 11, 2006 : With a joint cooperation with Panin Bank, Matahari helped the Jember flood victims by building 50 houses in Gaplek region, Jember.
- June 1, 2006 : Matahari disbursed aid through several government institutions and non-profit organization to help the Yogyakarta earthquake victims with foods, blankets, medicines for more than 10,000 households.
- Matahari, along with Matahari Employee Union, also disbursed aid to more than 300 staffs who also became the victims of Yogyakarta earthquake.

- **August 16 – September 1, 2006** : Matahari Department Stores invited its valued customers to donate unused jeans clothing for the exchange of shopping vouchers. a total of 10,000 jeans clothing was successfully collected and donated to several social institutions nationwide surrounding the stores.
- **August 30, 2006** : Matahari donated Rp 100 million to Yayasan Putra Bahagia to help the unfortunate children.
- **September 4, 2006** : Matahari donated Rp 500 million for the Asian Special Olympics for the handicapped children.
- **September 24 – October 23, 2006** : Hypermart cooperated with Dompet Dhuafa to raise "zakat/infaq/sodaqoh" to be donated to the needing Moslem communities.
- **October 2, 2006** : Matahari donated "zakat/infaq/sodaqoh" to the blinded handicapped families through Indonesia Louis Braille Institutions.
- **November 23, 2006** : Social donation to support the future of children in the amount of Rp 4 billion was donated by Matahari in cooperation with Matahari Suppliers Club (AMSC) to 33 social foundations, including UNICEF, in the event of "Matahari Charity Day."

COMPLIANCE TO BOND'S COVENANTS AND CAPITAL MARKET REGULATIONS

Compliance to Bond's Covenants

As the issuer of Bond I, Bond II and Sjariah Bond Ijarah I, Matahari has the responsibility to comply with the Bond's covenants and the regulation of Surabaya Stock Exchange, in which the Bonds are listed. Up to present days, Matahari has executed payment of maturing coupon as scheduled every 3 (three) months and reported the progress to the exchange. Matahari has never been in default position for its liabilities. Moreover, Matahari always ensures that all financial ratios comply to the conditions set within the Trustee Contract.

Conflicting and Material Transactions

In order to ensure the Company not to violate BAPEPAM Regulation No. IX.E.1. regarding conflicting transaction and BAPEPAM Regulation No. IX.E.2. regarding material transaction and change of company's business operation, the Company always conduct intensive reviews for any possible causes conflicting and material transactions as set forth above. In year 2006, the Company did not have any transactions that could be classified as conflicting or material transactions.

Shareholders List and Special Shareholders List

Since 1992, Matahari has maintained its Shareholders List and Special Shareholders List whose existence helps the Company to identify any potential insider trading activities as well as transaction that could cause a possible conflicting interest. The Shareholders List is kept and prepared by Share Registrar, while the Special Shareholders List is kept by the Company's Corporate Secretary.

INTERNAL CONTROL SYSTEM

Matahari continuously implements and develops an integrated control system, especially for critical areas which might impact to the Company's asset maintenance, increase of sales and expense control.

RISK MANAGEMENT

The Management always put extra efforts to anticipate any probable risks relating to job safety, environmental impact, political and the continuance of Company's business operations. Management proactively identify existing problems, identify and accommodate any potential risks as well as prepare appropriate steps to be taken which will minimize the risks in a timely manner.

COMPANY'S CURRENT LITIGATION ISSUES

There are several current litigation issues and/or charges by third parties which the Company currently has to encounter. As far as the Company's best knowledge, those litigation and/or charges issue are immaterial and do not have any potential to halt the Company's overall business operation, several of which are follows:

- Lawsuit No. 152/Pdt.G/2001/PN.Jkt.Pst dated 16 April 2001 in District Court of Central Jakarta. The Company as The Defendant I /The Opponent in cassation I with basic of such lawsuit is Tort. This case is waiting for the verdict/ sentence from The Supreme Court.

- Lawsuit No. 02/Pdt.G/2002/PN.Bpp dated 7 January 2002 Jo. No. 28/PDT/2003/PT.KT.SMDA dated 12 June 2003 in District Court of Balikpapan. The Company as The Defendant/The Appellee/The Opponent in cassation with basic of such lawsuit is Tort. This case is waiting for the verdict/sentence from The Supreme Court.

- Lawsuit No. 260/Pdt.G/2004/PN.Tng dated 20 October 2004 Jo. No. 64/Pdt/2005/PT.Btn dated 4 October 2005 in District Court of Tangerang. The Company as The Plaintiff/The Appellee/The Opponent in cassation with basic of such lawsuit is Tort. This case is waiting for the verdict/sentence from The Supreme Court.

- Lawsuit No. 95/Pdt.G/2004/PN.Bgr dated 3 December 2004 in District Court of Bogor. Company as The Plaintiff/The Appellee with basic of such lawsuit is breach of contract (default). This case is waiting for the verdict/sentence from the High Court of West Java.

- Lawsuit No. 99/Pdt.G/2005/PN.Jkt.Pst dated 30 March 2005 Jo. No. 175/PDT/2006/PT.DKI dated 3 August 2006 in District Court of Central Jakarta. The Company as The Plaintiff/The Appellee with basic of such lawsuit is breach of contract (default). This case is on process of cassation to The Supreme Court.

- Lawsuit No. 14/Pdt.G/2006/PN.TSM dated 2 October 2006 in District Court Grade 1B of Tasikmalaya. The Company as Co-Defendant III with basic of such lawsuit is Tort. This case still on process in District Court.

- Execution lawsuit No. 06/Pdt/Eks/2005/PN.Bgr Jo. No. 23/Pdt.G/1989/Pn.Bgr Jo. No. 43/Pdt.Bth/1997/PN.Bgr dated 17 January 2007 in District Court of Bogor. The object of execution includes the land and building owned by Company that bought validly from the previous seller. For this execution, The Company filed a lawsuit for resistance/ contradiction matters.

BOARD OF COMMISSIONERS

DR. Cheng Cheng Wen
President Commissioner

Joined the Company in 2001 and is one of the respected business executive in Hong Kong. He started his career path at Bell Telephone Manufacturing (Belgium) and Bell Laboratories (USA) and had 28 years expertise of international R&D and Management in high tech industries. Prior to joining Across Asia Multimedia Ltd until now, he held several key positions as COO and Executive Vice President of Philips Electronics Group in China/Hong Kong and Taiwan as well as the founding CEO of Provisional Hong Kong Science Park Corporation.

Jonathan L. Parapak
Independent Commissioner

Joined the Company in 2000 and is a highly respected executive business leader in telecommunication industry. His professional experience included several important positions as Secretary General of Department of Tourism, Posts and Telecommunication (1991-1998) ; Secretary General of the Department of Tourism, Arts and Culture (1998-1999); and President Director & President Commissioner of PT. Indosat Tbk (1980-2000). Currently he takes the responsibility as a Rector of Pelita Harapan University.

John Bellis
Independent Commissioner

Joined the Company in the Company in 2001. Prior assuming his current position, he was the Senior Advisor & CEO of Matahari Department Store. His career started as management trainee at John Lewis Partnership Stores, UK (1965-1970), and Edgars Stores Ltd, South Africa (1970-1999) with latest position as Managing Director. He is graduate of Royal Society for the Encouragement of Arts, Manufactures and Commerce, London with awarded Commercial Certificate.

Mardi Sutanto
Independent Commissioner

Joined the company in 1997. Prior to joining Matahari, his professional career started at Chevron Oil & Gas, San Francisco ,USA (1987) ; Bank of Trade, San Francisco/Los Angeles, USA (1987-1988);Vice President – Corporate Finance & Banking Group of Citibank N.A., Jakarta (1989-1997). During the period of 1998-2000, he fulfilled his duty as Senior Vice President of Indonesian Banking Restructuring Agency (IBRA), afterward he returned to the company. He is graduate of California State University-Hayward, USA and University of Pittsburg, USA.

Jusuf Arbianto Tjondrolukito
Independent Commissioner

Joined the Company in 1998. His career path includes Division Head of Real Estate & Construction and Head of Suspense Accounts/Problems Loan in Citibank N.A. (1968 – 1980) and Commissioner in charge of Corporate Culture / TQM at Bank Danamon Indonesia (1980 – 1998). He contributes experience and expertise in reputable institutions such as Senior Lecturer at SESPIBANK– Bank Indonesia, Arbiter at Indonesian National Board of Arbitration (BANI) ; and Advisory Board Members of Petra University, Duta Wacana University and University of the Nations, Hawaii.

Jeffrey Koes Wonsono
Commissioner

Joined the Company in 1997 and is presently the President Director of PT. Multipolar Corporation Tbk. and PT. AsiaNet Multimedia, a representative of Across Asia Multimedia Ltd.

Ganesh Chander Grover
Independent Commissioner

Joined the company in March 2002. His professional career included several important positions as Chief Financial Officer of Bist Industrial Corp, India and Financial Analyst of USAID in India and Indonesia during 1964-1975, as well as Chief Financial Controller of Group Usaha Trisakti, Indonesia (1975-1990). Currently, he takes the responsibility as The Audit Committee Chairman of PT Matahari Putra Prima Tbk.

AUDIT COMMITTEE

Ganesh Chander Grover

Joined the company in March 2002. His professional career included several important positions as Chief Financial Officer of Bist Industrial Corp, India and Financial Analyst of USAID in India and Indonesia during 1964-1975, as well as Chief Financial Controller of Group Usaha Trisakti, Indonesia (1975-1990). Currently, he takes the responsibility as The Audit Committee Chairman of PT Matahari Putra Prima.

DR. (HC) Willi Toisuta

Joined the Company as member of Audit Committee in 2006. He is a prominent figure in education circles domestically and internationally. His career started as a teacher in a school of Teaching Education in So-E, Kupang, West Timor. During 1983-1993, he served as Head of the Satya Wacana University in Salatiga. In 1994, he joined Pelita Harapan University in Lippo Karawaci as a member of its Advisory Committee which he holds until present time, and served as the Director of the Post Graduate Program during 1998 - 2000. He was awarded the Doctor Honoris Causa (Dr. HC) in Law by Kwansei Gakuin University, Nishinomiya, Osaka, Japan, in 1997. He was a PhD graduate in Educational Planning from the Macquarie University, Sydney Australia in 1974.

Ridwan Masui

Joined the Company in 2006 as member of Audit Committee. He is a prominent figure in the Indonesian banking industry. He has been holding several key positions within Bank Indonesia (Indonesian Central Bank) since 1988 to 2004, including Section Head of Mataram branch (1985-1988), Banking Investigator Level III (1988 – 1995), Executive Banking Superintendent in Jakarta (1995 – 1996) and Surabaya (1996 – 1998), Deputy Director of Superintendence Directorate I, Jakarta (1998 -1999), Senior Executive Analyst, Jakarta (1999-2000), Senior Executive Banking Superintendent in Bandung (2000 – 2001), Director of Banking Investigation Directorate 2, Jakarta (2003 – 2004) and Specialist Staff of Deputy Governor of Banking Section, Jakarta (2004). Currently, he also serves as Commissioners in several companies. He is a graduate from *Sekolah Tinggi Ilmu Ekonomi (STIE)* Swadaya, Jakarta in 1996.

BOARD OF DIRECTORS

Benjamin J. Mailool
President Director

Prior to joining the Company in January 2002, he assumed his position as CEO of PT Bukit Sentul Tbk (1997 - 2001). He started his professional career in Citibank NA Jakarta (1989-1997) with his last position as Vice President – Risk Management Treasury Head. He is an MBA graduate from Oklahoma, USA.

Lina Latif
Director

Joined the Company in 2001. Her career started as Senior Auditor at Prasetio Utomo & Co (1979-1984) and joined Lippo Group in 1985. She assumed several key positions in Lippo Group such as Assistant Vice President Lippo Group (1985-1986); Director of PT Lippo Pacific Finance and PT Lippo Merchants Finance (1989-1993) as well as PT Lippo Karawaci Tbk (1993-1998). Her last position was President Director of PT Lippo Securities Tbk (1998-1999). She is graduate of Trisakti University, Jakarta.

Hendra Sidin
Director

Joined the Company in January 2002. His professional career started as Audit Manager in Prasetio, Utomo & Co accounting firm (1989-1997) before he joined Lippo Group with several positions such as Finance Director of PT Lippo Karawaci Tbk (1997-2001) and PT Lippoland Development Tbk (1999-2001). He is graduate of University Indonesia majoring in Accounting & Economics.

Andre Rumantir
Director

Joined the Company in May 2005. His professional career includes 25 years experience in holding key positions in multinational companies such as PT International Nickel Indonesia Tbk (INCO) and PT Goodyear Indonesia Tbk with expertise in process plant, manufacturing and human resource management. He is an MBA graduate from Greenwich University, Hawaii, USA.

Carmelito J. Regalado
Director

Joined the Company in March 2002. His professional career started as Auditor at SGV & Co Public Accountant Office in Philippines and continued to assume several positions in finance areas at hotel industry during 1977 – 1986. He also assumed several key positions in several business groups in Indonesia prior to joining the Company. He is a graduate from University of Santo Thomas, Philippines.

CORPORATE DIRECTORS

Johanes Jany
Director

Joined the Company in 1989 and then assumed several key positions in the Company's subsidiary, Matahari Time Zone. Currently he serves as Property & Asset Management Director in Matahari. He is a graduate from University of North Sumatera, Medan, Indonesia majoring in Accounting.

Danny Kojongian
Director

Joined the Company in 1996. His career in the Company has grown from Senior Manager to the present Director position and has been assuming the investor relations role since 1996. He started his professional career in PT Duta Pertiwi as Treasury Senior Staff (1994-1996). He is an MBA graduate majoring in Finance & Portfolio Management from National University, San Diego, USA.

Avril Tjokrorahardjo
Director

Joined the Company in 2002. Graduated from Boston University with Bachelor in Mathematics and Economics (1999) and Master in Applied Statistics (2000). Her professional career started as Store Manager in MDS Lippo Karawaci before she became responsible as the Head of Business Process Division. Currently, she is responsible as Deputy Director - Information Technology.

MANAGEMENT OF DEPARTMENT STORE DIVISION

Carl W. (Pete) Huffstetler
CEO
Joined the company in 2002. He started his retail career at J.B Ivey & Co (1980 - 1990) and held various position with the latest position being Divisional Merchandise Manager and then moved to Belk Inc., Charlotte, N.C , USA (1993 - 2002) where he held the positions of SVP General Merchandise Manager, SVP Director of Stores, and President. He achieved a BA degree from University of North Carolina, Charlotte, USA in 1978 and then completed the Executive Management Program at the Kenan-Flagler School of Business, University of North Carolina, Chapel Hill, USA.

Travis Saucer
Interim CEO
Joined the Company in 2006 as CEO of Matahari Department Store Division. He is a respectable executive on the USA's department store business field with his main expertise & focus in merchandising and marketing aspects. Started his career by joining JC Penney in 1973, he has been a prominent figure within department store division of Saks, Inc. by taking several key positions such as CEO of McRae's (1998-1999) and Parisian (1999-2001). Within 2001-2006, he also provides independent business consultancy to local entrepreneurial venture. He is a graduate from Troy State University, Alabama, USA.

Keith Jones
Director
Joined the Company in July 2005 after serving the Company's distribution and logistic aspects as Senior Consultant from PT Exel Indonesia since 2004.
His 31-years professional career has been intensively focused on distribution & supply chain management with the experience in holding several key positions in leading logistic companies, such as ASDA Superstores, Buck & Hickman Ltd, Hanson Transport Ltd, Cougar Express/BMW Singapore, TNT Logistic (M) Sdn Bhd. He is a member of UK Road Transport Industrial Training Board and Institute of Transport & Logistics.

Adrian C. McKay
Director
Joined the Company in March 2004. He has spent a large part of his career working internasional advertising agencies in Australia and Indonesia. Prior to joining Matahari, he worked as Technical Advisor for McCann Erickson Worldwide during 1999-2004. His tertiary education was completed at Monash University in Melbourne, Australia in 1988 with degree in business and marketing.

Danny L. Crayton
Director
Joined the Company since in 2002. He started his career in Belk Inc (1975 – 2000) with last positions as Senior Vice President of Merchandising. He is a graduate of Queens College, Charlotte, USA.

Purnomo Utoyo
Director
Joined the company in 1995. He started his professional career in 1977 with PT Goodyear Indonesia and assumed several different positions including Marketing Services Manager, Material Management Manager and Logistic, Distribution, and Export Manager. He is a graduate of New Port University, USA, with Master Degrre in Business Administration

Martin Laihad
Director
Joined the Company in 2005 to lead the Property Division. His professional experience includes holding several key positions in several leading companies such as PT Multi Prima Sejahtera, PT Kymco Lippo Motor Indonesia and PT Walsin Lippo Industries. He is a graduate from Technical University, Berlin, Germany.

Sunny Setiawan
Director
Joined Company in 2003. Her career includes several key positions in reputable companies such as PT. Johnsons & Sons, Duty Free Shoppers and PT. Mitra Adiperkasa. She is a graduate of University of Tarumanegara in 1987 with a degree of Economics.

Christian Kurnia
Director
Joined the Company in 2002. He started his career in PT. Metrodata Electronics (1992 – 2002) with last positions as Distribution Director. He participated in some training and seminars arranged by TACK Training Indonesia, Seagate Technology, Markplus and PQM. He received several awards for Hundred Percent Achiever (1993 - 1998) and Business Management Award (1999 - 2000). He is a graduate of Bandung Institute of Technology.

MANAGEMENT OF SUPERMARKET DIVISION

Noel Trinder
CEO
Joined the Company since 2003. He started his career in Boans Department Stores in 1970 before he joined Coles Supermaket (1974 – 1988) with last positions as Senior Controller Merchandising. He assumed several key positions in reputable retail company during the past few years including Hero Supermaket (1996 – 2000) as Director of Merchandising & Trading Operations and Tops Retail (Malaysia) as Country Manager. He is a graduate of University of Southern California, USA and Macquarie University, Australia.

His key positions in reputable Asia retail companies for the past several years includes Directors of Merchandising & Trading Operations of Hero Supermarket Indonesia (1996 - 2000) and Managing Director of Tops Retail Malaysia (2000 - 2003) with an overseeing role for Tops Retail operations in Indonesia.

in 2004 he was elected as the chairman of the 1st CocaCola Retail Research Council in Asia (CCRRCA) for the period 2004 - 2005 and is still an active member of the Council. He has completed a number of Advanced Retail courses conducted by the University of Southern California USA & Macquarie University, NSW, Australia as well an MBA graduate from University of Auckland, New Zealand.

Philippe Prejent
Format Director
Joined the Company in 2006 as the Format Director of Hypermart. He started his professional career in hypermarket business in 1980 by joining the Carrefour Group, France and assumed various key positions within the group until 1995. He continued his career within Carrefour Group by assuming Store Director of Carrefour Malaysia (1995-2001); Regional Director Hyper 1 of Carrefour Thailand (2001-2003) and Asset / Expansion & Shopping Mall Director of Carrefour

South Korea (2001 - 2003). He is a graduate of BTEC Hotel Business School at Thonon-les-bains.

Meshvara Kanjaya
Format Director
Joined the Company in 2003. She started her career in PT. Procter & Gamble Indonesia in Product Development department after finishing her study in University of New South Wales, Australia as Industrial Chemist. She assumed several positions in other companies such as PT. Kao Indonesia, PT. Friesche Vlag Indonesia, PT. Hero Supermaket and PT. Ahold Indonesia.

Carmelito J. Regalado
Director
Joined the Company in March 2002. He started his career as Auditor for SGV & Co in Philippines (1977 – 1982) and continued at Lippo Securities in 1998 as Senior Vice President of Corporate Finance. He is a graduate of University of Saint Thomas, Philippine in 1977 with a degree in Accounting and received his CPA title in 1978.

Keith Dolling
Director
Joined the Company in January 2004 as Logistics Advisor. He started his career in mid-70's by joining Coles-Myer Group Australia. His 31 - year professional career has been intensively focused on distribution & logistic aspects with the experience in holding several directorship positions in TOPS Retail (Malaysia) Sdn Bhd, Daria-Varia Laboratoria Group, Kalbe Farma Group and TNT Logistics Indonesia. He is a graduate from Swinburne Institute of Technology, Melbourne, Australia.

Richard H. Setiadi
Director
Joined the Company in 2001. He Started his career as auditor with Arthur Andersen in 1994 where he conducted audits in several reputable companies such as PT. Telekomunikasi Indonesia, PT. Semen Gresik, and Asia Pulp & Paper Co. He is a graduate of Atmajaya University, Jakarta majoring in Accounting.

Irwin Abuthan
Director
Joined the Company in March 2002. He started his career in Corporate Finance with Bank Credit Lyonais Indonesia (1995 – 1997) before he joined American Express Bank Ltd. as Corporate Finance Manager (1997 – 1999) and Indonesian Banking Restructuring Agency (1999 – 2002) as Vice President in Asset Management Investment Division. He is a graduate of Curtin University of Technology, Australia, with a degree in Banking and Finance.

Iwan Goenadi
Director
Joined the Company as Head of Management System (MIS) in 1988. He was appointed as Head Store Operations Supermaket in 1999 and MIS Director since 2002. He is a graduate of Institute of Technology Bandung in 1984 and Utah State University in 1987.

Kasmin Rasilim
Director
Joined the Company in 2003. His career path includes positions in Gramedia Group (1989 – 1995) as Marketing Manager, Wal Mart International Jakarta (1996 – 1998) as Loss Prevention Manager and PT. Hero Supermaket Tbk as Procurement General Manager. He is an MBA graduate from Greenwich University, Hawaii.

Mulyadi Haryanto
Senior Vice President
Joined the Company in 1993. He attended Retail Executive Program in Cornell University (2002) and participated in various course and training held by USDA, University of California, Davis, The Coca –Cola Company and IGA Institute. He is a graduate of Atmajaya University in 1993 with a degree in Economics.

HUMAN RESOURCES

Job Profile	Total	%
Advisor	14	0.07
Director	28	0.15
Manager	1,101	5.80
Assistant Manager	507	2.67
Supervisor	2,132	11.22
Staff	15,214	80.09
Total	18,996	100.00

Education	Total	%
Post Graduate	77	0.41
Bachelor	1,657	8.72
Diploma	956	5.03
Senior High School	16,107	84.79
Junior High School	132	0.69
Others	67	0.35
Total	18,996	100.00

Age	Total	%
<=25	7,418	39.05
26 - 30	5,905	31.09
31 - 35	2,870	15.11
36 - 40	1,906	10.03
>=41	897	4.72
Total	18,996	100.00

In-line with the development of Matahari whereas the Company currently employs approximately 20,000 employees spread across Indonesia and will grow as the business grows with planned new store openings, the Human Resource Division (HRD) continues its efforts to develop and improve the human resources management function to become more creative, innovative and strategic for the medium and long-term perspectives.

The effort of Human Capital Management will continue to be improved and suited to support the availability of prominent work forces and to synergize as well as provide intellectual capital needed by the Company not only to win the business competition but also to position it as the leading retail company with international best practices.

The recruitment process, through a joint effort with several leading educational institutions and utilize the information technology of Career Development, is a HRD's strategic step to strengthen the Company's image to the prospective employees as well as to become one of the competitive advantage for the young, professional, creative and energetic workers. It also represent Matahari as one the best 10 companies in Indonesia.

The management training process through a combination of educational curriculum continues to be developed and tailored as one of the HRD's strategic step to prepare the competent work forces prior to their assignments in the field. Additionally, the Training & Development Department also gives various intensive enhancement sessions for the existing employees representing the Company's efforts and commitment to continually improve every staff's core competent, knowledge and skills to move forward as one of the Company's most important asset. Moreover, the competency-based performance appraisal system (Competency-based human resources system) is continually be improved.

Several training programs conducted by the Company are as follows:

- Basic Training
  To provide newly appointed employees with basic knowledge, skills (e.g. buying skills, managing merchandises, selling skills, etc) and attitude related to their job area, and also for the newcomers is to make them accustomed with the culture of Matahari's organization.
- Refreshing Training
  To refresh existing employees in store with up-date knowledge, skills and/or attitude needed to perform and improve their capabilities.
- Development Program
  The Company's HRD has already implemented Competency Based–Human Resource Management, an integrated system of all HR practices (recruitment & selection – training – retention - motivation). Matahari Integrated Development Program (MIDP) is a part of the system to be implemented at the first for developing people.

  The purposes of MIDP are building and developing soft competencies in business management, personal effectiveness, inter-personal effectiveness, leadership effectiveness, including human skills, managerial concept, services, positive work-attitude and self-image, to support their function effectively.
- Career Development Program and Management Training.
  This program is designed to develop potential employees to be promoted to store and/or MD managerial level. We also recruit fresh graduate to be Management Trainee as a "balancing factor" between internal promotion and external recruitment. They will be trained and developed to support company's growth as the raising leaders.
- General Training
  - Induction Training
    To provide Head Office's newcomers with information and rules/ regulations about Matahari as a public company.
  - Training For Trainer
    The Company always conduct the training and development program through its internal resources. This program is to prepare internal trainers for each store/department with knowledge, skills and/ attitudes needed as a professional trainer / instructor. They will support training and development programs as the trainers.
  - Conducting Performance Appraisal (PA) sessions
    To provide Managers / Leaders with appropriate skills and attitudes needed in conducting Performance Appraisal sessions to their subordinates.
  - External Training
    To provide employees who needs knowledge and/or skills which is not available within the Company.

In 2006 Matahari has commenced more than 250 training sessions for more than 4,000 employees.

To move forward in-line with the HRD's dynamics and long-term strategy, the Company's management believe that it is necessary to have an integrated application system to support the HRD's tasks. From the vast arrays of available applications in the market, the Company has chosen Oracle HRMS to support the overall HRD administration routines. The system has extensive modern features based on integrated Information Technology to monitor and maintain the dynamic employee database, which is one of most important factors for HRD to perform its duties and strategic function successfully.

The implementation of Oracle HRMS is divided into 2 phases: Oracle Core HR whose main function is to setup the Matahari's organization structure, employee database, recruitment process, mutation & promotion, HRD budgeting process and administration of employment termination. The second phase will include the mapping of employee's core competencies, payroll, working hour administration.

With the new paradigm of human resources management through "people asset strategy" and strategic partners, it is expected to yield competitive values of "Intellectual Capital" to the Company for the years to come.

MOMENTS IN 2006

Matahari Departement Store received IMAC 2006 - Indonesia's most admire companies -July 5th 2006- from Business Week and Frontier Consulting Group.

Matahari's Annual General Meeting, March 31 2006, Aryaduta Hotel

Hypermart successed opened 27 stores in 32nd months spread in 16 cities of Indonesia

The Future belongs to our children.
Matahari and AMSC held the charity day luncheon 4th at Mulia Hotel, Total funds Rp 4 billion which will be donated to 33 non-profit foundation -November 23 rd 2006-

Grand Launching Hypermart and Matahari Department Store, Nagoya Hill Batam, September 23rd 2006

Matahari's Charity August 2006.
Matahari Department Stores invited its valued customers to donate unused jeans clothing for the exchange of shopping vouchers.

Matahari 2006 Bond Holders Meeting. Matahari together with BNI held RUPO at Darmawangsa Hotel -November 30th 2006-

GREATER JAKARTA

MATAHARI DEPT. STORE
GALERIA PASAR BARU
MDS ATRIUM
MDS ARION
MDS BEKASI MALL
MDS KRAMAT JATI
MDS CIBUBUR
MDS LOKASARI
MDS KLENDER
MDS KTC KELAPA GADING
MDS CILANDAK
MDS MEGAMALL PLUIT
MDS DAAN MOGOT
MDS GALERIA BLOK M
MDS GALERIA TAMAN ANGGREK
MDS DEPOK MALL
MDS DEPOK TOWN SQUARE
MDS CITRALAND
MDS GRAND MALL BEKASI
MDS LIPPO CIKARANG
MDS KARAWANG
MDS PONDOK GEDE
MDS WTC SERPONG
MDS LIPPO KARAWACI
SM BOGOR
MDS METROPOLIS
MDS EKALOKASARI

MATAHARI SUPERMARKET
MSM GALERIA PASAR BARU
MSM CILANDAK
MSM DAAN MOGOT
MSM ATRIUM
MSM KLENDER
CUT PRICE ARION PLAZA
MSM GRAND MALL BEKASI
MSM DEPOK
MSM CIKARANG
CONVIENENCE
SM BOGOR
MSM EKALOKASARI BOGOR

HYPERMART
GAJAH MADA PLAZA
JACC
CIBUBUR TOWN SQUARE
KTC KELAPA GADING
WTC SERPONG
SUPERMAL KARAWACI
METROPOLIS TOWN SQUARE
DEPOK TOWN SQUARE
SENTUL
GRAND MALL BEKASI

WEST JAVA

MATAHARI DEPT. STORE
MDS GRAGE MALL
MDS PALAGUNA
MDS KING BANDUNG
MDS KIARA CONDONG
MDS PELITA SUKABUMI
MDS GALERIA BANDUNG
MDS CILEGON
MDS TASIK III

MATAHARI SUPERMARKET
MSM KARAWANG
MSM GRAGE MAL CIREBON
MSM SUKABUMI
MSM CILEGON
CUT PRICE KIARA CONDONG

HYPERMART
BIP
METRO TRADE CENTER

CENTRAL JAVA

MATAHARI DEPT. STORE
MDS SOLO GRAND MALL
MDS SEMARANG
MDS SOLO SQUARE
MDS KUDUS
MDS PEKALONGAN
MDS MAGELANG
SE PURWOKERTO
MDS KLATEN
MDS SINGOSAREN
MDS JAVA SUPERMAL
MDS MALIOBORO I
MDS MALIOBORO II
GALERIA YOGYAKARTA

MATAHARI SUPERMARKET
MSM PEKALONGAN
MSM SINGOSAREN
MSM JAVA MALL SEMARANG
MSM SIMPANG LIMA SEMARANG
MSM KUDUS
CUT PRICE MAGELANG
MSM KLATEN
PURWOKERTO
MSM GALERIA YOGYA

HYPERMART
SOLO GRAND MALL

EAST JAVA

MATAHARI DEPT. STORE
MDS MADIUN
MDS PAKUWON SBY
GALERIA DELTA SURABAYA
MDS SIDOARJO
MDS PASAR BESAR MALANG
MDS TUNJUNGAN PLAZA
MDS MALANG TOWN SQUARE
MDS ROYAL PLAZA SBY
MDS JEMBER

MATAHARI SUPERMARKET
MSM MADIUN
MSM JEMBER
CUT PRICE MALANG
CUT PRICE SIDOARJO

HYPERMART
MALANG TOWN SQUARE
PAKUWON INDAH PLAZA
ROYAL PLAZA

SUMATRA

MATAHARI DEPT. STORE
MDS THAMRIN PLAZA
MDS MEDAN MALL
MDS GRAND PALADIUM MEDAN
MDS MEDAN FAIR
MDS INTERNASIONAL PALEMBANG
MDS PASAR RAYA PADANG
MDS ANGSO DUO JAMBI
MDS CITRA PEKAN BARU
MDS LUCKY BATAM
MDS MEGAMALL BATAM CENTER
MDS CIPUTRA SERAYA PEKANBARU
MDS SKA PEKANBARU
MDS NAGOYA HILL BATAM
MDS KARTINI LAMPUNG

MATAHARI SUPERMARKET
MSM PADANG
MSM INTERNATIONAL PALEMBANG
MSM JAMBI
MSM PEKANBARU CITRA SERAYA
MSM KARTINI LAMPUNG

HYPERMART
GRAND PALADIUM MEDAN
SUN PLAZA MEDAN
INTERNATIONAL PALEMBANG
NAGOYA HILL BATAM
SKA PEKAN BARU
MEGAMALL BATAM CENTER

BALI

MATAHARI DEPT. STORE
MDS KUTA SQUARE
MDS DUTA PALAZA
GALERIA SIMPANG SIUR BALI

MATAHARI SUPERMARKET
MSM SIMPANG SIUR BALI
MSM KUTA SQUARE BALI

SULAWESI

MATAHARI DEPT. STORE
MDS MEGA MALL MENADO
MDS BOULEVARD CENTER MANADO
MDS MAL PANAKUKANG
MDS MAKASAR MALL
MDS GTC TANJUNG BUNGA MAKASAR

HYPERMART
GTC TANJUNG BUNGA MAKASAR
MAL PANAKUKANG
MANADO TOWN SQUARE

BORNEO

MATAHARI DEPT. STORE
MDS SAMARINDA
MDS PONTIANAK
MDS MALL A.YANI PONTIANAK
MDS BALIKPAPAN
MDS DUTA MALL BANJARMASIN

MATAHARI SUPERMARKET
MSM PONTIANAK
MSM SAMARINDA

HYPERMART
MALL A.YANI PONTIANAK
DUTA MALL BANJARMASIN

EAST INDONESIA

MATAHARI DEPT. STORE
MDS AMBON

MATAHARI SUPERMARKET
MSM AMBON

CORPORATE INFORMATION

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Share Registrar

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Matahari

ANNUAL REPORT 2006

Matahari

PT. MATAHARI PUTRA PRIMA TBK and SUBSIDIARIES

Consolidated Financial Statements
With Independent Auditors' Report
Years Ended December 31, 2006 and 2005
(Indonesian Currency)

These consolidated financial statements are originally issued in Indonesian Language

Consolidated Financial Statements
With Independent Auditors' Report
December 31, 2006
With Comparative Figures for 2005

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES

These consolidated financial statements are originally issued in Indonesian language.

**PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2006
WITH COMPARATIVE FIGURES FOR 2005**

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This report is originally issued in Indonesian language.

Independent Auditors' Report

Report No. RPC-6617

The Stockholders and Boards of Commissioners and Directors
PT Matahari Putra Prima Tbk

We have audited the consolidated balance sheet of PT Matahari Putra Prima Tbk and Subsidiaries ("the Companies") as of December 31, 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Companies for the year ended December 31, 2005, were audited by Prasetio, Sarwoko & Sandjaja, whose report dated February 24, 2006, expressed an unqualified opinion on those statements.

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

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

Purwantono, Sarwoko & Sandjaja

Drs. Hari Purwantono
Public Accountant License No. 98.1.0065

February 27, 2007

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

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of Indonesian rupiah, except share data)

	Notes	2006	2005
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2c,2p,3,33	1,230,858	498,346
Short-term investments	2d,2p,4,7,33	74,754	89,987
Accounts receivable	2e,5		
Trade		110,260	39,719
Others - net	7,10	107,740	55,701
Merchandise inventory	2f,6,14,19	790,945	676,322
Prepaid taxes	17	30,539	31,773
Prepaid expenses	2g,2j,7,35	87,872	88,879
Other current assets		35,476	44,040
Total Current Assets		2,468,444	1,524,767
NON-CURRENT ASSETS			
Due from related parties - net	2e,7	34,188	33,431
Deferred tax assets - net	2r,17	2,172	173
Investments in associated companies	2d,7,8	45,763	39,701
Other long-term investments	2d,7,9	4,256	4,256
Property and equipment	2h,2i,7,10, 19,21,32		
Carrying value		3,284,093	2,873,982
Accumulated depreciation		(1,254,068)	(1,030,268)
Allowance for possible loss from disposal of property and equipment		(24,897)	(43,381)
Net		2,005,128	1,800,333
Advances for purchase of property and equipment	7,11,35	514,268	537,731
Prepaid long-term rent - net	2j,12,19,32,35	348,372	325,356
Non-operating assets	32	72,501	67,684
Rental advances	7,35	351,538	89,299
Other non-current assets - net	2h,2i,2k,2p,7, 13,32,33,35	208,458	154,420
Total Non-current Assets		3,586,644	3,052,384
TOTAL ASSETS		**6,055,088**	**4,577,151**

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of Indonesian rupiah, except share data)

	Notes	2006	2005
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
CURRENT LIABILITIES			
Short-term bank loans	14	-	125,000
Accounts payable			
Trade	15	631,083	544,289
Others	16	112,420	122,978
Taxes payable	17	62,792	49,629
Accrued expenses	2p,2s,7,18,31,33	298,463	327,118
Reserve for stores restructuring	32	-	2,017
Current maturities of long-term debts:			
Bond payable - net	1b,2l,2m,21	393,745	-
Bank loan	19	15,600	-
Obligations to non-financial institutions	2j,2p,23,33	11,887	12,940
Obligation under capital lease	2h	88	-
Total Current Liabilities		1,526,078	1,183,971
NON-CURRENT LIABILITIES			
Due to related parties	7	47	3,314
Deferred tax liabilities - net	2r,17	13,013	8,280
Long-term debts - net of current maturities:			
Notes payable - net	2l,2p,20,33	1,290,053	-
Bonds payable - net	1b,2l,2m,21	441,634	828,764
Bank loans	19	353,900	249,614
Obligations to non-financial institutions	2j,2p,23,33	15,309	15,657
Obligation under capital lease	2h	193	-
Option/swap contracts liabilities	2q,22	52,351	-
Other non-current liabilities	2p,2s,31,33	134,812	155,356
Total Non-current Liabilities		2,301,312	1,260,985
MINORITY INTEREST	2b	62,108	65,093
Total Liabilities		3,889,498	2,510,049

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of Indonesian rupiah, except share data)

	Notes	2006	2005
STOCKHOLDERS' EQUITY			
Capital stock - Rp500 par value			
Authorized - 10,800,000,000 shares			
Issued and fully paid -			
2,705,994,000 shares	1b,24	1,352,997	1,352,997
Additional paid-in capital - net	25	(6,356)	(6,356)
Difference in changes in equity transactions			
of a Subsidiary	2b	989	312
Revaluation increment in property			
and equipment	2h	120	120
Retained earnings			
Appropriated	34	14,000	12,000
Unappropriated		927,076	831,265
Treasury stock	2n,24	(123,236)	(123,236)
Stockholders' Equity - Net		2,165,590	2,067,102
TOTAL LIABILITIES AND			
STOCKHOLDERS' EQUITY		**6,055,088**	**4,577,151**

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

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Year Ended December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of Indonesian rupiah, except share data)

	Notes	2006	2005
NET SALES	2o,26	8,487,654	6,916,052
COST OF SALES	2f,2h,2o, 10,26,27	6,177,367	4,905,061
GROSS PROFIT		2,310,287	2,010,991
OPERATING EXPENSES	2o,7		
Selling	2j,28,35	578,029	607,176
General and administrative	2h,2k,2s, 10,21,29,31	1,330,891	1,095,068
Total Operating Expenses		1,908,920	1,702,244
OPERATING INCOME		401,367	308,747
OTHER INCOME (CHARGES)			
Gain on sale of investments - net	2d,4	5,855	76,670
Interest expense and other financing cost - net	3,4,7,14,18, 19,20,21,30	(176,669)	(112,491)
Gain (loss) on foreign exchange inclusive of loss on change in fair value of currency swap/ option - net	2p,2q,22	(50,944)	3,957
Others - net	2b,2d,2e,2h, 2p,4,5,9, 10,13,32	10,059	(27,950)
Other Charges - Net		(211,699)	(59,814)
EQUITY IN NET INCOME OF INVESTEES - Net	2d,8	6,062	5,841
INCOME BEFORE INCOME TAX		195,730	254,774
INCOME TAX BENEFIT (EXPENSE)	2r,17		
Current		(35,495)	(30,154)
Deferred		(2,724)	775
Net		(38,219)	(29,379)
INCOME BEFORE MINORITY INTEREST		157,511	225,395
MINORITY INTEREST IN NET LOSS (INCOME) OF SUBSIDIARY	2b	2,985	(2,732)
NET INCOME		**160,496**	**222,663**
NET INCOME PER SHARE	2u	**64**	**89**

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

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Year Ended December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of Indonesian rupiah)

	Notes	Capital Stock	Additional Paid-in Capital - Net	Difference in Changes in Equity Transactions of a Subsidiary	Revaluation Increment in Property and Equipment	Retained Earnings - Appropriated	Retained Earnings - Unappropriated	Treasury Stock	Stockholders Equity - Net
Balance, January 1, 2005		1,352,997	(6,356)	-	120	10,000	645,706	(123,236)	1,879,231
Resolution during the Annual General Meeting of the Stockholders on May 20, 2005:	34								
Declaration of cash dividend - net of treasury stock		-	-	-	-	-	(35,104)	-	(35,104)
Appropriation of retained earnings		-	-	-	-	2,000	(2,000)	-	-
Difference in changes in equity transactions of a Subsidiary	2b	-	-	312	-	-	-	-	312
Net income		-	-	-	-	-	222,663	-	222,663
Balance, December 31, 2005		**1,352,997**	**(6,356)**	**312**	**120**	**12,000**	**831,265**	**(123,236)**	**2,067,102**
Resolution during the Annual General Meeting of the Stockholders on March 31, 2006:	34								
Declaration of cash dividend - net of treasury stock		-	-	-	-	-	(62,685)	-	(62,685)
Appropriation of retained earnings		-	-	-	-	2,000	(2,000)	-	-
Difference in changes in equity transactions of a Subsidiary	2b	-	-	677	-	-	-	-	677
Net income		-	-	-	-	-	160,496	-	160,496
Balance, December 31, 2006		**1,352,997**	**(6,356)**	**989**	**120**	**14,000**	**927,076**	**(123,236)**	**2,165,590**

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

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year Ended December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of Indonesian rupiah)

	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection from sales		8,417,113	6,896,291
Cash paid during the year for:			
Purchase of merchandise inventory		(6,205,196)	(5,076,219)
Salaries and wages		(591,582)	(495,327)
Rentals - net		(531,144)	(467,430)
Selling expenses		(130,817)	(214,004)
Net cash received from operations		958,374	643,311
Corporate Income Tax		(42,265)	(13,994)
Other expenses - net		(411,214)	(243,947)
Net Cash Provided by Operating Activities		504,895	385,370
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in short-term investments		20,074	187,651
Proceeds from sale of property and equipment	10	3,696	3,600
Increase in advance for rental		(282,130)	(181,552)
Increase in advance for purchase of property and equipment		(249,766)	(667,935)
Acquisitions of property and equipment	10	(212,171)	(206,999)
Increase in other non-current assets		(67,796)	(17,020)
Decrease (increase) in non-operating assets		(5,311)	7,683
Net Cash Used in Investing Activities		(793,404)	(874,572)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of notes - net of discount and issuance cost		1,285,010	-
Interest expense and other financing cost - net		(177,323)	(152,289)
Cash dividend paid by the Company	34	(62,685)	(35,104)
Net increase (decrease) in bank loans		(20,714)	123,550
Increase (decrease) in amount due to related parties		(3,267)	1,197
Cash dividend paid to minority interest in a Subsidiary		-	(4,999)
Payment of obligation under capital lease		-	(138)
Net Cash Provided by (Used in) Financing Activities		1,021,021	(67,783)

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

PT MATAHARI PUTRA PRIMA Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Year Ended December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of Indonesian rupiah)

	Notes	2006	2005
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		732,512	(556,985)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3	498,346	1,055,331
CASH AND CASH EQUIVALENTS AT END OF YEAR	3	**1,230,858**	**498,346**

Supplemental cash flows information:

		2006	2005
Non-cash activities -			
Reclassification of advance for purchase of property and equipment to property and equipment		273,229	537,317
Acquisition of asset under capital lease through the incurrence of obligation under capital lease		281	-
Conversion of short-term bank loans to long-term bank loans		125,000	-

1. GENERAL

a. Company's Establishment

PT Matahari Putra Prima Tbk ("the Company") was established in the Republic of Indonesia on March 11, 1986 based on notarial deed No. 30 dated March 11, 1986 of Budiarti Karnadi, S.H. The deed of the Company's establishment was published in Supplement No. 2954 of State Gazette No. 73 dated September 10, 1991. The Company's articles of association has been amended several times, the latest amendment of which is based on notarial deed No. 42 dated March 31, 2006 of Ny. Poerbaningsih Adi Warsito, S.H. concerning, among others, changes in the composition of the Company's Boards of Commissioners and Directors.

The Company and Subsidiaries operate (i) a chain of stores which sell such items as clothes, accessories, bags, shoes, cosmetics, electrical equipment, toys, stationery, books, drugs and daily needs, and (ii) family entertainment centers known as Time Zone. The Company started commercial operations in 1986.

The Company's head office is located in Menara Matahari - Lippo Life 20th Floor, No. 7 Boulevard Palem Raya, Lippo Karawaci - Tangerang, West Java.

As of December 31, 2006, the Company and PT Matahari Super Ekonomi (a Subsidiary) operate stores in 96 locations, while PT Matahari Graha Fantasi (another Subsidiary) operates 117 family entertainment centers. All of these stores and family entertainment centers are located in Jakarta and other cities in Indonesia. Management regularly evaluates the performance of the stores and makes the decision to close any unproductive stores in Indonesia or overseas based on the result of such evaluation.

b. Company's Public Offerings

On November 29, 1992, the Company's Registration Statement to offer its Initial Public Offering of shares was declared effective. In December 1992, the Company listed all of its shares on the Jakarta Stock Exchange and the Surabaya Stock Exchange.

On June 9, 1995, September 11, 1996 and October 13, 1997, the Company's Registration Statements to offer its First, Second and Third Limited Public Offerings of Rights to stockholders, respectively, totalling 75,166,500 (at Rp1,400 per share), 225,499,500 (at Rp1,000 per share) and 1,803,996,000 (at Rp500 per share) new shares, respectively, were declared effective. The Company listed all such new shares on the Jakarta Stock Exchange and the Surabaya Stock Exchange.

Based on the letter No. S-2057/PM/2002 dated September 13, 2002 of the Capital Market Supervisory Agency, the Company's Registration Statement to offer First Matahari Bonds totalling Rp450,000 to the public on the Surabaya Stock Exchange (Note 21) was declared effective.

Based on the letter No. S-1068/PM/2004 dated April 28, 2004 of the Capital Market Supervisory Agency, the Company's Registration Statement to offer Second Matahari Bonds and First Matahari Syariah Ijarah Bonds totalling Rp300,000 and Rp150,000, respectively, to the public on the Surabaya Stock Exchange (Note 21) was declared effective.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

1. GENERAL (continued)

c. Structure of the Company and Subsidiaries

As of December 31, 2006 and 2005, the structure of the Company and the Subsidiaries (collectively referred to as "the Companies") is as follows:

Subsidiaries	Location of Operations	Nature of Business	Start of Commercial Operations	Percentages of Ownership * 2006	Percentages of Ownership * 2005	Total Assets 2006	Total Assets 2005
Direct ownership							
PT Matahari Super Ekonomi ("PT MSE")	Tangerang, West Java	Retail business	1994	100.00	100.00	12,707	13,011
Matahari International Finance Company B.V. ("MIFCO")	Rotterdam, Netherlands	Financing business	1996	100.00	100.00	10,171	10,085
PT Nadya Putra Investama ("PT NPI")	Tangerang, West Java	General trading	1998	100.00	100.00	14,398	16,681
PT Taraprima Reksabuana ("PT TPRB")	Jakarta	Sale and marketing of mineral water	1998	100.00	100.00	30,376	30,882
PT Matahari Kafe Nusantara ("PT MKN")	Tangerang, West Java	Restaurant	2001	100.00	100.00	408	534
PT Matahari Mega Swalayan ("PT MMS")	Tangerang, West Java	General trading	-	100.00	100.00	4,685	4,501
PT Matahari Mega Toserba ("PT MMT")	Tangerang, West Java	Retail business	-	100.00	100.00	2,189	2,000
PT Matahari Boston Drugstore ("PT MBD")	Tangerang, West Java	Drugstore	-	100.00	100.00	2,151	2,000
Prime Connection Limited ("PCL")	British Virgin Islands	Investment company	-	100.00	100.00	5	5
Brighter Limited ("BL")	British Virgin Islands	Investment company	-	100.00	100.00	26,509	25,006
Matahari Finance B.V. ("MF")	Rotterdam, Netherlands	Financing business	2006	100.00	-	1,352,908	-
PT Matahari Graha Fantasi ("PT MGF")	Jakarta	Family entertainment	1995	50.01	50.01	202,628	206,275
Indirect Ownership							
Bright Regent Corporation ("BRC")	Hong Kong	Investment company	-	100.00	100.00	26,451	29,499
Merrill Investment Limited ("MI")	Labuan, Malaysia	Investment company	-	100.00	100.00	6,811	7,390
Matahari Department Store (Shenzhen) Limited ("MDS")	China	Retail business	2005	100.00	100.00	14,725	24,366
Matahari Trading (Shenzhen) Limited ("MTL")	China	General trading	-	100.00	100.00	580	634
Grandbright Corporation Limited ("GCL")	Hong Kong	Investment Company	-	100.00	-	0.001	-
PT Matahari Dana Prima ("PT MDP", through PT NPI)	Denpasar, Bali	Consumer financing business	-	99.99	99.99	1,927	1,927

* including indirect ownership

In 2005, the Company invested in 100% ownership interest in BL and BL invested in 100% ownership interest in BRC. Furthermore, BRC invested in 100% ownership interest in MDS and MTL, and the Company, through PT NPI, invested in 100% ownership interest in MI.

In 2006, the Company invested in 100% ownership interest in MF and, through BL, invested in 100% ownership interest in GCL.

As of December 31, 2006, PT MMS, PT MMT, PT MBD, PCL, BL, BRC, MI, MTL, GCL and PT MDP have not started commercial operations.

d. Employees, Directors and Commissioners

As of December 31, 2006, the members of the Board of Commissioners and the Board of Directors based on a resolution at the Company's Stockholders' Annual General Meeting held on March 31, 2006 which was notarized under deed No. 42 dated March 31, 2006 of Ny. Poerbaningsih Adi Warsito, S.H., are as follows:

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

1. GENERAL (continued)

d. Employees, Directors and Commissioners (continued)

President Commissioner	:	Dr. Cheng Cheng Wen
Commissioners	:	Jonathan L. Parapak (independent commissioner)
		Jusuf Arbianto Tjondrolukito (independent commissioner)
		John Bellis (independent commissioner)
		Mardi Henko Sutanto (independent commissioner)
		Ganesh Chander Grover (independent commissioner)
		Jeffrey Koes Wonsono
President Director	:	Benyamin Jonathan Mailool
Directors	:	Lina Haryanti Latif
		Hendra Sidin
		Carmelito J. Regalado
		Andre Rumantir

As of December 31, 2005, the members of the Board of Commissioners and the Board of Directors based on a resolution at the Company's Stockholders' Annual General Meeting held on May 20, 2005, which was notarized under deed No. 39 dated May 20, 2005 of Ny. Poerbaningsih Adi Warsito, S.H., are as follows:

President Commissioner	:	Dr. Cheng Cheng Wen
Commissioners	:	Jonathan L. Parapak (independent commissioner)
		Jusuf Arbianto Tjondrolukito (independent commissioner)
		John Bellis (independent commissioner)
		Mardi Henko Sutanto (independent commissioner)
		Jeffrey Koes Wonsono
		Ganesh Chander Grover
President Director	:	Benyamin Jonathan Mailool
Directors	:	Lina Haryanti Latif
		Hendra Sidin
		Carmelito J. Regalado
		Ketut Budi Wijaya
		Andre Rumantir

The Companies have approximately 20,400 and 18,000 employees as of December 31, 2006 and 2005, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with the generally accepted accounting principles in Indonesia (Statements of Financial Accounting Standards or "PSAK") and Capital Market Supervisory Agency regulations No. VIII.G.7., "Guidelines on Financial Statements Presentation" and SE-02/PM/2002, "Guidelines on Financial Statements Presentation and Disclosure of Listed or Public Company in Retail Industry".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of Consolidated Financial Statements (continued)

The consolidated financial statements are prepared under the historical cost basis of accounting, except for merchandise inventory which is stated at the lower of cost or net realizable value, certain property and equipment which are stated at revalued amounts, contract swaps which are stated at fair value, and certain investments which are stated at fair value or at net assets value, or accounted for under the equity method for associated companies representing equity interest of at least 20% but not more than 50%.

The consolidated statements of cash flows present cash receipts and payments classified into operating, investing and financing activities. The cash flows from operating activities are presented under the direct method.

The reporting currency used in the consolidated financial statements is the Indonesian rupiah.

b. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany accounts and transactions are eliminated.

The carrying value of the Company's investment in a Subsidiary is correspondingly adjusted for the net change in its investment in the Subsidiary's equity by crediting or debiting "Difference in changes in equity transactions of a Subsidiary".

The accounts of foreign subsidiaries were translated into rupiah amounts at the middle rates of exchange prevailing at balance sheet date for balance sheet accounts and the average rate during the year for profit and loss accounts. The resulting differences arising from the translations of the financial statements of subsidiaries which are an integral part of the Company are debited/credited to "Foreign Exchange Loss/Gain" which is presented in the consolidated statements of income, while for the subsidiaries which are not an integral part of the Company, these are debited/credited to "Difference in Foreign Currency Translation", which is presented as "Difference in changes in equity transactions of a Subsidiary" under stockholders' equity.

c. Cash Equivalents

Cash equivalents include all highly liquid investments purchased with original maturities of three months or less and not pledged as collateral to loans.

d. Investments

Investments consist of:

1. Marketable securities in the form of debt and equity securities

   In accordance with PSAK 50, "Accounting for Investments in Certain Securities", marketable securities are classified into the following three categories:

   - Trading

     Included in this classification are investments which are purchased for immediate resale, and are normally characterized by the high frequency of purchase-and-sale transactions. These investments are made to earn immediate gain from the improvement in the short-term prices of the securities. Investments that meet this classification are recorded at fair value. The unrealized gain/loss at balance sheet date is credited or charged to current operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Investments (continued)

- Held-to-maturity

  Investments in debt securities which are held up to maturity date are recorded at cost, adjusted for amortization of premium or accretion of discount to maturity.

- Available-for-sale

  Investments which do not meet the classification of trading and held-to-maturity categories are recorded at fair value. Any unrealized gain (loss) at balance sheet date is credited (charged) to "Unrealized Holding Gain/Loss on Marketable Securities", which is a component of Stockholders' Equity.

The cost of marketable securities sold is determined by the average method.

2. Long-term investments in shares of stock without available fair values

Investments in shares of stock wherein the Companies have ownership interest of at least 20% but not exceeding 50% are accounted for under the equity method. Under this method, the investments are initially stated at cost, and then adjusted for the Companies' share in the earnings or losses of the associated companies in proportion to the ownership percentage of the Companies (equity method) and reduced by dividends received. Investments wherein the Companies have an ownership interest of less than 20% are stated at cost.

e. Accounts Receivable

Allowance for doubtful accounts is provided on the basis of the evaluation of the collectibility of the accounts at the end of the year.

f. Merchandise Inventory

Merchandise inventory is stated at the lower of cost, determined by the conventional retail method, or net realizable value.

Merchandise inventory does not include goods on consignment.

g. Prepaid Expenses

Prepaid expenses are amortized over the periods benefited using the straight-line method.

h. Property and Equipment

Property and equipment are stated at cost, except for certain assets revalued in 1986 in accordance with a government regulation, less accumulated depreciation. Depreciation is computed as follows:

	Methods	Years	Rates
Buildings (including apartment units which are presented as part of "Other Non-current Assets")	Straight-line	20	-
Building renovation	Straight-line	2 - 5	-

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Property and Equipment (continued)

	Methods	Years	Rates
Equipment and installations	Double-declining balance	-	15% and 25%
Motor vehicles	Double-declining balance	-	50%
Machines	Straight-line	3 - 5	-
Assets under capital lease - motor vehicles	Double-declining balance	-	25% and 50%

Landrights are stated at cost and are not amortized.

The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the year.

Lease transactions are accounted for under the capital lease method when the required capitalization criteria in accordance with PSAK 30 are met. Otherwise, lease transactions are accounted for under the operating lease method. Assets under capital leases are recorded based on the present value of the lease payments at the beginning of the lease term plus the residual value (option price) to be paid at the end of the lease period.

Gain or loss on sale-and-leaseback transactions is deferred and amortized using the straight-line method over the remaining useful life of the asset sold and leased back.

In accordance with PSAK 47, “Accounting for Land”, the Company recognizes the acquisition cost of land separately from the legal expenditures incurred to acquire the landrights and the expenditures for the subsequent extension thereof. These expenditures are deferred and presented as part of “Other Non-current Assets” in the consolidated balance sheets and are amortized over the period the landrights are valid.

i. Impairment of Assets Value

In accordance with PSAK 48, “Impairment of Assets Value”, the Company reviews whether there is an indication of assets impairment at balance sheet date. If there is an indication of assets impairment, the Company estimates the recoverable amount of the assets. Impairment of assets is recognized as a charge to current operations.

j. Prepaid Long-term Rent

Long-term lease with contract value payable in installments over a period shorter than the lease period is recorded when the lease agreement is effective by debiting “Prepaid Long-term Rent” at the contract value and crediting the unpaid portion to “Long-term Debts - Obligations to Non-financial Institutions”.

Prepaid long-term rent, generally on store space, is being amortized on the straight-line method starting from the opening of the leased store/renewal of the lease over the lease period. The portion of the rent chargeable to operations within one year is reclassified and presented under current assets as part of “Prepaid Expenses”.

k. Intangible Assets - Computer Software Costs

Cost of computer software purchased and the cost of subsequent updating thereof (charged to Other Non-current Assets) are deferred and amortized on the straight-line method over 4 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Bonds/Notes Issuance Cost

Expenses incurred in connection with the issuance of bonds/notes are deducted from the proceeds thereof. The difference between the net proceeds and the nominal value represents premium or discount that should be amortized over the term of the bonds/notes.

m. Treasury Bonds

Repurchased instruments of indebtedness that are not retired are treated in the consolidated financial statements as if they were retired. The difference between the face value of the instruments of indebtedness and the fair value at the date of repurchase is credited or charged to current operations.

n. Treasury Stock

Treasury stock, which is shown under the Stockholders' Equity section of the consolidated balance sheets, is stated at acquisition cost. The cost of the treasury stock resold is determined by the average method.

The difference between the acquisition cost and the selling price of treasury stock is charged or credited to "Additional Paid-in Capital - Net". When the difference creates a negative balance in the "Additional Paid-in Capital" account as a result of reacquisition transactions, such negative balance is charged to retained earnings.

o. Revenue and Expense Recognition

Revenue from sales of merchandise inventory (except revenue from sales on "Cash-on-Delivery" basis which is recognized when the goods are delivered to customers) is recognized when the goods are paid for at the sales counter. Revenue representing consignment sales is recorded at the amounts the consignment goods are sold to customers, while the related cost (included as part of Cost of Sales) is recorded at the amounts due to consignors.

Revenue from sales of prepaid cards (known as "power cards") by the family entertainment centers is initially recorded as unearned income and then proportionately recognized as earned revenue based on the actual use of the cards by customers. Revenue from sales of tokens, snacks and "Make New Friends" packages is recognized at the time the tokens/snacks/packages are purchased by customers.

Expenses are recognized when incurred.

p. Foreign Currency Transactions and Balances

Transactions involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions are made. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the last prevailing rates of exchange for the year published by Bank Indonesia. The resulting gains or losses are credited or charged to current operations.

For December 31, 2006, the rates of exchange used (in full amounts) were Rp9,020 to US$1, Rp1,165 to RMB1 and Rp1,160 to HK$1, while for December 31, 2005 were Rp9,830 to US$1, Rp1,225 to RMB1 and Rp1,268 to HK$1, computed by taking the average of the last buying and selling rates for transaction exchange rates published by Bank Indonesia for the year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Derivative Instruments and Hedging Activities

The Company applies PSAK No. 55, "Accounting for Derivative Instruments and Hedging Activities". PSAK No. 55 sets forth the accounting and reporting standards for derivative transactions and hedging activities, which requires that every derivative instrument (including embedded derivatives) be recognized as either an asset or a liability based on the fair value of each contract. Fair value is a computation of present value by using data and assumption which are commonly used. Based on the specific requirements for hedge accounting under PSAK No. 55, the said instruments do not qualify and are not designated as hedge activities for accounting purposes. Accordingly, changes in the fair value of such derivative instruments are recorded directly in current year statement of income.

r. Income Tax

Current tax expense is provided based on the estimated taxable income for the year. Deferred tax assets and liabilities are recognized for temporary differences between the financial and the tax bases of assets and liabilities at each reporting date. Future tax benefits, such as the carry-forward of unused tax losses, are also recognized to the extent that realization of such benefits is probable.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

s. Employee Benefits

The Company has recognized provision for employee service entitlements in accordance with Labor Law No. 13/2003 dated March 25, 2003 ("Labor Law No. 13").

Under PSAK 24 (Revised 2004), the cost of providing employee benefits under Labor Law 13/2003 is determined using the projected unit credit actuarial valuation method. Actuarial gains or losses are recognized as income or expense when the net cumulative unrecognized actuarial gains or losses for each individual plan at the end of the previous reporting year exceed 10% of the defined benefit obligation at that date. These gains or losses are recognized on a straight-line basis over the expected average remaining working lives of the employees. Further, past service costs arising from the introduction of a defined benefit plan or changes in the benefit payable of an existing plan are required to be amortized over the period until the benefits concerned become vested.

t. Segment Reporting

The Companies follow revised PSAK 5, "Segment Reporting", in the presentation of segment reporting in their financial statements. The revised PSAK 5 provides more detailed guidance for identifying reportable business segments and geographical segments. The financial information which is used by management for evaluating segment performance is presented in Note 36.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Net Income per Share

In accordance with PSAK 56, “Earnings Per Share”, net income per share is computed by dividing net income by the weighted average number of shares outstanding during the year after deducting treasury stock acquired. The net income amounts are Rp160,496 and Rp222,663 in 2006 and 2005, respectively. The weighted average number of outstanding shares is 2,507,410,000 shares for the years ended December 31, 2006 and 2005.

v. Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could be different from these estimates.

3. CASH AND CASH EQUIVALENTS

This account consists of:

	2006	2005
Cash on hand, including US$3 and RMB22 in 2006, and US$200 and HK$244 in 2005	24,007	22,855
Third parties:		
Current accounts:		
Fortis Bank - US$71,178 and Euro155	643,864	-
PT Bank Danamon Indonesia Tbk, including US$10 in 2006 and US$9 in 2005	318,297	25,612
PT Bank Lippo Tbk, including US$141 in 2006 and US$14,098 in 2005	116,469	388,162
PT Bank Mega Tbk, including US$511 in 2006	76,885	1,795
Fubon Bank - HK$3,867 in 2006 and HK$10,932 in 2005	4,491	13,861
PT Bank Mandiri (Persero) Tbk	1,241	10,363
Other banks, below Rp10,000 each, including US$328, HK$3 and RMB529 in 2006, and US$130 and Euro133 in 2005	29,190	22,207
Time deposits:		
PT Bank Mayapada Tbk	10,000	10,000
Other banks, below Rp5,000 each, including HK$3,804 in 2006	6,414	3,491
Total	**1,230,858**	**498,346**

The rupiah time deposits earned interest at annual rates ranging from 8% to 13% in 2006 and from 5.5% to 13% in 2005, while the Hong Kong dollar time deposit earned interest at annual rates ranging from 3.2% to 3.6% in 2006. As of December 31, 2006, no cash and cash equivalents are used as collateral for obligations.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

4. SHORT-TERM INVESTMENTS

The short-term investments consist of the following:

	2006	2005
Investment in managed fund -		
Related party (Note 7)	62,793	62,824
Investments in debt and equity securities		
Trading securities		
Third parties		
Floating rate notes (US$495 in 2006 and US$1,362 in 2005)	4,465	15,000
Bonds	7,482	12,154
Shares of stock	14	9
Sub-total	11,961	27,163
Total	**74,754**	**89,987**

On December 30, 2003, the Company entered into a fund management agreement with PT Ciptadana Sekuritas ("PT CS", an affiliate). Based on the agreement, which can be extended quarterly, the Company placed funds in PT CS for the purchase of investments, such as bonds and other debentures.

The floating rate notes bore interest at annual rates ranging from 6.87% to 7.5% in 2006 and from 6.75% to 7.25% in 2005.

The bonds bore interest at annual rates ranging from 11% to 18.25% in 2006 and from 9.31% to 18.25% in 2005.

In September 2005, Merrill Investment Limited (a wholly owned indirect subsidiary of the Company) entered into a "Sales and Purchase Agreement" with Nalacca B.V., a subsidiary of Dairy Farm International Group, to sell all shares of PT Hero Supermarket Tbk owned by the Company at the selling price of Rp6,351/share. The agreement arranged the sale mechanism, terms and conditions that should be fulfilled by both parties, which sale mechanism, terms and conditions have been fulfilled and carried out by both parties.

In 2005, the Company sold all of its investments in mutual funds.

The Company recognized net gain amounting to Rp5,855 from the sale of its investments in debt security in 2006, while in 2005, the Company recognized net gain amounting to Rp76,670, after deducting legal and financial cost, and transaction and other related fees, from the selling prices of its investments in debt and equity securities and mutual fund.

5. ACCOUNTS RECEIVABLE

Accounts receivable - trade consist of third-party receivables from the following types of sales:

	2006	2005
Customer sales through credit cards, including joint promotion receivable	100,565	39,360
Credit sales	9,695	359
Total	**110,260**	**39,719**

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

5. ACCOUNTS RECEIVABLE (continued)

The trade accounts receivable as of December 31, 2006 and 2005 are collectible in the first quarter of the following year.

Accounts receivable - others represent receivables from third parties and consist of the following:

	2006	2005
Rent	61,909	20,417
Others - net	45,831	35,284
Total	**107,740**	**55,701**

The management believes that all accounts receivable are collectible; therefore, no allowance for doubtful accounts has been provided in 2006 and 2005.

6. MERCHANDISE INVENTORY

Merchandise inventory consists of:

	2006	2005
Ladies' wear	60,725	48,814
Men's wear	45,353	55,961
Children's wear	41,484	34,129
Shoes	42,374	40,983
Bags, cosmetics and accessories	5,487	3,689
Toys, stationery and sports gadgets	18,180	16,706
Household appliances and bathroom accessories	48,104	42,531
Daily needs, food and beverages	529,238	433,509
Total	**790,945**	**676,322**

The management believes that the merchandise inventory value represents its net realizable value.

The Company's store in Melawai II (Pasar Blok M) was damaged by fire in August 2005. The total cost of the damaged merchandise inventory and property and equipment (Note 10) was reclassified to "Accounts Receivable - Others".

As of December 31, 2006, 40.88% of the merchandise inventory is pledged as collateral to long-term bank loans (Note 19).

The Companies carry insurance on their respective merchandise inventory from fire and other risks for Rp850,391 as of December 31, 2006. The management believes that the insurance coverage is adequate to cover the possible losses from fire and other risks.

7. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES

The details of the accounts with related parties (mainly affiliates) are as follows:

	Amount		Percentage to Total Assets/Liabilities	
	2006	2005	2006	2005
Short-term investments				
Investment in managed fund - PT Ciptadana Sekuritas	62,793	62,824	1.04	1.37

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

7. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities	
	2006	**2005**	**2006**	**2005**
Accounts receivable - others				
Others	629	-	0.01	-
Prepaid expenses				
Insurance				
Other	737	-	0.01	-
Rent				
Other	838	183	0.01	0.00
Other				
Other (below Rp1,000 each)	1,189	-	0.02	-
Due from related parties - net				
PT Lippo Securities Tbk (“PT Lipsec”)	17,616	22,454	0.29	0.49
Employees	14,398	9,355	0.23	0.20
PT Karya Dinamika Investama	1,600	1,600	0.03	0.03
Others	574	22	0.01	0.00
Total	**34,188**	**33,431**	**0.56**	**0.72**
Investments in associated companies				
Investments in:				
PT Bintang Sidoraya [a]	21,123	21,219	0.35	0.46
PT Matahari Leisure	20,845	14,687	0.34	0.32
PT Tason Mitra Prima [a]	3,395	3,395	0.06	0.07
Other	400	400	0.01	0.01
Total	**45,763**	**39,701**	**0.76**	**0.86**
Other long-term investments				
Investment in				
PT Courts Indonesia Tbk (Note 9)	**4,251**	**4,251**	**0.07**	**0.09**
Purchase of property and equipment				
PT Multipolar Corporation Tbk	**22,176**	**31,102**	**0.37**	**0.68**
Advances for purchase of property and equipment				
PT Mandiri Cipta Gemilang (Note 35)	175,228	175,228	2.89	3.83
PT Menara Perkasa Megah (Note 35)	126,868	126,868	2.10	2.77
PT Persada Mandiri Dunia Niaga (Note 35)	102,150	-	1.69	-
PT Multipolar Corporation Tbk	12,180	966	0.20	0.02
Total	**416,426**	**303,062**	**6.88**	**6.62**
Rental advances				
PT Menara Bhumimegah (Note 35)	133,920	66,960	2.21	1.46
PT Direct Power (Note 35)	88,309	-	1.46	-
Total	**222,229**	**66,960**	**3.67**	**1.46**
Other non-current assets				
Advance for computer software				
PT Multipolar Corporation Tbk	**6,182**	**-**	**0.10**	**-**
Guarantee deposit				
Other	**296**	**367**	**0.00**	**0.01**
Deferred charges				
PT Lipsec	**7,241**	**-**	**0.12**	**-**
Accrued expenses				
PT Broadband Multimedia Tbk	**-**	**1,950**	**-**	**0.08**

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

7. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities	
	2006	2005	2006	2005
Due to related parties				
Royalty - Avel Pty. Limited, Australia	-	2,424	-	0.10
Others	47	890	0.00	0.04
Total	**47**	**3,314**	**0.00**	**0.14**

(a) investees acquired through PT TPRB, a Subsidiary

The following is a summary of significant transactions (affecting revenues/income and expenses) entered into with related parties (mainly affiliates):

	Amount		Percentage to Respective Income or Expenses	
	2006	2005	2006	2005
Selling Expenses				
Rental expense (including amortization of long-term rent)				
Other	351	200	0.08	0.05
Rental income				
PT Multipolar Corporation Tbk	(1,196)	(1,544)	(2.17)	(5.70)
Net	**(845)**	**(1,344)**	**(2.09)**	**(5.65)**
Marketing Expenses				
Avel Pty. Limited, Australia	5,527	8,635	20.24	7.09
PT Cosmopolitan Indotama	5,231	14,648	19.16	12.03
PT Broadband Multimedia Tbk	629	11,500	2.30	9.44
Total	**11,387**	**34,783**	**41.70**	**28.56**
General and Administrative Expenses				
Salaries and employee benefits				
Boards of Commissioners and Directors	**18,218**	**21,539**	**3.04**	**4.35**
Insurance expense				
PT Lippo General Insurance Tbk	**1,388**	**3,557**	**4.22**	**9.17**
Consultant fees				
Others	**361**	**313**	**0.77**	**0.63**
Communication expense				
Other	**225**	**137**	**0.94**	**0.64**
Repairs and maintenance expense				
Others (below Rp1,000 each)	**1,005**	**762**	**6.58**	**5.64**
Other Income				
Interest income				
PT Ciptadana Sekuritas	10,009	11,415	20.67	29.29
PT Lipsec	1,969	1,991	4.07	5.11
Total	**11,978**	**13,406**	**24.74**	**34.40**

The amount due from PT Lipsec bore interest at the annual rate of 11% in 2006 and 2005, while the amounts due from the other related parties are mainly non-interest bearing.

As of December 31, 2006 and 2005, a part of the amounts due from employees amounting to Rp6,597 and Rp4,096, respectively, arose from the car loans provided by the Companies to their employees.

Transactions with the related parties are made under terms comparable to those that would be obtained in similar transactions with unrelated parties, except for certain amounts due from related parties which are non-interest bearing.

7. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

The relationship and nature of account balances/transactions with related parties are as follows:

No.	Related Parties	Relationship	Nature of Account Balances/Transactions
1.	PT Ciptadana Sekuritas	Affiliate	Investment in managed funds and interest income
2.	PT Lippo Securities Tbk	Affiliate	Intercompany account, deferred charges and interest income
3.	Employees	Employees	Loans
4.	PT Bintang Sidoraya	PT TPRB's associated company	Investment in shares of stock
5.	PT Karya Dinamika Investama	Affiliate	Intercompany account and investment in shares of stock
6.	PT Matahari Leisure	Company's direct associated company	Investment in shares of stock
7.	PT Tason Mitra Prima	PT TPRB's associated company	Investment in shares of stock
8.	PT Courts Indonesia Tbk	Affiliate	Investment in shares of stock
9.	PT Multipolar Corporation Tbk	Major Company Stockholder	Purchase of property and equipment, advance for purchase of property and equipment, advance for computer software, rental income, accounts receivable - others, prepaid expenses, guarantee deposit, rental expense and repair and maintenance expense
10.	PT Mandiri Cipta Gemilang PT Menara Perkasa Megah PT Persada Mandiri Dunia Niaga	Affiliate	Advance for purchase of property and equipment
11.	PT Menara Bhumimegah PT Direct Power	Affiliate	Rental advance
12.	PT Broadband Multimedia Tbk	Affiliate	Accrued expenses and payment for promotion expense, prepaid expense, communication expense and repair and maintenance expense
13.	Avel Pty. Limited, Australia	Affiliate	Royalty payable, payment for promotion expense and intercompany account
14.	PT Cosmopolitan Indotama	Affiliate	Payment for promotion expense, repair and maintenance expense and consultant fee
15.	Boards of Commissioners and Directors	Boards of Commissioners and Directors	Payment for salaries
16.	PT Lippo General Insurance Tbk	Affiliate	Insurance expense and prepaid expense

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

7. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

The account balances/transactions with other related parties (below Rp1,000 each) primarily consist of regular inter-company accounts, accounts receivable - others, prepaid expense, investment in shares of stock, guarantee deposit, rental expense, advisory fee, communication expense and repairs and maintenance expense.

8. INVESTMENTS IN ASSOCIATED COMPANIES

This account represents investments which are accounted for under the equity method and consists of the following:

	Percentage of Ownership	Carrying Value	Accumulated Equity in Undistributed Net Earnings of Investees
2006			
PT Bintang Sidoraya ("PT BSR")	40.00	21,123	162
PT Matahari Leisure ("PT ML")	50.00	20,845	19,408
PT Tason Mitra Prima ("PT TMP")	50.00	3,395	395
PT Karya Dinamika Investama ("PT KDI")	36.36	400	-
Total		**45,763**	**19,965**
2005			
PT BSR	40.00	21,219	258
PT ML	50.00	14,687	13,250
PT TMP	50.00	3,395	395
PT KDI	36.36	400	-
Total		**39,701**	**13,903**

PT BSR and PT TMP

The investments in PT BSR and PT TMP were acquired through PT Taraprima Reksabuana (a Subsidiary). PT BSR is engaged in the sale and marketing of beer while PT TMP has not started its commercial operations. The equity in net loss of PT BSR recognized in 2006 amounted to Rp96.

PT ML

The Company directly owns the 50% equity in PT ML. PT ML is engaged in the manufacture of amusement machines. The equity in net earnings of this investee amounted to Rp6,158 and Rp5,841 in 2006 and 2005, respectively.

PT KDI

PT Nadya Putra Investama, a Subsidiary, owns the 36.36% equity in PT KDI. PT KDI has not started commercial operations.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

9. OTHER LONG-TERM INVESTMENTS

This account represents investments in shares of stock which are accounted for under the cost method and consists of the following investees:

	2006	2005
PT Courts Indonesia Tbk ("PT CI")	4,251	4,251
BigboXX.com (CI) Limited ("BCL") - net	5	5
Total	**4,256**	**4,256**

PT CI

The investment in PT CI represents 4.9889% ownership. PT CI is engaged in the electronic and furniture retail business.

BCL

In December 2005, Prime Connection Limited's (a Subsidiary) investment in BCL, a company which is part of the Hutchison Whampoa Ltd. - Hong Kong business group which is engaged in the retail and distribution business, was significantly diluted due to the increase in capital stock of BCL. The Company has provided allowance amounting to Rp84,045 to anticipate the possibility of decline in the value of its investment.

10. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

		Transactions during the Year		
2006	Beginning Balance	Additions *	Disposals **	Ending Balance
Carrying Value				
Direct Ownership:				
Landrights	123,080	-	-	123,080
Buildings	1,153,695	22,864	-	1,176,559
Building renovation	169,841	86,986	31,821	225,006
Equipment and installations	1,172,394	338,354	36,227	1,474,521
Motor vehicles	21,396	4,200	3,277	22,319
Machines	233,576	32,939	4,245	262,270
Sub-total	2,873,982	485,343	75,570	3,283,755
Assets under Capital Lease -				
Motor vehicles	-	338	-	338
Total	2,873,982	485,681	75,570	3,284,093
Accumulated Depreciation				
Direct Ownership:				
Buildings	183,473	58,207	-	241,680
Building renovation	72,048	40,174	30,560	81,662
Equipment and installations	607,931	144,123	27,418	724,636
Motor vehicles	15,680	3,979	3,116	16,543
Machines	151,136	41,997	3,586	189,547
Total	1,030,268	288,480	64,680	1,254,068

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

10. PROPERTY AND EQUIPMENT (continued)

		Transactions during the Year		
2006	Beginning Balance	Additions *	Disposals **	Ending Balance
Net of accumulated depreciation	1,843,714	197,201	10,890	2,030,025
Allowance for possible loss from disposal (Note 32)	(43,381)	-	(18,484)	(24,897)
Net	**1,800,333**	**197,201**	**(7,594)**	**2,005,128**

* including reclassification from advances for purchase of property and equipment
** including assets damaged by fire

		Transactions during the Year		
2005	Beginning Balance	Additions *	Disposals **	Ending Balance
Carrying Value				
Direct Ownership:				
Landrights	123,080	-	-	123,080
Buildings	776,428	377,267	-	1,153,695
Building renovation	163,097	46,789	40,045	169,841
Equipment and installations	927,036	259,888	14,530	1,172,394
Motor vehicles	18,339	5,275	2,218	21,396
Machines	180,534	55,097	2,055	233,576
Sub-total	2,188,514	744,316	58,848	2,873,982
Assets under Capital Lease -				
Motor vehicles	650	-	650	-
Total	2,189,164	744,316	59,498	2,873,982
Accumulated Depreciation				
Direct Ownership:				
Buildings	141,965	41,508	-	183,473
Building renovation	68,905	41,666	38,523	72,048
Equipment and installations	495,817	122,422	10,308	607,931
Motor vehicles	13,833	3,884	2,037	15,680
Machines	118,082	35,019	1,965	151,136
Sub-total	838,602	244,499	52,833	1,030,268
Assets under Capital Lease -				
Motor vehicles	338	61	399	-
Total	838,940	244,560	53,232	1,030,268
Net of accumulated depreciation	1,350,224	499,756	6,266	1,843,714
Allowance for possible loss from disposal (Note 32)	(69,073)	-	(25,692)	(43,381)
Net	**1,281,151**	**499,756**	**(19,426)**	**1,800,333**

* including reclassification from assets under capital lease and advances for purchase of property and equipment
** including assets damaged by fire

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

10. PROPERTY AND EQUIPMENT (continued)

In 2006 and 2005, the Companies sold certain property and equipment at a loss, which is computed as follows:

	2006	2005
Proceeds	3,696	3,600
Net book value	(10,890)	(5,346)
Loss	**(7,194)**	**(1,746)**

The depreciation in 2006 and 2005 was charged to the following:

	2006	2005
General and administrative expenses	287,024	243,545
Other charges - others	1,390	446
Cost of sales - bakery overhead	66	569
Total	**288,480**	**244,560**

In August 2006, PT Matahari Graha Fantasi's entertainment center located at "Moro Grosir" - Purwokerto was damaged by fire. The total book value of the damaged property and equipment was reclassified to accounts receivable - others. A part of the claim amounting to Rp1,662 has been settled and the remaining balance of Rp800 is presented as part of "Accounts Receivable - Others" in 2006 (Note 5).

The Company's store in Melawai II (Pasar Blok M) was damaged by fire in August 2005. The total book value of the damaged property and equipment together with the cost of damaged merchandise inventory (Note 6) was reclassified to accounts receivable - others. The insurance claim was settled in 2005 and 2006.

The landrights represent rights ("HGB") on parcels of land located in several cities in Indonesia. These HGB expire on various dates from year 2008 to 2030. The management believes that the rights on the parcels of land, including those not used in operations (Note 13), can be renewed. The management also believes that no impairment of assets value contemplated in PSAK 48, "Impairment of Assets Value", has occurred as of December 31, 2006.

The Companies carry insurance for Rp2,233,692 as of December 31, 2006, on their respective property and equipment, except land, from fire and other risks. The management believes that the insurance coverage, which is mainly obtained from PT Asuransi Bintang Tbk and PT Lippo General Insurance Tbk (an affiliate), is adequate to cover possible losses from fire and other risks.

As of December 31, 2006, property and equipment with net carrying value of Rp354,754 are pledged as collateral to a long-term bank loan and bonds payable (Notes 19 and 21).

11. ADVANCES FOR PURCHASE OF PROPERTY AND EQUIPMENT

This account primarily represents advances for purchase of store spaces under construction to be used for the Companies' stores in Surabaya, North Sumatra and Jakarta (Note 35). In addition, this account also consists of advances for the purchase of equipment and installations in the Companies' existing stores. The advances account will be reclassified to property and equipment upon the transfer of the stores to the Companies upon completion of construction/installation or delivery of the equipment purchased.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

12. PREPAID LONG-TERM RENT - NET

This account represents the long-term rent prepayment for the Company's stores located at Cibubur, Bandung Indah Plaza, Kramat Jati, Cikarang and other locations.

As of December 31, 2006, 22.96% of the prepaid long-term rent is pledged as collateral to a fixed loan on demand from PT Bank Lippo Tbk (Note 19).

13. OTHER NON-CURRENT ASSETS

This account consists of:

	2006	2005
Guarantee deposits - net (Note 32)	98,765	97,803
Advances for computer software (Note 35)	75,492	27,317
Apartment units - net	23,878	25,395
Others	10,323	3,905
Total	**208,458**	**154,420**

a. *Guarantee Deposits*

This account mainly represents deposits for store rental made to building developers/owners and is presented net of allowance for possible loss from disposal due to stores restructuring amounting to Rp1,130 each as of December 31, 2006 and 2005 (Note 32).

b. *Apartment Units - Net*

The depreciation of apartment units charged to current operations amounted to Rp1,780 and Rp1,774 each in 2006 and 2005.

14. SHORT-TERM BANK LOANS

As of December 31, 2005, this account consisted of the following third-party loans:

PT Bank Danamon Indonesia Tbk (Note 19)	100,000
The Hongkong and Shanghai Banking Corporation Limited (Note 19)	25,000
Total	**125,000**

15. ACCOUNTS PAYABLE - TRADE

This account represents liabilities to suppliers (third parties) for merchandise purchased under the following arrangements:

	2006	2005
Direct purchase	372,507	326,058
Consignment	258,576	218,231
Total	**631,083**	**544,289**

The amounts due to suppliers as of December 31, 2006 are all payable in the first quarter of 2007.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

16. ACCOUNTS PAYABLE - OTHERS

This account primarily represents liabilities to contractors for building renovation work, including store decoration, and to other parties for marketing expenses. In addition, this account consists of the estimated liabilities relating to the Companies' customer loyalty program amounting to Rp14,855 and Rp23,183 as of December 31, 2006 and 2005, respectively.

17. TAXES PAYABLE

Taxes payable consist of:

	2006	2005
Income Tax payable (less prepayments of Rp21,073 in 2006 and Rp5,457 in 2005)	14,422	24,697
Other taxes payable:		
Income Tax		
Article 21	3,580	6,264
Article 23	39,029	16,312
Article 25	1,589	52
Article 26	2,105	612
Value Added Tax	313	362
Others	1,754	1,330
Total	**62,792**	**49,629**

A reconciliation between income before Income Tax, as shown in the consolidated statements of income, and estimated taxable income of the Company, follows:

	2006	2005
Income before Income Tax per consolidated statements of income	195,730	254,774
Loss (income) before Income Tax of the Subsidiaries - net	38,624	(14,603)
Equity in net income of investees	(6,062)	(5,841)
Income before Income Tax of the Company	228,292	234,330
Temporary differences:		
Gain on foreign exchange inclusive of loss on changes in fair value of currency swap/option - net	44,368	-
Fire loss - net	3,944	3,188
Depreciation and amortization	(42,102)	(11,953)
Utilization of allowance for stores restructuring	(20,491)	(50,259)
Provision for doubtful account	-	89,184
Realized increase in value of mutual funds	-	13,249
Others	(1,461)	(6,555)
Permanent differences:		
Employee benefits	498	494

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

17. TAXES PAYABLE (continued)

	2006	2005
Income already subjected to final tax/non-tax objects		
- Rent - net	(66,519)	(51,545)
- Interest	(31,172)	(31,785)
- Dividend	(73)	(22)
Realized/unrealized holding gain on listed shares of stock	(2,591)	(81,403)
Realized increase in value of mutual funds	-	(989)
Estimated taxable income of the Company	112,693	105,934
Tax losses carryover at beginning of year	-	(34,256)
Adjustment of 2003 tax loss by the Directorate General of Taxation	-	16,852
Estimated taxable income	**112,693**	**88,530**

The computation of Income Tax expense is as follows:

	2006	2005
Taxable income		
Company	112,693	88,530
Subsidiaries (PT MGF, PT MSE and PT TPRB in 2006, and PT MGF and PT MSE in 2005)	5,683	12,101
Income Tax expense - current		
Company	33,790	26,559
Subsidiaries (PT MGF, PT MSE and PT TPRB in 2006, and PT MGF and PT MSE in 2005)	1,705	3,595
Total	35,495	30,154
Income Tax expense (benefit) - deferred at enacted maximum tax rate of 30%		
Company		
Effects on temporary differences:		
Depreciation and amortization	12,631	3,586
Utilization of allowance for stores restructuring	6,147	15,077
Gain on foreign exchange inclusive of loss on changes in fair value of currency swap/option - net	(13,310)	-
Fire loss - net	(1,183)	(956)
Provision for doubtful account	-	(26,755)
Realized increase in value of mutual funds	-	(3,975)
Others	438	1,966

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

17. TAXES PAYABLE (continued)

	2006	**2005**
Effect on the compensation of tax losses carryover against the estimated taxable income and the adjustment of 2003 tax loss by the Directorate General of Taxation	-	10,277
Net	4,723	(780)
Subsidiaries	(1,999)	5
Income Tax expense (benefit) - deferred	2,724	(775)
Income Tax expense - current and deferred		
Company	38,513	25,779
Subsidiaries	(294)	3,600
Total	**38,219**	**29,379**

The computation of the estimated Income Tax payable (claims for tax refund) is as follows:

	2006	**2005**
Income Tax expense - current		
Company	33,790	26,559
Subsidiaries (PT MGF, PT MSE and PT TPRB in 2006, and PT MGF and PT MSE in 2005)	1,705	3,595
	35,495	30,154
Prepayments of Income Tax		
Company		
Article 23	3,433	2,198
Article 25	16,191	490
Sub-total	19,624	2,688
Subsidiaries (PT MGF and PT MSE in 2006, and PT MGF in 2005)		
Article 22	783	987
Article 23	9	4
Article 25	3,111	13,504
Sub-total	3,903	14,495
Total prepayments	23,527	17,183
Estimated Income Tax payable (claims for tax refund)		
Company	14,166	23,871
Subsidiaries		
MGF	(2,454)	(11,726)
MSE	2	826
TPRB	254	-
Net	**11,968**	**12,971**

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

17. TAXES PAYABLE (continued)

On March 28, 2006, PT MGF, a subsidiary, received tax assessment letters ("SKPKB") for the fiscal year 2004. Based on the SKPKB, PT MGF was liable for additional Income Tax (covering Income Tax Articles 4(2), 21, 23 and 26), corporate Income Tax and Value Added Tax and the related penalty, totalling Rp1,303, which were charged to expense in 2006 by offsetting against the claims for tax refund amounting to Rp2,671.

On June 24, 2005, the Company received tax assessment letters ("SKP") and tax collection letters ("STP") for the fiscal year 2003. Based on the SKP and STP, the Company was liable for additional Income Tax (covering Income Tax Articles 4(2), 21, 23 and 26) and Value Added Tax and the related penalty, totalling Rp7,284, which were charged to expense in 2005 by offsetting against the 2003 claims for tax refund. In addition, the Company's tax loss was adjusted to become Rp55,306.

The reconciliation between the Income Tax expense calculated by applying the applicable tax rate of 30% to the income before Income Tax, and the net Income Tax expense shown in the consolidated statements of income for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Income before Income Tax per consolidated statements of income	195,730	254,774
Income Tax expense at the applicable tax rate of 30%	58,719	76,432
Tax effect on permanent differences:		
Employee benefits	308	304
Income already subjected to final tax/non-tax objects - net	(30,277)	(49,839)
Effect on the adjustment of 2003 tax loss by the Directorate General of Taxation	-	5,056
Others - net	9,469	(2,574)
Net Income Tax expense per consolidated statements of income	**38,219**	**29,379**

The tax effects of significant temporary differences between financial and tax reporting and tax loss carryover which are outstanding as of December 31, 2006 and 2005 are as follows:

	2006	2005
Company:		
Deferred tax assets		
Allowance for doubtful account	32,178	32,178
Gain on foreign exchange inclusive of loss on changes in fair value of currency swap/option - net	13,310	-
Allowance for stores restructuring	10,284	16,431
Accrual for employee benefits	6,909	6,909
Allowance for possible loss on long-term investments	195	195
Unrealized holding loss on investments in debt securities	-	342
Total	62,876	56,055

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

17. TAXES PAYABLE (continued)

	2006	2005
Deferred tax liabilities		
Depreciation and amortization	75,783	63,152
Unrealized holding gain on investments in debt securities	96	-
Fire loss	-	1,183
Total	75,879	64,335
Deferred tax liabilities - net		
Company	13,003	8,280
Subsidiary (PT TPRB)	10	-
Total	13,013	8,280
Deferred tax assets - net		
Subsidiaries (PT MGF and PT MSE)	2,172	173

As of the independent auditors' report date, the Company and its Subsidiaries have not yet submitted their respective 2006 Income Tax Returns (SPT) to the Tax Office. The estimated taxable income in 2005 agrees with the amount reported in the Income Tax Return submitted by the Company to the Tax Office.

No current Income Tax expense was provided for PT NPI, PT MKN, MIFCO, MDS and MF in 2005 and/or 2006 and PT TPRB in 2005 since they are still in a tax loss position, after considering the tax losses carryover from previous years, and for PT MMS, PT MMT, PT MBD, PCL, BL, PT MDP, BRC, MI and MTL in 2005 and/or 2006 since they have not started their operations.

18. ACCRUED EXPENSES

This account consists of:

	2006	2005
Salaries and employee benefits (Note 31)	102,656	95,178
Interest	58,098	10,332
Marketing and supplies	29,521	24,492
Electricity and energy	28,131	28,399
Rental	27,037	114,500
Others	53,020	54,217
Total	**298,463**	**327,118**

The accrued rental in 2005 includes the amount of Rp50,939 representing the effect of the difference between the fixed exchange rates and the balance sheet exchange rates used to convert the U.S. dollar rentals to rupiah.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

19. LONG-TERM BANK LOANS

This account consists of the following third-party loans:

	2006	2005
PT Bank Danamon Indonesia Tbk (”Danamon”)	160,000	-
PT Bank Negara Indonesia Tbk (”BNI”)	126,000	-
PT Bank Lippo Tbk (“Lippo”)	50,000	-
The Hongkong and Shanghai Banking Corporation Limited (“HSBC”), including Rp23,500 from reducing balance loan	33,500	-
PT Bank Mandiri (Persero) Tbk (“Mandiri”)	-	249,614
Sub-total	369,500	249,614
Less current maturities - HSBC	15,600	-
Long-term portion	**353,900**	**249,614**

Danamon

On June 25, 2004, the Company obtained from Danamon a revolving working capital loan facility amounting to Rp100,000, foreign exchange transaction facility as a Pre-Settlement of Exposure on Foreign Exchange (PSE-FX)/Settlement Risk (SR) with a maximum PSE-FX amount of US$400 and maximum SR amount of US$5,000 per day and letter of credit facility with a maximum amount of US$5,000 for sight L/C sub limit T/R and or usance L/C (“Omnibus Trade Finance - OTF Facility”). The loan facilities were originally available up to June 2005 but were rolled over up to August 2006. In September 2006, the revolving working capital loan facility was again rolled over up to June 30, 2008; accordingly, the loan facility was reclassified to “Long-term Bank Loans” in 2006. The PSE-FX facility has been increased to US$1,000 with a maximum SR amount of US$5,000 per day and the OTF Facility with a maximum amount of US$5,000 for sight L/C sub limit T/R and or usance L/C has been changed to Rp25,000. The facilities are available up to June 30, 2007. The loans are collateralized by merchandise inventory with retail value of not less than 110% of the total facilities.

On September 8, 2006 and September 19, 2006, the Company obtained from Danamon two revolving working capital loan facilities amounting to Rp125,000 and Rp110,000, respectively. The loan facilities are available up to June 30, 2008. The loans from the facilities are unsecured.

As of December 31, 2006, the unutilized portions of the loan facilities amount to US$6,000 and Rp200,000.

BNI

On September 21, 2006, the Company obtained from BNI a term loan facility with maximum amount of Rp500,000. The facility will be available for drawdowns for one year from the date of a General Bondholders’ Meeting of Matahari Bonds I, Matahari Bonds II and Matahari Syari’ah Bonds, to approve the changes in trustee. The loan from the facility will mature on June 20, 2011. The loan will initially bear fixed interest equal to 14% per annum, which rate may be reviewed, and is subject to adjustment, by BNI, on a monthly basis. The loan is unsecured.

As of December 31, 2006, the unutilized portion of the loan facility amounts to Rp374,000.

19. LONG-TERM BANK LOANS (continued)

Lippo

On March 15, 2006, the Company obtained from Lippo a Fixed Loan on Demand ("PTX-OD") facility amounting to Rp200,000. The loan facility is available up to March 2008. The loan from the facility is collateralized by merchandise inventory with retail value of not less than 70% of the total facility and a statement to transfer the Company's rent right with coverage ratio of 40% if the Company defaults.

On June 7, 2006, the Company also obtained from Lippo a Fixed Loan on Demand 2 ("PTX-OD" 2) facility amounting to Rp60,000. The loan facility is available up to March 2008.

As of December 31, 2006, the unutilized portions of the loan facilities amount to Rp210,000.

HSBC

On March 15, 2005, PT Matahari Graha Fantasi ("MGF"), Subsidiary, obtained from HSBC revolving working capital loan and overdraft facilities with a maximum aggregate amount of Rp30,000. In 2006, the facilities were converted into a Reducing Balance Loan Facility and the loan is payable in 22 monthly installments in the amount of Rp1,300 each starting August 2006 and Rp1,400 for the last installment on June 2008. Accordingly, the loan balance amounting to Rp23,500 was reclassified to "Long-term Bank Loans" as of December 31, 2006. The loan is collateralized by a *letter of comfort* issued by the Company and LAI Asia Pte.Ltd. (other MGF shareholder) proportionally based on their ownership percentage in MGF. HSBC will impose the Fiduciary Transfer of Ownership over MGF's machinery for the outstanding amount of the Reducing Balance Loan upon MGF's first failure to pay the monthly installment on the Reducing Balance Loan.

On September 19, 2006, the Company obtained a working capital loan facility from HSBC with a principal amount of Rp150,000 (or its U.S. dollar equivalent up to a maximum of US$15,000). The facility is available for drawdowns until September 19, 2008 and will mature two years after the first drawdown. A condition precedent to the loan drawdown under the facility is the issue of the U.S. Dollar denominated Notes (Note 20). The loan is unsecured.

As of December 31, 2006, the unutilized portion of the loan facility amounts to Rp140,000.

Mandiri

In 2003, the Company obtained a revolving working capital loan facility amounting to Rp250,000 from Mandiri. The loan facility, which was originally available up to July 2004, was extended up to July 2005. In 2005, the facility was again extended up to July 2008. The loan is collateralized by merchandise inventory with retail value of not less than 110% of the total facility and certain building.

As of December 31, 2006, the unutilized portion of the loan facility amounts to Rp250,000.

For all the above facilities, those loans bear interest at annual rates ranging from 11.5% to 16.4% in 2006 and from 10.4% to 16.4% in 2005. The Company and Subsidiary are required to comply with certain conditions, such as maintaining specific financial ratios. As of December 31, 2006, all of these financial ratios have been met.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

20. NOTES PAYABLE

The balance of the notes payable as of December 31, 2006 is computed as follows:

Nominal value (US$150,000)	1,353,000
Unamortized discount and notes issuance cost	(62,947)
Net	**1,290,053**

On October 6, 2006, Matahari Finance B.V., a wholly owned subsidiary, issued Notes with a total face value of US$150,000 (“the Notes”) in US$100 denomination at the price of 98.731%, with the DB Trustees (Hong Kong) Limited as the trustee and UBS AG and Credit Suisse Securities (Europe) Limited as Joint Lead Managers.

The Notes will mature on October 6, 2009 and bear interest at the rate of 9.5% per annum. The proceeds from the Notes will be used for debt repayment, capital expenditures, working capital and other general corporate purposes. The Notes are guaranteed by the Company and have no collateral. At any time on or after October 6, 2007, the issuer may redeem the Notes, in whole or in part, at the pre-determined prices.

The Notes have been rated “B1” by Moody’s Investor Service, Inc. and “B+” by Standard & Poor’s Rating Group, a division of Mc Graw-Hill Companies, Inc. and have been listed on the Singapore Stock Exchange (“SGX-ST”).

The amortization of notes issuance cost charged to 2006 operations amounted to Rp5,043.

21. BONDS PAYABLE

The balance of bonds payable is computed as follows:

	2006	**2005**
First Matahari Bonds in Year 2002 with Fixed Rates	450,000	450,000
Second Matahari Bonds in Year 2004 with Fixed Rates	300,000	300,000
First Matahari Syariah Ijarah Bonds in Year 2004	150,000	150,000
Nominal value	900,000	900,000
Treasury bonds	(54,000)	(54,000)
Balance	846,000	846,000
Unamortized bonds issuance cost	(10,621)	(17,236)
Net	835,379	828,764
Less bonds due within one year:		
First Matahari Bonds in Year 2002 with Fixed Rates	450,000	-
Treasury bonds	(54,000)	-
Unamortized bonds issuance cost	(2,255)	-
Current Portion - Net	393,745	-
Long-term Portion - Net	**441,634**	**828,764**

21. BONDS PAYABLE (continued)

First Matahari Bonds in Year 2002 with Fixed Rates

On September 25, 2002, the Company issued "Obligasi I Matahari Putra Prima Tahun 2002 dengan Tingkat Bunga Tetap" ("First Matahari Bonds"), with PT Bank Negara Indonesia (Persero) Tbk as the trustee. The bonds have a total face value of Rp450,000 in Rp50 denomination and will mature on September 25, 2007. Thus, as of December 31, 2006, First Matahari Bonds in Year 2002 were reclassified to "Current Maturities of Long-Term Debts - Bonds Payable - Net". The bonds had an $_{id}$AA- (Stable Outlook) rating given by PT Pemeringkat Efek Indonesia ("Pefindo") at the time the bonds were issued. The rating for the year 2006/2007 by Pefindo is $_{id}$A (Stable Outlook).

The Company's bonds listing on the Surabaya Stock Exchange (BES) was approved on the basis of the BES Decision Letter No. JKT-033/LIST-EMITEN/BES/IX/2002 dated September 26, 2002.

The bonds bear fixed interest at 17.875% per annum for 5 years starting September 25, 2002. PT Kustodian Sentral Efek Indonesia ("KSEI"), acting as the payment agent, pays quarterly interest on the bonds starting December 25, 2002 until September 25, 2007.

The bonds are collateralized by certain landrights, buildings and equipment with fair value representing 125% of the total face value of the bonds.

The proceeds of the bonds had been earmarked to be used for the opening of new stores and renovation of the existing ones and for the Company's working capital requirements, such as for the purchase of merchandise inventory.

Based on the Bonds Indenture, the Company is required to comply with certain conditions, such as maintaining several financial ratios. As of December 31, 2006, all of the financial ratios have been met.

The amortization of bonds issuance cost charged to 2006 and 2005 operations amounted to Rp3,105 each.

If the bonds' annual rating decreases below $_{id}$A-, the Company should maintain a sinking fund in that year and in the following years for as long as the rating remains at below $_{id}$A-, in amounts determined as follows:

- First year, 10% of the bonds' face value; or
- Second year, cumulative 15% of the bonds' face value; or
- Third year, cumulative 20% of the bonds' face value; or
- Fourth year, cumulative 30% of the bonds' face value; or
- Fifth year, cumulative 40% of the bonds' face value.

Second Matahari Bonds in Year 2004 with Fixed Rates and First Matahari Syariah Ijarah Bonds in Year 2004

On May 11, 2004, the Company issued "Obligasi II Matahari Putra Prima Tahun 2004 dengan Tingkat Bunga Tetap" ("Second Matahari Bonds") and "Obligasi Syariah Ijarah I Matahari Putra Prima Tahun 2004" ("First Matahari Syariah Ijarah Bonds"), with PT Bank Negara Indonesia (Persero) Tbk as the trustee. The bonds have total face values of Rp300,000 and Rp150,000, respectively, in Rp50 denomination and will mature on May 11, 2009. The ratings given by Pefindo were $_{id}$A+ (Stable Outlook) for the Second Matahari Bonds and $_{id}$A+(sy) (Stable Outlook) for the First Matahari Syariah Ijarah Bonds at the time the bonds were issued. The ratings for the year 2006/2007 by Pefindo for the bonds are $_{id}$A (Stable Outlook) and $_{id}$A(sy) (Stable Outlook), respectively.

The Company's bonds listing on the Surabaya Stock Exchange (BES) was approved on the basis of the BES Decision Letter No. JKT-007/LIST-EMITEN/BES/V/2004 dated May 10, 2004.

21. BONDS PAYABLE (continued)

Second Matahari Bonds in Year 2004 with Fixed Rates and First Matahari Syariah Ijarah Bonds in Year 2004 (continued)

The Second Matahari Bonds bear fixed interest at 13.8% per annum for 5 years starting May 11, 2004. KSEI, acting as the payment agent, pays quarterly interest on the bonds starting August 11, 2004 until May 11, 2009.

Each bondholder of First Matahari Syariah Ijarah is entitled to "Ijarah fee" at 13.8% per annum. The fee shall be paid for 5 years starting May 11, 2004. KSEI, acting as the payment agent, pays quarterly Ijarah fee starting August 11, 2004 until May 11, 2009.

The bonds are collateralized by certain landrights and buildings with fair value representing 115% of the total face value of the bonds.

The proceeds of the Second Matahari Bonds had been earmarked to be used for the opening of new stores and the renovation of the existing ones and for the Company's working capital requirements, such as for the purchase of merchandise inventory.

The proceeds of the First Matahari Syariah Ijarah Bonds had been earmarked to be used for the lease of store spaces which had been determined in "Akad Wakalah".

Based on the Bonds Indenture, the Company is required to comply with certain conditions, such as maintaining several financial ratios. As of December 31, 2006, all of the financial ratios have been met.

The amortization of bonds issuance cost charged to 2006 and 2005 operations amounted to Rp3,510 each.

If the bonds' annual rating decreases below $_{id}$A- for the Second Matahari Bonds and $_{id}$A-(sy) for the First Matahari Syariah Ijarah Bonds, the Company should maintain a sinking fund in that year and in the following years for as long as the rating remains at below $_{id}$A- and $_{id}$A-(sy), respectively, in amounts determined as follows:

- First year, 10% of the face value of the Second Matahari bonds or First Matahari Syariah Ijarah bonds; or
- Second year, cumulative 15% of the face value of the Second Matahari bonds or First Matahari Syariah Ijarah bonds; or
- Third year, cumulative 20% of the face value of the Second Matahari bonds or First Matahari Syariah Ijarah bonds; or
- Fourth year, cumulative 25% of the face value of the Second Matahari bonds or First Matahari Syariah Ijarah bonds; or
- Fifth year, cumulative 30% of the face value of the Second Matahari bonds or First Matahari Syariah Ijarah bonds.

On November 30, 2006, the Company held the General Bondholders' Meeting of First Matahari Bonds in Year 2002, Second Matahari Bonds in Year 2004 and First Matahari Syariah Ijarah Bonds in Year 2004 to approve the changes in the Bonds Indenture and to accept the resignation of PT Bank Negara Indonesia (Persero) Tbk ("BNI") as trustee and bond collateral agent, and approve the appointment of PT Bank Mega Tbk to replace BNI as trustee and bond collateral agent.

22. SWAP AND OPTION TRANSACTIONS

a. *Cross Currency Swap*

On October 20, 2006, Matahari Finance B.V. ("MF"), a wholly owned subsidiary, entered into a Cross Currency Rate Swap from U.S. dollar to Japanese yen with BNP Paribas, Paris ("BNP") amounting to US$75,000. At the end of the contract period on October 6, 2009, MF will buy back the US$75,000 at the same rate. MF will receive 9.5% interest per annum in U.S. dollar and pay 5.38% per annum interest in Japanese yen semiannually, every April 6 and October 6 up to the end of the contract period. The contract is guaranteed by the Company.

The gain from the cross currency swap amounting to Rp4,879 (equivalent to US$541) was credited to profit and loss and is presented as part of "Other Income (Charges)" in the consolidated statements of income.

b. *Option*

i. On October 20, 2006, the Company entered into an Options Foreign Currency Contract with JP Morgan, Singapore ("JPM"). Based on the contract, at termination date on October 6, 2009 the Company and JPM may execute the following:
   - The Company has the right to buy JPY5,915,000 at the strike price of Rp77.5 per JPY1 (in full amount) from JPM.
   - JPM has the right to buy JPY5,915,000 at the strike price of Rp98 per JPY1 (in full amount) from the Company.
   - JPM has the right to sell JPY5,915,000 at the strike price of Rp76 per JPY1 (in full amount) to the Company.

   Based on the contract, the Company has to pay a fixed premium of 4.54% per annum from the notional amount of JPY5,915,000 payable semiannually, every April 6 and October 6 up to the end of the contract period.

ii. On October 20, 2006, the Company also entered into an Options Foreign Currency Contract with JPM, Singapore. Based on the contract, at termination date on October 6, 2009 the Company and JPM may execute the following:
   - The Company has the right to buy JPY2,957,500 at the strike price of Rp77.4 per JPY1 (in full amount) from JPM.
   - JPM has the right to buy JPY2,957,500 at the strike price of Rp98 per JPY1 (in full amount) from the Company.
   - JPM has the right to sell JPY2,957,500 at the strike price of Rp76 per JPY1 (in full amount) to the Company.

   Based on the contract, the Company has to pay a fixed premium of 4.54% per annum from the notional amount of JPY2,957,500 payable semiannually, every April 6 and October 6 up to the end of the contract period.

iii. On November 9, 2006, the Company entered into another Options Foreign Currency Contract with JPM, Singapore. Based on the contract, at termination date on October 6, 2009 the Company and JPM may execute the following:
   - The Company has the right to buy JPY8,850,000 at the strike price of Rp77.4 per JPY1 (in full amount) from JPM.
   - JPM has the right to buy JPY8,850,000 at the strike price of Rp98 per JPY1 (in full amount) from the Company.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

22. SWAP AND OPTION TRANSACTIONS (continued)

b. *Option (continued)*

- JPM has the right to sell JPY8,850,000 at the strike price of Rp76 per JPY1 (in full amount) to the Company.

Based on the contract, the Company has to pay a fixed premium of 4.23% per annum from the notional amount of JPY8,850,000 payable semiannually, every April 6 and October 6 up to the end of the contract period.

The net loss from the above option contracts amounting to Rp59,476 (equivalent to US$6,579) was charged to profit and loss and is presented as part of "Other Income (Charges)" in the consolidated statements of income.

23. LONG-TERM DEBTS - OBLIGATIONS TO NON-FINANCIAL INSTITUTIONS

The details of long-term debts relating to obligations to non-financial institutions (rentals payable) are as follows:

	2006	2005
PT Trikarya Idea Sakti	11,438	11,438
PT Griya Mentari Dewata	7,350	7,350
PT Matahari Mas Sejahtera	3,950	4,950
PT Bogor Internusa Graha Hotel (US$429)	3,871	4,218
Others (US$65)	587	641
Total	**27,196**	**28,597**
Less current maturities:		
PT Griya Mentari Dewata	7,350	7,350
PT Matahari Mas Sejahtera	3,950	4,950
Others (US$65)	587	640
Total	**11,887**	**12,940**
Long-term portion	**15,309**	**15,657**

The Company has discontinued the payments of debts related to stores which were damaged by fire. The payments will be continued by the time the stores are reopened.

24. CAPITAL STOCK

Starting October 11, 2000, the Company's shares have been traded on scripless basis on the stock exchanges.

The Company's stockholders as of December 31, 2006 and 2005 are as follows:

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

24. CAPITAL STOCK (continued)

	Number of Shares Issued and Fully Paid	Percentage of Ownership	Amount
2006			
PT Multipolar Corporation Tbk	1,256,237,780	50.1010	628,119
Goldman Sachs International	221,183,350	8.8212	110,592
PT Lippo E-Net Tbk	170,428,000	6.7970	85,214
Others - public (below 5% each)	859,560,870	34.2808	429,780
Sub-total	2,507,410,000	100.0000	1,253,705
Treasury stock	198,584,000		99,292
Total	**2,705,994,000**		**1,352,997**
2005			
PT Multipolar Corporation Tbk	1,256,237,780	50.1010	628,119
PT Lippo E-Net Tbk	170,428,000	6.7970	85,214
Others - public (below 5% each)	1,080,744,220	43.1020	540,372
Sub-total	2,507,410,000	100.0000	1,253,705
Treasury stock	198,584,000		99,292
Total	**2,705,994,000**		**1,352,997**

As of December 31, 2006 and 2005, no Company stockholders are part of the Company's management.

In the Company's Stockholders' Extraordinary Meeting held on January 8, 2002 the minutes of which are notarized under deed No. 19 dated January 8, 2002 of Ny. Poerbaningsih Adi Warsito, S.H., the stockholders resolved to, among others, approve the buy-back of the Company's shares held by the public in accordance with Capital Market Supervisory Agency Regulation No. XI.B.2 during an 18-month period, under the following conditions:

- The maximum total buy-back shares shall be 270,599,400 shares or 10% of the Company's issued and fully paid capital stock.
- The maximum fund for the shares buy-back program is Rp270,600, which includes transaction fee, broker's fee and other expenses that may be incurred arising from the buy-back transactions.

For the execution of the shares buy-back, the Company appointed PT Ciptadana Sekuritas, an affiliate, as the broker.

The Company's shares buy-back program ended on July 9, 2003. As of this date, the Company had bought 198,584,000 (73.39% of maximum total buy-back shares allowed) of its shares from the market for Rp123,236.

Based on the minutes of the Stockholders' Extraordinary Meeting as notarized under Deed No. 77 dated December 27, 2006 of Ny. Poerbaningsih Adi Warsito, S.H., the stockholders approved the issuance, through a limited public offering IV to stockholders with preemptive rights, of 2,005,928,000 (at Rp500 per share) new shares and a maximum of 877,593,500 Series I warrants that will be given for free as an incentive to the stockholders that exercise their preemptive rights. Each 16 new shares purchased from the limited public offering IV will get 7 Series I warrants which can be used to buy new share at the price of Rp900 per share. The warrants can be exercised starting April 11, 2008 up to July 12, 2010. As of December 31, 2006, the stockholders have not exercised their preemptive rights on the new shares (Note 38).

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

25. ADDITIONAL PAID-IN CAPITAL - NET

The details of this account as of December 31, 2006 and 2005 are as follows:

Premium on capital stock from:	
- First Limited Offering of Rights to the stockholders	30,067
- Conversion of bonds into shares of stock	144
Stock issuance costs	(36,567)
Net	**(6,356)**

Stock issuance costs arising from the Company's First, Second and Third Limited Offerings of Rights to the stockholders amounted to Rp1,312, Rp2,475 and Rp32,780, respectively.

26. NET SALES

This account mainly represents sales in the Companies' stores which include Matahari Super Ekonomi and family entertainment centers known as Time Zone.

In 2006 and 2005, the revenue from consignment sales amounted to Rp2,905,942 and Rp2,564,884, respectively, and the related cost due to consignors amounted to Rp2,042,222 and Rp1,807,893, respectively.

Sales discount in 2006 and 2005 amounted to Rp1,916,609 and Rp1,749,524, respectively.

Department store sales for 2006 and 2005 amounted to Rp4,421,559 and Rp4,097,849, respectively, and supermarket/hypermarket sales for 2006 and 2005 amounted to Rp3,688,849 and Rp2,469,600, respectively. Family entertainment center sales for 2006 and 2005 amounted to Rp343,484 and Rp324,657, respectively. Other sales for 2006 and 2005 amounted to Rp33,762 and Rp23,946, respectively.

There were no individual sales which exceeded 10% of net sales in 2006 and 2005.

27. COST OF SALES

The details of cost of sales are as follows:

	2006	2005
Merchandise inventory at beginning of year	676,322	410,284
Net purchases	6,280,796	5,162,388
Merchandise inventory available for sale	6,957,118	5,572,672
Merchandise inventory at end of year	790,945	676,322
Cost of sales before bakery overhead	6,166,173	4,896,350
Bakery overhead	11,194	8,711
Cost of Sales	**6,177,367**	**4,905,061**

There were no purchases of merchandise inventory from any one supplier which exceeded 10% of net sales in 2006 and 2005.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

28. SELLING EXPENSES

The details of selling expenses are as follows:

	2006	2005
Rental - net of rental income of Rp55,197 in 2006 and Rp30,624 in 2005	442,183	395,930
Supplies	74,227	63,440
Credit card charges	34,313	26,028
Marketing - net	27,306	121,778
Total	**578,029**	**607,176**

29. GENERAL AND ADMINISTRATIVE EXPENSES

The details of general and administrative expenses are as follows:

	2006	2005
Salaries and employee benefits (Note 31)	599,060	494,696
Depreciation (Note 10)	287,024	243,545
Electricity and energy	207,513	148,303
Consultant fees	46,846	49,619
Taxes and licenses	38,070	27,705
Travelling	33,661	31,403
Insurance	32,895	38,794
Telephone and telex	23,844	21,416
Repairs and maintenance	15,279	13,503
Amortization	13,353	6,711
Others	33,346	19,373
Total	**1,330,891**	**1,095,068**

30. INTEREST EXPENSE AND OTHER FINANCING COST - NET

This account consists of:

	2006	2005
Interest expense and other financing cost - net	233,929	151,461
Interest income	(57,260)	(38,970)
Net	**176,669**	**112,491**

31. EMPLOYEE BENEFITS

The Companies recognized provision for termination, gratuity and compensation benefits of employees amounting to Rp24,291 and Rp18,059 in 2006 and 2005, respectively. The provision was determined based on Labor Law No. 13/2003 dated March 25, 2003. Such benefits are included as part of general and administrative expenses (salaries and employee benefits) in the consolidated statements of income.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

31. EMPLOYEE BENEFITS (continued)

The above provisions were determined based on actuarial calculations as of December 31, 2006 and 2005, prepared by PT Dayamandiri Dharmakonsilindo, an independent actuary, adopting the Projected- Unit-Credit method with the following assumptions:

		2006	2005
Annual discount rate	:	10.5%	13%
Annual salary increase	:	9%	11%
Table of mortality	:	Commissioners Standard Ordinary 1980 (CSO'80)	Commissioners Standard Ordinary 1980 (CSO'80)
Disability rate	:	10% of mortality rate	10% of mortality rate
Retirement rate	:	100% at normal retirement age	100% at normal retirement age
Resignation rate	:	2%-9% per annum at age 20 up to age 54	2%-9% per annum at age 20 up to age 54
Normal retirement age	:	55 years old	55 years old

The cost of employee benefits based on the actuarial calculations as of December 31, 2006 and 2005 consists of the following:

	2006	2005
Current service cost	11,822	9,381
Interest cost	13,449	10,144
Amortization of unrecognized actuarial loss	482	353
Amortization of unrecognized past service cost - non-vested benefits	2,562	2,513
Gain on curtailment and settlement	-	(700)
Net	28,315	21,691
Termination cost	10,353	17,702
Total	**38,668**	**39,393**

Movements in the liability for employee benefits for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Balance at beginning of year	79,642	61,583
Provision during the year	38,668	39,393
Payments during the year	(14,377)	(21,334)
Balance at end of year	**103,933**	**79,642**

32. STORES RESTRUCTURING PLAN

The Companies continuously review and maximize the Companies' operations to generate income, review the appropriateness of stores location and demographic condition, close down some non-value added stores, reduce the spaces occupied by some stores to enhance operating efficiency. In connection with these activities, the Companies made provisions, such as allowance for possible loss from disposal of property and equipment, reserve for stores restructuring, allowance for possible loss on non-operating assets (prepaid long-term rent on the store spaces damaged by fire), allowance for possible loss of guarantee deposits and allowance for possible loss from non-utilization/recovery of prepaid long-term rent on other stores.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

32. STORES RESTRUCTURING PLAN (continued)

The above amounts were charged to "Provision for Stores Restructuring" and the corresponding credits are presented either as contra accounts to the appropriate assets or to "Reserve for Stores Restructuring", whichever is applicable.

The balances of the "Reserve for Stores Restructuring" account amounted to Rp2,017 as of December 31, 2005 and of the contra accounts amounted to Rp49,452 and Rp67,936 as of December 31, 2006 and 2005, respectively (Notes 10, 12 and 13).

33. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Companies' assets and liabilities in foreign currencies as of December 31, 2006 and 2005 are as follows:

		Amount in Foreign Currencies	Rupiah Equivalent
December 31, 2006			
Assets			
Cash and cash equivalents	US$	72,171	650,994
	Euro	155	1,838
	HK$	7,674	8,905
	RMB	551	642
Short-term investments	US$	495	4,465
Total assets			**666,844**
Liabilities			
Current maturities of long-term debts			
Obligations to non-financial institutions	US$	65	587
Long-term debts			
Notes payable	US$	150,000	1,353,000
Obligations to non-financial institutions	US$	429	3,871
Other non-current liabilities	US$	1,918	17,300
Total liabilities			**1,374,758**
December 31, 2005			
Assets			
Cash and cash equivalents	US$	14,437	141,909
	Euro	133	1,551
	HK$	11,176	14,170
Short-term investments	US$	1,362	13,394
Other non-current assets - guarantee deposits	US$	1,560	15,335
Total assets			**186,359**

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

33. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (continued)

		Amount in Foreign Currencies	Rupiah Equivalent
December 31, 2005			
Liabilities			
Accrued expenses	US$	5,682	55,854
Current maturities of long-term debts			
Obligations to non-financial institutions	US$	65	639
Long-term debts			
Obligations to non-financial institutions	US$	429	4,218
Other non-current liabilities	US$	3,168	30,215
Total liabilities			**90,926**

34. DISTRIBUTION OF INCOME AND APPROPRIATION OF RETAINED EARNINGS

In the Company's Stockholders' Annual General Meeting held on March 31, 2006 the minutes of which are notarized under deed No. 42 of Ny. Poerbaningsih Adi Warsito, S.H., the stockholders resolved to, among others, declare cash dividend amounting to Rp25 per share, payable to stockholders listed in the stockholders' register as of April 28, 2006 and to appropriate Rp2,000 from retained earnings as a general reserve.

In the Company's Stockholders' Annual General Meeting held on May 20, 2005 the minutes of which are notarized under deed No. 39 of Ny. Poerbaningsih Adi Warsito, S.H., the stockholders resolved to, among others, declare cash dividend amounting to Rp14 per share, payable to stockholders listed in the stockholders' register as of June 17, 2005 and to appropriate Rp2,000 from retained earnings as a general reserve.

35. COMMITMENTS

a. In March 2001, the Company entered into a license agreement with IGA, Inc. ("IGA"), whereby IGA authorized and licensed the Company to use the IGA trademarks (1) to identify the Company as an IGA member, (2) in connection with the distribution and promotion of products with the quality standards established by IGA, solely in the Company's stores, and rendering of services relating to IGA systems in those stores, and (3) in connection with the procurement and labeling of products with the quality standards established by IGA.

   On the same date, the Company entered into a service agreement with IGA to obtain service and support from IGA, including guidance and counsel, international public relations assistance, and attendance at major key events.

b. In June 2002, the Company entered into a property agency agreement with PT Dwimustika Mas ("PT DM") as a franchisee of Coldwell Banker USA, to assist the Company in conducting feasibility studies and identifying new potential areas for future stores development.

   In December 2004, based on a proposal from PT DM as a right recipient from PT Mandiri Cipta Gemilang, the Company agreed to purchase store space with a floor area of 19,400 square meters located in Jakarta for Rp206,150. As required in the sale-purchase agreement, the Company made advance payment amounting to Rp175,228, which is presented as part of "Advances for Purchase of Property and Equipment" as of December 31, 2006 and 2005. As of December 31, 2006, the store has not opened yet.

35. COMMITMENTS (continued)

c. In December 2002, the Company entered into a management agreement with PT Matahari Graha Fantasi ("PT MGF"), a Subsidiary, whereby the Company agreed to provide management consultation services to PT MGF. The Company earns an annual management fee as compensation, which is computed at a certain percentage of the gross revenue of PT MGF. The agreement is effective for a 12-year period starting January 1, 2003.

   The related reciprocal management fee income and expense amounting to Rp2,419 and Rp3,925 for the years ended December 31, 2006 and 2005, respectively, have been eliminated in the consolidated financial statements.

d. In January 2003, PT MGF entered into a "Business System License Agreement" with Avel Pty. Limited, Australia (licensor) whereby the licensor granted PT MGF the exclusive right in Indonesia to use the "Timezone Business System". The licensor earns an annual royalty as compensation, which is computed at a certain percentage of the gross revenue of PT MGF. The agreement is effective for a 12-year period starting January 1, 2003.

   The royalty fees charged to current operations as part of "Selling Expenses" (Marketing) amounted to Rp5,527 and Rp8,635 in 2006 and 2005, respectively.

e. In August 2004, the Company entered into a lease agreement with PT Donindo Menara Utama covering lease of store space with a floor area of 9,000 square meters in Banjarmasin. The lease period covers 11 years to start at the opening day of the store and is extendable. As required in the agreement, the Company made rental deposit amounting to Rp1,500 which is presented as part of "Other Non-current Assets" (Guarantee Deposits) as of December 31, 2006 and 2005. The store has not opened yet as of December 31, 2006.

f. In December 2004, the Company entered into a "Software License Agreement" with PT Accenture whereby PT Accenture granted to the Company a non-transferable and non-exclusive license to utilize the licensed software program for the entire duration of the agreement. The agreement commenced in December 2004 and shall be perpetual unless terminated by PT Accenture. In addition, the Company entered into a "Consulting Service Agreement" whereby PT Accenture will assist the Company in implementing selected "Retek" application modules. The service is for 18 months. The Company shall pay service fee as compensation for the services over a certain agreed period. As of December 31, 2006, the Company has paid US$1,950 for the license fee and US$3,602 for the consultation, which are presented as part of "Other Non-current Assets (Advance for Computer Software)".

g. In June 2005, the Company entered into sale-purchase agreements with PT Menara Perkasa Megah to purchase store spaces with floor areas totalling 14,828 square meters, located in Surabaya, for Rp126,868. As required in the sale-purchase agreements, the Company made payments totalling Rp126,868, which are presented as part of "Advances for Purchase of Property and Equipment" as of December 31, 2006 and 2005. The store has not opened yet as of December 31, 2006.

h. In October 2005, the Company entered into sale-purchase agreements with PT Persada Mandiri Dunia Niaga to purchase store spaces with floor areas totalling 13,899 square meters, located in North Sumatra, for Rp102,150. As required in the sale-purchase agreements, the Company made payments totalling Rp102,150, which are presented as part of "Advances for Purchase of Property and Equipment" as of December 31, 2006. The store has not opened yet as of December 31, 2006.

35. COMMITMENTS (continued)

i. In October 2005, the Company entered into a lease agreement with PT Menara Bhumimegah covering lease of store space with a floor area of 6,200 square meters in Jakarta. The lease period covers 20 years to start at the opening day of the store and is extendable. As required in the agreement, the Company has made rental payment amounting to Rp133,920 as of December 31, 2006, which is presented as part of “Rental Advances”. The store has not opened yet as of December 31, 2006.

j. In February 2006, the Company entered into an agreement with PT Direct Power (“PT DP”) to use store space in “Bellanova Country Mall” free of rental charge, with a floor area of 9,205 square meters in Bogor. The period to use the space covers 1 year to start at the opening day of the store and the Company has an option to lease or purchase the store space upon completing the one-year period. Subsequently, in December 2006, the Company entered into a lease agreement with PT DP to lease the store space. The lease period covers 25 years to start on July 6, 2007 with the total rental charge of Rp88,309. As required in the agreement, the Company has made the rental payment amounting to Rp88,309 as of December 31, 2006, which is presented as part of “Rental Advances”.

k. In September 2006, the Company obtained a trade facility amounting to US$10,000 (Import Facility - US$10,000 and Guarantee Facility - US$10,000, with combined limit of US$10,000) and a cross currency swap facility amounting to US$29,000 from The Hongkong and Shanghai Banking Corporation Limited (“HSBC”). The trade facility is to be used for payment of imported goods and has a maximum tenor of 90 days. The trade facility also includes a guarantee tranche with a maximum tenor of one year. The cross currency swap facility is to be used to hedge in part the Company’s currency exposure under the Notes (Note 20). Interest is payable on amounts drawn under certain tranches of the trade facility at a floating rate equal to the Singapore Interbank Offered Rate (SIBOR) plus 1.75% per annum, which may be increased from time to time at HSBC’s discretion. The facilities expire on June 30, 2007 and are unsecured. Based on the agreement, the Company is required to comply with certain conditions, such as maintaining specific financial ratios. As of December 31, 2006, all of these financial ratios have been met.

   As of December 31, 2006, all facilities have not been used by the Company.

l. In December 2006, the Company entered into a lease agreement with PT Graha Nusa Raya covering lease of store space with a floor area of 8,813 square meters in Cikarang. The lease period covers 20 years to start on July 1, 2007, with total rental charge of Rp95,136. As required in the agreement, the Company has made the rental payment amounting to Rp95,136 as of December 31, 2006, which is presented as part of “Rental Advances”. The store has not opened yet as of December 31, 2006.

m. In December 2006, the Company entered into a lease agreement with PT Graha Nusa Raya covering lease of store space with a floor area of 6,002 square meters in Cikarang. The lease period covers 20 years to start on December 10, 2006 with total rental charge of Rp67,188. As required in the agreement, the Company has made the rental payment amounting to Rp67,188 as of December 31, 2006, which is presented as part of “Prepaid Long-term Rent”.

n. In December 2006, the Company entered into an agreement for the lease of additional store space with a floor area of 1,990 square meters in Cibubur Junction with PT Profita Emeralda. The lease period covers 98 months to start on the opening day of the store. As required in the agreement, after calculating excess space in previous agreement, the Company has made the rental payment amounting to Rp8,725 as of December 31, 2006, which is presented as part of “Rental Advances”.

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

36. SEGMENT INFORMATION

Based on financial information used by the management in evaluating segment performance and allocating existing resources, the Companies use business segment as the primary segment and geographical segment as the secondary segment. The Companies classify and evaluate their business segment in two major reportable segments: Retail Business and Family Entertainment Center.

The operating segments are managed as separate legal entities because each segment offers different services/products. The accounting policies of the operating segments are the same as those described in the "Summary of Significant Accounting Policies" (Note 2). All inter-segment transactions have been eliminated.

Consolidated information by business segment as primary segment follows:

	Major Segments			
	Retail Business	Family Entertainment Center	Others	Segment Total
2006				
Revenues				
External sales	**8,110,408**	**343,484**	**33,762**	**8,487,654**
Results				
Operating income (loss)	392,269	37,037	(27,939)	401,367
Gain on sale of investments - net	2,586	-	3,269	5,855
Interest expense and other financing cost - net	(167,874)	(3,816)	(4,979)	(176,669)
Equity in net income (loss) of investee	6,158	-	(96)	6,062
Income Tax benefit (expense)	(38,520)	555	(254)	(38,219)
Other income (charges) - net	(27,460)	(10,285)	(3,140)	(40,885)
Income (loss) before minority interest	**167,159**	**23,491**	**(33,139)**	**157,511**
Other Information				
Segment assets	5,302,256	202,628	1,443,904	6,948,788
Elimination of inter-segment assets	(191,569)	-	(702,131)	(893,700)
Net	**5,110,687**	**202,628**	**741,773**	**6,055,088**
Segment liabilities	3,202,007	78,387	1,419,531	4,699,925
Elimination of inter-segment liabilities	(717,774)	(14,248)	(78,405)	(810,427)
Net	**2,484,233**	**64,139**	**1,341,126**	**3,889,498**
Capital expenditures	150,199	50,798	11,174	212,171
Depreciation and amortization	260,645	53,168	6,851	320,664
Net cash provided by (used in):				
- Operating activities	1,092,760	72,913	(660,778)	504,895
- Investing activities	(744,031)	(47,911)	(1,462)	(793,404)
- Financing activities	(261,849)	(22,479)	1,305,349	1,021,021

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

36. SEGMENT INFORMATION (continued)

	Major Segments			
	Retail Business	Family Entertainment Center	Others	Segment Total
2005				
Revenues				
External sales	**6,567,449**	**324,657**	**23,946**	**6,916,052**
Results				
Operating income (loss)	300,815	12,172	(4,240)	308,747
Gain on sale of investments - net	72,903	-	3,767	76,670
Interest income (expense) and other financing cost - net	(110,169)	(2,788)	466	(112,491)
Equity in net income of investee	5,841	-	-	5,841
Income Tax expense	(26,605)	(2,774)	-	(29,379)
Other income (charges) - net	(26,377)	(1,146)	3,530	(23,993)
Income before minority interest	**216,408**	**5,464**	**3,523**	**225,395**
Other Information				
Segment assets	4,436,888	206,275	90,469	4,733,632
Elimination of inter-segment assets	(149,875)	-	(6,606)	(156,481)
Net	**4,287,013**	**206,275**	**83,863**	**4,577,151**
Segment liabilities	2,438,797	76,062	47,643	2,562,502
Elimination of inter-segment liabilities	(5,947)	(13,350)	(33,156)	(52,453)
Net	**2,432,850**	**62,712**	**14,487**	**2,510,049**
Capital expenditures	177,568	29,431	-	206,999
Depreciation and amortization	226,113	44,422	497	271,032
Net cash provided by (used in):				
- Operating activities	353,976	8,112	23,282	385,370
- Investing activities	(839,208)	(28,412)	(6,952)	(874,572)
- Financing activities	(85,965)	17,897	285	(67,783)

Consolidated information by geographical segment as secondary segment follows:

	Major Segments		
	Retail Business	Others	Segment Total
2006			
External sales:			
Jabotabek	3,059,177	140,281	3,199,458
Outside Jabotabek	5,051,231	236,965	5,288,196
Total	**8,110,408**	**377,246**	**8,487,654**
2005			
External sales:			
Jabotabek	2,699,042	131,106	2,830,148
Outside Jabotabek	3,868,407	217,497	4,085,904
Total	**6,567,449**	**348,603**	**6,916,052**

(Expressed in millions of Indonesian rupiah and thousands of foreign currencies, except share data/unit)

37. RECENT ECONOMIC CONDITIONS

The operations of the Companies may be affected by future economic conditions in Indonesia that may contribute to volatility in currency values and negatively impact economic growth. Economic improvements and sustained recovery are dependent upon several factors such as fiscal and monetary actions being undertaken by the Government and others, actions that are beyond the control of the Companies.

38. SUBSEQUENT EVENTS

a. On January 11, 2007, the new shares from the issuance through a limited public offering IV to stockholders with preemptive rights totalling 2,005,928,000 (at Rp500 per share) and 877,593,500 Series I warrants are listed on the Jakarta Stock Exchange and Surabaya Stock Exchange.

b. In January and February 2007, the Company, through a Subsidiary, established 15 companies in connection with the Company's plan to transfer shares related to the restructuring of certain assets of the Company.

c. On February 27, 2007, the buying and selling exchange rates (in full amounts) published by Bank Indonesia are Rp9,115 and Rp9,025 to US$1, respectively, while on December 31, 2006, the rates were Rp9,065 and Rp8,975 to US$1, respectively. On the basis of the rates on February 27, 2007, the Companies incurred foreign exchange loss of approximately Rp3,987 on the net foreign currency liabilities as of December 31, 2006.

39. RECLASSIFICATION OF ACCOUNTS

The following reclassifications were made to the 2005 consolidated financial statements to conform with the presentation of accounts in the 2006 consolidated financial statements:

From	To	Amount
Prepaid long-term rent - net	Rental advances	66,960
Non-operating assets	Property and equipment	17,457
Due from related parties - net	Due to related parties	1,225

40. COMPLETION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation of the consolidated financial statements that were completed on February 27, 2007.