

Teijin Indonesia Fiber Corporation Tbk.

2003 Business Activities

1. Marketing

a. Lethargic demand and sharp increase of raw-materials price

During the first half of 2003 the global textile market was primarily affected by the worldwide SARS infection and Iraq war. Polyester demand plunged. Export of textile to the Middle East, China, Malaysia, Singapore, and Hong Kong went on a downward slope. Spinners and weavers cut down their production.

On the other hand, the price of PTA and MEG – raw materials for polyester filament and polyester staple fiber – sharply increased. PTA price rose from 525 in January to 750 in March, and MEG from 510 in January to 720 in March.

However, faced with a very weak demand, during the first and second quarters of 2003 TIFICO was unable to compensate such increase by raising the price of its products. As a result, it lost substantial amount of money by the end of the second quarter.

b. Pricing-strategy adjustment

Until the first quarter of 2003 TIFICO determined its prices on a quarterly basis, rendering itself vulnerable to unexpected market changes such as sudden price increase and plunging demand. Beginning April 2003 TIFICO determined its prices on a monthly basis, enabling itself to adjust its prices flexibly and effectively to market fluctuations - avoiding potential losses.

2. Restructuring plan and action

a. Human-cost reduction

One of TIFICO programs to reduce cost was by downsizing its workforce through an early retirement program. All employees of every department and division were eligible to join the program, regardless of ranks and positions in the organization. To date, 320 local employees have joined the program; they are scheduled to leave the company progressively between November 2003 and June 2004. Likewise, the number of Japanese staff had been reduced from 17 to 12 by the end of last year.

b. Organization-structure change

In early December 2003 TIFICO changed its organization structure by dividing the company into 2 main business units – staple fiber and filament yarn, each of which consisted of sales, electricity, and maintenance departments. Such change was expected to deliver more profit contribution.

c. Technology upgrading

To advance the process of polyester filament production, TIFICO implemented innovative production technology for its weavers in Bandung. The success of this effort is accelerated in part by its parent company Teijin of Japan, which provided technical support to the weavers in order to develop their knowledge and skills.

d. Business-processes quality improvement

Paralleling high competition and responding to demanding customers in the global synthetic-fiber market, TIFICO implemented a series of measures to improve product quality, accelerate productivity, and ultimately secure a leading position in Asian as well global synthetic-fiber market.

e. Energy-saving measures implementation

TIFICO put into practice a new policy to save energy, in consequence of increasing energy price and depleting reserve of natural resources.

f. New-machines installation

Last year TIFICO installed seven new draw-twisting machines into its production plants.

g. English-course completion for promotional purpose

TIFICO employees from supervisory level and above completed an English course that had taken place between August and December 2003. The course was given to employees who were to assume promotion in January 2004. With the ability to speak and write English correctly, they were expected to carry out their duties and compete better in business environment.

3. Production-capacity growth

In comparison to the previous year, the year 2003 recorded a notable growth in production capacity. Polymerization capacity rose from 537 tons per day to 606 tons per day - an increase of 13 percent. Likewise, in a sizeable number, the production capacity of stable fiber expanded from 308 tons per day to 358 tons per day – a jump of 16 percent.

4. New-products introduction

With the aim of maintaining a consistent and profitable growth, TIFICO launched MILPA and ESBILON - two new yarn products developed with sophisticated polyester-filament production technologies transferred from Teijin Japan. Both products were already popular in the world's fiber market.

5. Stock-level reduction

TIFICO reduced the stock level of its warehouses from 48 days in the beginning of 2003 to 28 days in the end of 2003.

6. Change of suppliers of packaging materials

TIFICO replaced its suppliers of carton boxes and paper tubes – materials used for packing finished products. Thanks to the new supplier's lower price, TIFICO was able to cut its packing-materials.