**Consolidated Financial Statements**
**With Independent Auditors' Report**
**Years Ended December 31, 2002, 2003 and 2004**

# PT INDOSAT Tbk
# (FORMERLY PT INDONESIAN SATELLITE CORPORATION Tbk)
# AND SUBSIDIARIES

*These consolidated financial statements are originally issued in Indonesian language.*

**PT INDOSAT Tbk**
**(Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)**
**AND SUBSIDIARIES**
**CONSOLIDATED FINANCIAL STATEMENTS**
**WITH INDEPENDENT AUDITORS' REPORT**
**YEARS ENDED DECEMBER 31, 2002, 2003 AND 2004**

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*This report is originally issued in Indonesian language.*

**Independent Auditors' Report**

Report No. RPC-3580

**Stockholders and Boards of Commissioners and Directors**
**PT Indosat Tbk**
**(Formerly PT Indonesian Satellite Corporation Tbk)**

We have audited the consolidated balance sheets of PT Indosat Tbk (formerly PT Indonesian Satellite Corporation Tbk) ("the Company") and Subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2002, 2003 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Indosat Tbk and Subsidiaries as of December 31, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years ended December 31, 2002, 2003 and 2004 in conformity with generally accepted accounting principles in Indonesia.

As described in Note 4, the Company early adopted Statement of Financial Accounting Standards ("SAK") 24 (Revised 2004), "Accounting for Employee Benefits", and SAK 38 (Revised 2004), "Accounting for Restructuring Transactions of Entities under Common Control". The 2002 and 2003 consolidated financial statements have been restated to reflect the restrospective application of those SAKs.

As described in Note 19, based on a resolution at the Company's Stockholders' Extraordinary Meeting held on March 8, 2004, the Stockholders approved, among others, to split the nominal value of the Company's A share and B shares and to reclassify four A shares resulting from the stock split to B shares. Accordingly, all references to number of shares and per share information in Notes 2w and 31 to the consolidated financial statements have been adjusted to reflect the stock split on a retroactive basis.

**Prasetio, Sarwoko & Sandjaja**

**Drs. Soemarso S. Rahardjo, ME**
Public Accountant License No. 98.1.0064

March 18, 2005

# PT INDOSAT Tbk
## (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
## AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS
## December 31, 2003 and 2004
## (Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

| | Notes | 2003 (As Restated - Note 4) | 2004 | 2004 (Note 3) |
|---|---|---|---|---|
| | | Rp | Rp | US$ |
| **ASSETS** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 2d,5,30 | 4,509,508 | 3,993,585 | 429,880 |
| Short-term investments - net of allowance for decline in value of Rp25,395 in 2003 and in 2004 | 2e | 65,437 | 1,377 | 148 |
| Accounts receivable | | | | |
| Trade | 2f,17 | | | |
| Related parties | | | | |
| PT Telekomunikasi Indonesia Tbk (“Telkom”) - net of allowance for doubtful accounts of Rp90,872 in 2003 and Rp86,884 in 2004 | 6,30 | 217,873 | 166,596 | 17,933 |
| Others - net of allowance for doubtful accounts of Rp54,639 in 2003 and Rp62,212 in 2004 | 30 | 189,318 | 156,073 | 16,800 |
| Third parties - net of allowance for doubtful accounts of Rp353,221 in 2003 and Rp375,001 in 2004 | 7 | 824,915 | 987,944 | 106,345 |
| Others - net of allowance for doubtful accounts of Rp17,773 in 2003 and Rp39,728 in 2004 | 30f | 84,088 | 18,348 | 1,975 |
| Inventories | 2g | 120,099 | 113,684 | 12,237 |
| Derivative assets | 2r,33 | - | 2,102 | 226 |
| Advances | | 36,476 | 88,064 | 9,480 |
| Prepaid taxes | 8,15 | 1,266,636 | 661,655 | 71,222 |
| Prepaid expenses | 2h,2q,29,30 | 123,360 | 254,155 | 27,358 |
| Other current assets | 2d,30 | 23,381 | 24,874 | 2,678 |
| Total Current Assets | | 7,461,091 | 6,468,457 | 696,282 |

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

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**PT INDOSAT Tbk**
**(Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)**
**AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS (continued)**
**December 31, 2003 and 2004**
**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)**

| | Notes | 2003 (As Restated - Note 4) | 2004 | 2004 (Note 3) |
|---|---|---|---|---|
| | | Rp | Rp | US$ |
| **NON-CURRENT ASSETS** | | | | |
| Due from related parties - net of allowance for doubtful accounts of Rp77,666 in 2003 and Rp23,089 in 2004 | 2f,30 | 33,432 | 47,953 | 5,162 |
| Deferred tax assets - net | 2t,15 | 136,637 | 33,204 | 3,574 |
| Investments in associated companies - net of allowance for decline in value of Rp83,490 in 2003 and Rp75,212 in 2004 | 2i,9 | 191,616 | 33,134 | 3,567 |
| Other long-term investments - net of allowance for decline in value of Rp247,816 in 2003 and Rp221,567 in 2004 | 2i,10 | 191,269 | 102,157 | 10,996 |
| Property and equipment | 2j,2k,2p, 11,17,24 | | | |
| Carrying value | | 21,970,828 | 27,821,510 | 2,994,780 |
| Accumulated depreciation | | (7,778,080) | (10,461,076) | (1,126,058) |
| Impairment in value | | (99,621) | (117,258) | (12,621) |
| Net | | 14,093,127 | 17,243,176 | 1,856,101 |
| Goodwill and other intangible assets - net | 1d,2c,2l,12 | 3,344,939 | 3,012,578 | 324,282 |
| Long-term receivables | 30f | 132,156 | 129,671 | 13,958 |
| Long-term prepaid pension - net of current portion | 2q,29,30 | 136,650 | 180,183 | 19,395 |
| Long-term advances | 13,30 | 93,829 | 290,801 | 31,303 |
| Others | 2d,2h,2r,17, 30,33 | 244,446 | 331,153 | 35,646 |
| Total Non-current Assets | | 18,598,101 | 21,404,010 | 2,303,984 |
| **TOTAL ASSETS** | | **26,059,192** | **27,872,467** | **3,000,266** |

**PT INDOSAT Tbk**
**(Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)**
**AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS (continued)**
**December 31, 2003 and 2004**
**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)**

| | Notes | 2003 (As Restated - Note 4) | 2004 | 2004 (Note 3) |
|---|---|---|---|---|
| | | Rp | Rp | US$ |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Short-term loans | 30 | 18,074 | 9,819 | 1,057 |
| Accounts payable - trade | | | | |
| Related parties | 30 | 12,472 | 21,581 | 2,323 |
| Third parties | | 186,726 | 204,140 | 21,974 |
| Procurement payable | 14 | 1,344,807 | 2,049,063 | 220,567 |
| Taxes payable | 2t,15 | 322,906 | 220,199 | 23,703 |
| Accrued expenses | 16,24, 29,30 | 709,459 | 927,389 | 99,827 |
| Unearned income | 2o | 492,945 | 602,586 | 64,864 |
| Deposits from customers | | 54,195 | 55,929 | 6,020 |
| Derivative liabilities | 2r,33 | - | 175,420 | 18,883 |
| Current maturities of long-term debts | 2m,17 | | | |
| Related parties | 30 | | | |
| Government of the Republic of Indonesia | | 2,505 | - | - |
| Others | | 84,095 | 168,286 | 18,115 |
| Third parties | | 112,294 | 207,135 | 22,296 |
| Other current liabilities | | 86,103 | 19,345 | 2,082 |
| Total Current Liabilities | | 3,426,581 | 4,660,892 | 501,711 |
| **NON-CURRENT LIABILITIES** | | | | |
| Due to related parties | 30 | 38,328 | 39,061 | 4,205 |
| Deferred tax liabilities - net | 2t,15 | 1,659 | 489,074 | 52,644 |
| Long-term debts - net of current maturities | 2m,17 | | | |
| Related parties | 30 | 1,639,125 | 760,717 | 81,886 |
| Third parties | | 1,271,404 | 827,362 | 89,059 |
| Bonds payable | 2m,18 | 7,268,738 | 7,524,083 | 809,912 |
| Other non-current liabilities | 30 | 226,350 | 222,236 | 23,922 |
| Total Non-current Liabilities | | 10,445,604 | 9,862,533 | 1,061,628 |
| **MINORITY INTEREST** | 2b | **147,125** | **164,450** | **17,702** |

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**PT INDOSAT Tbk**
**(Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)**
**AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS (continued)**
**December 31, 2003 and 2004**
**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)**

| | Notes | 2003 (As Restated - Note 4) | 2004 | 2004 (Note 3) |
|---|---|---|---|---|
| | | Rp | Rp | US$ |
| **STOCKHOLDERS' EQUITY** | | | | |
| Capital stock - Rp100 par value (as restated) per A share and B share Authorized - 1 A share and 19,999,999,999 B shares (as restated) Issued and fully paid - 1 A share and 5,177,499,999 B shares (as restated) in 2003, and 1 A share and 5,285,308,499 B shares in 2004 | 19 | 517,750 | 528,531 | 56,893 |
| Premium on capital stock | 19 | 673,075 | 880,869 | 94,819 |
| Difference in value from restructuring transactions of entities under common control | 2c,4,10 | - | - | - |
| Difference in transactions of equity changes in associated companies/subsidiaries | 2i | 403,812 | 403,812 | 43,467 |
| Stock options | 2n,20 | 24,809 | 71,207 | 7,665 |
| Difference in foreign currency translation | | 316 | 429 | 46 |
| Retained earnings | | | | |
| Appropriated | | 17,890 | 33,590 | 3,616 |
| Unappropriated | | 10,402,230 | 11,266,154 | 1,212,719 |
| Total Stockholders' Equity | | 12,039,882 | 13,184,592 | 1,419,225 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | | **26,059,192** | **27,872,467** | **3,000,266** |

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

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# PT INDOSAT Tbk
# (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
# AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF INCOME
# Years Ended December 31, 2002, 2003 and 2004
# (Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

| | Notes | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 | 2004 (Note 3) |
|---|---|---|---|---|---|
| | | Rp | Rp | Rp | US$ |
| **OPERATING REVENUES** | 2o,30 | | | | |
| Cellular | 21,36,37,38 | 3,271,652 | 5,117,580 | 7,450,777 | 802,021 |
| Fixed telecommunication | 22,36,37,38 | 2,137,939 | 1,807,669 | 1,554,932 | 167,377 |
| Multimedia, Data Communication, Internet ("MIDI") | 17,18,23 | 1,263,038 | 1,228,334 | 1,483,941 | 159,754 |
| Other services | | 94,353 | 81,684 | 59,420 | 6,378 |
| **Total Operating Revenues** | | **6,766,982** | **8,235,267** | **10,549,070** | **1,135,530** |
| **OPERATING EXPENSES** | 2o | | | | |
| Depreciation and amortization | 2j,11,12 | 1,784,342 | 2,038,006 | 2,818,657 | 303,408 |
| Personnel | 2p,2q,20, 24,29,30 | 709,319 | 1,022,989 | 1,207,384 | 129,966 |
| Compensation to telecommunications carriers and service providers | 25,30,36 | 648,797 | 724,193 | 523,603 | 56,362 |
| Maintenance | 2j,2p | 298,739 | 297,097 | 473,388 | 50,957 |
| Administration and general | 26,30 | 410,590 | 497,988 | 471,347 | 50,737 |
| Marketing | | 148,911 | 242,337 | 349,824 | 37,656 |
| Leased circuits | 30 | 152,966 | 91,697 | 97,667 | 10,513 |
| Other costs of services | 27,30 | 735,947 | 973,065 | 1,372,491 | 147,738 |
| Total Operating Expenses | | 4,889,611 | 5,887,372 | 7,314,361 | 787,337 |
| **OPERATING INCOME** | | **1,877,371** | **2,347,895** | **3,234,709** | **348,193** |
| **OTHER INCOME (EXPENSES)** | 2o | | | | |
| Gain on sale of investment in associated company | 9 | - | - | 286,204 | 30,808 |
| Interest income | 30 | 822,302 | 147,712 | 187,430 | 20,175 |
| Gain on sale of other long-term investment | 4,10 | - | - | 110,929 | 11,941 |
| Financing cost | 2m,17,18 28,30 | (586,131) | (838,666) | (1,097,531) | (118,141) |
| Amortization of goodwill | 2l,12 | (693,086) | (252,907) | (226,347) | (24,365) |
| Loss on change in fair value of derivatives - net | 2r,33 | - | - | (170,451) | (18,348) |
| Gain (loss) on foreign exchange - net | 2s,7 | 393,820 | 200,050 | (66,116) | (7,117) |
| Provision for doubtful interest receivable from convertible bonds | | (287,792) | - | - | - |
| Adjustment of accounts receivable - trade from Telkom | | (118,018) | - | - | - |
| Others - net | | (130,524) | (51,162) | 62,442 | 6,722 |
| Other Expenses - Net | | (599,429) | (794,973) | (913,440) | (98,325) |
| **EQUITY IN NET INCOME OF ASSOCIATED COMPANIES** | 2i,9 | **72,288** | **33,771** | **61,489** | **6,619** |
| **INCOME BEFORE INCOME TAX AND EXTRAORDINARY ITEM** | | **1,350,230** | **1,586,693** | **2,382,758** | **256,487** |

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

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# PT INDOSAT Tbk
# (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
# AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF INCOME (continued)
# Years Ended December 31, 2002, 2003 and 2004
# (Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

| | Notes | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 | 2004 (Note 3) |
|---|---|---|---|---|---|
| | | Rp | Rp | Rp | US$ |
| **INCOME TAX BENEFIT (EXPENSE)** | 2t,15 | | | | |
| Current | | (245,870) | (585,570) | (140,902) | (15,167) |
| Deferred | | (530,588) | 603,398 | (583,652) | (62,826) |
| Income Tax Benefit (Expense) - Net | | (776,458) | 17,828 | (724,554) | (77,993) |
| **INCOME BEFORE EXTRAORDINARY ITEM, MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES AND PREACQUISITION INCOME** | | 573,772 | 1,604,521 | 1,658,204 | 178,494 |
| **EXTRAORDINARY ITEM - Realized Gain on Difference in Value from Restructuring Transactions of Entities under Common Control - net of deferred tax effect of Rp2,943,963** | 4 | **-** | 4,499,947 | **-** | **-** |
| **INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES AND PREACQUISITION INCOME** | | 573,772 | 6,104,468 | 1,658,204 | 178,494 |
| **MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES** | 2b | (27,197) | (22,497) | (24,996) | (2,691) |
| **PREACQUISITION INCOME** | 1d | (205,863) | - | - | - |
| **NET INCOME** | 32 | **340,712** | **6,081,971** | **1,633,208** | **175,803** |
| **BASIC EARNINGS PER SHARE** | 2w,19, 31 | | | | |
| Income before extraordinary item | | 65.81 | 305.56 | 313.91 | 0.03 |
| Extraordinary item | | - | 869.13 | - | - |
| **Net Income Per Share** | | **65.81** | **1,174.69** | **313.91** | **0.03** |
| **DILUTED EARNINGS PER SHARE** | 2w, 19, 20, 31 | | | | |
| Income before extraordinary item | | 65.81 | 305.17 | 313.63 | 0.03 |
| Extraordinary item | | - | 868.04 | - | - |
| **Net Income Per Share** | | **65.81** | **1,173.21** | **313.63** | **0.03** |
| **BASIC EARNINGS PER ADS (50 B shares per ADS)** | 2w,19, 31 | | | | |
| Income before extraordinary item | | 3,290.31 | 15,277.87 | 15,695.59 | 1.69 |
| Extraordinary item | | - | 43,456.76 | - | - |
| **Net Income Per ADS** | | **3,290.31** | **58,734.63** | 15,695.59 | **1.69** |
| **DILUTED EARNINGS PER ADS** | 2w,19, 20,31 | | | | |
| Income before extraordinary item | | 3,290.31 | 15,258.66 | 15,681.59 | 1.69 |
| Extraordinary item | | - | 43,402.11 | - | - |
| **Net Income Per ADS** | | **3,290.31** | **58,660.77** | **15,681.59** | **1.69** |

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

# PT INDOSAT Tbk
# (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
# AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
# Years Ended December 31, 2002, 2003 and 2004
# (Expressed in millions of rupiah)

| | | Year Ended December 31, 2002 (As Restated – Note 4) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Retained Earnings | | |
| Description | Notes | Capital Stock - Issued and Fully Paid | Premium on Capital Stock | Difference in Value from Restructuring Transactions of Entities under Common Control | Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries | Appropriated | Unappropriated | Net |
| Balance as of January 1, 2002 as previously reported | | 517,750 | 673,075 | 4,359,259 | 284,197 | 18,471 | 4,886,951 | 10,739,703 |
| Adjustment arising from early adoption of SAK 24 (Revised 2004) - net of applicable income tax of Rp75,234 | 4 | - | - | - | - | - | (175,545) | (175,545) |
| Balance as of January 1, 2002 as restated | | 517,750 | 673,075 | 4,359,259 | 284,197 | 18,471 | 4,711,406 | 10,564,158 |
| Gain on sale of investment in PT Pramindo Ikat Nusantara to Telkom which was accounted for under the pooling-of-interests method | 2i, 10 | - | - | 109,184 | - | - | - | 109,184 |
| Increase in PT Satelit Palapa Indonesia's difference in transactions of equity changes in a subsidiary arising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp38 | 2b | - | - | - | 88 | - | - | 88 |
| Adjustment on difference in value from restructuring transactions of entities under common control of PT Indosatcom Adimarga, a subsidiary, due to adoption of Statement of Financial Accounting Standards 46, "Accounting for Income Tax" | 2t | - | - | (703) | - | - | - | (703) |
| Resolution during the Annual Stockholders' General Meeting on June 20, 2002 | | | | | | | | |
| Declaration of cash dividend | 32 | - | - | - | - | - | (581,122) | (581,122) |
| Appropriation for reserve fund | 32 | - | - | - | - | (3,943) | 3,943 | - |
| Net income, as previously reported | | - | - | - | - | - | 336,252 | 336,252 |
| Adjustment arising from early adoption of SAK 24 (Revised 2004) – net of applicable income tax of Rp1,911 | 4 | - | - | - | - | - | 4,460 | 4,460 |
| **Net income, as restated** | | **-** | **-** | **-** | **-** | **-** | **340,712** | **340,712** |
| **Balance as of December 31, 2002 as restated** | | **517,750** | **673,075** | **4,467,740** | **284,285** | **14,528** | **4,474,939** | **10,432,317** |

# PT INDOSAT Tbk
## (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
## AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
## Years Ended December 31, 2002, 2003 and 2004
## (Expressed in millions of rupiah)

**Year Ended December 31, 2003 (As Restated – Note 4)**

| Description | Notes | Capital Stock - Issued and Fully Paid | Premium on Capital Stock | Difference in Value from Restructuring Transactions of Entities under Common Control | Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries | Stock Options | Difference in Foreign Currency Translation | Retained Earnings | | Net |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Appropriated | Unappropriated | |
| Balance as of January 1, 2003 as previously reported | | 517,750 | 673,075 | 4,467,740 | 284,285 | - | - | 14,528 | 4,646,024 | 10,603,402 |
| Adjustment arising from early adoption of SAK 24 (Revised 2004) - net of applicable income tax of Rp73,323 | 4 | - | - | - | - | - | - | - | (171,085) | (171,085) |
| Balance as of January 1, 2003 as restated | | 517,750 | 673,075 | 4,467,740 | 284,285 | - | - | 14,528 | 4,474,939 | 10,432,317 |
| Gain on sale of investment in PT Pramindo Ikat Nusantara to Telkom which was accounted for under the pooling-of-interests method | 2i,10 | - | - | 32,207 | - | - | - | - | - | 32,207 |
| Reversal of deferred tax liabilities on difference in transactions of equity changes in PT Satelit Palapa Indonesia and PT Bimagraha Telekomindo as a result of the merger | 1e,15 | - | - | - | 119,917 | - | - | - | - | 119,917 |
| Proportionate five months' compensation expense relating to Employee Stock Option Program ("ESOP") | 2n,20 | - | - | - | - | 24,809 | - | - | - | 24,809 |
| Increase in difference in foreign currency translation rising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp132 | 2b | - | - | - | - | - | 308 | - | - | 308 |
| Increase in difference in foreign currency translation rising from the translation of the financial statements of Indosat Finance Company B.V. from European euro to rupiah - net of applicable income tax of Rp3 | 2b | - | - | - | - | - | 8 | - | - | 8 |
| Decrease in PT Satelit Palapa Indonesia's difference in transactions of equity changes in a subsidiary arising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp167 | 2b | - | - | - | (390) | - | - | - | - | (390) |
| Resolution during the Annual Stockholders' General Meeting on June 26, 2003 | | | | | | | | | | |
| Declaration of cash dividend | 32 | - | - | - | - | - | - | - | (151,318) | (151,318) |
| Appropriation for reserve fund | 32 | - | - | - | - | - | - | 3,362 | (3,362) | - |
| Adjustment arising from early adoption of SAK 38 (Revised 2004) | 4 | - | - | (4,499,947) | - | - | - | - | - | (4,499,947) |
| Net income, as previously reported | | - | - | - | - | - | - | - | 1,569,967 | 1,569,967 |
| • Adjustment arising from early adoption of SAK 24 (Revised 2004) - net of applicable income tax of Rp5,167 | 4 | - | - | - | - | - | - | - | 12,057 | 12,057 |
| • Adjustment arising from early adoption of SAK 38 (Revised 2004) | 4 | - | - | - | - | - | - | - | 4,499,947 | 4,499,947 |
| **Net income, as restated** | | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **6,081,971** | **6,081,971** |
| **Balance as of December 31, 2003 as restated** | | **517,750** | **673,075** | **-** | **403,812** | **24,809** | **316** | **17,890** | **10,402,230** | **12,039,882** |

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

# PT INDOSAT Tbk
# (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
# AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
# Years Ended December 31, 2002, 2003 and 2004
# (Expressed in millions of rupiah)

| | | Year Ended December 31, 2004 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Retained Earnings | | |
| Description | Notes | Capital Stock - Issued and Fully Paid | Premium on Capital Stock | Difference in Value from Restructuring Transactions of Entities under Common Control | Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries | Stock Options | Difference in Foreign Currency Translation | Appropriated | Unappropriated | Net |
| Balance as of January 1, 2004 as previously reported | | 517,750 | 673,075 | 4,499,947 | 403,812 | 24,809 | 316 | 17,890 | 6,061,311 | 12,198,910 |
| • Adjustment arising from early adoption of SAK 24 (Revised 2004) - net of applicable income tax of Rp68,156 | 4 | - | - | - | - | - | - | - | (159,028) | (159,028) |
| • Adjustment arising from early adoption of SAK 38 (Revised 2004) | 4 | - | - | (4,499,947) | - | - | - | - | 4,499,947 | - |
| Balance as of January 1, 2004 as restated | | 517,750 | 673,075 | - | 403,812 | 24,809 | 316 | 17,890 | 10,402,230 | 12,039,882 |
| ESOP: | | | | | | | | | | |
| • Issuance of capital stock resulting from the exercise of ESOP Phase I | 19 | 10,781 | 207,794 | - | - | - | - | - | - | 218,575 |
| • Proportionate seven months' compensation expense relating to ESOP Phase I and five months' compensation expense relating to ESOP Phase II | 2n,20 | - | - | - | - | 95,990 | - | - | - | 95,990 |
| • Realization of stock option resulting from the exercise of ESOP Phase I | 2n,20 | - | - | - | - | (49,592) | - | - | - | (49,592) |
| Increase in difference in foreign currency translation rising from the translation of the financial statements of Indosat Finance Company B.V. from European euro to rupiah - net of applicable income tax of Rp30 | 2b | - | - | - | - | - | 70 | - | - | 70 |
| Increase in difference in foreign currency translation rising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp18 | 2b | - | - | - | - | - | 43 | - | - | 43 |
| Resolution during the Annual Stockholders' General Meeting on June 22, 2004 | | | | | | | | | | |
| Declaration of cash dividend | 32 | - | - | - | - | - | - | - | (753,584) | (753,584) |
| Appropriation for reserve fund | 32 | - | - | - | - | - | - | 15,700 | (15,700) | - |
| Net income for the year | | - | - | - | - | - | - | - | 1,633,208 | 1,633,208 |
| **Balance as of December 31, 2004** | | **528,531** | **880,869** | **-** | **403,812** | **71,207** | **429** | **33,590** | **11,266,154** | **13,184,592** |

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

# PT INDOSAT Tbk
# (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
# AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CASH FLOWS
# Years Ended December 31, 2002, 2003 and 2004
# (Expressed in millions of Rupiah and thousands of U.S. Dollars)

| | Notes | 2002 | 2003 | 2004 | 2004 (Note 3) |
|---|---|---|---|---|---|
| | | Rp | Rp | Rp | US$ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash received from: | | | | | |
| Customers | | 6,629,463 | 8,002,123 | 10,537,812 | 1,134,318 |
| Refund of taxes | 8 | - | - | 1,044,853 | 112,471 |
| Interest income | | 730,690 | 146,190 | 179,374 | 19,308 |
| Other income - net | | - | 78,151 | 309,850 | 33,353 |
| Cash paid for: | | | | | |
| Employees and suppliers | | (2,638,905) | (2,914,426) | (4,080,404) | (439,226) |
| Financing cost | | (618,130) | (790,326) | (1,077,747) | (116,011) |
| Taxes | | (3,114,250) | (1,356,438) | (683,481) | (73,572) |
| Other operating expenses | | (198,223) | (246,060) | (257,919) | (27,763) |
| Other expenses - net | | (446,161) | - | - | - |
| **Net Cash Provided by Operating Activities** | | **344,484** | **2,919,214** | **5,972,338** | **642,878** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from sale of investments | 9,10 | 80,646 | 185,992 | 698,751 | 75,215 |
| Proceeds from sale of short-term investment | | - | 51,880 | 141,580 | 15,240 |
| Interest income from interest rate swap contracts | 33g,33h,33i, 33j,33k | - | - | 34,143 | 3,675 |
| Proceeds from sale of property and equipment | 11 | 3,412 | 6,147 | 18,490 | 1,990 |
| Acquisitions of property and equipment | 11 | (3,468,274) | (3,967,014) | (5,238,331) | (563,868) |
| Additional advances for purchase of property and equipment | | - | (32,028) | (196,972) | (21,202) |
| Increase in restricted cash and cash equivalents | | - | - | (81,287) | (8,750) |
| Purchase of short-term investments | | (67,625) | (65,437) | (77,677) | (8,361) |
| Swap cost from cross currency swap contracts | 33a,33b, 33c,33d, 33e,33f | - | - | (31,274) | (3,366) |
| Proceeds from sale of investment - net of acquisition of investments under cross-ownership transactions | | 2,255,129 | - | - | - |
| Proceeds from the exercise of derivative instruments | | 36,984 | - | - | - |
| Acquisition of 25% equity interest in PT Satelit Palapa Indonesia | 1d | (2,824,250) | - | - | - |
| **Net Cash Used in Investing Activities** | | **(3,983,978)** | **(3,820,460)** | **(4,732,577)** | **(509,427)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from exercise of ESOP Phase I | | - | - | 148,993 | 16,038 |
| Proceeds from long-term debts | | 3,784,065 | 2,327,861 | 96,200 | 10,355 |
| Decrease (increase) in restricted cash and cash equivalents | | (151,166) | 193,956 | 12,542 | 1,350 |
| Repayment of long-term debts | | (2,388,960) | (3,058,203) | (1,251,580) | (134,723) |
| Cash dividend paid | 32 | (581,122) | (151,318) | (753,584) | (81,118) |
| Repayment of short-term loans | | (446,525) | (224,934) | (8,255) | (888) |
| Proceeds from bonds payable | 18 | 1,250,000 | 5,018,065 | - | - |
| Proceeds from short-term loans | | 665,284 | 18,074 | - | - |

# PT INDOSAT Tbk
# (Formerly PT INDONESIAN SATELLITE CORPORATION Tbk)
# AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
# Years Ended December 31, 2002, 2003 and 2004
# (Expressed in millions of Rupiah and thousands of U.S. Dollars)

| | Notes | 2002 | 2003 | 2004 | 2004 (Note 3) |
|---|---|---|---|---|---|
| | | Rp | Rp | Rp | US$ |
| Repayment of bonds payable | | (299,968) | (1,544,507) | - | - |
| **Net Cash Provided by (Used in) Financing Activities** | | **1,831,608** | **2,578,994** | **(1,755,684)** | **(188,986)** |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | (1,807,886) | 1,677,748 | (515,923) | (55,535) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | 4,637,796 | 2,831,760 | 4,509,508 | 485,415 |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS FROM NEW SUBSIDIARIES ACQUIRED** | | 1,850 | - | - | - |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 5 | **2,831,760** | **4,509,508** | **3,993,585** | **429,880** |
| **DETAILS OF CASH AND CASH EQUIVALENTS:** | | | | | |
| Cash on hand and in banks | | 430,480 | 211,922 | 170,498 | 18,353 |
| Time deposits with original maturities of three months or less | | 2,401,280 | 4,297,586 | 3,823,087 | 411,527 |
| **Cash and cash equivalents as stated in the consolidated balance sheets** | | **2,831,760** | **4,509,508** | **3,993,585** | **429,880** |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | | | | |
| Transactions not affecting cash flows: | | | | | |
| Acquisitions of property and equipment on account credited to procurement payable | | - | 292,845 | 672,328 | 72,371 |
| Premium on capital stock | | - | - | 49,592 | 5,338 |
| Stock options | | - | 24,809 | 46,398 | 4,994 |
| Bonus retained for exercise of ESOP Phase I | | - | - | 19,990 | 2,152 |
| Realized gain on difference in value from restructuring transactions of entities under common control | 4 | - | 4,499,947 | - | - |
| Reversal of deferred tax liabilities relating to the merger transaction credited to: | | | | | |
| Income tax benefit - deferred | | - | 1,142,293 | - | - |
| Goodwill | | - | 382,403 | - | - |
| Difference in transactions of equity changes in associated companies/ subsidiaries | | 88 | 119,527 | - | - |
| Dividend distribution in the form of convertible bonds/limited bonds | | 6,106 | 30,436 | - | - |
| Difference in value from restructuring transactions of entities under common control | | 29,407 | - | - | - |
| Assets and liabilities held by subsidiaries at the time of equity acquisitions | | | | | |
| Current assets | | 2,668 | - | - | - |
| Non-current assets | | 6,341 | - | - | - |
| Current liabilities | | (5,917) | - | - | - |

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

## 1. GENERAL

### a. Company's Establishment

PT Indosat Tbk (formerly PT Indonesian Satellite Corporation Tbk) ("the Company") was established in the Republic of Indonesia on November 10, 1967 within the framework of the Indonesian Foreign Investment Law No. 1 of 1967 based on the notarial deed No. 55 of Mohamad Said Tadjoedin, S.H. The deed of establishment was published in Supplement No. 24 of State Gazette No. 26 dated March 29, 1968 of the Republic of Indonesia. In 1980, the Company was sold to the Government of the Republic of Indonesia and became a State-Owned Company (*Persero*).

On February 7, 2003, the Company received the approval from the Investment Coordinating Board (BKPM) in its Letter No. 14/V/PMA/2003 for the change of its legal status from a State-Owned Company (*Persero*) into a Foreign Capital Investment Company. Subsequently, on March 21, 2003, the Company received the approval from the Ministry of Justice and Human Rights of the Republic of Indonesia on the amendment of its articles of association to reflect the change of its legal status.

The Company's articles of association has been amended from time to time. The latest amendment was covered by notarial deed No. 145 dated September 30, 2004 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) concerning, among others, the change of the Company's name from PT Indonesian Satellite Corporation Tbk to become PT Indosat Tbk. The latest amendment of the Company's articles of association has been approved by the Ministry of Justice and Human Rights of the Republic of Indonesia based on its letter No. C-29270 HT.01.04.TH 2004 dated December 2, 2004.

According to article 3 of its articles of association, the Company shall engage in providing telecommunications networks and/or services as well as informatics business by conducting the following activities:

- Provision of telecommunications networks and/or services and informatics business
- Planning of services, construction of infrastructure and provision of telecommunications and informatics business facilities, including supporting resources
- Carrying out operational services (comprising the marketing and sale of telecommunications networks and/or services and informatics business provided by the Company), maintenance, research and development of telecommunications and informatics business infrastructure and/or facilities, and providing education and training both locally and overseas
- Engaging in services which are relevant to the development of telecommunications networks and/or services and informatics business.

The Company started its commercial operations in 1969.

## 1. GENERAL (continued)

### a. Company's Establishment (continued)

Based on Law No. 3 of 1989 on telecommunications and pursuant to Government Regulation No. 77 of 1991, the Company has been confirmed as an international telecommunications service provider.

In 1999, the Government issued Law No. 36 on telecommunications ("Telecommunications Law") which took effect starting on September 8, 2000. Under the Law, telecommunications activities cover:

- Telecommunications networks
- Telecommunications services
- Special telecommunications services.

National state-owned companies, regional state-owned companies, privately owned companies and cooperatives are allowed to provide telecommunications networks and services. Individuals, government institutions and legal entities, other than telecommunications networks and service providers, are allowed to render special telecommunications services.

The telecommunications Law prohibits activities that result in monopolistic practices and unhealthy competition, and expects to pave the way for market liberalization.

On August 14, 2000, the Government of the Republic of Indonesia, through the Ministry of Communications, granted the Company an in-principle license as a nationwide Digital Communication System ("DCS") 1800 telecommunications provider as compensation for the early termination effective August 1, 2003 of the rights on international telecommunications services given to the Company prior to the granting of such license. On August 23, 2001, the Company obtained the operating license from the Ministry of Communications. Subsequently, based on Decree No. KP. 247 dated November 6, 2001 issued by the Ministry of Communications, the operating license was transferred to the Company's subsidiary, PT Indosat Multi Media Mobile (see "d" below).

On September 7, 2000, the Government of the Republic of Indonesia, through the Ministry of Communications, also granted the Company in-principle licenses for local and domestic long-distance telecommunications services as compensation for the termination of its rights on international telecommunications services. On the other hand, Telkom was granted an in-principle license for international telecommunications services as compensation for the early termination of Telkom's right on local and domestic long-distance telecommunications services.

## 1. GENERAL (continued)

### a. Company's Establishment (continued)

Based on a letter dated August 1, 2002 from the Ministry of Communications, the Company was granted an operating license for fixed local telecommunication network covering Jakarta and Surabaya. This operating license was converted to become a national license on April 17, 2003 based on Decree No. KP.130 Year 2003 of the Ministry of Communications. The values of the above licenses granted to Telkom and the Company on the termination of their exclusive rights on local/domestic and international telecommunications services, respectively, have been determined by an independent appraiser.

Based on Article IX of a Shares Purchase Agreement dated December 15, 2002 between the Government of the Republic of Indonesia and Indonesia Communications Limited ("ICL") (Note 19), the Government agreed to undertake and covenant with ICL that it shall pay on behalf of the Company any liability, amount or claim required to be paid or suffered by the Company in relation to the surrender of above exclusivity rights.

On June 28, 2001, the Government of the Republic of Indonesia, through the Directorate General of Post and Telecommunications, granted the Company an in-principle license for Voice over Internet Protocol ("VoIP") service. On April 26, 2002, the Company was granted an operating license for VoIP with national coverage. The Company's operating license for VoIP will be evaluated every 5 years from the date of issuance.

On March 15, 2004, the Government of the Republic of Indonesia, through the Ministry of Communications, granted the Company an operating license for nationwide closed fixed communications network (e.g. VSAT, frame relay, etc) and GSM cellular mobile network (including its basic telephony services). Subsequently, on May 21, 2004, the Government, through the Ministry of Communications, also granted the Company an operating license for fixed network and basic telephony services which covers the provision of local, national long-distance, and international long-distance telephony services. The licenses granted are subject to certain minimum development and operating performance requirements. These aforementioned licenses replaced the various licenses and rights previously granted to the Company by the Government.

The Company is domiciled at Jalan Medan Merdeka Barat No. 21, Jakarta and has international gateways located in Jakarta, Medan, Batam, Surabaya and Denpasar.

### b. Company's Public Offerings

All of the Company's B shares have been registered with and traded on the Jakarta Stock Exchange and Surabaya Stock Exchange since 1994. The Company's American Depositary Shares [ADS, each representing 50 B shares (as restated)] have also been traded on the New York Stock Exchange since 1994.

### c. Employees, Directors and Commissioners

Based on a resolution at each of the (i) Stockholders' Extraordinary Meeting held on December 27, 2002 which is notarized under Deed No. 41 of Rini Yulianti, S.H. (as a substitute notary of Poerbaningsih Adi Warsito, S.H.) on the same date and (ii) Annual Stockholders' General Meeting held on June 22, 2004 which is notarized under Deed No. 124 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, the composition of the Company's Board of Commissioners as of December 31, 2002, 2003 and 2004 is as follows:

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 1. GENERAL (continued)

### c. Employees, Directors and Commissioners (continued)

| | 2002 and 2003 | 2004 |
|---|---|---|
| President Commissioner | Peter Seah Lim Huat | Peter Seah Lim Huat |
| Commissioner | Lee Theng Kiat | Lee Theng Kiat |
| Commissioner | Sio Tat Hiang | Sio Tat Hiang |
| Commissioner | Lim Ah Doo * | Lim Ah Doo * |
| Commissioner | Sum Soon Lim | Sum Soon Lim |
| Commissioner | Roes Aryawijaya | Roes Aryawijaya |
| Commissioner | Umar Rusdi | Umar Rusdi |
| Commissioner | Achmad Rivai * | Eva Riyanti Hutapea * |
| Commissioner | Soebagijo Soemodihardjo * | Mohammad Ikhsan * |

* Independent Commissioner

Based on a resolution at each of the (i) Stockholders' Extraordinary Meeting held on December 27, 2002 which is notarized under Deed No. 41 of Rini Yulianti, S.H. (as a substitute notary of Poerbaningsih Adi Warsito, S.H.) on the same date, (ii) Annual Stockholders' General Meeting held on June 26, 2003 which is notarized under Deed No. 89 of Poerbaningsih Adi Warsito, S.H. on the same date and (iii) Stockholders' Extraordinary Meeting held on September 30, 2004 which is notarized under Deed No. 144 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, the composition of the Company's Board of Directors as of December 31, 2002, 2003 and 2004 is as follows:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| President Director | Widya Purnama | Widya Purnama | - |
| Deputy President Director | Ng Eng Ho | Ng Eng Ho | Ng Eng Ho |
| Business Development Director | Raymond Tan Kim Meng | Wityasmoro Sih Handayanto | Wityasmoro Sih Handayanto |
| Cellular Marketing Director | Hasnul Suhaimi | Hasnul Suhaimi | Hasnul Suhaimi |
| Fixed Telecom and MIDI Director | - | Wahyu Wijayadi | Wahyu Wijayadi |
| Finance Director | Nicholas Tan Kok Peng | Nicholas Tan Kok Peng | Wong Heang Tuck |
| Corporate Services Director | - | Sutrisman | Sutrisman |
| Operation and Quality Improvement Director | - | - | Raymond Tan Kim Meng |
| Information Technology Director | - | - | Joseph Chan Lam Seng |
| Fixed Telecom Director | Emil Soedarmo | - | - |
| MIDI Director | Junino Jahja | - | - |
| Network Infrastructure Director | Wityasmoro Sih Handayanto | - | - |
| Network Integration Director | Joseph Chan Lam Seng | - | - |

The Company and its subsidiaries (collectively referred to hereafter as "the Companies") have approximately 5,980, 6,330 and 7,820 employees, including non-permanent employees, as of December 31, 2002, 2003 and 2004, respectively.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 1. GENERAL (continued)

### d. Structure of the Company's Subsidiaries

The Company has direct and indirect equity ownership in the following subsidiaries:

| Name of Subsidiary | Location | Principal Activity | Start of Commercial Operations | Percentage of Ownership (%) 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|
| Indosat Finance Company B.V. | Amsterdam | Finance | 2003 | - | 100.00 | 100.00 |
| PT Satelit Palapa Indonesia* | Jakarta | Telecommunication | 1993 | 100.00 | - | - |
| Satelindo International Finance B.V. | Amsterdam | Finance | 1996 | 100.00 | 100.00 | 100.00 |
| PT Satelindo Multi Media | Jakarta | Multimedia | 1999 | 99.60 | 99.60 | 99.60 |
| PT Indosat Multi Media Mobile* | Jakarta | Telecommunication | 2001 | 99.94 | - | - |
| PT Bimagraha Telekomindo* | Jakarta | Holding Company | 1992 | 100.00 | - | - |
| PT Aplikanusa Lintasarta | Jakarta | Data Communication | 1989 | 69.46 | 69.46 | 69.46 |
| PT Artajasa Pembayaran Elektronis | Jakarta | Telecommunication | 2000 | 45.15 | 45.15 | 45.15 |
| PT Indosat Mega Media | Jakarta | Multimedia | 2001 | 99.84 | 99.85 | 99.85 |
| PT Sisindosat Lintasbuana | Jakarta | Information Technology | 1990 | 96.87 | 96.87 | 96.87 |
| PT Asitelindo Data Buana | Jakarta | Multimedia | 1997 | 49.40 | 49.40 | 49.40 |
| PT Indosatcom Adimarga** | Jakarta | Telecommunication | 2000 | 100.00 | - | - |

| Name of Subsidiary | Total Assets (Before Eliminations) 2002 | 2003 | 2004 |
|---|---|---|---|
| Indosat Finance Company B.V. | - | 2,569,853 | 2,820,797 |
| PT Satelit Palapa Indonesia* | 7,356,377 | - | - |
| Satelindo International Finance B.V. | 1,626,937 | 6,791 | 8,002 |
| PT Satelindo Multi Media | 11,961 | 10,699 | 11,187 |
| PT Indosat Multi Media Mobile* | 3,374,847 | - | - |
| PT Bimagraha Telekomindo* | 843,627 | - | - |
| PT Aplikanusa Lintasarta | 603,858 | 644,997 | 798,273 |
| PT Artajasa Pembayaran Elektronis | 59,714 | 60,218 | 73,964 |
| PT Indosat Mega Media | 315,233 | 372,339 | 450,288 |
| PT Sisindosat Lintasbuana | 130,656 | 162,305 | 159,230 |
| PT Asitelindo Data Buana | 9,822 | 9,822 | 9,822 |
| PT Indosatcom Adimarga** | 7,055 | - | - |

* merged with the Company in 2003
** merged with IMM in 2003

Indosat Finance Company B.V. ("IFB")

IFB was incorporated in Amsterdam (The Netherlands) on October 13, 2003. IFB is a financing company that only facilitates the Company's borrowings from third parties and is not involved in any other activity. In October 2003, IFB issued guaranteed notes which are due in 2010 (Note 18).

PT Satelit Palapa Indonesia ("Satelindo")

Satelindo is engaged in providing Global System for Mobile Communication ("GSM") telecommunication services and international telecommunication facilities and services, satellite communications, satellite transmission, consultancy, tracking, telemetry and command of satellite launch, and repair and maintenance of satellite transmission facilities. The Company's initial investment representing 10% equity interest in Satelindo was made in 1993. In 1995, Satelindo issued 33,333,334 new shares (representing 25% equity interest) with a nominal value of Rp1,000 per share to Deutsche Telekom Mobilfunk GmbH ("DeTeMobil"), a subsidiary of Deutsche Telekom AG, for Rp1,300,334 (US$586,000). The issuance of the new shares decreased the Company's equity interest in Satelindo to 7.5%. In 1999, DeTeMobil transferred its equity interest in Satelindo to DeTeAsia Holding GmbH ("DeTeAsia"), another wholly owned subsidiary of Deutsche Telekom AG.

## 1. GENERAL (continued)

### d. Structure of the Company's Subsidiaries (continued)

PT Satelit Palapa Indonesia ("Satelindo") (continued)

On May 16, 2001, the Company acquired the 22.5% equity interest of Telkom in Satelindo. On May 31, 2001, the Company also acquired 100% equity interest in PT Bimagraha Telekomindo from its stockholders. PT Bimagraha Telekomindo had 45% equity interest in Satelindo. As a result of these transactions, the Company's total equity interest in Satelindo increased to 75% effective May 31, 2001.

On May 20, 2002, the Company entered into a sale and purchase of shares agreement ("SPA") with DeTeAsia, which owned 33,333,334 shares constituting 25% of the issued and fully paid capital stock of Satelindo, for a total consideration of US$325,000 (equivalent to Rp2,824,250). After the purchase of these shares from DeTeAsia, which transaction was closed on June 28, 2002, the Company became the owner, directly and indirectly, of 100% of the issued and fully paid capital stock of Satelindo. Goodwill arising from this transaction amounted to Rp2,151,027. This transaction was approved by the Company's stockholders at the Stockholders' Extraordinary Meeting held on June 20, 2002.

Based on the assessment made by independent valuers in their report dated May 15, 2002, they opined that the acquisition price of Satelindo from DeTeAsia was fair and reasonable. The independent assessment was made in accordance with the Indonesian Capital Market Supervisory Agency ("BAPEPAM") Regulation No. IX.E.2, "Material Transactions and Changes in Core Business Activities" dated February 20, 2001.

On July 25, 2002, the Company made a capital injection to Satelindo amounting to US$75,000, from the proceeds of a loan obtained from PT Bank Central Asia Tbk ("BCA" - Note 17). The injection increased the Company's direct equity interest from 55% to 57.45%.

Shares of Satelindo were pledged as collateral for a long-term loan obtained by the Company from BCA (Note 17).

On October 21, 2003, the Company made a capital injection to Satelindo amounting to US$270,000 and Rp482,000, from the proceeds of Third Indosat Bonds in Year 2003 with Fixed Rate ("Third Indosat Bond" - Note 18). The injection increased the Company's direct equity interest in Satelindo from 57.45% to 97.92%.

Satelindo used the proceeds from the Company's capital contribution to repay its debts (Note 17 and see below - SIB).

On November 20, 2003, Satelindo merged with the Company (Note 1e).

Satelindo had 100% equity interest in Satelindo International Finance B.V. and 99.6% equity interest in PT Satelindo Multi Media (formerly PT Nusa Era Persada Jaya) at the time of the merger. After the merger, Satelindo International Finance B.V. and PT Satelindo Multi Media became direct subsidiaries of the Company.

Satelindo International Finance B.V. ("SIB")

SIB was incorporated in Amsterdam (The Netherlands) in 1996. SIB is a financing company that only facilitates Satelindo's borrowings from third parties and is not involved in any other activity. On May 30, 2000, SIB issued Guaranteed Floating Rate Bonds. On October 31, 2003, Satelindo repaid its borrowings from SIB by using the proceeds from the Company's capital contributions (Note 18). Following such repayment of all borrowings, this company now is in the process of voluntary liquidation.

## 1. GENERAL (continued)

### d. Structure of the Company's Subsidiaries (continued)

PT Satelindo Multi Media ("SMM")

SMM was established in 1999 to engage in various activities including telecommunications services. SMM has a preliminary license to operate as a multimedia service provider and a license to operate as an internet service provider.

PT Indosat Multi Media Mobile ("IM3")

IM3, which was established in July 2001, was engaged in providing DCS-1800 mobile cellular services. The Company paid to IM3 its capital contribution amounting to Rp1,728,278 in 2001 which represented 99.94% equity interest in IM3.

In November 2001, the Company transferred to IM3 all of the Company's rights and obligations related to its agreements with third parties (vendors/contractors) regarding the procurement of property and equipment, Subscriber Identification Module ("SIM") card, pulse reload voucher, etc., which agreements were made when IM3 was not yet established and was still part of the Company under its Mobile Division.

Based on a Shares Transfer Agreement dated August 22, 2003, Koperasi Pegawai Indosat ("Kopindosat"), as the minority shareholder of IM3, sold all of its shares in IM3 to the Company, thereby making the Company the sole stockholder of IM3.

On November 20, 2003, IM3 merged with the Company (Note 1e).

PT Bimagraha Telekomindo ("Bimagraha")

On May 31, 2001, the Company consummated the acquisition of 100% equity interest in Bimagraha from its shareholders for US$248,273 and Rp1,421,686. This transaction was accounted for using the purchase method. The goodwill arising from this transaction amounted to Rp3,139,837. On May 31, 2001, Bimagraha had 45% equity interest in Satelindo.

Bimagraha was a non-operating holding company which had equity investment only in Satelindo. On July 25, 2002, the Company made a capital injection to Satelindo, which decreased Bimagraha's equity interest in Satelindo from 45% to 42.55%. On October 21, 2003, the Company made a capital injection to Satelindo, which decreased Bimagraha's equity interest in Satelindo from 42.55% to 2.08% (see "Satelindo" above).

On November 20, 2003, Bimagraha merged with the Company (Note 1e).

PT Aplikanusa Lintasarta ("Lintasarta")

Lintasarta is engaged in system data communications services, network applications services which include providing physical infrastructure and software application, and consultation services in data communications and information system for banking and other industries. The Company's initial investment in Lintasarta was made in 1988.

On May 16, 2001, the Company acquired Telkom's 37.21% equity interest in Lintasarta and increased the Company's total equity interest in Lintasarta from 32.25% to 69.46%.

## 1. GENERAL (continued)

### d. Structure of the Company's Subsidiaries (continued)

PT Artajasa Pembayaran Elektronis ("APE")

APE is engaged in telecommunication and information services.

On January 2, 2002, Lintasarta entered into several transfer agreements with APE whereby Lintasarta agreed to transfer certain assets consisting of property and equipment, rights of use of data communication equipment and application services, with a total value of Rp30,286 in exchange for APE's shares of stock that increased Lintasarta's equity interest in APE from 40% to 65%.

PT Indosat Mega Media ("IMM")

IMM is engaged in providing multimedia services and creating multimedia products and programs.

PT Sisindosat Lintasbuana ("Sisindosat")

Sisindosat is engaged in providing information technology and computer services and other related services, and acts as an agent for computer software and hardware products. The Company has 95.64% equity interest in Sisindosat, which has 51% equity interest in PT Asitelindo Data Buana.

On November 5, 2002, the Company converted its receivable from Sisindosat amounting to Rp42,692 to become an additional issued and fully paid capital in Sisindosat. This transaction increased the Company's equity interest from 95.64% to 96.87%.

On December 17, 2004, the Company entered into a Conditional Sale and Purchase Agreement ("CSPA"), whereby the Company agreed to sell its 96.87% equity interest in Sisindosat to PT Aneka Spring Telekomindo ("Astel") for Rp40,000. As of December 31, 2004, the transaction has not yet been closed (Note 42a).

PT Asitelindo Data Buana ("Asiatel")

Asiatel is engaged in audio-text services and providing hardware/software for telecommunications services.

### e. Merger of the Company, Satelindo, Bimagraha and IM3

Based on Merger Deed No. 57 dated November 20, 2003 ("merger date") of Poerbaningsih Adi Warsito, S.H., the Company, Satelindo, Bimagraha and IM3 agreed to merge, with the Company as the surviving entity. All assets and liabilities owned by Satelindo, Bimagraha and IM3 were transferred to the Company on the merger date. These three companies were dissolved by operation of law without the need to undergo the regular liquidation process.

The names "Satelindo" and "IM3" in the following notes refer to these entities before they were merged with the Company, or as the entities that entered into contractual agreements that were taken over by the Company as a result of the merger.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies adopted by the Company conform with generally accepted accounting principles in Indonesia ("Indonesian GAAP"). The significant accounting principles applied consistently in the preparation of the consolidated financial statements for the years ended December 31, 2002, 2003 and 2004 are as follows:

### a. Basis of Consolidated Financial Statements

The consolidated financial statements are presented using the historical cost basis of accounting, except for swap contracts which are stated at fair value and certain investments which are stated at fair value or net assets value.

The consolidated statements of cash flows classify cash receipts and payments into operating, investing and financing activities. The cash flows from operating activities are presented using 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 Company's accounts and those of its subsidiaries as follows:

| | Equity Interest (%) | | |
|---|---|---|---|
| | **2002** | **2003** | **2004** |
| IFB | - | 100.00 | 100.00 |
| Satelindo | | | |
| • Direct | 57.45 | - * | - * |
| • Indirect through Bimagraha | 42.55 | - * | - * |
| Bimagraha | 100.00 | - * | - * |
| SIB | | | |
| • Direct | - | 100.00 | 100.00 |
| • Indirect through Satelindo | 57.45 | - * | - * |
| • Indirect through Bimagraha | 42.55 | - * | - * |
| SMM | | | |
| • Direct | - | 99.60 | 99.60 |
| • Indirect through Satelindo | 57.22 | - * | - * |
| • Indirect through Bimagraha | 42.38 | - * | - * |
| Lintasarta | 69.46 | 69.46 | 69.46 |
| Sisindosat | 96.87 | 96.87 | 96.87 |
| IMM | 99.84 | 99.85 | 99.85 |
| Indosatcom | 100.00 | - ** | - ** |
| IM3 | 99.94 | - * | - * |

* merged with the Company in 2003
** merged with IMM in 2003

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### b. Principles of Consolidation (continued)

The consolidated financial statements also include the accounts of APE (Lintasarta's 65%-owned subsidiary) and Asiatel (Sisindosat's 51%-owned subsidiary).

Effective May 31, 2001, the net assets of Satelindo and its subsidiaries (SIB and SMM) were consolidated as a result of the Company's effective equity interest of 75% of Satelindo.

The accounts of APE and Asiatel were consolidated because their financial and operating policies are controlled by Lintasarta and Sisindosat, respectively.

The accounts of IFB and SIB were translated into rupiah amounts at the middle rate of exchange prevailing at balance sheet date for balance sheet accounts and the average rate during the period for profit and loss accounts. The resulting differences arising from the translations of the financial statements of IFB and SIB are presented as part of "Difference in Foreign Currency Translation" under the Stockholders' Equity section of the consolidated balance sheets.

Minority interest in Subsidiaries represents the minority stockholders' proportionate share in the equity of the Subsidiaries which are not wholly owned. All significant inter-company transactions and balances are eliminated in consolidation.

### c. Accounting for Acquired Businesses

Prior to 2004, for acquisitions accounted for under the pooling-of-interests method, the historical carrying amounts of the net equities of the entities acquired are combined, as if they are a single entity for all periods presented, in accordance with Statement of Financial Accounting Standards ("SAK") 38, "Accounting for Restructuring Transactions of Entities under Common Control". The difference between the net consideration paid or received and book values, net of applicable income tax, is shown under Stockholders' Equity as "Difference in Value from Restructuring Transactions of Entities under Common Control". This account shall not change as a result of subsequent transfer of assets, liabilities, shares or other instruments of ownership to another entity not under common control.

In 2004, the Company early adopted SAK 38 (Revised 2004) which is effective starting January 1, 2005 but encourages early adoption. Based on SAK 38 (Revised 2004), the balance of "Difference in Value from Restructuring Transactions of Entities under Common Control" can be realized to gain or loss from the time the common control no longer exists between the entities that entered into the transaction (Note 4).

For acquisitions accounted for under the purchase method, the excess of the acquisition cost over the fair values of the identifiable net assets acquired at the date of acquisition is recognized as goodwill.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### d. Cash and Cash Equivalents

Time deposits with original maturities of three months or less at the time of placement or purchase are considered as "Cash Equivalents".

Cash and cash equivalents which are pledged as collateral for long-term debts, letter of credit facilities and bank guarantees are not classified as part of Cash and Cash Equivalents. These are presented as part of either Other Current Assets or Non-current Assets - Others.

### e. Short-term Investments

Short-term investments consist of:

- Investment in debt securities

  Investment in debt securities which are classified as available-for-sale are recorded at fair value in accordance with SAK 50, "Accounting for Investments in Certain Securities". 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 and will be recognized as income or loss upon realization.

- Mutual funds

  Mutual funds which are classified as trading security under SAK 50 are stated at their net assets value at balance sheet date. Unrealized gains or losses from the changes in net assets value at balance sheet date are credited or charged to current operations.

- Time deposits with original maturities of more than three months at the time of placement or purchase.

  The time deposits are recorded at historical value.

### f. Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on management's evaluation of the collectibility of the accounts at the end of the year.

### g. Inventories

Inventories, which mainly consist of starter packs and pulse reload vouchers, are valued at the lower of cost or net realizable value. Cost is determined by the moving-average method.

### h. Prepaid Expenses

Prepaid expenses, mainly salaries, rental and insurance, are expensed as the related asset is utilized. The non-current portion of prepaid expenses is shown as part of "Non-current Assets - Others".

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### i. Investments

Investments consist of:

- Investments in associated companies

  Investments in shares of stock wherein the Companies have an equity interest of at least 20% but not exceeding 50% are accounted for under the equity method, whereby the investment cost is increased or decreased by the Companies' share of the net earnings or losses of the investees since the date of acquisition and decreased by dividends received. Equity in net earnings (losses) is being adjusted for the straight-line amortization, over five years, of the difference between the cost of such investment and the Companies' proportionate share in the underlying fair value of the net assets at date of acquisition (goodwill).

  If the Companies' share in the equity of an investee, subsequent to transactions resulting in a change in the equity of the investee, is different from the Companies' share in the equity of the investee prior to such transactions, the difference is recognized by a credit or charge to "Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries", net of applicable income tax, after adjusting their equity in the investee to conform with their accounting policies.

- Investments in shares of stock that do not have readily determinable fair value in which the equity interest is less than 20%, and other long-term investments are carried at cost.

- Investments in equity shares that have readily determinable fair value which are classified as available-for-sale are recorded at fair value, in accordance with SAK 50.

- Investments in bonds which are classified as held-to-maturity securities are recorded at cost, adjusted for amortization of premium or accretion of discount to maturity.

### j. Property and Equipment

Property and equipment are stated at cost (which includes capitalization of certain borrowing cost incurred during the construction phase), less accumulated depreciation and impairment in value. Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Buildings | 3 to 20 |
| Submarine cables | 15 |
| Earth stations | 15 |
| Inland link | 15 |
| Switching equipment | 15 |
| Telecommunications peripherals | 5 |
| Information technology equipment | 5 to 10 |
| Office equipment | 3 to 6 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### j. Property and Equipment (continued)

| | Years |
|---|---|
| Building and leasehold improvements | 5 |
| Vehicles | 5 |
| Cellular technical equipment | |
| Base station subsystem | 5 to 15 |
| Network switching subsystem | 5 to 10 |
| Operating support subsystem | 5 |
| Satellite technical equipment | |
| Satellites | 12 |
| Master control station | 15 |
| Customer premises equipment | 15 |
| Transmission and cross-connection equipment | |
| Transmission equipment | 5 to 24 |
| Cross-connection equipment | 8 to 10 |
| Fixed wireless access technical equipment | |
| Base station subsystem | 8 |

Landrights are stated at cost.

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

Properties under construction and installation are stated at cost and consist of cellular technical equipment, fixed wireless access technical equipment, building and leasehold improvements, inland link, information technology equipment, telecommunications peripherals, building, satellite technical equipment, submarine cables, switching equipment, transmission and cross-connection equipment, and other equipment under installation.

All borrowing costs, which include interest and foreign exchange differentials that can be attributed to qualifying assets, are capitalized to the cost of properties under construction and installation. Capitalization of borrowing costs ceases when the construction or installation is completed and the constructed or installed asset is ready for its intended use.

### k. Impairment of Assets Value

In accordance with SAK 48, “Impairment of Assets Value”, the Companies review whether there is an indication of assets impairment at balance sheet date. If there is an indication of assets impairment, the Companies estimate the recoverable amount of the assets. Impairment loss is recognized as a charge to current operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### l. Goodwill and Other Intangible Assets

At the time the Company acquires a subsidiary which is not an entity under common control, any excess of the acquisition cost over the Company's interest in the fair value of the subsidiary's identifiable assets, net of liabilities, as of acquisition date is recognized as goodwill. Up to December 31, 2002, goodwill had been amortized using the straight-line method over five years. Starting January 1, 2003, the Company changed its goodwill amortization period to become fifteen years based on management's evaluation of the cellular business. In relation to this evaluation, management utilized the assessment from an independent valuer.

The Companies review the carrying amount of goodwill whenever events or circumstances indicate that its value is impaired. Impairment loss is recognized as a charge to current operations.

At the time of acquisition of a subsidiary, any intangible assets recognized are amortized using the straight-line method based on the estimated useful lives of the assets as follows:

| | Years |
|---|---|
| Brand | 8 |
| Customer base | |
| - Prepaid | 6 |
| - Post-paid | 5 |
| Spectrum license | 5 |

### m. Bonds/Debt Issuance Cost

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

### n. Stock-based Compensation

In accordance with SAK 53, "Accounting for Stock-based Compensation", compensation expenses are accrued during the vesting period based on the fair values of all stock options as of the grant date.

### o. Revenue and Expense Recognition

Fixed Telecommunication - International Calls

Revenues from services are accounted for on the accrual basis. At the end of each year, income from outgoing international call traffic is recognized on the basis of the actual recorded traffic for the year. Income from international call traffic from overseas international carriers, for which statements have not been received, is estimated based on historical data.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### o. Revenue and Expense Recognition (continued)

Fixed Telecommunication - International Calls (continued)

Operating revenues for interconnection services under interconnection agreements based on revenue-sharing arrangement (Note 38) are reported on a net basis, after interconnection expenses and after allocations to overseas international carriers. Operating revenues for interconnections that are not made under contractual sharing agreements, i.e. based on tariff as stipulated by the Government (Note 37), are reported on a gross basis, before interconnection expenses/charges (Note 25) but net of allocations to overseas international carriers. These interconnection expenses/charges are accounted for as operating expenses in the period these are incurred.

Cellular

Cellular revenues arising from airtime and roaming calls are recognized based on the duration of successful calls made through the Company's cellular network.

For post-paid subscribers, activation fees are recognized upon activation of new subscribers in the Company's cellular network while monthly service fees are recognized as the service is provided.

For prepaid customers, the activation component of starter package sales is recognized upon delivery to dealers or direct sale to end-customers. Sales of initial/reload vouchers are recorded as unearned revenue and recognized as revenue upon usage of the airtime or upon expiration of the airtime.

Revenues from interconnection fees with operators (usage revenues) are recognized monthly on the basis of the actual recorded traffic for the month.

MIDI

*Satellite Lease*
Revenues are recognized on a straight-line basis over the lease term.

*Frame Net, World Link and Direct Link*
Revenues arising from installation service are recognized upon the completion of the installation of equipment used for network connection purposes in the customers' premises. Revenues from monthly service fees are recognized as the services are provided.

Revenues from other MIDI services are recognized when the services are rendered.

Other Services

Revenues from other services are recognized when the services are rendered.

Expenses

Expenses are recognized when incurred (accrual basis).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### p. Personnel Costs

Personnel costs which are directly related to the development, construction and installation of property and equipment are capitalized as part of the cost of such assets.

### q. Pension Plan and Employee Benefits

Prior to 2004, pension costs are accounted for on a basis consistent with SAK 24, "Accounting for Pension Benefit Costs". Under the defined benefit pension plan, the pension costs are determined by periodic actuarial calculation using the projected-unit-credit method and applying the assumptions on discount rate, expected return on plan assets and annual rate of increase in compensation. The prior service cost is recognized over the estimated average remaining service periods of the employees. For defined contribution pension plans, the contributions are made by the employees in amounts ranging from 10% - 20% of the employees' monthly basic salaries.

In accordance with the application of SAK 57, "Estimated Liabilities, Contingent Liabilities and Contingent Assets", up to December 31, 2002, the Companies recognized a provision for termination, gratuity and compensation benefits of employees based on the Ministry of Manpower Decree No. Kep-150/Men/2000 dated June 20, 2000 regarding the settlement of work dismissal and determination of separation, appreciation and compensation benefits by companies. Starting in 2003, the Companies recognized a provision for termination, gratuity and compensation benefits of employees based on Labor Law No. 13/2003 dated March 25, 2003.

In July 2004, the Indonesian Institute of Accountants issued SAK 24 (Revised 2004), "Employee Benefits", which regulates the accounting and disclosure for Employee Benefits and covers not only retirement benefits but also short-term (e.g. paid annual leave, paid sick leave) and other long-term benefits (e.g. long-service leave, post-employment medical benefits). SAK 24 (Revised 2004) replaced SAK 24 issued in 1994 which covered only retirement benefit cost. The initial implementation of this accounting pronouncement should be applied retrospectively which requires restatement against the beginning balance of retained earnings of the earliest comparative period presented. In 2004, the Company early adopted SAK 24 (Revised 2004) which is effective for financial statements covering the periods beginning on or after July 1, 2004 but encourages early adoption (Note 4).

### r. Derivatives

Derivative instruments are accounted for in accordance with SAK 55 (Revised 1999), "Accounting for Derivative Instruments and Hedging Activities". SAK 55 establishes the accounting and reporting standards which require that every derivative instrument (including embedded derivatives) be recorded in the balance sheets as either an asset or a liability as measured at fair value of each contract. SAK 55 requires that changes in a derivative fair value be recognized currently in earnings unless specific hedges allow a derivative gains or losses to offset related results on the hedged item in the statements of income, and that an entity must formally document, designate and assess the effectiveness of transactions that meet hedge accounting. None of the Company's derivative instruments are designated as hedging instruments for accounting purposes.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### s. 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 average buying and selling rates prevailing at such date as published by Bank Indonesia and the resulting gains or losses are credited or charged to current operations, except for foreign exchange differentials that can be attributed to qualifying assets which are capitalized to assets under construction and installation.

For December 31, 2002, 2003 and 2004, the rates of exchange used (in full amounts) were Rp8,940, Rp8,465 and Rp9,290 to US$1, respectively, computed by taking the average of the last buying and selling rates of bank notes published by Bank Indonesia.

### t. 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 such benefits are more likely than not to be realized. The tax effects for the year are allocated to current operations, except for the tax effects from transactions which are charged or credited to stockholders' equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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.

For each of the consolidated entities, the tax effects of temporary differences and tax loss carryover, which individually are either assets or liabilities, are shown at the applicable net amounts.

### u. Segment Reporting

The Companies follow Revised SAK 5, "Segment Reporting", in the presentation of segment reporting in their financial statements. The Revised SAK 5 provides more detailed guidance for identifying reportable business segments and geographical segments. The financial information which is used by management for evaluating the segment performance is presented in Note 40.

### v. Troubled Debt Restructuring

The effect of troubled debt restructuring is accounted for in accordance with SAK 54, "Accounting for Troubled Debt Restructurings", which requires the interest expense on the restructured loans to be calculated using effective interest rates.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### w. Basic Earnings per Share/ADS and Diluted Earnings per Share/ADS

In accordance with SAK 56, "Earnings Per Share", basic earnings per share is computed by dividing net income, which consists of income before extraordinary item and extraordinary item, by the weighted-average number of shares outstanding during the year after considering the effect of stock split and exercise of ESOP Phase I (Note 31).

Diluted earnings per share is computed by dividing net income, which consists of income before extraordinary item and extraordinary item, by the weighted-average number of shares outstanding during the year, after considering the dilutive effect caused by the stock options relating to the ESOP (Note 20).

Basic/diluted earnings per ADS is computed by multiplying basic/diluted earnings per share by 50, which is equal to the number of shares per ADS.

### x. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 3. TRANSLATIONS OF RUPIAH INTO UNITED STATES DOLLAR

The consolidated financial statements are stated in rupiah. The translations of the rupiah into United States dollar (US$) are included solely for the convenience of the readers, using the average buying and selling rate published by Bank Indonesia (Central Bank) on December 31, 2004 of Rp9,290 (in full amount) to US$1. The convenience translations should not be construed as representations that the rupiah amounts have been, could have been, or could in the future be, converted into U.S. dollar at this or any other rate of exchange.

## 4. RESTATEMENT OF 2002 AND 2003 CONSOLIDATED FINANCIAL STATEMENTS

<u>SAK 38</u>

Following the regulatory reform of the Indonesian telecommunication sector through the New Telecommunication Law No. 36/1999 and the Blueprint of the Indonesian Government's Policy on Telecommunications dated September 17, 1999, in April 2001, the Company entered into cross-ownership transactions with Telkom to:

- Sell the Company's 35% equity interest in PT Telekomunikasi Selular
- Acquire Telkom's 22.5% equity interest in Satelindo
- Acquire Telkom's 37.21% equity interest in Lintasarta.

At the time of the transactions, both the Company and Telkom were entities under common control by the Government of the Republic of Indonesia, the major stockholder of both companies.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 4. RESTATEMENT OF 2002 AND 2003 CONSOLIDATED FINANCIAL STATEMENTS (continued)

SAK 38 (continued)

The above transactions with Telkom were accounted for under the pooling-of-interests method. The net difference amounting to Rp4,359,259 between the net consideration paid or received and the net assets of the investees acquired or sold was credited to “Difference in Value from Restructuring Transactions of Entities under Common Control”.

In 2002 and 2003, as a result of its transactions with Telkom to sell its equity interest in PT Pramindo Ikat Nusantara (“PIN”) (Note 10), the Company also recorded the gain on sale of its investment in PIN amounting to Rp109,184 and Rp32,207 in 2002 and 2003, respectively, as “Difference in Value from Restructuring Transactions of Entities under Common Control”.

On December 15, 2002, the Government of the Republic of Indonesia (Government) entered into a Share Purchase Agreement with ICL for the sale of the Government’s 41.94% equity interest in the Company to ICL (Note 19), which triggered the change in the status of the Company from a state-owned entity (Persero) to a foreign capital investment company which was approved by the Ministry of Justice and Human Rights on March 21, 2003 (Note 1a). This resulted in the transfer of the control of the Company to the private sector, hence the loss of the common control status between the Company and Telkom, as the Government no longer has control over the Company.

In 2004, the Company early adopted SAK 38 (Revised 2004) (Note 2c) resulting in the realization of the gain previously credited to “Difference in Value from Restructuring Transactions of Entities under Common Control” from the transactions with Telkom. The 2003 consolidated financial statements have been restated for the retrospective recognition of the realized gain to “Extraordinary Item - Realized Gain on Difference in Value from Restructuring Transactions of Entities under Common Control” in 2003 due to the above-mentioned privatization conducted by the Government resulting in the loss of the common control between the Company and Telkom (Note 1d).

SAK 24

The Company also early adopted SAK 24 (Revised 2004). As a result, the Company recalculated its liability relating to the employee benefits to conform with the treatment in SAK 24 (Revised 2004) which requires retrospective application (i.e. the shortfall of the liability for the benefits as of the beginning of the earliest comparative period presented in the consolidated financial statements should be charged to beginning retained earnings of that period).

The summary of the changes in the 2002 and 2003 consolidated financial statements as a result of the retrospective application of SAK 38 (Revised 2004) and SAK 24 (Revised 2004) is as follows:

| | 2002 | | 2003 | |
|---|---|---|---|---|
| | As Previously Reported | As Restated | As Previously Reported | As Restated |
| **Consolidated Balance Sheets:** | | | | |
| Total Assets | 22,002,465 | 21,852,160 | 26,153,024 | 26,059,192 |
| Total Liabilities | 11,399,063 | 11,419,843 | 13,954,114 | 14,019,310 |
| Total Stockholders’ Equity | 10,603,402 | 10,432,317 | 12,198,910 | 12,039,882 |
| **Consolidated Statements of Income:** | | | | |
| Operating Expenses | 4,896,300 | 4,889,611 | 5,902,912 | 5,887,372 |
| Extraordinary Item - Realized Gain on Difference in Value from Restructuring Transactions of Entities under Common Control - net of deferred tax effect | - | - | - | 4,499,947 |
| Net Income | 336,252 | 340,712 | 1,569,967 | 6,081,971 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 4. RESTATEMENT OF 2002 AND 2003 CONSOLIDATED FINANCIAL STATEMENTS (continued)

SAK 24 (continued)

| | 2002 | | 2003 | |
|---|---|---|---|---|
| | As Previously Reported | As Restated | As Previously Reported | As Restated |
| **Consolidated Statements of Changes in Stockholders' Equity:** | | | | |
| Difference in Value from Restructuring Transactions of Entities under Common Control | 4,467,740 | 4,467,740 | 4,499,947 | - |
| Retained earnings - unappropriated | | | | |
| Beginning of year | 4,886,951 | 4,711,406 | 4,646,024 | 4,474,939 |
| End of year | 4,646,024 | 4,474,939 | 6,061,311 | 10,402,230 |

## 5. CASH AND CASH EQUIVALENTS

This account consists of the following:

| | 2003 | 2004 |
|---|---|---|
| Cash on hand | | |
| Rupiah | 2,158 | 1,391 |
| U.S. dollar (US$65 in 2003 and US$11 in 2004) | 553 | 103 |
| | 2,711 | 1,494 |
| Cash in banks | | |
| Related parties (Note 30) | | |
| Rupiah | | |
| PT Bank Mandiri (Persero) Tbk ("Mandiri") | 47,764 | 22,527 |
| PT Bank Pembangunan Daerah DKI Jakarta | 3,412 | 4,308 |
| PT Bank Negara Indonesia (Persero) Tbk ("BNI") | 16,258 | 1,317 |
| PT Bank Danamon Indonesia Tbk ("Danamon") | 1,288 | 1,196 |
| PT Bank Rakyat Indonesia Tbk (Persero) ("BRI") | 726 | 1,016 |
| PT Bank Syari'ah Mandiri ("Mandiri Syari'ah") | 1 | 682 |
| PT Bank Internasional Indonesia Tbk ("BII") | 476 | 249 |
| Others (each below Rp230) | 747 | 1,445 |
| U.S. dollar | | |
| Mandiri (US$1,481 in 2003 and US$1,162 in 2004) | 12,535 | 10,794 |
| Others (US$119 in 2003 and US$107 in 2004) | 1,010 | 994 |
| Third parties | | |
| Rupiah | | |
| PT Bank Central Asia Tbk ("BCA") | 51,401 | 30,347 |
| Deutsche Bank, Jakarta Branch | 14,954 | 25,777 |
| Citibank N.A., Jakarta Branch | 1,204 | 1,569 |
| PT Bank Umum Koperasi Indonesia ("Bukopin") | 1,968 | 1,260 |
| PT Bank Niaga Tbk ("Niaga") | 19,406 | 679 |
| PT Bank Permata Tbk (formerly "PT Bank Bali Tbk") | 458 | 582 |
| PT Bank Mega Tbk | - | 548 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 5. CASH AND CASH EQUIVALENTS (continued)

| | **2003** | **2004** |
|---|---|---|
| Cash in banks (continued) | | |
| PT Bank Artha Graha | 1,231 | 540 |
| PT Bank Finconesia | 1,130 | 88 |
| Standard Chartered Bank, Jakarta Branch | 3,299 | - |
| Others (each below Rp500) | 1,211 | 463 |
| Third parties | | |
| U.S. dollar | | |
| Deutsche Bank, Jakarta Branch (US$2,551 in 2003 and US$5,453 in 2004) | 21,590 | 50,659 |
| Citibank N.A., Jakarta Branch (US$348 in 2003 and US$757 in 2004) | 2,946 | 7,028 |
| PT Bank Finconesia (US$7 in 2003 and US$385 in 2004) | 61 | 3,580 |
| Niaga (US$145 in 2003 and US$46 in 2004) | 1,230 | 427 |
| Standard Chartered Bank, Jakarta Branch (US$283) | 2,393 | - |
| Others (US$61 in 2003 and US$100 in 2004) | 512 | 929 |
| | 209,211 | 169,004 |
| Time deposits | | |
| Related parties (Note 30) | | |
| Rupiah | | |
| Mandiri | 295,148 | 730,681 |
| BRI | 67,000 | 387,000 |
| Danamon | 134,000 | 353,300 |
| BNI | 14,885 | 244,315 |
| Mandiri Syari'ah | 55,500 | 142,000 |
| PT Bank Tabungan Negara (Persero) | 2,000 | 6,450 |
| Others | - | 1,000 |
| U.S. dollar | | |
| BRI (US$37,000 in 2003 and US$27,000 in 2004) | 313,205 | 250,830 |
| Danamon (US$50,000 in 2003 and US$20,000 in 2004) | 423,250 | 185,800 |
| Mandiri Syari'ah (US$8,000 in 2003 and US$10,000 in 2004) | 67,720 | 92,900 |
| Mandiri (US$15,257 in 2003 and US$9,454 in 2004) | 129,152 | 87,828 |
| BNI (US$75,900) | 642,493 | - |
| Third parties | | |
| Rupiah | | |
| Deutsche Bank, Jakarta Branch | 506,955 | 435,000 |
| Bukopin | 113,300 | 262,800 |
| PT Bank Muamalat Indonesia ("Muamalat") | 27,000 | 80,000 |
| Standard Chartered Bank, Jakarta Branch | - | 50,000 |
| Niaga | 43,500 | 44,400 |
| PT Bank Mega Tbk | 19,430 | 24,852 |
| PT Bank Finconesia | 100,000 | - |
| PT Bank Bumiputera | 50,000 | - |
| PT Bank Yudha Bhakti | 21,000 | - |
| Citibank N.A., Jakarta Branch | 5,620 | - |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 5. CASH AND CASH EQUIVALENTS (continued)

| | 2003 | 2004 |
|---|---|---|
| Time deposits (continued) | | |
| PT Bank NISP Tbk ("NISP") | 5,000 | - |
| PT Bank Victoria International | 502 | - |
| Others | - | 6 |
| Third parties | | |
| U.S. dollar | | |
| Bukopin (US$20,000 in 2003 and US$25,000 in 2004) | 169,300 | 232,250 |
| Deutsche Bank, Jakarta Branch (US$3,698 in 2003 and US$13,000 in 2004) | 31,299 | 120,770 |
| BCA (US$50,000 in 2003 and US$5,000 in 2004) | 423,250 | 46,450 |
| Niaga (US$20,050 in 2003 and US$4,785 in 2004) | 169,723 | 44,455 |
| NISP (US$21,000) | 177,765 | - |
| PT Bank Mega Tbk (US$20,000) | 169,300 | - |
| PT Bank Bumiputera (US$7,500) | 63,488 | - |
| Muamalat (US$4,300) | 36,400 | - |
| Citibank N.A., Jakarta Branch (US$2,410) | 20,401 | - |
| | 4,297,586 | 3,823,087 |
| **Total** | **4,509,508** | **3,993,585** |

Time deposits denominated in rupiah earned interest at annual rates ranging from 10.00% to 18.32% in 2002, from 5.00% to 15.35% in 2003 and from 4.00% to 7.50% in 2004, while those denominated in U.S. dollar earned interest at annual rates ranging from 0.85% to 5.03% in 2002, from 0.60% to 5.03% in 2003 and from 0.54% to 1.50% in 2004.

The interest rates on time deposits in related parties are comparable to those offered by third parties.

## 6. ACCOUNTS RECEIVABLE - TRADE - TELKOM

This account represents receivables for uncollected international calls, telex and telegram charges to subscribers which were billed by Telkom, and receivables from cellular interconnection revenue net of interconnection charges payable to Telkom for these services and for leased circuits, and other charges (Note 30).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 6. ACCOUNTS RECEIVABLE - TRADE - TELKOM (continued)

The aging schedule of the accounts receivable is as follows:

| | 2003 | | 2004 | |
|---|---|---|---|---|
| Number of Months Outstanding | Amount | Percentage (%) | Amount | Percentage (%) |
| 0 - 3 months | 227,506 | 73.69 | 166,812 | 65.81 |
| 4 - 6 months | 15,881 | 5.14 | 8,103 | 3.20 |
| over 6 months | 65,358 | 21.17 | 78,565 | 30.99 |
| **Total** | **308,745** | **100.00** | **253,480** | **100.00** |

The changes in the allowance for doubtful accounts provided on the trade accounts receivable from Telkom are as follows:

| | 2003 | 2004 |
|---|---|---|
| Balance at beginning of year | 111,306 | 90,872 |
| Provision | 3,564 | 2,646 |
| Write-off | (23,998) | (6,184) |
| Effect of foreign exchange adjustment | - | (450) |
| **Balance at end of year** | **90,872** | **86,884** |

Management believes the established allowance is sufficient to cover probable losses from uncollectible accounts receivable.

## 7. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES

This account consists of the following:

| | 2003 | 2004 |
|---|---|---|
| Overseas international carriers | | |
| Saudi Telecom Company, Saudi Arabia (US$9,806 in 2003 and US$9,334 in 2004) | 83,008 | 86,717 |
| Mutiara Telecommunications Sdn Bhd, Malaysia (US$2,047 in 2003 and US$6,203 in 2004) | 17,325 | 57,622 |
| DDI Corporation, Japan (US$1,815 in 2003 and US$5,533 in 2004) | 15,362 | 51,399 |
| Jabatan Telekom Brunei, Brunei Darussalam (US$2,363 in 2003 and US$4,061 in 2004) | 19,996 | 37,722 |
| AT&T, U.S.A. (US$572 in 2003 and US$3,988 in 2004) | 4,845 | 37,044 |
| UAE-Etisalat, United Arab Emirates (US$2,616 in 2003 and US$3,903 in 2004) | 22,149 | 36,261 |
| MCI Worldcom, USA (US$1,859 in 2003 and US$3,653 in 2004) | 15,739 | 33,940 |
| Celcom Malaysia Berhad, Malaysia (US$4,006 in 2003 and US$3,555 in 2004) | 33,914 | 33,027 |
| Cableview Services Sdn Bhd (“Mega TV”), Malaysia (US$3,289 in 2003 and in 2004) | 27,844 | 30,558 |
| Korea International Telecommunication, Korea (US$1,407 in 2003 and US$2,957 in 2004) | 11,912 | 27,468 |
| Equant Network Services Pte. Ltd., United Kingdom (US$3,407 in 2003 and US$2,894 in 2004) | 28,841 | 26,816 |
| Maxis International Sdn Bhd, Malaysia (US$484 in 2003 and US$2,881 in 2004) | 4,100 | 26,762 |
| TT dotCom Sdn Bhd, Malaysia (US$1,628 in 2003 and US$2,383 in 2004) | 13,780 | 22,134 |
| Mega Media Broadcasting Network Co. Ltd., Taiwan (US$2,203 in 2003 and in 2004) | 18,649 | 20,467 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 7. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES (continued)

| | 2003 | 2004 |
|---|---|---|
| T-System International Gmbh, Germany (US$1,638 in 2003 and US$2,081 in 2004) | 13,869 | 19,337 |
| AT&T Global Network, Singapore (US$2,081) | - | 19,333 |
| Reach Hongkong, Hong Kong (US$2,785 in 2003 and US$2,039 in 2004) | 23,572 | 18,946 |
| Dacom Corporation, Korea (US$1,406 in 2003 and US$1,680 in 2004) | 11,898 | 15,609 |
| MobileOne (Asia) Pte. Ltd., Singapore (US$356 in 2003 and US$1,364 in 2004) | 3,015 | 12,671 |
| NTT Communications Corporation, Japan (US$21 in 2003 and US$1,323 in 2004) | 183 | 12,286 |
| People's Television Network, Canada (US$1,270 in 2003 and in 2004) | 10,750 | 11,798 |
| Orient Network HK Ltd., Singapore (US$358 in 2003 and US$1,254 in 2004) | 3,034 | 11,647 |
| Telekom Malaysia Berhad, Malaysia (US$8,350 in 2003 and US$583 in 2004) | 70,685 | 5,420 |
| Chunghwa Telecom Co. Ltd., Taiwan (US$2,184 in 2003 and US$564 in 2004) | 18,487 | 5,243 |
| KPN, Royal Dutch Telecommunication, the Netherlands (US$1,955 in 2003 and US$327 in 2004) | 16,553 | 3,040 |
| Others (each below Rp10,000, including US$24,828 in 2003 and US$12,892 in 2004) | 211,678 | 119,760 |
| | 701,188 | 783,027 |
| Local companies | | |
| PT Cakrawala Andalas Televisi (US$1,530 in 2003 and US$1,281 in 2004) | 12,949 | 11,904 |
| PT Ratelindo | 3,652 | 8,988 |
| PT Batam Bintan Telekomunikasi | 3,761 | 4,407 |
| PT Excelcomindo Pratama | 13,739 | - |
| Others (each below Rp6,000, including US$5,694 in 2003 and US$13,179 in 2004) | 236,876 | 260,171 |
| | 270,977 | 285,470 |
| Post-paid subscribers from: | | |
| Cellular | 205,971 | 290,509 |
| Others | - | 3,939 |
| | 205,971 | 294,448 |
| Total | 1,178,136 | 1,362,945 |
| Less allowance for doubtful accounts | 353,221 | 375,001 |
| **Net** | **824,915** | **987,944** |

The aging schedule of the accounts receivable is as follows:

| Number of Months Outstanding | 2003 Amount | 2003 Percentage (%) | 2004 Amount | 2004 Percentage (%) |
|---|---|---|---|---|
| 0 - 6 months | 824,054 | 69.95 | 924,509 | 67.83 |
| 7 - 12 months | 116,673 | 9.90 | 159,579 | 11.71 |
| 13 - 24 months | 65,770 | 5.58 | 115,779 | 8.49 |
| over 24 months | 171,639 | 14.57 | 163,078 | 11.97 |
| **Total** | **1,178,136** | **100.00** | **1,362,945** | **100.00** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 7. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES (continued)

As of December 31, 2004, approximately 4.27% of accounts receivable - trade are pledged as collateral for long-term bank loans obtained by Lintasarta (Note 17) and for short-term loans obtained by Sisindosat.

The changes in the allowance for doubtful accounts provided on the accounts receivable - trade from third parties are as follows:

| | 2003 | 2004 |
|---|---|---|
| Balance at beginning of year | 238,020 | 353,221 |
| Provision | 130,257 | 18,624 |
| Write-off | (5,772) | (11,852) |
| Effect of foreign exchange adjustment | (9,284) | 15,008 |
| **Balance at end of year** | **353,221** | **375,001** |

The effect of foreign exchange adjustment was due to the strengthening or weakening of the rupiah vis-à-vis the U.S. dollar in relation to U.S. dollar accounts previously provided with allowance and was credited or charged to “Gain (Loss) on Foreign Exchange - Net”.

There are no significant concentrations of credit risk, except for the trade accounts receivable from Telkom (Note 6).

Management believes the established allowance is sufficient to cover probable losses from uncollectible accounts receivable.

## 8. PREPAID TAXES

This account consists of the following:

| | 2003 | 2004 |
|---|---|---|
| Claims for tax refund | 1,188,121 | 508,243 |
| Value Added Tax (“VAT”) | 46,799 | 132,820 |
| Others | 31,716 | 20,592 |
| **Total** | **1,266,636** | **661,655** |

Claims for tax refund in 2003 mainly consist of claim for prepaid VAT from the transfer of IM3’s and Satelindo’s inventories and property and equipment to the Company due to the merger and 2002 claim for tax refund from the excess prepayments of the Company’s income tax articles 23 and 25 over the Company’s current income tax expense. In 2004, the Company received its claims for tax refund from the Tax Office amounting to Rp1,044,853.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 9. INVESTMENTS IN ASSOCIATED COMPANIES

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

| | 2003 | | | |
|---|---|---|---|---|
| | Equity Interest (%) | Cost | Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies/Sale of Investments | Carrying Value |
| **Investments in:** | | | | |
| PT Mitra Global Telekomunikasi Indonesia | 30.55 | 168,747 | (8,772) | 159,975 |
| PT Multi Media Asia Indonesia | 26.67 | 56,512 | (212) | 56,300 |
| PT Electronic Datainterchange Indonesia | 49.00 | 12,250 | 15,467 *(a)* | 27,717 |
| PT Graha Lintas Properti | 37.84 | 16,800 | (2,354) | 14,446 |
| Cambodian Indosat Telecommunication S.A | 49.00 | 14,697 | (14,697) | - |
| Others (carrying value below Rp10,000 each) *(b)* | 20.00 - 46.00 | 35,334 | (18,666) | 16,668 |
| Total | | 304,340 | (29,234) | 275,106 |
| Less allowance for decline in value *(b)* | | 83,490 | - | 83,490 |
| **Net** | | **220,850** | **(29,234)** | **191,616** |

*(a) net of cash dividend amounting to Rp1,614 in 2003*
*(b) net of investment in PT Menara Jakarta sold in 2003*

| | 2004 | | | |
|---|---|---|---|---|
| | Equity Interest (%) | Cost | Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies/Sale of Investments | Carrying Value |
| **Investments in:** | | | | |
| PT Multi Media Asia Indonesia | 26.67 | 56,512 | (212) | 56,300 |
| PT Electronic Datainterchange Indonesia | 49.00 | 12,250 | 18,138 *(c)* | 30,388 |
| Cambodian Indosat Telecommunication S.A | 49.00 | 14,697 | (149) | 14,548 |
| Others (carrying value below Rp10,000 each) *(d)* | 20.00 - 35.00 | 9,075 | (1,965)*(e)* | 7,110 |
| Total | | 92,534 | 15,812 | 108,346 |
| Less allowance for decline in value *(d)* | | 75,212 | - | 75,212 |
| **Net** | | **17,322** | **15,812** | **33,134** |

*(c) net of cash dividend amounting to Rp1,652 in 2004*
*(d) net of investments in PT Yasawirya Tama Cipta, PT Graha Lintas Properti, PT Intikom Telepersada and PT Mediagate Indonesia sold in 2004*
*(e) net of cash dividends amounting to Rp61 and Rp43 from PT Sistelindo Mitralintas and PT Swadharma Marga Inforindo, respectively, in 2004*

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 9. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

The changes in the carrying value of the investments in associated companies for the years ended December 31, 2003 and 2004 are as follows:

| | 2003 | 2004 |
|---|---|---|
| Equity in net income of associated companies | 33,771 | 61,489 |
| Write-off of allowance for decline in value of investment due to sale of investment | 8,000 | 25,057 |
| Sale of investment | (8,000) | (226,493) |
| Provision for decline in value of investment | (709) | (16,779) |
| Cash dividends received from associated companies | (1,614) | (1,756) |
| **Total Change** | **31,448** | **(158,482)** |

The economic difficulties faced by Indonesia (Note 41) have substantially affected the Companies' long-term investments in associated companies. Due to the decline in the value of their investments, the Companies have provided allowance for decline in value of their investments in associated companies amounting to Rp83,490 and Rp75,212 as of December 31, 2003 and 2004, respectively, which the Companies believe is adequate to cover probable losses on those investments.

*PT Multi Media Asia Indonesia ("M2A")*

M2A, established in 1997, is engaged in providing satellite-based telecommunications services. Based on a subscription agreement in 1997 among the Company, PT Pacific Satelit Nusantara ("PSN") and M2A ("the Parties"), the parties agreed that the Company would participate as a stockholder of M2A, which was previously wholly owned by PSN, by acquiring 485,000,000 new shares of M2A with an aggregate nominal value of US$20,000, representing 26.67% equity interest in M2A. The Parties also agreed that the Company's investment in M2A would not be less than 20% of the fully paid capital if M2A issued its new shares to Telkom and allocated not more than 5% of the fully paid capital to the Government of the Republic of Indonesia.

*PT Electronic Datainterchange Indonesia ("EDI")*

EDI, an associated company of Sisindosat, was established in 1995 to provide electronic data interchange services for the Jakarta (Tanjung Priok) Port Authority and other telecommunications usage services.

In 2000, EDI, together with another party, established a securities company known as PT Adhikarsa Sentra Sekuritas ("AKSES"). EDI has 80% equity interest in AKSES.

*Cambodian Indosat Telecommunications S.A. ("Camintel")*

The Company's investment in Camintel, a joint venture between the Company and the Kingdom of Cambodia, was made in 1995. The main business of the joint venture is to undertake the rehabilitation, expansion, operation and maintenance of telecommunications facilities formerly owned by United Nations Transitional Authority in Cambodia ("UNTAC"), and to provide telecommunications and other services in Cambodia.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 9. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

*PT Mitra Global Telekomunikasi Indonesia ("MGTI")*

MGTI, established in 1995, has taken over from Telkom the operation of the Central Java Division of Telkom starting January 1, 1996 up to December 31, 2010 under a Joint Operation Scheme (KSO Unit IV).

On September 24, 2003, the Company and the other MGTI stockholders entered into a Sale and Purchase Agreement ("SPA"), wherein all the MGTI stockholders agreed to sell and transfer all of their shares to PT Alberta Telecommunication ("Alberta") for a total consideration amounting to US$240,000. This consideration includes the amount that should be paid by MGTI stockholders to settle MGTI's liabilities to its vendors and creditors, but excludes any post-closing consideration that should be paid by MGTI to its stockholders. On January 20, 2004, Alberta and the stockholders of MGTI closed the share purchase transaction. On January 21, 2004, the Company received in cash its portion of 30.55% of the sales price amounting to US$57,262 (equivalent to Rp483,575). This consideration is net of the settlement of liabilities to MGTI's vendors and creditors. In addition, on September 7, 2004, the Company received the post-closing consideration from MGTI amounting to US$497 (equivalent to Rp4,065). Accordingly, total gain on sale of investment in MGTI amounted to Rp286,204.

*PT Graha Lintas Properti ("GLP")*

GLP, an associated company of Sisindosat, was established in 1995 to handle the construction of an office building known as "Gedung Sapta Pesona B".

The economic difficulties faced by Indonesia (Note 41) have affected the development of GLP's construction project, which has been discontinued since December 1998.

On February 18, 2004, Sisindosat sold its investment in GLP for Rp10,800.

## 10. OTHER LONG-TERM INVESTMENTS

This account consists of the following:

| | 2003 | 2004 |
|---|---|---|
| Investments in: | | |
| Shares of stock accounted for under the cost method - net | 191,170 | 102,058 |
| Convertible bonds - net | - | - |
| Equity securities which are available-for-sale | 99 | 99 |
| **Total** | **191,269** | **102,157** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 10. OTHER LONG-TERM INVESTMENTS (continued)

a. Investments in shares of stock which are accounted for under the cost method

| | 2003 | |
|---|---|---|
| | Equity Interest (%) | Cost/ Carrying Value |
| The International Telecommunications Satellite Organization | 0.34 | 97,427 |
| PIN | 7.15 | 89,111 |
| PT Datakom Asia | 5.00 | 50,000 |
| ICO Global Communications (Holdings) Limited | 0.87 | 49,977 |
| AlphaNet Telecom Inc. | - | 32,149 |
| U.S.A. Global Link, Inc. | 19.05 | 26,249 |
| Others (cost/carrying value below Rp4,000 each) | 10.00 - 16.67 | 4,632 [1)] |
| Total | | 349,545 |
| Less allowance for decline in value | | 158,375 |
| **Net** | | **191,170** |

| | 2004 | |
|---|---|---|
| | Equity Interest (%) | Cost/ Carrying Value |
| The International Telecommunications Satellite Organization | 0.34 | 97,427 |
| PT Broadband Multimedia Tbk | 5.00 | 50,000 |
| ICO Global Communications (Holdings) Limited | 0.87 | 49,977 |
| AlphaNet Telecom Inc. | - | 32,149 |
| Others (cost/carrying value below Rp4,000 each) | 10.00 - 16.67 | 4,631 |
| Total | | 234,184 |
| Less allowance for decline in value | | 132,126 |
| **Net** | | **102,058** |

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1) net of investments in PT Multimedia Nusantara sold in February 2003 and in The International Mobile Satellite Organization sold in December 2003

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 10. OTHER LONG-TERM INVESTMENTS (continued)

b. Investments in convertible bonds

As of December 31, 2003 and 2004, this account consists of:

| | 2003 | 2004 |
|---|---|---|
| AlphaNet Telecom Inc. | 71,441 | 71,441 |
| PT Yasawirya Indah Mega Media | 18,000 | 18,000 |
| Total | 89,441 | 89,441 |
| Less allowance for decline in value | 89,441 | 89,441 |
| **Net** | **-** | **-** |

c. Equity securities which are available-for-sale

As of December 31, 2003 and 2004, this account consists of:

| | |
|---|---|
| BNI | 89 |
| Telkom | 10 |
| **Total** | **99** |

The economic difficulties faced by Indonesia (Note 41) have substantially affected the Companies' other long-term investments. Consequently, the Companies provided an allowance for decline in value of their investments in shares of stock accounted for under the cost method and in convertible bonds amounting to Rp247,816 and Rp221,567 as of December 31, 2003 and 2004, respectively, which management believes is adequate to cover probable losses on the investments.

*The International Telecommunications Satellite Organization ("Intelsat")*

Intelsat is an international organization providing worldwide telecommunications satellite services. The Company's investment in Intelsat was made in 1985.

In March 2001, the Company sold a portion of its equity interest in Intelsat, which resulted in a decrease in its equity interest in Intelsat to 0.34%. On July 18, 2001, Intelsat became a private company. The Company's capital contributions in Intelsat totalling US$11,567 were converted into 1,686,270 shares and became the basis of recording the investment under the cost method (Note 42c).

*PT Broadband Multimedia Tbk ("BM")*

On April 20, 2004, the Company entered into a shares sale and purchase agreement to purchase from a third party such third party's 5% equity interest in BM for Rp50,000. BM is engaged in cable television and internet network provider services.

## 10. OTHER LONG-TERM INVESTMENTS (continued)

*ICO Global Communications (Holdings) Limited ("I-CO")*

In 1995, the Company subscribed to the shares of I-CO, a subsidiary of The International Mobile Satellite Organization that is domiciled in the Bahamas. I-CO provides satellite constellation and related mobile services from, and based on, the satellites.

*AlphaNet Telecom Inc. ("ATI")*

ATI, a company incorporated in Canada, is engaged in the design, development, installation, operation and worldwide marketing of fax messaging and information service to business travellers, the hotel industry and users of personal computers and personal digital assistants. "Inn Fax", "Follow Fax" and "Follow Fax PC" were the registered trademarks of ATI. The Company had a 14.5% equity interest in ATI and an investment in convertible bonds of ATI with a principal amount of CAD35,000,000.

In 1999, based on a resolution of its Board of Directors, ATI announced that it had filed an announcement of bankruptcy with the Toronto Stock Exchange. Based on this fact, the Company provided 100% allowance for losses on its investments in ATI.

As a result of ATI's liquidation process, the Company received on March 9, 2001 the amount of Rp12,923 (CAD2,028,670) from the sale of ATI's assets. On September 23, 2004, the Company received the last liquidation payment amounting to Rp8,557 (CAD1,208,272) from ATI's trustee. As the liquidation process has been completed, the Company is currently in the process of formalizing the write-off of the investment.

*PIN*

In 1997, the Company acquired 13% equity interest in PIN from shares owned by PT Astratel Nusantara, PT Intertel Pratamamedia and Koperasi Pegawai Kantor Pusat Departemen Pariwisata, Pos dan Telekomunikasi. Under a Joint Operation Scheme ("KSO"), PIN has taken over from Telkom the operations of Telkom's Regional Division I (Sumatra) starting January 1, 1996 to December 31, 2010.

On April 19, 2002, Telkom and the PIN stockholders, which include the Company, entered into a Conditional Sale and Purchase Agreement ("CSPA"), whereby the stockholders agreed to sell and transfer all their shares in PIN to Telkom at a total selling price of approximately US$381,499, in three share-purchase transactions, as follows:

- 30% of the shares at the Initial Closing Date, which was expected to occur on August 1, 2002
- 15% of the shares at the Interim Closing Date, which was expected to occur not later than September 30, 2003
- 55% of the shares at the Subsequent Closing Date, which was expected to occur not later than December 31, 2004.

Telkom paid approximately US$9,264 in cash as initial payment after the release of the PIN pledged shares by, and upon repayment by PIN of all amounts (principal, interest and others) payable to, International Finance Corporation (one of PIN's stockholders), which occurred on September 17, 2002. At the initial payment date, the stockholders of PIN also received net working capital reimbursement from PIN. The balance of the selling price of approximately US$372,235, plus the corresponding interest for the applicable period, was settled by Telkom through the issuance of promissory notes payable in ten quarterly installments of specific amounts.

## 10. OTHER LONG-TERM INVESTMENTS (continued)

*PIN (continued)*

Based on an amendment dated August 1, 2002 to the CSPA, the Initial Closing Date was changed to August 15, 2002. In addition, the sum of Rp3,250 was withheld by Telkom from the initial installment of the working capital reimbursement as a security for the costs of obtaining land title certificates for the account of PIN.

In 2002, the Company received from Telkom US$5,414 for the initial payment (including interest) and Rp32,199 for the working capital reimbursement.

On September 30, 2003, the Company closed its second share-purchase transaction with Telkom by the sale of its 1.95% equity investment in PIN for US$7,439 (including interest).

On December 15, 2003, the Company received from Telkom the proceeds of the latter's promissory notes amounting to US$2,560 (equivalent to Rp21,737) intended as part of the settlement of the shares to be sold at the Subsequent Closing Date.

On March 15, 2004, the Company closed its third share-purchase transaction under the CSPA with Telkom by the sale of its 7.15% equity investment in PIN for US$26,592 (including interest and US$2,560 which was already received on December 15, 2003, see above).

The gain on sale of investment in PIN from the first and second share-purchase transactions amounting to Rp109,184 in 2002 and Rp32,207 in 2003, respectively, was previously recorded as part of "Difference in Value from Restructuring Transactions of Entities under Common Control", which is a component of Stockholders' Equity. Due to early adoption of SAK 38 (Revised 2004) by the Company, its 2003 consolidated financial statements were restated to adjust such gain to income in 2003 (Note 4).

The gain on sale of investment in PIN from the third share-purchase transaction amounting to Rp110,929 was credited to current operations in 2004.

*PT Datakom Asia ("DA")*

DA is the holding company for the companies in the Datakom group engaged in direct satellite broadcasting, post-production services and integrated radio telecommunications services.

In 1997, the Company purchased 5% equity interest in DA at the price of Rp50,000 under the condition that DA or another appointed party would repurchase the Company's 5% equity interest in DA at the price of Rp50,000 plus interest if the Company could not exercise its option to subscribe to additional DA shares because DA failed to undertake the initial public offering ("IPO") of its shares by December 31, 1999.

DA failed to undertake its IPO in 1999. On April 20, 2004, the Company entered into a shares sale and purchase agreement to sell to a third party the Company's 5% equity interest in DA for Rp50,000.

*U.S.A. Global Link, Inc. ("Global Link")*

In 1996, Sisindosat acquired Global Link, a company incorporated in the U.S.A and engaged mainly in the provision of callback services.

## 10. OTHER LONG-TERM INVESTMENTS (continued)

*U.S.A. Global Link, Inc. ("Global Link") (continued)*

As resolved in the Annual General Meeting of the Stockholders of Sisindosat held on June 15, 2001, the stockholders agreed to the liquidation of Global Link based on the request of the primary stockholder of Global Link. Sisindosat provided 100% allowance on its investment in Global Link.

In 2004, based on its U.S. counsel's opinion, Sisindosat wrote off its investment in Global Link.

*PT Cipta Televisi Pendidikan Indonesia ("CTPI")*

CTPI is engaged in television broadcasting and other related services or activities. In 1997, the Company purchased 15 convertible bonds of CTPI at the nominal value of Rp10,000 each.

Following the default of CTPI to pay the principal and interest of the bonds on October 15, 2002 (the maturity date), the Company sent a redemption notice to CTPI to redeem the bonds. On October 16, 2002, the Company also sent a letter to PT Tridan Satriaputra, as guarantor of the bonds, to pay the bonds.

Based on a letter dated December 18, 2002 from CTPI, it offered the settlement of the bonds by paying the Company US$5,000 in cash not later than March 31, 2003 and US$10,000 in the form of registered transferable term loan from PT Garuda Indonesia ("the Garuda Debt").

In 2002, the Company wrote off a part of its investment in convertible bonds of CTPI amounting to Rp95,250.

As set forth in a Settlement Agreement dated June 6, 2003, the Company agreed to sell and transfer the CTPI ("Issuer") bonds to PT Berkah Karya Bersama ("Financier") and the latter party agreed to purchase and accept the transfer from the Company.

The Financier agreed to pay a consideration of US$5,000 in 3 installments amounting to US$1,250, US$1,250 and US$2,500, no later than 7, 30 and 60 business days, respectively, as from the date of the agreement and to transfer the Garuda Debt amounting to US$10,000 to the Company.

As set forth in the Post-Closing Disposal Agreement dated June 6, 2003, the Financier agreed to assist the Company to sell all of the Garuda Debt to a third party, at a price subject to approval by the Company, within 365 days until August 5, 2004 ("Period of Transfer"). In the event the sale was not made during the period of transfer, within 7 days ("Period to Purchase I") the Financier agreed to acquire the Garuda Debt at a net transfer price of 50% of the face value. In the event the sale was not made during the Period to Purchase I, within 7 days ("Period to Purchase II") the Issuer agreed to acquire the Garuda Debt at a net transfer price of 50% of the face value. In the event the sale was not made during the Period to Purchase II, within 7 days PT Bhakti Assets Management (a stockholder of the Financier) agreed to acquire the Garuda Debt at a net transfer price of 50% of the face value.

On August 7, 2003, the Company received US$5,000 from the Financier and recognized the Garuda Debt at 50% of the face value (or US$5,000, equivalent to Rp41,425) since this was the portion of the Garuda Debt that was reasonably assured of being recovered.

Based on a Trade Confirmation dated September 8, 2003, the Company sold all of its Garuda Debt to Deutsche Bank AG, London for US$4,425. On January 27, 2004, the Company received the proceeds from the sale of the Garuda Debt amounting to US$4,344, after considering interest income amounting to US$81 received by the Company since September 8, 2003 (the trade confirmation date).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 11. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

| | 2003 | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Year | Transactions during the Year: Additions | Deductions | Reclassifications | Balance at End of Year |
| Carrying Value | | | | | |
| Landrights | 252,076 | 7,680 | 13 | - | 259,743 |
| Buildings | 292,726 | 3,153 | - | 62,506 | 358,385 |
| Submarine cables | 724,170 | 932 | 8,040 | 196 | 717,258 |
| Earth stations | 108,484 | - | - | - | 108,484 |
| Inland link | 166,137 | 1,122 | - | 30,597 | 197,856 |
| Switching equipment | 278,428 | 24,448 | - | 5,897 | 308,773 |
| Telecommunications peripherals | 984,011 | 214,256 | 4,278 | 64,249 | 1,258,238 |
| Information technology equipment | 506,874 | 252 | - | 136,209 | 643,335 |
| Office equipment | 899,258 | 113,037 | 1,034 | 41,893 | 1,053,154 |
| Building and leasehold improvements | 224,712 | 11,881 | 228 | 203,170 | 439,535 |
| Vehicles | 28,180 | 1,751 | 14,276 | - | 15,655 |
| Cellular technical equipment | | | | | |
| Base station subsystem | 6,558,179 | 46,651 | 3,471 | 1,639,340 | 8,240,699 |
| Network switching subsystem | 2,436,000 | 22,467 | 120,950 | 886,595 | 3,224,112 |
| Operating support subsystem | 444,984 | 1,988 | - | 92,733 | 539,705 |
| Satellite technical equipment | | | | | |
| Satellites | 979,473 | 14,896 | - | - | 994,369 |
| Master control station | 153,077 | 600 | - | 2,066 | 155,743 |
| Customer premises equipment | 96,377 | 96 | - | 7,878 | 104,351 |
| Transmission and cross-connection equipment | | | | | |
| Transmission equipment | 406,191 | 25,132 | - | 4,910 | 436,233 |
| Cross-connection equipment | 27,590 | 146 | - | 1,038 | 28,774 |
| Properties under construction and installation | 2,272,471 | 3,829,022 | 35,790 | (3,179,277) | 2,886,426 |
| Total | 17,839,398 | 4,319,510 | 188,080 | - | 21,970,828 |
| Accumulated Depreciation | | | | | |
| Buildings | 130,054 | 23,492 | - | - | 153,546 |
| Submarine cables | 205,312 | 48,909 | 6,218 | - | 248,003 |
| Earth stations | 67,608 | 5,365 | - | - | 72,973 |
| Inland link | 28,729 | 11,870 | - | - | 40,599 |
| Switching equipment | 125,670 | 20,730 | - | - | 146,400 |
| Telecommunications peripherals | 531,776 | 156,627 | 4,278 | - | 684,125 |
| Information technology equipment | 303,285 | 87,944 | - | - | 391,229 |
| Office equipment | 353,543 | 129,855 | 299 | - | 483,099 |
| Building and leasehold improvements | 148,076 | 44,728 | 228 | - | 192,576 |
| Vehicles | 11,811 | 4,797 | 6,799 | - | 9,809 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 11. PROPERTY AND EQUIPMENT (continued)

| | 2003 | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Year | Transactions during the Year | | | Balance at End of Year |
| | | Additions | Deductions | Reclassifications | |
| Cellular technical equipment | | | | | |
| Base station subsystem | 2,269,942 | 854,946 | 2,074 | - | 3,122,814 |
| Network switching subsystem | 1,080,531 | 361,474 | 89,762 | - | 1,352,243 |
| Operating support subsystem | 99,986 | 62,536 | - | - | 162,522 |
| Satellite technical equipment | | | | | |
| Satellites | 395,658 | 84,729 | - | - | 480,387 |
| Master control station | 53,518 | 10,986 | - | - | 64,504 |
| Customer premises equipment | 17,828 | 7,425 | - | - | 25,253 |
| Transmission and cross - connection equipment | | | | | |
| Transmission equipment | 113,393 | 20,101 | - | - | 133,494 |
| Cross-connection equipment | 12,213 | 2,291 | - | - | 14,504 |
| Total | 5,948,933 | 1,938,805 | 109,658 | - | 7,778,080 |
| Less impairment in value | 131,209 | 1,010 | 32,598 | - | 99,621 |
| **Net Book Value** | **11,759,256** | | | | **14,093,127** |

| | 2004 | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Year | Transactions during the Year | | | Balance at End of Year |
| | | Additions | Deductions | Reclassifications | |
| <u>Carrying Value</u> | | | | | |
| Landrights | 259,743 | 23,855 | - | - | 283,598 |
| Buildings | 358,385 | 885 | - | 16,805 | 376,075 |
| Submarine cables | 717,258 | - | 2,201 | 147,761 | 862,818 |
| Earth stations | 108,484 | - | - | 7,729 | 116,213 |
| Inland link | 197,856 | 1,716 | - | 199,810 | 399,382 |
| Switching equipment | 308,773 | - | - | 16,514 | 325,287 |
| Telecommunications peripherals | 1,258,238 | 196,273 | 9,187 | 101,179 | 1,546,503 |
| Information technology equipment | 643,335 | 94,611 | 29,072 | 163,105 | 871,979 |
| Office equipment | 1,053,154 | 53,449 | 3,571 | 992 | 1,104,024 |
| Building and leasehold improvements | 439,535 | 95 | 3,671 | 482,524 | 918,483 |
| Vehicles | 15,655 | 1,007 | 1,301 | - | 15,361 |
| Cellular technical equipment | | | | | |
| Base station subsystem | 8,240,699 | - | 10,258 | 2,734,461 | 10,964,902 |
| Network switching subsystem | 3,224,112 | - | 716 | 2,369,482 | 5,592,878 |
| Operating support subsystem | 539,705 | - | - | 34,166 | 573,871 |
| Satellite technical equipment | | | | | |
| Satellites | 994,369 | 8,025 | - | 148 | 1,002,542 |
| Master control station | 155,743 | - | - | 6,207 | 161,950 |
| Customer premises equipment | 104,351 | - | - | 2,243 | 106,594 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 11. PROPERTY AND EQUIPMENT (continued)

| | 2004 | | | | |
|---|---|---|---|---|---|
| | Balance at Beginning of Year | Transactions during the Year | | | Balance at End of Year |
| | | Additions | Deductions | Reclassifications | |
| Transmission and cross-connection equipment | | | | | |
| Transmission equipment | 436,233 | - | - | 6,469 | 442,702 |
| Cross-connection equipment | 28,774 | - | - | - | 28,774 |
| FWA technical equipment | | | | | |
| Base station subsystem | - | - | - | 317,499 | 317,499 |
| Properties under construction and installation | 2,886,426 | 5,530,743 | - | (6,607,094) | 1,810,075 |
| Total | 21,970,828 | 5,910,659 | 59,977 | - | 27,821,510 |
| Accumulated Depreciation | | | | | |
| Buildings | 153,546 | 23,887 | - | - | 177,433 |
| Submarine cables | 248,003 | 63,005 | 1,618 | - | 309,390 |
| Earth stations | 72,973 | 7,392 | - | - | 80,365 |
| Inland link | 40,599 | 21,183 | - | - | 61,782 |
| Switching equipment | 146,400 | 27,007 | - | - | 173,407 |
| Telecommunications peripherals | 684,125 | 183,353 | 9,187 | - | 858,291 |
| Information technology equipment | 391,229 | 150,711 | 13,332 | - | 528,608 |
| Office equipment | 483,099 | 93,143 | 2,816 | - | 573,426 |
| Building and leasehold improvements | 192,576 | 98,044 | 846 | - | 289,774 |
| Vehicles | 9,809 | 2,614 | 1,033 | - | 11,390 |
| Cellular technical equipment | | | | | |
| Base station subsystem | 3,122,814 | 1,269,200 | 755 | - | 4,391,259 |
| Network switching subsystem | 1,352,243 | 554,363 | 60 | - | 1,906,546 |
| Operating support subsystem | 162,522 | 30,879 | - | - | 193,401 |
| Satellite technical equipment | | | | | |
| Satellites | 480,387 | 128,168 | - | - | 608,555 |
| Master control station | 64,504 | 6,002 | - | - | 70,506 |
| Customer premises equipment | 25,253 | 5,270 | - | - | 30,523 |
| Transmission and cross - connection equipment | | | | | |
| Transmission equipment | 133,494 | 21,547 | - | - | 155,041 |
| Cross-connection equipment | 14,504 | 4,743 | - | | 19,247 |
| FWA technical equipment | | | | | |
| Base station subsystem | - | 22,132 | - | - | 22,132 |
| Total | 7,778,080 | 2,712,643 | 29,647 | - | 10,461,076 |
| Less impairment in value | 99,621 | 17,637 | - | - | 117,258 |
| **Net Book Value** | **14,093,127** | | | | **17,243,176** |

The submarine cables represent the Company's proportionate investment in submarine cable circuits jointly constructed, operated, maintained and owned with other countries, based on the respective contracts and/or the construction and maintenance agreements.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 11. PROPERTY AND EQUIPMENT (continued)

During 2002, 2003 and 2004, sales of certain property and equipment were made as follows:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Proceeds from sale | 3,412 | 6,147 | 18,490 |
| Net book value | (1,040) | (6,974) | (17,072) |
| **Gain (loss)** | **2,372** | **(827)** | **1,418** |

Depreciation charged to operations amounted to Rp1,723,933, Rp1,938,805 and Rp2,712,643 in 2002, 2003 and 2004, respectively.

In November 2003, Satelindo disposed of property and equipment which previously have been provided with an impairment reserve amounting to Rp32,598.

In 2003, Lintasarta provided Rp1,010 as impairment reserve on its assets.

In 2004, the Company recognized impairment loss on Sisindosat's property and equipment amounting to Rp17,637 due to the impairment of its investment in Sisindosat as indicated by the sales price of Sisindosat being below the amount of the Company's investment (see Notes 1d and 42a).

Management believes that there is no further impairment in assets value or recovery of the impairment reserve as contemplated in SAK 48.

As of December 31, 2004, approximately 15.11% of property and equipment are pledged as collateral to long-term debts and letter of credit facilities obtained by the Company and Lintasarta (Note 17).

As of December 31, 2004, the Companies carry insurance on their respective property and equipment (except submarine cables and landrights) for US$153,847 and Rp112,961, including insurance on the Company's satellite amounting to US$70,000 which is pledged as collateral for its long-term debts (Notes 17 and 18). In management's opinion, the sum insured is sufficient to cover possible losses arising from fire, explosion, lightning and aircraft damage and other natural disasters.

The details of the Companies' properties under construction and installation as of December 31, 2003 and 2004 are as follows:

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 11. PROPERTY AND EQUIPMENT (continued)

| 2003 | Percentage of Completion | Cost | Estimated Date of Completion |
|---|---|---|---|
| Cellular technical equipment | 60 - 95 | 2,091,915 | March 2004 |
| Telecommunications peripherals | 15 - 90 | 421,334 | January - June 2004 |
| Submarine cables | 99 | 147,508 | March 2004 |
| Inland link | 54 - 73 | 105,535 | February - July 2004 |
| Building and leasehold improvements | 60 - 95 | 36,863 | March 2004 |
| Switching equipment | 90 - 93 | 9,653 | March 2004 |
| Satellite technical equipment | 55 - 85 | 9,246 | November 2004 |
| Information technology equipment | 70 - 90 | 4,580 | February 2004 |
| Transmission and cross-connection equipment | 75 - 85 | 4,512 | February 2004 |
| Others | 20 - 95 | 55,280 | January - June 2004 |
| **Total** | | **2,886,426** | |

| 2004 | Percentage of Completion | Cost | Estimated Date of Completion |
|---|---|---|---|
| Cellular technical equipment | 68 | 1,525,579 | January - June 2005 |
| Fixed wireless access technical equipment | 95 | 105,562 | January - March 2005 |
| Building and leasehold improvements | 79 - 93 | 68,587 | January - April 2005 |
| Inland link | 83 | 66,002 | June 2005 |
| Information technology equipment | 85 - 90 | 13,780 | January - March 2005 |
| Telecommunications peripherals | 80 | 6,939 | January - March 2005 |
| Building | 40 | 5,554 | December 2005 |
| Satellite technical equipment | 40 | 1,070 | January - March 2005 |
| Others | 91 - 95 | 17,002 | January - April 2005 |
| **Total** | | **1,810,075** | |

Borrowing costs capitalized during the year to properties under construction and installation are as follows:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Interest expense | 49,443 | 84,775 | 83,064 |
| Net foreign exchange loss | 502 | 607 | - |

## 12. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arose from acquisition of equity interest in Satelindo and Bimagraha (Note 1d).

The details of the other intangible assets arising from the acquisition of Satelindo in 2002 are as follows:

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 12. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

| | Amount |
|---|---|
| Customer base | |
| - Post-paid | 154,220 |
| - Prepaid | 73,128 |
| Spectrum license | 222,922 |
| Brand | 147,178 |
| **Total** | **597,448** |

Starting January 2003, the Company changed its goodwill amortization period from 5 years to become 15 years. The effect of the change is an increase (decrease) in net income as follows:

| Period | Amount |
|---|---|
| Year ended December 31, 2004 | 572,319 |
| Year ending December 31, 2005 | 572,319 |
| Year ending December 31, 2006 | 271,798 |
| Year ending December 31, 2007 | (84,603) |

The analysis of goodwill and other intangible assets is as follows:

| | 2003 | 2004 |
|---|---|---|
| Balance at beginning of year | 4,079,090 | 3,344,939 |
| Amortization of goodwill | (252,907) | (226,347) |
| Amortization of intangible assets | (99,201) | (106,014) |
| Deduction of goodwill due to reversal of deferred tax liabilities relating to the merger transaction (Notes 1e and 15) | (382,043) | - |
| **Balance at end of year** | **3,344,939** | **3,012,578** |

## 13. LONG-TERM ADVANCES

This account represents advances to suppliers and contractors for the procurement or construction of property and equipment which will be reclassified to the related property and equipment accounts upon the receipt of the property and equipment purchased or after the construction of the property and equipment has reached a certain percentage of completion.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 14. PROCUREMENT PAYABLE

This account consists of payables to the following vendors/contractors:

| | 2003 | 2004 |
|---|---|---|
| Ericsson AB, Sweden (US$3,487 in 2003 and US$55,709 in 2004) | 29,519 | 517,539 |
| Siemens Aktiengesellschaft, Germany (including US$51,553 in 2003 and US$28,102 in 2004) | 438,776 | 262,660 |
| Alcatel CIT, France (including US$37,465 in 2003 and US$16,913 in 2004) | 317,662 | 157,447 |
| ZTE Corporation, China (US$10,235) | - | 95,084 |
| PT Alcatel Indonesia (including US$991 in 2003 and US$6,259 in 2004) | 11,228 | 71,255 |
| Nokia Corporation, Finland (US$7,248) | - | 67,337 |
| Kopindosat | 456 | 57,539 |
| Siemens Mobile Communications S.p.A, Italy (US$4,720) | - | 43,847 |
| PT Dawamiba Engineering | 3,148 | 35,133 |
| PT Ekaprasarana Primatel (US$258 in 2003 and including US$3,546 in 2004) | 2,160 | 34,185 |
| PT Logica CMG Indonesia (US$3,010) | - | 27,962 |
| PT NEC Indonesia (including US$2,933) | - | 27,629 |
| PT Lintas Teknologi Indonesia (including US$2,713 in 2004) | 8 | 27,497 |
| PT Siemens Indonesia (including US$713 in 2003 and US$986 in 2004) | 52,960 | 23,893 |
| Sumitomo Corporation, Japan (including US$7,252 in 2003 and US$2,085 in 2004) | 61,359 | 19,699 |
| PT Westindo Esa Perkasa (including US$1,973 in 2003 and US$1,766 in 2004) | 17,682 | 17,882 |
| PT Berca Hardayaperkasa (US$1,788 in 2004) | 772 | 17,756 |
| PT Hariff Daya Tunggal Engineering (including US$1,871) | - | 17,446 |
| PT Gihon Telekomunikasi Indonesia | 37 | 14,426 |
| PT Karya Mitra Nugraha | - | 14,388 |
| PT Catur Elang Perkasa | 1,312 | 13,767 |
| PT Bukaka Teknik Utama | 168 | 12,045 |
| PT Nexwave (US$1,200) | - | 11,148 |
| PT Ericsson Indonesia (including US$13,703 in 2003 and US$755 in 2004) | 171,350 | 10,628 |
| NT System Company Limited, Hongkong (US$1,097) | - | 10,189 |
| PT Kopnatel Jaya | 3,077 | 9,967 |
| PT Bangun Sarana Baja | 42 | 9,715 |
| PT Ciptakomunindo Pradipta | 1,396 | 9,693 |
| PT Industri Telekomunikasi Indonesia (including US$491 in 2004) | 3,082 | 9,667 |
| PT Tricipta Persada Nusantara (US$856 in 2003 and including US$961 in 2004) | 7,245 | 9,420 |
| PT Senopati Sellularindo | 19,873 | 9,130 |
| PT Auvikomunikasi Media Pro | - | 8,766 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 14. PROCUREMENT PAYABLE (continued)

| | 2003 | 2004 |
|---|---|---|
| PT Bumi Trafacon Utama | 1,618 | 8,602 |
| PT Duta Sembilan Kartika | 389 | 8,414 |
| PT Data Media Telekomunikasi (US$896) | - | 8,323 |
| PT Logica Indonesia (US$97 in 2003 and including US$830 in 2004) | 825 | 7,977 |
| PT Abhimata Citra Abadi (US$802) | - | 7,451 |
| PT Prima Mitratama Sejati (including US$1,230 in 2003 and US$717 in 2004) | 10,969 | 7,301 |
| PT Silkar National Ltd. | 1,217 | 7,208 |
| PT Bukit Jaya Abadi | - | 7,099 |
| PT Rama Perwira | - | 7,031 |
| PT Asiakomnet Multimedia (including US$690) | - | 6,770 |
| PT Karunia Berca Indonesia | - | 6,696 |
| PT Bumikharisma Lininusa | - | 6,675 |
| PT Atma Sugih Abadi | - | 6,638 |
| PT Alita Praya Mitra | 1,939 | 6,070 |
| PT Astra Graphia Tbk (including US$712 in 2003 and US$380 in 2004) | 6,604 | 3,530 |
| PT Aditech Matra (including US$1,169 in 2003 and US$38 in 2004) | 11,073 | 807 |
| Others (including US$9,041 in 2003 and US$13,282 in 2004, each below Rp5,000) | 166,861 | 267,732 |
| **Total** | **1,344,807** | **2,049,063** |

## 15. TAXES PAYABLE

The taxes payable as of December 31, 2003 and 2004 are as follows:

| | 2003 | 2004 |
|---|---|---|
| Estimated corporate income tax payable, less tax prepayments of Rp386,978 in 2003 and Rp131,499 in 2004 | 198,592 | 9,403 |
| Income taxes: | | |
| Article 21 | 71,491 | 86,626 |
| Article 22 | 1,238 | 4,390 |
| Article 23 | 26,910 | 51,085 |
| Article 25 | 1,194 | 18,712 |
| Article 26 | 604 | 22,055 |
| Article 29 | 243 | 1,068 |
| VAT | 21,544 | 22,553 |
| Others | 1,090 | 4,307 |
| **Total** | **322,906** | **220,199** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 15. TAXES PAYABLE (continued)

The reconciliation between income before income tax and extraordinary item and estimated taxable income (loss) of the Company for the years ended December 31, 2002, 2003 and 2004 is as follows:

| | 2002 (As Restated – Note 4) | 2003 (As Restated – Note 4) | 2004 |
|---|---|---|---|
| Income before income tax and extraordinary item per consolidated statements of income | 1,350,230 | 1,586,693 | 2,382,758 |
| Extraordinary item - realized gain on difference in value from resctructuring transaction of entities under common control | - | 7,443,910 | - |
| Subsidiaries' income before income tax and effect of inter-company consolidation eliminations | (823,323) | (312,887) | (112,210) |
| Income before income tax of the Company | 526,907 | 8,717,716 | 2,270,548 |
| Positive adjustments | | | |
| Compensation expense for ESOP (Note 20) | - | 24,809 | 95,990 |
| Loss from decline in value of investments in associated companies and other long-term investments | 80,227 | - | 48,683 |
| Accrual of postretirement benefits | 7,528 | 10,653 | 45,732 |
| Provision for doubtful accounts | 313,019 | 45,659 | 34,246 |
| Donation | 3,040 | 5,847 | 20,645 |
| Representation and entertainment | - | - | 14,787 |
| Provision for termination, gratuity and compensation benefits of employees | 5,868 | - | 8,823 |
| Gain on sale of investment in associated companies | - | - | 7,688 |
| Accrual of remuneration and other employee benefits | 3,544 | 49,209 | 5,568 |
| Employee benefits | 9,762 | 37,876 | 5,201 |
| Assessments for income taxes and related penalties | 26,485 | 40,424 | 1,616 |
| Realized loss on difference in value from restructuring transaction of entities under common control | - | 2,510,690 | - |
| Reversal of write-off of other long-term investment and related interest receivable | - | 413,049 | - |
| Interest expense on loans used to finance shares acquisition (Note 17) | 167,941 | 253,400 | - |
| Provision for decline in value of short-term investment | - | 25,395 | - |
| Net periodic pension cost | - | 5,993 | - |
| Interest on tax installments | 137,358 | - | - |
| Equity in net loss of investees | 109,308 | - | - |
| Gain on sale of other long-term investment (Note 10) | 109,184 | 32,207 | - |
| Others | 1,880 | 7,876 | 6,123 |
| Negative adjustments | | | |
| Depreciation - net | (47,430) | (46,315) | (772,515) |
| Interest income already subjected to final tax | (192,902) | (58,985) | (178,616) |
| Equity in net income of investees | - | (993,418) | (156,882) |
| Capitalization of interest expense and personnel expenses to property and equipment (Notes 11 and 24) | - | - | (101,702) |
| Amortization of goodwill and other intangible assets | (557,488) | (509,647) | (82,663) |
| Realization of stock option resulting from the exercise of ESOP Phase I | - | - | (49,592) |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 15. TAXES PAYABLE (continued)

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Net periodic pension cost | (32,481) | - | (15,964) |
| Write-off of accounts receivable | (319,563) | (23,998) | (6,184) |
| Gain from sale of property and equipment | - | - | (465) |
| Amortization of debt and bonds issuance cost (Notes 17 and 18) | - | (21,662) | (314) |
| Realized gain on difference in value from restructuring transaction of entities under common control | - | (9,813,209) | - |
| Reversal of interest expense on loans used to finance shares acquisition due to the merger (Note 17) | - | (421,341) | - |
| Sale of other long-term investment and related interest receivable (Note 10) | - | (417,649) | - |
| Realized gain on sale of other long-term investment (Note 10) | - | (141,391) | - |
| Provision for termination, gratuity and compensation benefits of employees | - | (1,939) | - |
| Write-off of other long-term investment | (95,250) | - | - |
| Others | (1,116) | - | - |
| **Estimated taxable income (loss) of the Company before tax losses carryover** | **255,821** | **(268,751)** | **1,200,753** |
| Tax losses carryover at beginning of year | - | - | (934,637) |
| Tax losses carryover of IM3 carried over to the Company as a result of the merger (Notes 1e and 15) | - | (665,886) | - |
| **Estimated taxable income of the Company** | **255,821** | **-** | **266,116** |
| **Tax losses carryover at end of year** | **-** | **(934,637)** | **-** |

The computation of the income tax expense (benefit) - net for the years ended December 31, 2002, 2003 and 2004 is as follows:

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Estimated taxable income (loss) of the Company | **255,821** | **(268,751)** | **266,116** |
| Income tax expense - current (at statutory tax rates) | | | |
| Company | 76,729 | - | 79,817 |
| Subsidiaries | 169,141 | 585,570 | 61,085 |
| Total income tax expense - current | 245,870 | 585,570 | 140,902 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 15. TAXES PAYABLE (continued)

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Income tax expense (benefit) - deferred | | | |
| Company - effect of temporary differences at enacted maximum tax rate (30%) | | | |
| Tax loss carryover | - | (80,626) | 280,392 |
| Depreciation - net | 14,229 | 13,895 | 231,754 |
| Equity in net income (loss) of investees | (32,792) | 298,025 | 47,065 |
| Capitalization of interest expense and personnel expenses to property and equipment (Notes 11 and 24) | - | - | 30,511 |
| Amortization of goodwill and other intangible assets | 167,246 | 152,894 | 24,799 |
| Net periodic pension cost | 9,744 | (1,798) | 4,789 |
| Write-off of accounts receivable | 95,869 | 7,199 | 1,855 |
| Gain on sale of property and equipment | 34 | - | 139 |
| Amortization of debt and bonds issuance cost (Notes 17 and 18) | - | 6,499 | 94 |
| Loss from decline in value of investments in associated companies and other long-term investments | (24,068) | - | (14,605) |
| Compensation expense for ESOP | - | (7,443) | (13,919) |
| Accrual of postretirement benefits | (2,258) | (3,196) | (13,720) |
| Provision for doubtful accounts | (93,906) | (13,698) | (10,274) |
| Provision for termination, gratuity and compensation benefits of employees | (1,760) | 582 | (2,647) |
| Gain (loss) on sale of investment in associated companies and other long-term investment | - | 125,295 | (2,306) |
| Accrual of remuneration and other employee benefits | (1,063) | (14,763) | (1,670) |
| Realized gain on difference in value from restructuring Transaction of entities under common control | - | 2,943,963 | - |
| Reversal of interest expense on loans used to finance shares acquisition due to the merger (Note 17) | - | 126,403 | - |
| Effect on reversal of equity in net income of Satelindo, IM3 and Bimagraha due to the merger (Note 1e) | - | (709,772) | - |
| Reversal of write-off of other long-term investment and related interest receivable | - | (123,915) | - |
| Interest expense on loans used to finance shares acquisition (Note 17) | (50,383) | (76,020) | - |
| Provision for decline in value of short-term investment | - | (7,618) | - |
| Write-off of other long-term investment | 28,575 | - | - |
| Others | - | (160) | (4,735) |
| | 109,467 | 2,635,746 | 557,522 |
| Subsidiaries | | | |
| Taxable gain on revaluation of property and equipment, offset against tax losses carryover | - | 68,242 | - |
| Effect of temporary differences at enacted maximum tax rate (30%) | | | |
| Loss from decline in value of other long-term investments | (4,982) | (254) | 12,404 |
| Provision for doubtful accounts | (7,459) | (31,990) | 7,961 |
| Write-off of accounts receivable | 72,761 | 1,810 | 3,316 |
| Equity in net income of investees | 179,458 | 133,712 | 2,270 |
| Tax loss carryover applied (tax loss) | 186,550 | (118,637) | (21,762) |
| Depreciation - net | 100,914 | 150,618 | (4,834) |
| Gain on sale of investment in associated company | - | 3,525 | - |
| Effect on reversal of equity in net income of Satelindo due to the merger (Note 1e) | - | (432,521) | - |
| Others | (2,165) | (1,717) | (4,916) |
| Valuation allowance - net | (103,956) | 273 | 31,691 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 15. TAXES PAYABLE (continued)

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Effect on reversal of temporary difference on depreciation of revalued property and equipment | - | (68,242) | - |
| | 421,121 | (295,181) | 26,130 |
| Net income tax expense - deferred | 530,588 | 2,340,565 | 583,652 |
| **Income tax expense - net** | **776,458** | **2,926,135** | **724,554** |

The income tax expense (benefit) - deferred is presented in the consolidated statements of income as/as part of the following accounts:

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Income tax expense (benefit) - deferred | 530,588 | (603,398) | 583,652 |
| Extraordinary item - realized gain on difference from restructuring transaction of entities under common control | - | 2,943,963 | - |
| **Net** | **530,588** | **2,340,565** | **583,652** |

The computation of the estimated income tax payable and claims for tax refund for the years ended December 31, 2003 and 2004 is as follows:

| | 2003 | 2004 |
|---|---|---|
| Income tax expense - current | | |
| Company | - | 79,817 |
| Subsidiaries | 585,570 | 61,085 |
| Total income tax expense - current | 585,570 | 140,902 |
| Less prepayments of income tax of the Company | | |
| Article 22 | 3,549 | 76,527 |
| Article 23 | 32,335 | 133,135 |
| Article 25 | 81,804 | 224,074 |
| Total prepayments of income tax of the Company | 117,688 | 433,736 |
| Less prepayments of income tax of Subsidiaries | | |
| Article 22 | 54,883 | 2,349 |
| Article 23 | 55,105 | 39,024 |
| Article 25 | 301,401 | 17,505 |
| Total prepayments of income tax of Subsidiaries | 411,389 | 58,878 |
| Total prepayments of income tax | 529,077 | 492,614 |
| Estimated income tax payable | | |
| Company | - | - |
| Subsidiaries | 198,592 | 9,403 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 15. TAXES PAYABLE (continued)

| | 2003 | 2004 |
|---|---|---|
| **Total estimated income tax payable** | **198,592** | **9,403** |
| Claims for tax refund (presented as part of "Prepaid Taxes") | | |
| Company | 117,688 | 353,919 |
| Subsidiaries | 24,411 | 7,196 |
| **Total claims for tax refund** | **142,099** | **361,115** |

The reconciliation between the income tax expense including the income tax on extraordinary item calculated by applying the applicable tax rate of 30% to the combined income, net of loss, before income tax of the Company and Subsidiaries, and the income tax expense - net as shown in the consolidated statements of income for the years ended December 31, 2002, 2003 and 2004 is as follows:

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Income before income tax and extraordinary item per consolidated statements of income | 1,350,230 | 1,586,693 | 2,382,758 |
| Extraordinary item – realized gain on difference in value from restructuring transaction of entities under common control | - | 7,443,910 | - |
| Company's equity in Subsidiaries' income before income tax and reversal of inter-company consolidation eliminations | 1,533,805 | 2,047,223 | 90,976 |
| **Combined income, net of loss, before income tax of the Company and Subsidiaries** | **2,884,035** | **11,077,826** | **2,473,734** |
| Income tax expense at the applicable tax rate of 30% | 865,211 | 3,323,348 | 742,120 |
| Taxable gain on revaluation of property and equipment, offset against tax losses carryover | - | 68,242 | - |
| Tax effect on permanent differences | | | |
| Donation | 4,179 | 7,241 | 6,194 |
| Assessments for income taxes and related penalties | 6,964 | 21 | 2,362 |
| Employee benefits | 11,162 | 23,043 | 2,251 |
| Interest income already subjected to final tax | (88,295) | (15,112) | (57,473) |
| Realized loss on difference in value from restructuring transaction of entities under common control | - | 753,207 | - |
| Gain on sale of other long-term investment | 32,755 | 9,662 | - |
| Realized gain on sale of other long-term investment | - | (42,417) | - |
| Interest on tax installments | 41,207 | - | - |
| Others | 7,319 | 6,154 | 3,032 |
| Unrealized tax loss | - | 3,078 | - |
| Valuation allowance adjustment | (103,956) | 273 | 31,690 |
| Effect on reversal of equity in net income of Satelindo, IM3 and Bimagraha due to the merger (Note 1e) | - | (1,142,293) | - |
| Effect on reversal of temporary differences on depreciation of revalued property and equipment | - | (68,242) | - |
| Adjustment due to tax audit and others | (88) | (70) | (5,622) |
| **Income tax expense - net per consolidated statements of income** | **776,458** | **2,926,135** | **724,554** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 15. TAXES PAYABLE (continued)

The tax effects of significant temporary differences between financial and tax reporting which are outstanding as of December 31, 2003 and 2004 are as follows:

| | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|
| Company | | |
| Deferred tax assets | | |
| Allowance for doubtful accounts - net | - | 156,743 |
| Allowance for decline in value of investments in associated companies and other long-term investments | - | 92,565 |
| Pension cost | - | 39,525 |
| Accrual of postretirement benefits | - | 33,476 |
| Accrual of remuneration and other employee benefits | - | 24,936 |
| Compensation expense for ESOP | - | 21,362 |
| Estimated liability for termination, gratuity,and compensation benefits of employees (Labor Law No. 13) | - | 10,591 |
| Allowance for short-term investment | - | 7,618 |
| Total | - | 386,816 |
| Deferred tax liabilities | | |
| Property and equipment | - | 776,766 |
| Investments in subsidiaries/associated companies net of amortization of goodwill and other intangible assets | - | 86,449 |
| Deferred bonds and loans issuance costs | - | 6,593 |
| Difference in transactions of equity changes in associated companies/subsidiaries | - | 1,801 |
| Others | - | 925 |
| Total | - | 872,534 |
| Deferred tax liabilities - net | - | 485,718 |
| Subsidiaries (Asiatel and APE in 2003 and 2004, IM2 in 2004) | | |
| Deferred tax assets | | |
| Allowance for decline in value of other long-term investments | - | 9,462 |
| Tax loss carryover | 5,196 | 6,532 |
| Allowance for doubtful accounts - net | 597 | 7,413 |
| Others | 27 | 405 |
| | 5,820 | 23,812 |
| Valuation allowance | (5,418) | (21,875) |
| Net | 402 | 1,937 |
| Deferred tax liabilities | | |
| Investments in subsidiaries/associated companies | - | 1,891 |
| Property and equipment | 1,083 | 654 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 15. TAXES PAYABLE (continued)

| | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|
| Others | 978 | 2,748 |
| Total | 2,061 | 5,293 |
| Deferred tax liabilities - net | 1,659 | 3,356 |
| **Total deferred tax liabilities - net** | **1,659** | **489,074** |
| Company | | |
| Deferred tax assets | | |
| Tax loss carryover | 280,392 | - |
| Allowance for doubtful accounts - net | 145,364 | - |
| Allowance for decline in value of investments in associated companies and other long-term investments | 80,930 | - |
| Pension cost (Note 29) | 44,314 | - |
| Accrual of remuneration and other employee benefits | 23,266 | - |
| Accrual of postretirement benefits | 19,756 | - |
| Allowance for short-term investment | 7,618 | - |
| Compensation expense for ESOP | 7,443 | - |
| Estimated liability for termination, gratuity and compensation benefits of employees (Labor Law No. 13) | 7,450 | - |
| Total | 616,533 | - |
| Deferred tax liabilities | | |
| Property and equipment | 517,621 | - |
| Investments in subsidiaries/associated companies net of amortization of goodwill and other intangible assets | 10,736 | - |
| Unamortized debt and bonds issuance cost | 6,499 | - |
| Difference in transactions of equity changes in associated companies/subsidiaries | 1,752 | - |
| Others | 925 | - |
| Total | 537,533 | - |
| Deferred tax assets - net | 79,000 | - |
| Subsidiaries (IM2 in 2003, Sisindosat and Lintasarta in 2003 and 2004) | | |
| Deferred tax assets | | |
| Tax loss carryover | - | 20,426 |
| Property and equipment | 15,948 | 20,395 |
| Allowance for doubtful accounts - net | 24,902 | 6,888 |
| Allowance for decline in value of investments in associated companies and other long-term investments | 22,027 | 5,473 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

**15. TAXES PAYABLE (continued)**

| | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|
| Investments in subsidiaries/associated companies | 649 | - |
| Others | 10,952 | 11,809 |
| Total | 74,478 | 64,991 |
| Valuation allowance | (15,747) | (30,981) |
| Net | 58,731 | 34,010 |
| Deferred tax liabilities | | |
| Investments in subsidiaries/associated companies | - | 337 |
| Others | 1,094 | 469 |
| Total | 1,094 | 806 |
| Deferred tax assets - net | 57,637 | 33,204 |
| **Total deferred tax assets - net** | **136,637** | **33,204** |

The breakdown by entity of the foregoing deferred tax assets and liabilities outstanding as of December 31, 2003 and 2004 is as follows:

| | 2003 (As Restated - Note 4) | | 2004 | |
|---|---|---|---|---|
| | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities |
| Company | 79,000 | - | - | 485,718 |
| Subsidiaries | | | | |
| Asiatel | - | 691 | - | 691 |
| Sisindosat | 30,130 | - | - | - |
| Lintasarta | 24,413 | - | 33,204 | - |
| IMM | 3,094 | - | - | 1,342 |
| APE | - | 968 | - | 1,323 |
| **Total** | **136,637** | **1,659** | **33,204** | **489,074** |

The significant temporary differences on which deferred tax assets have been computed are not deductible for income tax purposes until the decrease in the carrying value of investments in subsidiaries/associated companies and the allowance for decline in value of investments in associated companies and other long-term investments are realized upon sale of the investments, the doubtful accounts are written off, the tax loss carryover is utilized, the accrued remuneration and other employee benefits are paid and the allowance for short-term investment is realized upon sale of the investment. The deferred tax liabilities relate to the differences in the book and tax bases of property and equipment, goodwill and other intangible assets, and unamortized debt and bonds issuance cost due to the use of different depreciation/amortization periods and methods for income tax and financial reporting purposes and the tax effect on the difference in transactions of equity changes in associated companies/subsidiaries.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 15. TAXES PAYABLE (continued)

A valuation allowance has been established for certain deferred tax assets. This valuation allowance reduces tax assets to an amount which is more likely than not to be realized.

Under the current tax laws of Indonesia, the Company and Subsidiaries submit their respective tax returns on the basis of self-assessment. The tax authorities may assess or amend taxes within ten years after the fiscal year when the tax became payable. Any loss on income tax basis can be carried forward and used to offset against future taxable income for a maximum period of 5 years.

Based on Decision No. KEP-02/WPJ.07/KP.0105/2002 dated March 26, 2002 of the Director General of Taxation, the Company obtained approval to pay the income tax article 29 for fiscal year 2001 amounting to Rp1,893,981 in nine installments up to December 25, 2002 with interest at 2% per month. As of December 31, 2002, the Company has fully paid the installments.

In 2002, 2003 and 2004, the Company received assessment letters on tax underpayment (“SKPKB”/ “STP”) detailed as follows:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Income taxes | 11,646 | 40,424 | 1,616 |
| VAT | 14,839 | - | - |
| **Total *** | **26,485** | **40,424** | **1,616** |

* including penalties and interest

The above tax underpayment has been settled by the Company.

No income tax was provided for Sisindosat, Asiatel and SMM in 2003 and 2004, for Indosat in 2003, and for SIB and IFB in 2004 because they were in tax loss position during those years.

The Company provides for deferred tax liabilities (DTL) and deferred tax assets (DTA) relating to the book versus tax basis differences in its investment in domestic subsidiaries as the Company believes that for certain subsidiaries the investment will be recovered through the sale of the shares which is a taxable transaction and for certain subsidiaries the differences will be deductible from ordinary income as a result of a merger.

The above treatment was also applied to the merged subsidiaries up to the merger date (Note 1e).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 15. TAXES PAYABLE (continued)

Total DTL recognized by the Company as of November 20, 2003 (the merger date) on its investment in the merged subsidiaries amounted to Rp829,689, including Rp119,917 which was charged directly to “Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries”, a component of Stockholders’ Equity.

Bimagraha also recognized DTL on its equity in net income and difference in transactions of equity changes in Satelindo. As of November 20, 2003, the DTL recognized by Bimagraha from the date it was acquired by the Company on its equity in net income and difference in transactions of equity changes in Satelindo amounted to Rp432,521 and Rp34, respectively.

Due to the merger, the Company‘s expectation on the probability of the future settlement of the DTL changed since its investments in the merged subsidiaries changed in form and are assumed not to be sold to third parties; accordingly, all of the above DTL were reversed on the merger date. The reversal of net DTL was made against “Income Tax Benefit - Deferred” account or “Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries” account, depending on whether the DTL or DTA impacted earnings or equity upon recognition.

On the merger date, the Company also reversed the balance of DTL on the difference in fair value between the tax basis and book basis of the net assets acquired during Bimagraha’s and Satelindo’s acquisition in 2001 and 2002, respectively. Total amount of DTL reversed amounting to Rp382,043 was credited to goodwill (Note 12).

As of November 20, 2003, the tax loss carryover from IM3 carried over to the Company as a result of merger amounted to Rp665,886, after considering the correction from the Directorate General of Taxation. Based on the decision letter dated February 5, 2004 of the Directorate General of Taxation regarding the approval of IM3’s fiscal balance sheet in connection with the revaluation of its property and equipment, the taxable gain on such revaluation was adjusted from Rp197,971 to become Rp227,474 (Rp29,503 greater than the amount reported in IM3’s corporate tax return).

The tax loss carryover of Sisindosat, SMM and Asiatel as of December 31, 2004 can be carried forward through 2009 based on the following schedule:

| Year Due | Amount |
|---|---|
| 2005 | 3,283 |
| 2006 | 11,528 |
| 2007 | - |
| 2008 | 356 |
| 2009 | 72,541 |
| **Total** | **87,708** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 16. ACCRUED EXPENSES

This account consists of the following:

| | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|
| Concession fee | 103,043 | 171,590 |
| Interest | 169,564 | 167,048 |
| Network repairs and maintenance | 32,195 | 121,005 |
| Postretirement benefits | 65,852 | 111,584 |
| Other employee benefits | 48,795 | 52,150 |
| Radio frequency license | 62,216 | 49,399 |
| Labor Law No. 13 benefits (Note 29) | 30,950 | 42,841 |
| Annual leave | 37,605 | 40,961 |
| Consultancy fees | 25,665 | 30,217 |
| Pension cost (Note 29) | 18,313 | 20,896 |
| Rental | 10,339 | 14,911 |
| Utilities | 8,432 | 8,066 |
| Others | 96,490 | 96,721 |
| **Total** | **709,459** | **927,389** |

## 17. LONG-TERM DEBTS

This account consists of the following:

| | 2003 | 2004 |
|---|---|---|
| Related parties | | |
| Syndicated loan facility 2 | | |
| BNI - net of unamortized debt issuance cost of Rp14,322 in 2003 and Rp10,497 in 2004 | 810,678 | 752,628 |
| Mandiri - net of unamortized debt issuance cost of Rp3,472 in 2003 and Rp2,393 in 2004 | 196,528 | 175,387 |
| BNI (US$75,000) | 634,875 | - |
| Syndicated loan facility 1 | | |
| Mandiri Syari'ah | 50,000 | - |
| BNI | 30,000 | - |
| Government of the Republic of Indonesia | 2,505 | - |
| Others | 1,139 | 988 |
| Third parties - net of unamortized debt issuance cost of Rp16,925 in 2003 and Rp12,372 in 2004 | 1,383,698 | 1,034,497 |
| Total long-term debts | 3,109,423 | 1,963,500 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 17. LONG-TERM DEBTS (continued)

| | 2003 | 2004 |
|---|---|---|
| Less current maturities | | |
| Related parties | | |
| BNI | 61,875 | 123,750 |
| Mandiri | 22,220 | 44,536 |
| Government of the Republic of Indonesia | 2,505 | - |
| Third parties | 112,294 | 207,135 |
| Total current maturities | 198,894 | 375,421 |
| **Long-term portion** | **2,910,529** | **1,588,079** |

The loans from related parties consist of the following:

a. Syndicated Loan Facility 2

On October 2, 2003, the Company entered into a syndicated loan agreement covering Rp3,165,000 with the following syndicated banks:

| Bank | Amount |
|---|---|
| BCA | 975,000 |
| Mandiri * | 900,000 |
| BNI* | 900,000 |
| Danamon * | 240,000 |
| Bukopin | 150,000 |
| **Total** | **3,165,000** |

* related parties

The facility is divided into 3 tranches:

| Tranche | Bank | Amount |
|---|---|---|
| A | Danamon | 240,000 |
| | Bukopin | 150,000 |
| B | Mandiri | 900,000 |
| C | BCA | 975,000 |
| | BNI | 900,000 |
| **Total** | | **3,165,000** |

The Company drew Rp200,000 and Rp1,800,000 from its facility under Tranches B and C, respectively, on December 8, 2003.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 17. LONG-TERM DEBTS (continued)

a. Syndicated Loan Facility 2 (continued)

Based on the loan agreement, the Company should use the proceeds of the loans to repay IM3's debts and Satelindo's debts based on the MRA (Note 35), and/or for capital expenditure financing, and/or other corporate general needs if IM3's debts are repaid using other facility.

The interest rates ranged from 11.83% to 12.75% per annum in 2003 and from 11.00% to 11.92% in 2004. The loans are payable semi-annually.

The details of the principal installments of Syndicated Loan 2 are as follows:

| Tranche | Semi-annual Installment | Due Date | Amount of Each Installment (% to Principal) |
|---|---|---|---|
| B | 1st - 8th | Every six months of interval starting December 2004 to June 2008 | 11.11 |
| | 9th | December 2008 | 11.12 |
| C | 1st - 4th | Every six months of interval starting December 2004 to June 2006 | 7.50 |
| | 5th | December 2006 | 10.00 |
| | 6th - 9th | Every six months of interval starting June 2007 to December 2008 | 15.00 |

As of December 31, 2003 and 2004, the outstanding balances of the loans are as follows:

| Bank | 2003 | 2004 |
|---|---|---|
| BCA | 975,000 | 901,875 |
| BNI* | 825,000 | 763,125 |
| Mandiri* | 200,000 | 177,780 |
| Balance | 2,000,000 | 1,842,780 |
| Unamortized debt issuance cost | (34,719) | (25,262) |
| **Net** | **1,965,281** | **1,817,518** |

* related parties

On December 7, 2004, the Company paid the first semi-annual installments amounting to Rp73,125, Rp61,875 and Rp22,220 to BCA, BNI and Mandiri, respectively.

The amortization of debt issuance cost charged to operations amounted to Rp559 in 2003 and Rp9,457 in 2004.

The loans are collateralized by the Company's moving cellular assets in Indonesia which from time to time should have a minimum value of 125% of the loans based on a fiduciary agreement.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 17. LONG-TERM DEBTS (continued)

b. Mandiri

1) Sisindosat

Sisindosat's investment loan facility with Mandiri has a maximum amount of Rp478 and is available for three years starting from June 14, 2002 with annual interest rate of 19.5%. The outstanding balance of this loan as of December 31, 2003 is Rp246.

Sisindosat repaid fully this loan in 2004.

2) The Company

On June 28, 2002, the Company entered into a working capital loan agreement with Mandiri for a total facility of Rp1,500,000.

In August and November 2002, the loan was refinanced by a loan obtained from BNI (see point d below) and the proceeds of the Second Indosat Bonds in Year 2002 with Fixed and Floating Rates (Note 18).

c. Syndicated Loan Facility 1

On August 7, 2002, IM3 obtained a long-term credit facility of Rp1,500,000 from the following syndicated banks:

| **Bank** | **Amount** |
|---|---|
| Mandiri * | 1,000,000 |
| BNI * | 230,000** |
| BCA | 100,000 |
| Mandiri Syari'ah * | 50,000 |
| Danamon *** | 50,000 |
| BRI * | 50,000 |
| Bukopin | 20,000 |
| **Total** | **1,500,000** |

* related parties
** including Rp30,000 loan from Syari'ah Business Division
*** affiliate of the Companies starting 2003

Based on the credit facility agreement, IM3 should use the proceeds of the loans for the purpose of the installation and development of IM3's GSM 1800 cellular network in the islands of Java, Bali, Batam and Bintan.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 17. LONG-TERM DEBTS (continued)

c. Syndicated Loan Facility 1 (continued)

The loans bore interest in accordance with the prime rate of the syndicated banks. The annual interest rates ranged from 11.34% to 20.00% in 2002, and from 12.44% to 21.00 in 2003. The loans were scheduled to be payable semi-annually, with the first to fourth installments of 15% each of the principal amounts being payable from February 2005 to August 2006, and the fifth and sixth installments of 20% of the principal amounts being payable until the maturity date of August 2007.

On September 24, 2003, Mandiri (as agent) informed IM3 that BRI transferred its credit portion to BCA. In addition, in September and October 2003, IM3 received letters from the banks giving approval to the merger of IM3 with the Company. The credit facility agreement was amended to consider the above-mentioned matters based on notarial deed No. 1 dated October 1, 2003 of Rini Yulianti, S.H. (as a substitute notary of Poerbaningsih Adi Warsito, S.H.).

On December 23, 2003, the Company paid Rp1,420,000 out of the Rp1,500,000 outstanding loans.

As of December 31, 2003, the outstanding balances of the loans were as follows:

| Bank | Amount |
|---|---|
| Mandiri Syari'ah * | 50,000 |
| BNI* | 30,000** |
| **Total** | **80,000** |

* related parties
** including Rp30,000 loan from Syari'ah Business Division

Based on the credit facility agreement, IM3 was required to maintain an escrow account to be used for the payment of interest on the loans, in the amount approximately equal to three months' interest.

The loans were collateralized by IM3's GSM 1800 cellular network with a minimum value of not less than 125% of the total loans.

The Company repaid the remainder of the loans of Rp50,000 to Mandiri Syari'ah on January 30, 2004 and Rp30,000 to BNI (Syari'ah Business Division) on February 20, 2004.

## 17. LONG-TERM DEBTS (continued)

d. BNI

On August 27, 2002, the Company entered into a loan agreement with BNI for a working capital facility with a maximum amount of US$75,000. Interest was at LIBOR plus 6.15% which was payable on a quarterly basis. The loan was scheduled to be payable in quarterly installments starting from the third year of the loan until the maturity date in August 2007. The loan was collateralized by 9,615,385 shares of Satelindo.

Based on the loan agreement, the Company was required to comply with, among others, the following covenants:

- maintain current ratio of 110% at the minimum
- maintain debt-to-equity ratio (DER) of 233% at the maximum.

The proceeds of the loan were used to refinance the loan obtained from Mandiri (point b.2. above).

On January 16, 2004, this loan was fully repaid.

e. Government of the Republic of Indonesia

The proceeds of the Company's loan from the Government of the Republic of Indonesia were used for the construction of the South East Asia - Middle East - Western Europe 2 submarine cables. The loan bore interest at annual rates ranging from 12.79% to 13.86% in 2002 and from 8.36% to 12.43% in 2003. These rates represented the lower between:

- Average interest rate for three-month period of Certificates of Bank Indonesia, plus 1% margin, and
- Average interest rate for three-month period of time deposits from five (5) state-owned banks, plus 1% margin.

The loan from the Government is payable in semi-annual installments up to 2004. It was obtained by the Government from a foreign bank and then lent out to the Company ("two-step loan"). This is payable by the Government to the foreign bank in French franc. The Company made withdrawals from the credit facility in the billing currencies of the related equipment suppliers. The withdrawal is converted into rupiah based on the exchange rate at the date of withdrawal. The Company's obligation to the Government is based on the rupiah equivalent at the date of withdrawal.

The loan was fully repaid in January 2004.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 17. LONG-TERM DEBTS (continued)

The loans from third parties consist of the following:

| | 2003 | 2004 |
|---|---|---|
| Syndicated Loan Facility 2 (refer to previous section on loans from related parties) | | |
| BCA - net of unamortized debt issuance cost of Rp16,925 in 2003 and Rp12,372 in 2004 | 958,075 | 889,503 |
| Investment Credit Facility 3 from Niaga | - | 96,200 |
| Import Sight Letter of Credit (“L/C”) Facility and Investment Credit Facility 1 from Niaga | 74,199 | 35,199 |
| Import Sight Letter of Credit (“L/C”) Facility and Investment Credit Facility 2 from Niaga | 12,580 | 13,500 |
| BCA (US$40,000) | 338,600 | - |
| Others | 244 | 95 |
| Total | 1,383,698 | 1,034,497 |
| Less current maturities | 112,294 | 207,135 |
| **Net** | **1,271,404** | **827,362** |

a. Investment Credit Facility 3 from Niaga

On June 29, 2004, Lintasarta obtained a loan from a new credit facility from Bank Niaga for the purchase of telecommunication equipment, computer and other supporting facilities amounting to Rp98,000. The loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.5%. The loan has a grace period in the repayment of principal up to the quarter ending June 29, 2005. The quarterly repayment of the principal will start on September 29, 2005, at Rp9,800 each quarter up to December 29, 2007. As of December 31, 2004, the outstanding balance of the loan amounted to Rp96,200 (of which Rp13,018 or the equivalent of US$1,574 was used to finance Import Sight L/C facility) (see point c below).

The loan is collateralized by all equipment purchased from the proceeds of the credit facility, receivables from frame relay (Note 7) and trade receivables from one of Lintasarta’s customers.

The loan also has the same restrictive covenants as the Import Sight L/C Facility and Investment Credit Facility 1 from Niaga.

b. Import Sight L/C Facility and Investment Credit Facility 1 from Niaga

On October 16, 2001, Lintasarta obtained facilities from Niaga as follows:

- Import Sight L/C facility for the purchase of telecommunication equipment, computer and other supporting facilities amounting to Rp130,000 wherein 10% of the facility would be financed by Lintasarta itself and 90% of the facility or Rp117,000 would be financed through investment credit facility. The facility also included local L/C (*Surat Kredit Berdokumen Dalam Negeri*) with a maximum amount of Rp26,000. This facility expired on December 31, 2002.
- Investment credit facility amounting to Rp117,000 for financing the above facility. In 2002, Lintasarta drew Rp113,199 from the facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.25% (subsequently changed to 2.75% on April 8, 2002). The repayment of the principal started on January 16, 2003, with installments amounting to Rp9,750 payable quarterly up to October 16, 2005. As of December 31, 2003 and 2004, this loan had outstanding balances of Rp74,199 and Rp35,199, respectively.

## 17. LONG-TERM DEBTS (continued)

b. Import Sight L/C Facility and Investment Credit Facility 1 from Niaga (continued)

The loan is collateralized by all equipment purchased from the proceeds of the credit facilities, receivables from frame relay (Note 7) and time deposit placed in Niaga amounting to Rp10,000 (presented as part of "Non-current Assets - Others"). Based on the amendment No. 201/CBG/JKT/2004 dated June 29, 2004 of the credit agreement, the loan is also secured by trade receivables from one of Lintasarta's customers. Lintasarta is required to obtain written approval from Niaga if:

- The combined ownership of the Company and Yayasan Kesejahteraan Karyawan Bank Indonesia in Lintasarta shall become less than 51% during the facility period.
- Lintasarta will obtain new debts (Note 18).
- Lintasarta will invest in other than Lintasarta's current business.

Lintasarta is also required to maintain certain financial ratios and its dividends distribution should not be more than 50% of the current year's net income.

In addition, on May 31, 2000, Lintasarta obtained Import Sight/Usance/UPAS L/C and Bank Guarantee facilities from Niaga. The facilities consist of the following:

- Import Sight/Usance/UPAS L/C facility amounting to US$5,000 for the importation of electronic and telecommunication equipment and amounting to US$100 for the payment to Lintasarta's supplier. On August 6, 2003, the facility was rolled over until August 6, 2004 but the facility amount was reduced to US$1,000. On June 29, 2004, the facility was rolled over until August 6, 2005. As of December 31, 2004, Lintasarta has not used this facility.

- Bank guarantee facility amounting to US$3,000. On August 4, 2003, this facility was rolled over until August 6, 2004 but the facility amount was reduced to US$500. On June 29, 2004, the facility was rolled over until August 6, 2005. No drawdowns have been made from the reduced facility as of December 31, 2004.

c. Import Sight L/C Facility and Investment Credit Facility 2 from Niaga

On August 14, 2003, Lintasarta obtained facilities from Niaga as follows:

- Import Sight L/C facility for the purchase of telecommunication equipment, computer and other supporting facilities amounting to US$10,000 wherein Rp15,000 of the facility would be financed through investment credit facility 2 and the remainder would be financed by Lintasarta itself. The expiry date of the facility was extended from August 14, 2004 to December 31, 2004. As of December 31, 2004, Lintasarta has already used this facility to the extent of US$5,101. The facility used was financed by investment credit facility 2 amounting to US$1,827 or equivalent to Rp15,000 (see below) and the remaining balance of US$3,274 was financed by Lintasarta itself amounting to US$1,700 and by investment credit facility 3 amounting to US$1,574 (see point a above).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 17. LONG-TERM DEBTS (continued)

c. Import Sight L/C Facility and Investment Credit Facility 2 from Niaga (continued)

- Investment credit facility 2 amounting to Rp15,000 to finance the above facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 2.75% (subsequently changed to 3% on October 1, 2003). The loan has a grace period until August 14, 2004 to start paying the interest on the loan. The repayment of the principal started on November 14, 2004, with installments amounting to Rp1,500 payable quarterly up to February 14, 2007. As of December 31, 2004, Lintasarta has fully drawn this facility.

The loan is collateralized by all equipment (purchased from the proceeds of the credit facilities) and receivables from frame relay (Note 7).

The loan also has the same restrictive covenants as the Import Sight L/C Facility and Investment Credit Facility 1 from Niaga.

d. BCA

1). On July 23, 2002, the Company entered into a loan agreement with a total facility of US$75,000 with BCA. This time loan facility was used by the Company to finance the capital injection in Satelindo (Note 1d). Interest was paid quarterly at the annual fixed interest rate of 8.6%. The loan was covered by a promissory note issued by the Company to BCA, which note was transferable by BCA to other banks in Indonesia with prior notification to the Company. In December 2002, the Company partially settled the loan amounting to US$50,000 of which US$10,000 was financed by a part of the proceeds from the Second Indosat Bonds in Year 2002 with Fixed and Floating Rates (Note 18) and US$40,000 was financed through a new loan facility from BCA (see below). The balance of US$25,000 was fully repaid in January 2003.

2). On December 3, 2002, the Company entered into another loan agreement with a total facility of US$40,000 to refinance a part of the above BCA loan. The loan was scheduled to be payable in quarterly installments of US$3,333 starting from March 23, 2005 to December 23, 2007. Interest was paid quarterly at 5.9% over the interest rate of three-month time deposits in U.S. dollar of BCA. The loan was collateralized by the Company's investment in shares of Satelindo with a minimum amount of 125% of the total loan facility. On January 8, 2004, this loan was fully repaid.

The scheduled principal payments from 2005 to 2008 of all the long-term debts as of December 31, 2004 are as follows:

| | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|
| In rupiah | | | | | |
| Syndicated Loan Facility 2 | | | | | |
| BCA | 146,250 | 170,625 | 292,500 | 292,500 | 901,875 |
| BNI | 123,750 | 144,375 | 247,500 | 247,500 | 763,125 |
| Mandiri | 44,440 | 44,440 | 44,440 | 44,460 | 177,780 |
| Niaga | 60,799 | 45,200 | 38,900 | - | 144,899 |
| Others | 182 | 901 | - | - | 1,083 |
| **Total** | **375,421** | **405,541** | **623,340** | **584,460** | **1,988,762** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 18. BONDS PAYABLE

As of December 31, 2003 and 2004, this account consists of:

| | 2003 | 2004 |
|---|---|---|
| Guaranteed Notes Due 2010 (US$300,000) - net of unamortized notes issuance cost of Rp27,828 in 2003 and Rp24,629 in 2004 | 2,511,639 | 2,762,371 |
| Third Indosat Bonds in Year 2003 with Fixed Rate - net of unamortized bonds issuance cost of Rp29,443 in 2003 and Rp24,830 in 2004 | 2,470,557 | 2,475,170 |
| Second Indosat Bonds in Year 2002 with Fixed and Floating Rates | 1,075,000 | 1,075,000 |
| First Indosat Bonds in Year 2001 with Fixed and Floating Rates | 1,000,000 | 1,000,000 |
| Indosat Syari'ah Mudharabah Bonds in Year 2002 | 175,000 | 175,000 |
| Limited bonds issued by Lintasarta* | 30,436 | 30,436 |
| Convertible bonds issued by Lintasarta** | 6,106 | 6,106 |
| **Total** | **7,268,738** | **7,524,083** |

* after elimination of limited bonds issued to the Company amounting to Rp9,564
** after elimination of convertible bonds issued to the Company amounting to Rp13,893

Guaranteed Notes Due 2010

In October 2003, the Company, through IFB, issued Guaranteed Notes Due 2010 with fixed rate. The notes have a total face value of US$300,000. The notes have B+ and B2 ratings from Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"), respectively. The notes bear fixed interest rate at 7.75% per annum payable in semi-annual installments on May 5 and November 5 of each year, commencing May 5, 2004. The notes will mature on November 5, 2010.

The notes are redeemable at the option of IFB, in whole or in part at any time on or after November 5, 2008. The notes are redeemable at prices equal to 103.8750%, 101.9375% and 100.0000% of the principal amount during the 12-month period commencing on November 5 of 2008, 2009 and 2010, respectively. In addition, prior to November 5, 2006, IFB may redeem up to a maximum of 35% of the original aggregate principal amount, with the proceeds of one or more public equity offerings of the Company, at a price equal to 107.75% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any. The notes are also redeemable at the option of IFB, in whole but not in part, at any time, at a price equal to 100% of the principal amount thereof, plus any accrued and unpaid interest and additional amount to the date of redemption, in the event of certain changes affecting withholding taxes in Indonesia and the Netherlands that would require IFB or the Company to pay an additional amount in respect of any note in excess of certain amounts. Upon a change in control of IFB (including sale, transfer, assignment, lease, conveyance or other disposition of "all or substantially all" of IFB's assets), the holder of the notes has the right to require IFB to repurchase all or any part of such holder's notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the purchase date.

The Company received the proceeds of the notes on November 5, 2003.

The net proceeds, after deducting the underwriting fee and offering expenses, were used primarily to repay a portion of Indosat's (including Satelindo's and IM3's) outstanding indebtedness amounting to Rp1,500,000 and US$447,500.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 18. BONDS PAYABLE (continued)

Guaranteed Notes Due 2010 (continued)

The amortization of notes issuance cost charged to operations amounted to Rp473 in 2003 and Rp3,199 in 2004.

Third Indosat Bonds in Year 2003 with Fixed Rate

On October 15, 2003, the Company issued at face value its Third Indosat Bonds in Year 2003 with Fixed Rate (“Third Indosat Bond”), with BRI as the trustee. The bonds have a total face value of Rp2,500,000 in Rp50 denomination. The bonds have $_{id}$AA+ and AA+ ratings from PT Pemeringkat Efek Indonesia (“Pefindo”) and PT Kasnic Credit Rating (“Kasnic”), respectively. The bonds consist of two series:

- Series A bonds amounting to Rp1,860,000 which bear interest at the fixed rate of 12.5% per annum for 5 years starting October 22, 2003

- Series B bonds amounting to Rp640,000 which bear interest at the fixed rate of 12.875% per annum for 7 years starting October 22, 2003

The bonds mature if the Company exercises the following options:

- *Early Settlement Option* : the Company has the right to make early payment for all the Series A bonds on the 4th anniversary of the bonds at 100% of the bonds' nominal value. The Company has also the right to make early payment for all the Series B bonds on the 4$^{th}$ and the 6$^{th}$ anniversaries of the bonds at 100% of the bonds' nominal value.
- *Buy-back Option* : after the 1$^{st}$ anniversary of the bonds, the Company has the right to buy back part or all of the bonds at market price temporarily or as an early settlement.

PT Kustodian Sentral Efek Indonesia (“KSEI”), acting as payment agent, shall pay interest on the bonds, as follows:

| | |
|---|---|
| Series A | : Starting on January 22, 2004 and every quarter thereafter up to October 22, 2008 |
| Series B | : Starting on January 22, 2004 and every quarter thereafter up to October 22, 2010 |

The proceeds of the bonds were used as capital injection to Satelindo which, in turn, used the proceeds to repay its debts (Note 17) and Guaranteed Floating Rate Bonds (Note 1d - SIB).

The bonds are neither collateralized nor guaranteed by other parties.

Based on the bonds indenture, the Company is required to comply with certain conditions, such as maintaining certain financial ratios.

The amortization of bonds issuance cost charged to operations amounted to Rp749 in 2003 and Rp4,613 in 2004.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 18. BONDS PAYABLE (continued)

Second Indosat Bonds in Year 2002 with Fixed and Floating Rates

On November 6, 2002, the Company issued its Second Indosat Bonds in Year 2002 with Fixed and Floating Rates ("Second Indosat Bond"), with BRI as the trustee. The bonds have a total face value of Rp1,075,000 in Rp50 denomination. The bonds have an $_{id}$AA+ (stable outlook) rating from Pefindo. The bonds consist of three series:

- Series A bonds amounting to Rp775,000 which bear interest at the fixed rate of 15.75% per annum for 5 years starting February 6, 2003

- Series B bonds amounting to Rp200,000, which bear interest at the fixed rate of 16% per annum for 30 years starting February 6, 2003. The bonds mature if the Company or the bondholder exercises the following options:

  - *Buy Option* : the Company has the right to make early payment for all the Series B bonds on the 5$^{th}$, 10$^{th}$, 15$^{th}$, 20$^{th}$ and 25$^{th}$ anniversaries of the bonds at 101% of the bonds' nominal value.
  - *Sell Option* : the bondholder has the right to ask for early settlement from the Company at 100% of the bonds' nominal value: 1) at any time, if the rating of the bonds decreases to $_{id}$AA- or lower (Special Sell Option) or 2) on the 15$^{th}$, 20$^{th}$ and 25$^{th}$ anniversaries of the bonds (Regular Sell Option).

- Series C bonds amounting to Rp100,000 which bear interest at the fixed rate of 15.625% per annum for the first year starting February 6, 2003 and floating rates for the succeeding years until November 6, 2007. The floating rates are determined using the last interest rate for three-month period of Certificates of Bank Indonesia, plus 1.625% margin. The floating rates should have a maximum limit of 18.5% and a minimum limit of 15% per annum.

KSEI, acting as payment agent, shall pay interest on the bonds, as follows:

| | | |
|---|---|---|
| Series A and C | : | Starting on February 6, 2003 and every quarter thereafter up to November 6, 2007 |
| Series B | : | Starting on February 6, 2003 and every quarter thereafter up to November 6, 2032 |
| *Buy Option* | : | February 6, 2003 and every quarter thereafter up to November 6, 2007, 2012, 2017, 2022 and 2027 |
| *Sell Option* | : | February 6, 2003 and every quarter thereafter up to November 6, 2017, 2022 and 2027 |

The bonds are neither collateralized by any specific Company assets nor guaranteed by other parties. All of the Company's assets, except for the assets that have been specifically used as security to its other creditors, are used as pari-passu security for all of the Company's other liabilities including the bonds.

The proceeds of the bonds were used to repay the working capital loan from Mandiri and time loan facility from BCA (Note 17).

Based on the bonds indenture, the Company is required to comply with certain conditions, such as maintaining certain financial ratios.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 18. BONDS PAYABLE (continued)

First Indosat Bonds in Year 2001 with Fixed and Floating Rates

On April 12, 2001, the Company issued its First Indosat Bonds in Year 2001 with Fixed and Floating Rates ("First Indosat Bond"), with BRI as the trustee. The bonds, which consist of two series, have a total face value of Rp1,000,000 in Rp50 denomination and mature on April 12, 2006. The bonds have an $_{id}$AA+ (stable outlook) rating from Pefindo.

The Series A bonds amounting to Rp827,200 bear interest at the fixed rate of 18.5% per annum for 5 years starting April 12, 2001. The Series B bonds amounting to Rp172,800 bear interest at the fixed rate of 18.5% per annum for the first year starting April 12, 2001 and floating rates for the succeeding years. The floating rates are determined using the average for 5 working days of the average 3-month rupiah time deposits with Mandiri, BCA, BNI and Danamon, plus a fixed premium of 2.25%. The floating rates should have a maximum limit of 21% and a minimum limit of 16% per annum. KSEI, acting as payment agent, pays quarterly interest on the bonds starting July 12, 2001 until April 12, 2006.

The bonds are neither collateralized by any specific Company assets nor guaranteed by other parties. All of the Company's assets, except for the assets that have been specifically used as security to its other creditors, are used as pari-passu security for all of the Company's other liabilities including the bonds.

The proceeds of the bonds have been used for developing cellular business through a subsidiary (IM3), the Company's domestic network, and internet and multimedia infrastructure; improving the service and quality of international direct dialing and related services; and increasing submarine cable capacity.

Based on the bonds indenture, the Company is required to comply with certain conditions, such as maintaining certain financial ratios.

Indosat Syari'ah Mudharabah Bonds in Year 2002 ("Syari'ah Bonds")

On November 6, 2002, the Company issued its Syari'ah Bonds, with BRI as the trustee. The bonds have a total face value of Rp175,000 in Rp50 denomination and mature on November 6, 2007. The bonds have an $_{id}$AA+ (stable outlook) rating from Pefindo.

Each bondholder is entitled to a revenue-sharing income [*Pendapatan Bagi Hasil* ("PBH")], which is determined on the basis of the bondholder's portion (*Nisbah*) of the Shared Revenue (*Pendapatan Yang Dibagihasilkan*). Shared revenue refers to the operating revenue of Satelindo and IMM earned from their satellite and internet services, respectively. The bondholders' portions (expressed in percentages) of the satellite and internet services revenue, are as follows:

| | Percentage (%) | |
|---|---|---|
| Year | Satellite | Internet |
| 1 | 6.91 | 10.75 |
| 2 | 6.91 | 9.02 |
| 3 | 6.91 | 7.69 |
| 4 | 6.91 | 6.56 |
| 5 | 6.91 | 5.50 |

(Expressed in millions of Rupiah and thousands of U.S. Dollars,
except share and tariff data)**

## 18. BONDS PAYABLE (continued)

Indosat Syari'ah Mudharabah Bonds in Year 2002 ("Syari'ah Bonds") (continued)

Based on an agreement reached between the Company and the bondholders in the Syari'ah Bondholders' General Meeting held on October 1, 2003, the shared revenue which previously referred to the operating revenue of Satelindo earned from its satellite services was changed to the operating revenue of the Company earned from the same services. The bondholders' portions (expressed in percentages) of the Company's satellite revenue also changed as follows:

| Year | Percentage (%) |
|---|---|
| 1 | 6.91 |
| 2 | 9.34 |
| 3 | 9.34 |
| 4 | 9.34 |
| 5 | 9.34 |

KSEI, acting as payment agent, shall pay quarterly the revenue-sharing income on the bonds starting February 6, 2003 until November 6, 2007.

The bonds are not collateralized by any specific Company assets nor guaranteed by other parties. All of the Company's assets, except for the assets that have been specifically used as a security to its other creditors, are used as pari-passu security for all of the Company's other liabilities including the bonds.

The proceeds of the bonds replaced the Company's internal funds used for the development of its cellular business through the acquisition of Satelindo.

Based on the bonds indenture, the Company is required to comply with certain conditions, such as maintaining certain financial ratios.

Limited Bonds Issued by Lintasarta

In June 2003, Lintasarta entered into an agreement with its stockholders for the former to issue limited bonds amounting to Rp40,000. The limited bonds represent unsecured bonds which mature on June 2, 2006 and bear interest at the fixed rate of 16% per annum for the first year and floating rates for the succeeding years. The floating rates are determined using the average 3-month rupiah time deposit rates with Mandiri, BNI, BRI and BTN, plus a fixed premium of 3%. The floating rates should have a maximum limit of 19% and a minimum limit of 11% per annum. Lintasarta pays interest on the bonds quarterly starting September 2, 2003.

On September 26, 2003, Lintasarta obtained approval from Niaga on the issuance of the limited bonds (Note 17).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 18. BONDS PAYABLE (continued)

Convertible Bonds Issued by Lintasarta

At Lintasarta's Stockholders' Annual General Meeting held on March 21, 2002, the stockholders approved, among others, the declaration of cash dividend amounting to Rp25,300 or 37.5% of Lintasarta's net income in 2001. Cash dividend paid on June 3, 2002 amounted to Rp4,149 (net of tax). The remaining dividend is distributed in the form of unsecured convertible bonds, which bear interest at the annual fixed rate of 19% and payable on a quarterly basis. The bonds will be converted into Lintasarta's common stock at par value of Rp1,000,000 per share on the bonds' maturity date on June 30, 2007.

On May 23, 2003, Lintasarta obtained approval from Niaga on the issuance of the convertible bonds (Note 17).

Based on the first amendment dated July 12, 2004 of the Convertible Bond Agreement, the fixed interest rate of the convertible bonds issued by Lintasarta has been changed to become a floating rate. The floating rate is determined using the average rate for 6-month rupiah time deposits with Mandiri, BNI and BTN, plus a fixed premium of 3%. The floating rate should have a maximum limit of 19% and a minimum limit of 11%. The first amendment is effective starting on July 1, 2004.

The scheduled principal payments of all the bonds payable outstanding as of December 31, 2004 are as follows:

| | 2005 | 2006 | 2007 | 2008 | Total |
|---|---|---|---|---|---|
| In U.S. dollar | | | | | |
| **Guaranteed Notes Due 2010** | | | | | |
| **In U.S. dollar *** | - | - | - | - | - |
| **In equivalent rupiah** | - | - | - | - | - |
| In rupiah | | | | | |
| Third Indosat Bonds Series A*** | - | - | - | 1,860,000 | 1,860,000 |
| Second Indosat Bonds Series A and C ** | - | - | 875,000 | - | 875,000 |
| First Indosat Bonds | - | 1,000,000 | - | - | 1,000,000 |
| Syari'ah Bonds | - | - | 175,000 | - | 175,000 |
| Limited Bonds of Lintasarta | - | 30,436 | - | - | 30,436 |
| Convertible Bonds of Lintasarta | - | - | 6,106 | - | 6,106 |
| **Total** | **-** | **1,030,436** | **1,056,106** | **1,860,000** | **3,946,542** |

* these notes do not have specific maturity date due to the early redemption option
** excluding Series B bonds which do not have specific maturity date due to the buy and sell option
*** excluding Series B bonds which do not have specific maturity date due to the early settlement and buy-back option

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 19. CAPITAL STOCK

The Company's capital stock ownership as of December 31, 2003 (as restated) and 2004 is as follows:

**2003**

| Stockholders | Number of Shares Issued and Fully Paid | Amount | Percentage of Ownership (%) |
|---|---|---|---|
| A Share | | | |
| Government of the Republic of Indonesia | 1 | - | - |
| B Shares | | | |
| Indonesia Communications Limited, Mauritius | 2,171,250,000 | 217,125 | 41.94 |
| Government of the Republic of Indonesia | 776,624,999 | 77,662 | 15.00 |
| Others (holding below 5% each) | 2,229,625,000 | 222,963 | 43.06 |
| **Total** | **5,177,500,000** | **517,750** | **100.00** |

**2004**

| Stockholders | Number of Shares Issued and Fully Paid | Amount | Percentage of Ownership (%) |
|---|---|---|---|
| A Share | | | |
| Government of the Republic of Indonesia | 1 | - | - |
| B Shares | | | |
| Indonesia Communications Limited, Mauritius | 2,171,250,000 | 217,125 | 41.08 |
| Government of the Republic of Indonesia | 776,624,999 | 77,662 | 14.69 |
| Others (holding below 5% each) | 2,337,433,500 | 233,744 | 44.23 |
| **Total** | **5,285,308,500** | **528,531** | **100.00** |

The "A" share is a special share held by the Government of the Republic of Indonesia and has special voting rights. The material rights and restrictions which are applicable to the "B" shares are also applicable to the "A" share, except that the Government may not transfer the "A" share, and it has a veto right with respect to (i) amendment to the provisions regarding the rights of "A" share as stipulated in the articles of association; (ii) amendment to the objective and purposes of the Company; (iii) increase of capital without pre-emptive rights; (iv) merger, consolidation and acquisition; and (v) dissolution and liquidation of the Company.

## 19. CAPITAL STOCK (continued)

Based on a letter dated December 30, 2002 from the Government of the Republic of Indonesia to the Chairman of BAPEPAM and a press release held by the Government on December 15, 2002, the Government through the Ministry of State-Owned Enterprises has entered into a Share Purchase Agreement dated December 15, 2002 with ICL and STT Communications Limited ("STTC"), the sole shareholder of ICL, for the sale of the Government's 2,171,250,000 B shares (as restated) (representing 41.94% ownership interest in 2003 or 41.08% ownership interest in 2004) in the Company to ICL. The closing date of the transaction was December 20, 2002.

Based on a letter from STT to the Chairman of BAPEPAM which was prepared in accordance with BAPEPAM Regulations No. IX.H.1, "Open Company Takeover", and No. X.M.1, "Disclosure Requirements for Certain Shareholders", STT reported the above transaction to BAPEPAM. In addition, STT also reported to BAPEPAM the following matters, among others:

- Based on an agreement dated December 15, 2002 between the Government of the Republic of Indonesia and ICL which expires in 3 years, ICL will not resell the Company's shares within 3 years. Moreover, STTC was required to maintain at least 50.1% equity interest in ICL.
- STT through ICL will support, along with the Government of Indonesia, the merger plan of Satelindo and IM3 into the Company.
- The Government of the Republic of Indonesia agreed to vote together with ICL within one year on dividend distribution, amendment of the articles of association, merger, consolidation and acquisitions by the Company (where the consolidation will not affect the continuing business operations of the Company).

At the Company's Stockholders' Extraordinary Meeting held on December 27, 2002 the minutes of which were notarized under deed No. 42 of Rini Yulianti, S.H. (as a substitute notary of Poerbaningsih Adi Warsito, S.H.) on the same date, the stockholders approved to amend the Company's articles of association relating to, among others, the right of the "A" share to appoint only one director and one commissioner of the Company.

Based on a letter from ICL to the Company regarding a notification of pledge of shares with respect to shares of the Company, ICL informed the Company that ICL pledged all of its B Shares as collateral for a loan facility obtained by STTC from third parties.

Based on a resolution at the Company's Stockholders' Extraordinary Meeting held on March 8, 2004, the Stockholders approved, among others, to:

- Split the nominal value of the Company's A share and B shares from Rp500 to Rp100 per share, resulting in an increase in the number of authorized shares from 4,000,000,000 to 20,000,000,000 shares and in the number of issued and fully paid shares from 1,035,500,000 to 5,177,500,000 shares
- Reclassify four A shares resulting from the stock split to B shares
- Change the exercise price of ESOP Phase 1 (Note 20) from Rp7,837.2 to Rp1,567.4 and increase the number of options by 5 times.

In connection with the exercise of ESOP Phase I commencing from August 1, 2004, 107,808,500 B shares have been issued as of December 31, 2004 (Note 20) at a total premium of Rp207,794.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 20. STOCK OPTIONS

At the Company's Annual Stockholders' General Meeting held on June 26, 2003, the stockholders resolved to, among others, issue 258,875,000 Company B shares (as restated, Note 19) in reserve which are equal to 5% of the Company's issued and fully paid capital with nominal value of Rp100 per share (as restated) by implementing BAPEPAM Regulation No. IX.D.4, "Capital Increases Without Pre-emptive Rights", which will be allocated to the employees through an Employee Stock Option Program ("ESOP"). The exercise price for ESOP Phase I is 90% of the average closing price of the Company's shares within 25 consecutive exchange days in the regular market prior to the announcement for the above-mentioned Annual Stockholders' General Meeting [i.e. Rp1,567.4 (in full amount, as restated)].

The ESOP will be distributed in two phases:

a. Phase I: 50% of the ESOP shares or 129,437,500 share options (as restated) will be distributed to the Company's and its subsidiaries' permanent employees and Boards of Directors and Commissioners from August 1, 2003 with one year vesting period. The exercise period for the options is one year commencing August 1, 2004.

b. Phase II: 50% of the ESOP shares or 129,437,500 share options will be distributed to the Company's and its subsidiaries' permanent employees and Boards of Directors and Commissioners from August 1, 2004 with one year vesting period. The exercise period for the options is one year commencing August 1, 2005.

At the Company's Annual Stockholders' General Meeting held on June 22, 2004, the stockholders resolved, among others, that the exercise price for ESOP Phase II is 90% of the average closing price of the Company's shares within 25 consecutive exchange days in the regular market prior to the announcement for the 2004 Annual Stockholders' General Meeting [i.e. Rp3,702.6 (in full amount)]. It is also resolved that the undistributed ESOP shares from ESOP Phase I will be reallocated for distribution in ESOP Phase II.

In 2004, the Company made an adjustment to decrease the compensation expense of ESOP Phase I as a result of options amounting to Rp3,609 being forfeited.

The total fair values of stock options under ESOP Phase I and Phase II are Rp55,932 and Rp155,681, respectively.

The fair values of stock options under ESOP Phase I and Phase II were computed by adopting the Black-Scholes option pricing model and applying the following assumptions:

| | **Phase I** | **Phase II** |
|---|---|---|
| Risk-free interest rate | 10.00% | 8.90% |
| Expected dividend yield | 4.36% | 3.50% |
| Expected volatility | 36.50% | 37.00% |
| Expected option period | 2 years | 2 years |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 20. STOCK OPTIONS (continued)

In 2003, the Company recognized proportionate five months' compensation expense relating to ESOP Phase I amounting to Rp24,809, while in 2004, the Company recognized the remaining proportionate seven months' compensation expense relating to ESOP Phase I and the proportionate five months' compensation expense relating to ESOP Phase II amounting to Rp31,123 and Rp64,867, respectively, as part of "Operating Expenses - Personnel".

As of December 31, 2004, the number of stock options under ESOP Phase I exercised by the employees is 107,808,500 shares (Note 19).

## 21. OPERATING REVENUES - CELLULAR

This account consists of:

| | **2002** | **2003** | **2004** |
|---|---:|---:|---:|
| Usage charges | 2,139,450 | 3,270,652 | 4,218,800 |
| Features | 538,578 | 1,163,048 | 2,239,731 |
| Interconnection income | 375,650 | 482,274 | 707,544 |
| Monthly subscription charges | 116,334 | 115,836 | 130,413 |
| Connection fee | 87,715 | 49,431 | 103,625 |
| Others | 13,925 | 36,339 | 50,664 |
| **Total** | **3,271,652** | **5,117,580** | **7,450,777** |

The above interconnection income includes interconnection income from related parties amounting to Rp291,815 , Rp466,711 and Rp546,132 in 2002, 2003 and 2004, respectively (Note 30).

## 22. OPERATING REVENUES - FIXED TELECOMMUNICATION

The "Operating Revenues - Fixed Telecommunication" account represents the Company's and Satelindo's share of revenue from the following:

| | **2002** | **2003** | **2004** |
|---|---:|---:|---:|
| International Calls | | | |
| Incoming calls | 899,429 | 902,483 | 863,192 |
| Outgoing calls | 1,238,510 | 905,186 | 680,374 |
| Others | - | - | 11,366 |
| **Total** | **2,137,939** | **1,807,669** | **1,554,932** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 22. OPERATING REVENUES - FIXED TELECOMMUNICATION (continued)

Net settlements from other foreign telecommunications carriers of international telephone services amounted to Rp341,679, Rp450,874 and Rp644,909 in 2002, 2003 and 2004, respectively.

Operating revenues - international calls from related parties amounted to Rp1,101,366, Rp906,251 and Rp588,180 in 2002, 2003 and 2004, respectively. These amounts represent 51.52%, 50.13% and 37.83% of total operating revenues - international calls in 2002, 2003 and 2004, respectively (Note 30).

## 23. OPERATING REVENUES - MIDI

This account consists of:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Related parties | | | |
| Frame net | 60,342 | 79,201 | 110,702 |
| World link and direct link | 24,839 | 32,762 | 59,656 |
| Application services | 28,871 | 36,764 | 41,700 |
| Internet | - | 5,522 | 35,441 |
| Digital data network | 17,934 | 26,684 | 28,451 |
| Satellite lease | 62,650 | 26,901 | 24,998 |
| Packet net | 2,501 | 15,189 | 14,827 |
| Leased line | 30,188 | 29,318 | 10,002 |
| Others | 3,707 | 6,908 | 15,599 |
| Sub-total | 231,032 | 259,249 | 341,376 |
| Third parties | | | |
| Frame net | 225,169 | 225,108 | 325,189 |
| Internet | 162,163 | 188,140 | 253,675 |
| World link and direct link | 277,892 | 220,043 | 222,945 |
| Satellite lease | 138,861 | 118,811 | 127,934 |
| Digital data network | 120,473 | 112,732 | 117,256 |
| Leased line | 24,264 | 24,805 | 25,423 |
| Application services | 22,476 | 11,008 | 12,908 |
| TV link | 9,994 | 13,305 | 10,985 |
| Packet net | 30,963 | 11,508 | 5,185 |
| Others | 19,751 | 43,625 | 41,065 |
| Sub-total | 1,032,006 | 969,085 | 1,142,565 |
| **Total** | **1,263,038** | **1,228,334** | **1,483,941** |

Operating revenues from satellite lease are pledged as collateral for long-term debts obtained and bonds issued by Satelindo (Notes 17 and 18).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 24. OPERATING EXPENSES - PERSONNEL

This account consists of:

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Salaries | 213,566 | 254,010 | 233,795 |
| Bonuses | 91,345 | 148,266 | 219,678 |
| Employee income tax | 91,476 | 123,934 | 167,114 |
| Incentives and other employee allowances | 166,643 | 179,433 | 161,538 |
| Outsourcing | 24,519 | 62,258 | 112,868 |
| ESOP compensation expense (Note 20) | - | 24,809 | 95,990 |
| Postretirement healthcare benefit | 7,979 | 11,797 | 48,133 |
| Medical expense | 25,667 | 31,208 | 38,110 |
| Pension (Note 29) | 14,870 | 53,304 | 33,931 |
| Separation, appreciation and compensation expense under Labor Law No. 13/2003 (Note 29) | 7,286 | 5,994 | 13,253 |
| Annual leave | 8,100 | 15,004 | 3,917 |
| Early retirement compensation | - | 48,844* | - |
| Others | 57,868 | 64,128 | 79,057 |
| **Total** | **709,319** | **1,022,989** | **1,207,384** |

* On April 28, 2003, the Company's Directors issued Decree No. 28/DIREKSI/2003, "Program for Unconditional Voluntary Resignation due to Change in the Company's Status and the Company's Ownership Structure". Under this decree, employees were offered early retirement option in exchange for separation, appreciation, compensation and other benefits. At the end of the program on June 25, 2003, there were 104 employees who took the option.

The personnel expenses capitalized to properties under construction and installation in 2002, 2003, and 2004 amounted to Rp15,007, Rp16,766 and Rp18,638, respectively.

## 25. OPERATING EXPENSES - COMPENSATION TO TELECOMMUNICATIONS CARRIERS AND SERVICE PROVIDERS

This account consists of compensation to telecommunications carriers and service providers, as follows:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Telkom | 599,176 | 638,934 | 502,380 |
| Other telecommunications carriers and service providers | 49,621 | 85,259 | 21,223 |
| **Total** | **648,797** | **724,193** | **523,603** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 25. OPERATING EXPENSES - COMPENSATION TO TELECOMMUNICATIONS CARRIERS AND SERVICE PROVIDERS (continued)

The compensation expenses consist of interconnection and other expenses of the Company, Satelindo and IM3.

Interconnection relates to the expenses for the interconnection between each of the Company's, Satelindo's and IM3's telecommunications networks and those owned by Telkom or other telecommunications carriers.

Other expenses charged by Telkom relate to the billings for the use of circuit, infrastructure rental and billing processing services provided by Telkom (Note 30). Other expenses charged by other telecommunications carriers mainly consist of billings for the use of their circuits.

The Company, Satelindo and IM3 have interconnection arrangements with domestic and overseas operators (Notes 30, 36 and 37). The operating revenues from interconnection services are presented on a net basis, except for those which are based on tariff as stipulated by the Government (Note 2o). The details of interconnection revenues which are presented on a net basis and shown as part of Operating Revenues, are as follows:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Domestic | | | |
| Interconnection revenues | 1,132,594 | 1,483,067 | 1,709,298 |
| Interconnection charges | (580,453) | (848,184) | (1,065,799) |
| **Net** | **552,141** | **634,883** | **643,499** |
| Overseas | | | |
| Revenues from international carriers | 974,718 | 1,000,781 | 1,010,759 |
| Charges from international carriers | (633,039) | (549,907) | (365,850) |
| **Net** | **341,679** | **450,874** | **644,909** |

## 26. OPERATING EXPENSES - ADMINISTRATION AND GENERAL

This account consists of:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Rent | 53,616 | 66,340 | 90,057 |
| Travel | 50,216 | 66,914 | 55,211 |
| Professional fees | 37,472 | 30,339 | 48,575 |
| Provision for doubtful accounts | 75,701 | 144,352 | 33,786 |
| Insurance | 6,185 | 9,530 | 33,772 |
| Training, education and research | 33,051 | 28,743 | 30,673 |
| Communications | 29,688 | 32,035 | 30,140 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 26. OPERATING EXPENSES - ADMINISTRATION AND GENERAL (continued)

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Catering | 18,148 | 24,429 | 29,127 |
| Utilities | 21,542 | 30,178 | 27,662 |
| Office supplies and stationery | 18,068 | 21,415 | 20,673 |
| Public relations | 11,120 | 7,068 | 13,809 |
| Others | 55,783 | 36,645 | 57,862 |
| **Total** | **410,590** | **497,988** | **471,347** |

## 27. OPERATING EXPENSES - OTHER COSTS OF SERVICES

This account consists of:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Cost of SIM cards and pulse reload vouchers | 137,075 | 221,909 | 426,497 |
| Radio frequency license | 136,608 | 204,801 | 180,153 |
| Rent | 78,634 | 127,205 | 123,626 |
| Content provider | 6,526 | 5,661 | 108,716 |
| Utilities | 70,823 | 71,564 | 103,090 |
| Cost of software sold | 69,660 | 68,312 | 83,051 |
| Universal Service Obligation (“USO”) | 18,526 | 21,153 | 70,376 |
| Concession fee | 66,416 | 70,331 | 63,120 |
| Wartel (“Phone Kiosk”) commission | 16,181 | 8,543 | 33,481 |
| Delivery and transportation | 27,349 | 30,795 | 29,113 |
| Communications | 27,451 | 24,345 | 25,567 |
| Billing and collection | 10,768 | 10,490 | 25,129 |
| Insurance | 63,794 | 59,127 | 19,370 |
| Impairment loss on property and equipment | - | 1,010 | 17,637 |
| Others | 6,136 | 47,819 | 63,565 |
| **Total** | **735,947** | **973,065** | **1,372,491** |

## 28. OTHER EXPENSES - FINANCING COST

This account consists of:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Interest on loans | 566,876 | 825,381 | 1,075,911 |
| Amortization of debts/bonds issuance cost (Notes 17 and 18) | - | 1,781 | 17,269 |
| Bank charges | 19,255 | 11,504 | 4,351 |
| **Total** | **586,131** | **838,666** | **1,097,531** |

## 29. PENSION PLAN

The Company, Satelindo and Lintasarta have defined benefit and defined contribution pension plans covering substantially all of their qualified permanent employees.

Defined Benefit Pension Plan

The Company, Satelindo and Lintasarta provide defined benefit pension plans to their respective employees under which pension benefits to be paid upon retirement are based on the employees' most recent basic salary and number of years of service. PT Asuransi Jiwasraya ("Jiwasraya"), a state-owned life insurance company, manages the plans. Pension contributions are determined by periodic actuarial calculations performed by Jiwasraya. The employees contribute 3% - 3.5% of their basic salary to the plans and the companies contribute any remaining amount required to fund their respective plans.

Based on an amendment dated December 22, 2000 of the Company's pension plan, which was further amended on March 29, 2001, the benefits and premium payment pattern were changed. Before the amendment, the premium was regularly paid annually until the plan would be fully funded and the benefits consisted of retirement benefit (regular monthly or lump-sum pension) and death insurance. In conjunction with the amendment, the plan would be fully funded after making installment payments up to January 2002 of the required amount to fully fund the plan determined as of September 1, 2000. The amendment also includes an additional benefit in the form of thirteenth-month retirement benefit, which is payable annually 14 days before Idul Fitri ("Moslem Holiday").

The amendment covers employees registered as participants of the pension plan as of September 1, 2000 and includes an increase in basic salary pension by 9% compounded annually starting from September 1, 2001. The amendment also stipulates that there will be no increase in the premium even in cases of mass employee terminations or changes in marital status.

The total premium installments based on the amendment amounted to Rp355,000, which was paid on due dates.

In 2002, the Company made additional payments to Jiwasraya amounting to Rp20,433 for additional pension benefits which will be received by the directors when they retire.

On June 25, 2003, Satelindo entered into an agreement with Jiwasraya to amend the benefit and premium payment pattern of the former's pension plan. The amendment covers employees registered as participants of the pension plan as of December 25, 2002 up to June 25, 2003. Other new conditions include the following:

- An increase in pension basic salary at 6% compounded annually starting from December 25, 2002
- Thirteenth-month retirement benefit, which is payable annually 14 days before Idul Fitri
- An increase in periodic payment of retirement benefit at 6% compounded annually starting one year after receiving periodic retirement benefit for the first time
- Profit sharing provided by Jiwasraya to Satelindo if the average annual interest rate of time deposits of government banks exceeds 15%. The profit sharing is determined by a formula agreed by both parties and is intended to increase the participants' retirement benefit.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

The total contributions of the Company, Satelindo and Lintasarta to Jiwasraya amounted to Rp25,653, Rp65,995 and Rp69,216 for the years ended December 31, 2002, 2003 and 2004, respectively.

The composition of the net periodic pension cost for the years ended December 31, 2002, 2003 and 2004 is as follows:

| | 2002 (As Restated - Note 4) | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|---|
| Service cost | 21,766 | 26,203 | 34,656 |
| Interest cost | 36,782 | 44,069 | 49,191 |
| Net amortization | - | - | 4,829 |
| Return on plan assets | (43,678) | (48,398) | (54,745) |
| Immediate recognition of past service cost - vested benefit | - | 31,430 | - |
| **Net periodic pension cost** | **14,870** | **53,304** | **33,931** |

The net periodic pension cost for the pension plans for the years ended December 31, 2002, 2003 and 2004 was calculated based on the actuarial valuations as of December 31, 2002, 2003 and 2004, respectively.

These actuarial valuations were prepared by an independent actuary, using the projected-unit-credit method and applying the following assumptions:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Annual discount rate | 12% | 12% | 10% |
| Expected annual rate of return on plan assets | 10 - 12% | 7.5 - 12% | 10% |
| Annual rate of increase in compensation | 6 - 10% | 6 - 10% | 9% |

The funded status of the plans as of December 31, 2003 and 2004 is as follows:

| | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|
| Projected benefit obligation | 493,944 | 571,100 |
| Plan assets at fair value | 513,777 | 671,117 |
| Excess of plan assets over projected benefit obligation | 19,833 | 100,017 |
| Unrecognized actuarial gain | 127,074 | 82,175 |
| **Prepaid pension cost** | **146,907** | **182,192** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

Prepaid pension cost - net consists of:

| | 2003 (As Restated - Note 4) | 2004 |
|---|---|---|
| Prepaid pension cost of the Company: | | |
| Current portion (presented as part of “Prepaid Expenses”) | 28,570 | 22,905 |
| Long-term portion | 136,650 | 180,183 |
| Accrued pension cost of Lintasarta | (18,313) | (20,896) |
| **Net** | **146,907** | **182,192** |

Plan assets principally consist of time deposits, debt securities, long-term investment in shares of stock and property.

Defined Contribution Pension Plan

In May 2001 and January 2003, the Company and Satelindo assisted their employees in establishing their respective employees’ defined contribution pension plans, in addition to the defined benefit pension plan as mentioned above. Starting June 2004, the Company also assisted ex-IM3’s employees in establishing their defined contribution pension plan. Under the defined contribution pension plan, the employees contribute 10% - 20% of their basic salaries while the Company does not contribute to the plans. Total contributions of the employees in 2002, 2003 and 2004 amounted to Rp9,809, Rp18,657 and Rp20,445, respectively. The plan assets are being administered and managed by seven financial institutions appointed by the Company and Satelindo, based on the choice of the employees.

On June 20, 2000, the Ministry of Manpower issued Decree No. KEP-150/Men/2000 (“KEP-150”) regarding the settlement of work dismissal and determination of separation, appreciation and compensation benefits by companies. Subsequently, KEP-150 was revoked by Labor Law No. 13/2003 dated March 25, 2003. The Companies’ employees will receive the benefits under this new law at the minimum. As of December 31, 2003 and 2004, the balance of accruals provided by the Companies in accordance with this law amounted to Rp30,950 (as restated) and Rp42,841, respectively. The accruals provided as of December 31, 2003 and 2004 were determined on the basis of actuarial computations. Such benefits provided are included in Personnel Expenses in the consolidated statements of income.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES

The details of the accounts and the significant transactions entered into with related parties (affiliates, unless otherwise indicated) are as follows:

| | Amount | | Percentage to Total Assets/Liabilities (%) | |
|---|---|---|---|---|
| | 2003 | 2004 | 2003 | 2004 |
| **Cash and cash equivalents** | | | | |
| **State-owned banks (Note 5)** | **2,228,570** | **2,526,632** | **8.55** | **9.06** |
| **Accounts receivable - trade** | | | | |
| Telkom | 308,745 | 253,480 | 1.18 | 0.91 |
| Telkomsel | 112,122 | 41,912 | 0.43 | 0.15 |
| Singapore Telecommunications Ltd (“SingTel”), Singapore | 30,019 | 40,593 | 0.12 | 0.15 |
| PT Televisi Republik Indonesia (Persero) (“TVRI”) | 37,792 | 38,505 | 0.15 | 0.14 |
| StarHub Pte. Ltd. (“StarHub”), Singapore | 14,113 | 27,597 | 0.05 | 0.10 |
| State-owned banks | 20,482 | 20,128 | 0.08 | 0.07 |
| PT Pos Indonesia | 8,448 | 9,238 | 0.03 | 0.03 |
| Cable & Wireless Optus (“Optus”), Australia | 699 | 5,079 | - | 0.02 |
| PT Citra Sari Makmur (“CSM”) | 4,009 | 3,542 | 0.02 | 0.01 |
| Others | 16,273 | 31,691 | 0.06 | 0.11 |
| Total | 552,702 | 471,765 | 2.12 | 1.69 |
| Less allowance for doubtful accounts | 145,511 | 149,096 | 0.56 | 0.53 |
| **Net** | **407,191** | **322,669** | **1.56** | **1.16** |
| **Prepaid expenses (as restated - Note 4)** | | | | |
| Ministry of Communications | 7,697 | 111,458 | 0.03 | 0.40 |
| Jiwasraya | 28,570 | 22,905 | 0.11 | 0.08 |
| Telkom | 1,432 | 1,553 | - | 0.01 |
| Pemda DKI Jakarta | 1,543 | 164 | 0.01 | - |
| Others | 3,109 | 5,163 | 0.01 | 0.02 |
| **Total** | **42,351** | **141,243** | **0.16** | **0.51** |
| **Other current assets** | | | | |
| State-owned banks | 2,462 | 8,666 | 0.01 | 0.03 |
| Others | 598 | - | - | - |
| **Total** | **3,060** | **8,666** | **0.01** | **0.03** |
| **Due from related parties** | | | | |
| Key management personnel | | | | |
| Boards of Directors and Commissioners | - | 7,999 | - | 0.03 |
| Others | 28,864 | 20,436 | 0.11 | 0.07 |
| PT Yasawirya Indah Mega Media (“YIMM”) | 10,413 | 10,413 | 0.04 | 0.04 |
| PT Kalimaya Perkasa Finance (“Kalimaya”) | 10,401 | 10,401 | 0.04 | 0.04 |
| Telkomsel | - | 9,602 | - | 0.03 |
| Kopindosat | 2,028 | 6,207 | 0.01 | 0.02 |
| Optus | - | 2,356 | - | 0.01 |
| GLP | 33,424 | - | 0.13 | - |
| PT Yasawirya Tama Cipta (“YTC”) (Note 30e) | 23,412 | - * | 0.09 | - |
| Telkom | 231 | - | - | - |

*** became third party as of December 31, 2004 (Note 30e)**

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

| | Amount | | Percentage to Total Assets/Liabilities (%) | |
|---|---|---|---|---|
| | 2003 | 2004 | 2003 | 2004 |
| Others | 2,325 | 3,628 | 0.01 | 0.01 |
| Total | 111,098 | 71,042 | 0.43 | 0.25 |
| Less allowance for doubtful accounts | 77,666 | 23,089 | 0.30 | 0.08 |
| **Net** | **33,432** | **47,953** | **0.13** | **0.17** |
| **Long-term prepaid pension (as restated - Note 4)** | | | | |
| **Jiwasraya** | **136,650** | **180,183** | **0.52** | **0.65** |
| **Long-term advances** | | | | |
| Kopindosat | 2,707 | 17,613 | 0.01 | 0.06 |
| Others | 18 | 1,246 | - | 0.01 |
| **Total** | **2,725** | **18,859** | **0.01** | **0.07** |
| **Non-current assets - others** | | | | |
| Telkom | 27,448 | 26,016 | 0.11 | 0.09 |
| State-owned banks | 19,602 | 12,613 | 0.07 | 0.05 |
| Others | 5,595 | 2,675 | 0.02 | 0.01 |
| **Total** | **52,645** | **41,304** | **0.20** | **0.15** |
| **Short-term loans** | | | | |
| **Mandiri** | **3,524** | **3,524** | **0.03** | **0.02** |
| **Accounts payable - trade** | | | | |
| Telkom | 1,983 | 5,940 | 0.01 | 0.04 |
| Telkomsel | 6,586 | - | 0.05 | - |
| PT Indonesia Comnet Plus (“Comnet”) | 1,389 | - | 0.01 | - |
| Others | 2,514 | 15,641 | 0.02 | 0.11 |
| **Total** | **12,472** | **21,581** | **0.09** | **0.15** |
| **Accrued expenses (as restated - Note 4)** | | | | |
| Ministry of Communications | 165,259 | 220,989 | 1.18 | 1.51 |
| Boards of Directors and Commissioners | 9,121 | 25,077 | 0.07 | 0.17 |
| Jiwasraya | 18,313 | 20,896 | 0.13 | 0.14 |
| Kopindosat | 462 | 15,055 | - | 0.10 |
| Telkom | 9,700 | 6,987 | 0.07 | 0.05 |
| Others | 2,562 | 1,309 | 0.02 | 0.01 |
| **Total** | **205,417** | **290,313** | **1.47** | **1.98** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

| | Amount | | Percentage to Total Assets/Liabilities (%) | |
|---|---|---|---|---|
| | 2003 | 2004 | 2003 | 2004 |
| **Due to related parties** | | | | |
| Telkom | 10,407 | 12,989 | 0.07 | 0.09 |
| Indonesia Comnet | - | 4,782 | - | 0.03 |
| TVRI | 2,479 | 2,262 | 0.02 | 0.02 |
| State-owned banks | - | 2,125 | - | 0.01 |
| Kopindosat | 3,329 | 1,635 | 0.02 | 0.01 |
| PT Industri Telekomunikasi Indonesia | 16,495 | 66 | 0.12 | - |
| SingTel | 386 | - | - | - |
| Others | 5,232 | 15,202 | 0.04 | 0.10 |
| **Total** | **38,328** | **39,061** | **0.27** | **0.26** |
| **Long-term debts (including current maturities)** | | | | |
| State-owned banks | 1,722,327 | 928,110 | 12.28 | 6.32 |
| Government of the Republic of Indonesia | 2,505 | - | 0.02 | - |
| Others | 893 | 893 | 0.01 | 0.01 |
| **Total** | **1,725,725** | **929,003** | **12.31** | **6.33** |
| **Other non-current liabilities** | | | | |
| Ministry of Communications | 147,355 | 145,991 | 1.05 | 0.99 |
| Telkomsel | 18,100 | 16,436 | 0.13 | 0.11 |
| Telkom | 1,469 | - | 0.01 | - |
| Others | 1,395 | 1,260 | 0.01 | 0.01 |
| **Total** | **168,319** | **163,687** | **1.20** | **1.11** |

| | Amount | | | Percentage to Respective Income or Expenses (%) | | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2002 | 2003 | 2004 |
| **Operating revenues** | | | | | | |
| Telkom | 1,169,663 | 920,102 | 851,153 | 17.28 | 11.17 | 8.07 |
| State-owned banks | 91,247 | 123,413 | 220,818 | 1.35 | 1.50 | 2.09 |
| SingTel | - | 110,293 | 141,465 | - | 1.34 | 1.34 |
| Telkomsel | 263,260 | 301,221 | 121,095 | 3.89 | 3.66 | 1.15 |
| StarHub | - | 41,340 | 28,488 | - | 0.50 | 0.27 |
| Lembaga Kantor Berita Negara Antara | 2,757 | 2,176 | 16,997 | 0.04 | 0.03 | 0.16 |
| PT Infokom Elektrindo (formerly "PT Elektrindo Nusantara") | 15,662 | 15,014 | 15,698 | 0.23 | 0.18 | 0.15 |
| Optus | - | 13,530 | 14,731 | - | 0.16 | 0.14 |
| Belgacom S.A. | - | - | 10,577 | - | - | 0.10 |
| CSM | 10,565 | 7,648 | 7,957 | 0.16 | 0.09 | 0.08 |
| PT Angkasa Pura | 2,360 | 2,680 | 5,088 | 0.03 | 0.03 | 0.05 |
| PT Garuda Indonesia | 1,434 | 1,032 | 4,018 | 0.02 | 0.01 | 0.04 |
| PSN | 5,058 | 3,915 | 4,002 | 0.08 | 0.05 | 0.04 |
| Sistelindo | 14,061 | 8,991 | 3,785 | 0.21 | 0.11 | 0.04 |
| Ministry of Communications | 15,984 | 2,890 | 3,339 | 0.24 | 0.04 | 0.03 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

| | Amount | | | Percentage to Respective Income or Expenses (%) | | |
|---|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2002** | **2003** | **2004** |
| Mobisel | 1,964 | 1,615 | 149 | 0.03 | 0.02 | - |
| PT Pos Indonesia | 14,429 | 124 | 60 | 0.21 | - | - |
| Advance Info Service Public Co. | - | 2,575 | - | - | 0.03 | - |
| PT Napsindo Primatel International | 2,116 | - | - | 0.03 | - | - |
| Others | 49,327 | 93,489 | 53,334 | 0.73 | 1.14 | 0.50 |
| **Total** | **1,659,887** | **1,652,048** | **1,502,754** | **24.53** | **20.06** | **14.25** |
| **Operating expenses** | | | | | | |
| **Personnel (as restated - Note 4)** | | | | | | |
| Boards of Directors and Commissioners | 11,321 | 34,194 | 68,121 | 0.23 | 0.58 | 0.93 |
| Jiwasraya | 14,870 | 53,304 | 33,931 | 0.30 | 0.91 | 0.46 |
| Others | 6,603 | 9,944 | 72,370 | 0.14 | 0.17 | 0.99 |
| **Total** | **32,794** | **97,442** | **174,422** | **0.67** | **1.66** | **2.38** |
| **Compensation to telecommunications carriers and service providers** | | | | | | |
| Telkom | 599,176 | 638,934 | 502,380 | 12.25 | 10.85 | 6.87 |
| Telkomsel | 4,718 | - | - | 0.10 | - | - |
| Others | 3,146 | 9,809 | 525 | 0.06 | 0.17 | 0.01 |
| **Total** | **607,040** | **648,743** | **502,905** | **12.41** | **11.02** | **6.88** |
| **Administration and general** | | | | | | |
| Kopindosat | 1,498 | 1,318 | 10,388 | 0.03 | 0.02 | 0.14 |
| UGBDN | 4,608 | 5,114 | 4,567 | 0.09 | 0.09 | 0.06 |
| Kantor Pos dan Giro Besar I | 6,315 | 8,410 | - | 0.13 | 0.14 | - |
| Boards of Directors and Commissioners | 963 | 4,228 | - | 0.02 | 0.07 | - |
| Others | 310 | 905 | 3,443 | 0.01 | 0.02 | 0.05 |
| **Total** | **13,694** | **19,975** | **18,398** | **0.28** | **0.34** | **0.25** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

| | Amount | | | Percentage to Respective Income or Expenses (%) | | |
|---|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2002** | **2003** | **2004** |
| **Leased circuits** | | | | | | |
| Comnet | 5,150 | 9,464 | 31,979 | 0.11 | 0.16 | 0.44 |
| SingTel | - | 6,724 | 18,289 | - | 0.11 | 0.25 |
| StarHub | - | - | 2,477 | - | - | 0.03 |
| Others | - | - | 18,227 | - | - | 0.25 |
| **Total** | **5,150** | **16,188** | **70,972** | **0.11** | **0.27** | **0.97** |
| **Other costs of services** | | | | | | |
| Ministry of Communications | 221,550 | 296,285 | 313,649 | 4.53 | 5.03 | 4.29 |
| Pemda DKI Jakarta | 1,551 | 1,911 | 1,642 | 0.03 | 0.03 | 0.02 |
| Others | 3,106 | 4,076 | 8,186 | 0.07 | 0.07 | 0.11 |
| **Total** | **226,207** | **302,272** | **323,477** | **4.63** | **5.13** | **4.42** |
| **Other income (expenses)** | | | | | | |
| Interest income (expense) - net | | | | | | |
| State-owned banks | 247,359 | (8,576) | (41,609) | (41.26) | 1.08 | 4.56 |
| Telkom | 226,869 | - | - | (37.85) | - | - |
| Others | - | - | 3,265 | - | - | (0.36) |
| **Net** | **474,228** | **(8,576)** | **(38,344)** | **(79.11)** | **1.08** | **4.20** |

The following are the significant agreements/transactions with related parties:

*a.* *State-owned banks*

The Companies place a substantial amount of their cash and cash equivalents in various state-owned banks. Interest rates on these placements are comparable to those offered by third-party banks.

The Company and Sisindosat also obtained loans from Mandiri and BNI (Note 17).

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

*b. <u>Telkom</u>*

(1) a. International telecommunications services

The Company and Satelindo have an agreement with Telkom, a majority state-owned local telecommunications services company, for the provision of international telecommunications services to the public. The principal matters covered by the agreement are as follows:

- Telkom provides the local network for customers to make or receive international calls. The Company and Satelindo provide the international network for the customers. The international telecommunications services include international calls, telex, telegram, packet net, TV link, frame net, etc.
- The Company, Satelindo and Telkom are responsible for their respective telecommunications facilities.
- Telkom handles customer billing and collection, except for leased circuits and public phones located at the international gateways. The Company and Satelindo pay Telkom 1% of the collections made by Telkom, plus the billing process expenses which are fixed at Rp41 per record of outgoing call up to December 31, 2001 and Rp82 per record of outgoing call starting January 1, 2002, as compensation for billing processing (Note 25).
- The compensation arrangement for the services provided is based on interconnection tariffs (Note 37) determined by the Ministry of Communications.

Receivables from Telkom are settled according to payments received by Telkom from the respective customers. These receivables are non-interest bearing.

Under a cooperation agreement with Telkom, the compensation of Telkom relating to leased circuit/channel services, such as world link and bit link, is calculated at 15% of the Company's collected revenues from such services.

The Company and Satelindo also lease circuits from Telkom to link Jakarta, Medan and Surabaya.

b. Cellular Services

Satelindo and IM3 also have an agreement with Telkom for the interconnection of Satelindo's and IM3's GSM mobile cellular telecommunications network with Telkom's Public Switched Telephone Network ("PSTN"), enabling Satelindo's and IM3's customers to make outgoing calls to or receive incoming calls from Telkom's customers. The interconnection tariffs are determined by the Ministry of Communications (Note 37).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

*b. Telkom (continued)*

(2) In 1994, Satelindo entered into a Land Transfer Agreement with Telkom for the transfer of Telkom's rights to use 134,925 square meters of land located at Daan Mogot, West Jakarta, where Satelindo's earth control station is currently situated. The Land Transfer Agreement enables Satelindo to use the land for a period of 30 years from the date of the agreement, for a price equivalent to US$40,000 less Rp43,220, and could be extended based on mutual agreement. This agreement was subsequently superseded by Land Rental Agreement dated December 6, 2001, under the same terms as those of the Land Transfer Agreement, except for a provision fixing the exchange rate in the conversion of the outstanding balance of the price which was paid in 2001.

(3) In 1998, Lintasarta entered into a cooperation agreement with Telkom regarding the use and supply of telecommunication facility. Lintasarta agreed to rent a Digital Transmission Channel Network from Telkom until August 2002. Based on the agreement, Lintasarta should pay in advance rental fee of Rp14,835. Rental fee charged to operations amounted to Rp907 in 2002 which is presented as part of "Operating Expenses - Compensation to Telecommunications Carriers and Service Providers". Upon its expiration, the agreement was not extended.

(4) In 1999, Lintasarta entered into an agreement with Telkom, whereby Telkom agreed to lease one transponder to Lintasarta for US$1,800 a year. Based on the first amendment agreement dated May 9, 2000, Telkom agreed to lease additional one-fourth of a transponder. Lintasarta paid US$2,250 a year from May 1, 2000 up to September 30, 2002. Based on the second amendment agreement dated December 2, 2002, the lease period has been extended to September 30, 2005. Lintasarta has to pay Rp4,781 for the transponder lease from October 1 up to December 31, 2002 and US$2,250 a year from January 1, 2003 up to September 30, 2005. However, based on the third amendment agreement dated March 15, 2004, the rental rate has been changed to Rp13,000 a year from April 1, 2004 up to September 30, 2007. Transponder lease expense charged to operations amounted to Rp20,528 in 2002, Rp19,282 in 2003 and Rp14,516 in 2004 which are presented as part of "Operating Expenses - Compensation to Telecommunications Carriers and Service Providers".

The following is a summary of the significant transactions between the Companies and Telkom:

| | Amount | | | Percentage to Respective Income or Expenses (%) | | |
|---|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2002** | **2003** | **2004** |
| **Net operating revenues (net of allocation to overseas international carriers)** | **1,169,663** | **920,102** | **851,153** | **17.28** | **11.17** | **8.07** |
| **Operating expenses** | **599,176** | **638,934** | **502,380** | **12.25** | **10.85** | **6.87** |

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

c. *Telkomsel*

The Company, Satelindo and IM3 have interconnection transactions with Telkomsel, a subsidiary of Telkom, under a contractual sharing agreement which provides the following:

- The Company's and Satelindo's international gateway exchanges are interconnected with Telkomsel's GSM mobile cellular telecommunications network to make outgoing or receive incoming international calls through the Company's and Satelindo's international gateway exchanges.
- The Company and Satelindo receive as compensation for the interconnection, a portion of Telkomsel's revenues from the related services that are made through the Company's and Satelindo's international gateway exchanges.
- Satelindo and IM3 also have agreements with Telkomsel for the interconnection of Satelindo's and IM3's GSM mobile cellular telecommunications network with Telkomsel's network, enabling Telkomsel's customers to make calls to or receive calls from Satelindo's and IM3's customers.
- The agreements are renewable annually.

Interconnection revenues earned from Telkomsel for the years ended December 31, 2002, 2003 and 2004 amounted to Rp259,326, Rp285,488 and Rp185,180, respectively, which are net of interconnection charges amounting to Rp257,139, Rp364,550 and Rp431,543, respectively.

d. *Jiwasraya*

Jiwasraya is a state-owned life insurance company that provides services to the Companies in managing the Companies' pension plan.

e. *YTC*

IMM provided long-term loans to YTC relating to the construction of YTC's office building and the purchase of its land and studio equipment. The loans are collateralized by a part of the property and equipment and shares of YTC. Considering YTC's financial position, IMM has provided an allowance to cover possible losses from uncollectible loans amounting to Rp23,412 as of December 31, 2003. On February 6, 2004, YTC was sold by IMM to a third party.

f. *Key Management Personnel*

The amounts due from key management personnel represent portions of housing and transportation allowances which were given in advance by the Company to its employees and transformation incentive (incentive given to employees to encourage them to adapt to the transformation of the business of the Company from fixed line international provider to cellular operator) which is amortized over the average remaining service period of the employees. The prepaid/unamortized portions of housing and transportation advances and transformation incentives which were given to key management personnel in 2003 and 2004 amounted to Rp28,864 and Rp28,435, respectively, and are presented as part of "Due from Related Parties", while those given to non-key management personnel amounting to Rp5,566 and Rp2,355 as of December 31, 2003 and 2004 are presented as part of "Accounts Receivable - Others" for the current portion, and Rp132,156 and Rp129,671 as of December 31, 2003 and 2004, respectively, as "Long-term Receivables" for the long-term portion.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

### g. Kopindosat

Kopindosat is a cooperative established by the Company's employees to engage in various activities from which it earns revenues, such as providing housing and car loans and other consumer loans principally to the Company's employees, as well as car, house, and equipment rental and other services principally to the Company.

Kopindosat and certain of its subsidiaries are under the supervision of the Company's management. The Company also seconded several of its employees on a temporary basis to support Kopindosat and its subsidiaries in conducting their businesses and to provide managerial training for the Company's employees. In addition, the Company provides Kopindosat and certain of its subsidiaries some office spaces in its buildings for use in their businesses.

As of December 31, 2003 and 2004, Kopindosat has investments in the following entities:

| | Equity Interest (%) | |
|---|---|---|
| | **2003** | **2004** |
| PT Puri Perkasa Farmindo | 95.00 | 95.00 |
| PT Duta Sukses Utama | 90.00 | 90.00 |
| PT Mutiara Data Caraka Lintas | 15.00 | 15.00 |
| Lintasarta | 0.66 | 0.66 |
| Sisindosat | 0.53 | 0.53 |
| IMM | 0.50 | 0.50 |

Kopindosat distributes annually to the Company's employees a portion of its profit earned during the preceding fiscal year. The Company initially makes the distribution (charged to a receivable account) to the employees and is subsequently reimbursed by Kopindosat. The timing of such reimbursement, which has historically occurred within the year of distribution, is subject to negotiations between the Company and Kopindosat. The receivable is non-interest bearing.

Due to the merger of the Company and Satelindo (Note 1e), Kopindosat and Koperasi Karyawan Satelindo Antariksa, a cooperative established by Satelindo's employees, agreed to merge on March 2, 2004 with Kopindosat as the surviving entity.

### h. PSN

In 1997, Satelindo entered into an operation agreement with PSN, an investee of Telkom, in respect of the Palapa-C satellites. In accordance with the agreement, Satelindo agreed to operate and control the Palapa-C satellites through Satelindo's Master Control Station ("MCS") located at Daan Mogot, West Jakarta. Under the agreement, PSN shall pay an annual operation fee of US$323 to Satelindo. The operation fee is payable in quarterly installments.

The agreement was amended in 1999 relating to the de-orbit of one of the satellites.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

*i.* <u>*GLP*</u>

In 1997, GLP (an associated company) issued a promissory note amounting to US$10,000 payable to PT Asuransi Jasa Indonesia, which note was subsequently arranged to be made payable to PT Rekasaran Utama on the maturity date of the note in 1997. The note was secured by a corporate guarantee issued by Sisindosat.

As a result of the economic condition in Indonesia (Note 41), GLP could no longer pay the note. As guarantor, Sisindosat had become liable for the payment of the note. At the Extraordinary Meeting of the Stockholders of GLP in 1998, the stockholders approved that Sisindosat be entitled to take custody of the office building when GLP defaulted in the payment of the note. Based on a negotiable promissory note agreement in 1999, the note was settled from the proceeds of a loan acquired by Sisindosat from the Company and Sisindosat’s guarantee was released.

Sisindosat provided an allowance for possible loss from the non-collection of this loan receivable and related interest in 2002 and 2003, after considering GLP’s financial position. GLP was sold in 2004 (Note 9).

The management believes that the allowance provided on accounts receivable - trade and others from related parties is adequate to cover possible loss from uncollectible accounts.

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

| No. | Related Parties | Relationship | Nature of Account Balances/Transactions |
|---|---|---|---|
| 1. | SingTel | Affiliate | Operating revenues - cellular and international calls |
| 2. | TVRI | Affiliate | Operating revenues - MIDI and marketing expenses (advertising) |
| 3. | StarHub | Affiliate | Operating revenues - international calls |
| 4. | PT Pos Indonesia | Affiliate | Operating revenues – MIDI |
| 5. | Optus | Affiliate | Operating revenues - cellular and international calls |
| 6. | CSM | Affiliate | Operating revenues – MIDI |
| 7. | Ministry of Communications | Government agency | Operating revenues - MIDI and concession fee |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

| No. | Related Parties | Relationship | Nature of Account Balances/Transactions |
|---|---|---|---|
| 8. | Pemda DKI Jakarta | Government agency | Compensation for telecommunication tower operations |
| 9. | YIMM | Associated company | Interest-bearing loan |
| 10. | Kalimaya | Associated company | Interest-bearing loan |
| 11. | Comnet | Affiliate | Other cost of services - rent of transmission channel |
| 12. | PT Industri Telekomunikasi Indonesia | Affiliate | Procurement payable |
| 13. | Government of the Republic of Indonesia | Stockholder | Dividend payable and interest-bearing loan |
| 14. | Lembaga Kantor Berita Negara Antara | Affiliate | Operating revenues - MIDI |
| 15. | PT Infokom Elektrindo | Affiliate | Operating revenues - cellular, international calls and MIDI |
| 16. | Belgacom S.A. | Affiliate | Operating revenues - cellular and international calls |
| 17. | PT Angkasa Pura | Affiliate | Operating revenues - MIDI |
| 18. | PT Garuda Indonesia | Affiliate | Operating revenues - MIDI |
| 19. | Sistelindo | Associated company | Operating revenues – MIDI |
| 20. | Mobisel | Affiliate | Operating revenues - cellular and international calls |
| 21. | Advance Info Service Public Co. | Affiliate | Operating revenues - MIDI |
| 22. | PT Napsindo Primatel International | Affiliate | Operating revenues - cellular and international calls |
| 23. | UGBDN | Affiliate | Rent expense |
| 24. | Kantor Pos dan Giro Besar I | Affiliate | Mailing expense |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 31. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Numerator for basic and diluted earnings per share (as restated - Note 4): | | | |
| Income before extraordinary item | 340,712 | 1,582,024 | 1,633,208 |
| Extraordinary item – net of deferred tax effect | - | 4,499,947 | - |
| **Net Income** | **340,712** | **6,081,971** | **1,633,208** |
| Denominator - number of shares | | | |
| Denominator for basic earnings per share: | | | |
| Weighted-average number of shares outstanding during the year (including effect of exercise of ESOP Phase I in 2004) | 1,035,500,000 | 1,035,500,000 | 5,202,760,294 |
| Effect of stock split (Note 19) | 4,142,000,000 | 4,142,000,000 | - |
| Denominator for basic earnings per share - adjusted weighted-average number of shares after effect of stock split (as restated) and effect of exercise of ESOP Phase I in 2004 | 5,177,500,000 | 5,177,500,000 | 5,202,760,294 |
| Dilutive effect of ESOP (Note 20): | | | |
| Phase I | - | 6,519,066 | - |
| Phase II | - | - | 4,646,308 |
| **Denominator for diluted earnings per share (as restated)** | **5,177,500,000** | **5,184,019,066** | **5,207,406,602** |
| **Basic earnings per share (as restated)** | | | |
| Income before extraordinary item | 65.81 | 305.56 | 313.91 |
| Extraordinary item | - | 869.13 | - |
| **Net income per share** | **65.81** | **1,174.69** | **313.91** |
| **Diluted earnings per share (as restated)** | | | |
| Income before extraordinary item | 65.81 | 305.17 | 313.63 |
| Extraordinary item | - | 868.04 | - |
| **Net income per share** | **65.81** | **1,173.21** | **313.63** |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 32. DISTRIBUTION OF INCOME AND APPROPRIATION OF RETAINED EARNINGS

At the Company's Annual Stockholders' General Meeting held on June 20, 2002, the stockholders resolved to, among others:

a. Approve the utilization of 2001 net income (before restatement - Note 4) as follows:
   - 59% for reinvestment and working capital
   - 1% for reserve fund
   - 40% for dividend or Rp112.24 per share (as restated, Note 19)

b. Pay the dividend on July 29, 2002.

At the Company's Annual Stockholders' General Meeting held on June 26, 2003, the stockholders resolved to, among others:

a. Approve the utilization of 2002 net income (before restatement - Note 4) as follows:
   - 54% for reinvestment and working capital
   - 1% for reserve fund
   - 45% for dividend or Rp29.23 per share (as restated, Note 19)

b. Pay the dividend on August 1, 2003.

At the Company's Annual Stockholders' General Meeting held on June 22, 2004, the stockholders resolved to, among others:

a. Approve the utilization of 2003 net income (before restatement - Note 4) as follows:
   - 51% for reinvestment and working capital
   - 1% for reserve fund
   - 48% for dividend or Rp145.55 per share

b. Pay the dividend on July 29, 2004.

## 33. DERIVATIVES

During 2004, the Company entered into several swap contracts. Listed below is information related to the contracts and their fair value:

**Cross Currency Swap:**

| | | Fair Value (Rp) | |
|---|---|---|---|
| **Counter-Party** | **Notional Amount (US$)** | **Receivable** | **Payable** |
| a. Goldman Sachs Capital Market, L.P., New York ("GSCM") * | 50,000 | - | - |
| b. GSCM * | 25,000 | - | - |
| c. GSCM * | 25,000 | - | - |
| d. Standard Chartered Bank, Jakarta Branch | 25,000 | - | 10,194 |
| e. JPMorgan Chase Bank, Singapore Branch ("JPMorgan") | 25,000 | - | 20,915 |
| f. GSCM | 100,000 | - | 110,203 |
| **Sub-total** | | **-** | **141,312** |

* terminated during the year

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 33. DERIVATIVES (continued)

### Interest Rate Swap:

| | | Fair Value (Rp) | |
|---|---|---|---|
| **Counter-Party** | **Notional Amount (US$)** | **Receivable** | **Payable** |
| g. Barclays Capital, London (“Barclays”) | 50,000 | - | 19,745 |
| h. ABN Amro Bank, N.V., London Branch (“ABN”) | 25,000 | 1,051 | - |
| i. GSCM * | 25,000 | - | - |
| j. ABN | 25,000 | - | 14,363 |
| k. The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch (“HSBC”) | 25,000 | 1,051 | - |
| **Sub-total** | | **2,102** | **34,108** |
| **Total** | | **2,102** | **175,420** |

* terminated during the year

The net change in fair value of the swap contracts totalling Rp173,318 in 2004 is presented as “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses) in the 2004 consolidated statement of income. “Derivative Assets” is presented under current assets amounting to Rp2,102 and “Derivative Liabilities” is presented under current liabilities amounting to Rp175,420 as of December 31, 2004.

The following are the details of the swap contracts:

<u>Cross Currency Swap Contracts</u>

a. On January 20, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company would swap, at the final exchange date (termination date) on October 30, 2010, a total of Rp419,400 for US$50,000 minus Contingent Notional Amount. The Contingent Notional Amount would be computed based on 12-month LIBOR rate. The contract provided for the Company to make semi-annual payments, every April 30 and October 30 up to the termination date, at 12-month U.S. dollar LIBOR plus 2.125% (subject to a maximum of 3.64%) per annum if the 12-month U.S. dollar LIBOR was equal to or less than 5.90%. Otherwise, the semi-annual payments would be at 12-month U.S. dollar LIBOR plus 2.125% per annum. This contract was terminated on August 9, 2004. Based on the termination confirmation, the Company should pay US$2,340 to GSCM for the termination payment and to roll over the US$2,340 outstanding balance under the contract into the new cross currency swap contract (see Note 33f). Up to the termination date of this contract, the total swap cost amounting to Rp8,313 is presented as part of “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses).

b. On February 20, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company would swap, at the final exchange date (termination date) on October 30, 2010, a total of Rp210,000 for US$25,000 minus Contingent Notional Amount. The Contingent Notional Amount would be computed based on 12-month LIBOR rate. The contract provided for the Company to make semi-annual payments, every April 30 and

## 33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

October 30 up to the termination date, at 12-month U.S. dollar LIBOR plus 1.75% (subject to a maximum of 3.65%) per annum if the 12-month U.S. dollar LIBOR was equal to or less than 6.20%. Otherwise, the semi-annual payments would be at 12-month U.S. dollar LIBOR plus 1.75% per annum. This contract was terminated on August 9, 2004. Based on the termination confirmation, the Company should pay US$1,020 to GSCM for the termination payment and to roll over the US$1,020 outstanding balance under the contract into the new cross currency swap contract (see Note 33f). Up to the termination date of this contract, the total swap cost amounted to Rp3,996, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

c. On March 31, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company would swap, at the final exchange date (termination date) on October 30, 2010, a total of Rp211,250 for US$25,000 minus Contingent Notional Amount. The Contingent Notional Amount would be computed based on 12-month LIBOR rate. The contract provided for the Company to make semi-annual payments, every April 30 and October 30 up to the termination date, at 12-month U.S. dollar LIBOR plus 0.95% per annum. This contract was terminated on August 9, 2004. Based on the termination confirmation, the Company should pay US$4,140 to GSCM for the termination payment and to roll over the US$4,140 outstanding balance under the contract into the new cross currency swap contract (see Note 33f). Up to the termination date of this contract, the total swap cost amounted to Rp3,083, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

d. On April 23, 2004, the Company entered into a cross currency swap contract with Standard Chartered Bank, Jakarta Branch. Based on the contract, the Company will swap at the final exchange date (termination date) on November 5, 2008, a total of Rp214,625 for US$25,000. The contract provides for the Company to make semi-annual payments, every May 5 and November 5 up to the termination date, at 6-month U.S. dollar LIBOR plus 2.60% per annum. Total swap cost in 2004 amounting to Rp5,086 is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

e. On November 5, 2004, the Company entered into a cross currency swap contract with JPMorgan. Based on the contract :

   - If the spot rate at termination date is less than Rp14,000 (in full amount) to US$1, the Company will swap at the final exchange date (termination date) on November 5, 2010, a total of Rp225,000 for US$25,000.

   - If the spot rate at termination date is higher than Rp14,000 (in full amount) to US$1, the Company will swap at the final exchange date (termination date) on November 5, 2010, a certain rupiah amount (i.e. equivalent to US$25,000 multiplied by exchange rate of Rp9,000 plus the excess of actual spot rate over Rp14,000) for US$25,000.

   The contract provides for the Company to make semi-annual payments, every May 5 and November 5, up to termination date, at the fixed rate of 5% per annum of Rp225,000.

   The contract provides early termination option for JPMorgan and the Company on November 5, 2008 or November 5, 2009.

## 33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

f. On August 9, 2004, the Company entered into a new cross currency swap contract with GSCM to roll over the outstanding balance under its 3 previous cross currency swap contracts with GSCM (Notes 33a, 33b and 33c above). Based on the contract, the Company would swap at termination date on November 5, 2010, a total of Rp840,650 for US$100,000. The contract provides for the Company to make semi-annual payments, every May 5 and November 5, up to termination date, at 6-month U.S. dollar LIBOR plus 2.62% per annum. Total swap cost with GSCM in 2004 amounting to Rp10,797 is presented as part of “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses).

   As of December 31, 2004, the Company has transferred margin deposit to GSCM’s account amounting to US$8,750 which amount was charged to restricted cash, a component of “Other Non-current Assets” account.

Interest Rate Swap Contracts

g. On February 10, 2004, the Company and Barclays entered into an interest swap contract with a notional amount of US$50,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every May 5 and November 5 up to the termination date on November 5, 2010, 6-month U.S. dollar LIBOR plus 0.45% (subsequently changed to 1.33%*), in exchange for 7.75% per annum, times the actual number of days in which the 6-month U.S. dollar LIBOR is located in the pre-determined annual (subsequently changed to semi-annual*) range. The range has been predetermined annually (subsequently changed to semi-annually*) up to 2010 and takes effect on May 5 (subsequently changed to May 5 and November 5*) of each year. The interest income arising from this transaction amounting to Rp17,524 in 2004 is presented as part of “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses).

   The contract provides early termination option for Barclays, every May 5 and November 5, commencing on May 5, 2006 up to termination date.

   * effective on September 15, 2004

h. On April 19, 2004, the Company and ABN entered into an interest swap contract with a notional amount of US$25,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every May 5 and November 5 up to termination date on November 5, 2008, 6-month U.S. dollar LIBOR plus 0.25%, in exchange for 7.75% per annum times the actual number of days on which the 6-month U.S. dollar LIBOR is less than the upper limit. The upper limit has been pre-determined semi-annually up to 2008 and takes effect on May 5 and November 5 of each semester. The interest income arising from this transaction amounting to Rp6,867 in 2004 is presented as part of “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses).

   The contract allows ABN to terminate the contract, every May 5 and November 5, commencing on May 5, 2006 (Note 42b).

## 33. DERIVATIVES (continued)

Interest Rate Swap Contracts (continued)

i. On April 26, 2004, the Company and GSCM entered into an interest swap contract with a notional amount of US$25,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every April 30 and October 30, up to the termination date on October 30, 2010, 6-month U.S. dollar LIBOR minus 0.25% (subject to a maximum of 7.64%) plus a Contingent Spread, in exchange for 7.75% per annum. The Contingent Spread was pre-determined semi-annually up to 2010 and took effect on April 30 and October 30 of each semester.

   The contract provided early termination option for GSCM, every April 30 and October 30, commencing on October 30, 2004 up to October 30, 2008. On October 30, 2004, GSCM terminated this contract. The interest income arising from this transaction up to the termination date amounting to Rp6,431 is presented as part of “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses).

j. On May 6, 2004, the Company and ABN entered into an interest swap contract with a notional amount of US$25,000. Based on the contract, the Company agreed to pay at floating rate, in annual intervals, every November 5 up to termination date on November 5, 2006, 12-month U.S. dollar LIBOR plus 3.50% in exchange for 7.75% per annum. The interest income arising from this transaction amounting to Rp1,672 in 2004 is presented as part of “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses) (Note 42b).

k. On May 7, 2004, the Company and HSBC entered into an interest swap contract with a notional amount of US$25,000. Based on the contract, the Company agreed to pay at floating rate, in annual intervals, every November 5 up to the termination date on November 5, 2006, 12-month U.S. dollar LIBOR plus 3.50% in exchange for 7.75% per annum. The interest income arising from this transaction amounting to Rp1,648 in 2004 is presented as part of “Loss on Change in Fair Value of Derivatives - Net” under Other Income (Expenses).

## 34. COMMITMENTS AND CONTINGENCIES

a. As of December 31, 2004, commitments on capital expenditures which are contractual agreements not yet realized relate to the procurement, installation and maintenance of property and equipment, and procurement of SIM cards and pulse reload vouchers stock amounting to US$109,300, EUR1,921,659 (in full amount) and Rp759,694 respectively (Note 42f).

   The significant commitments on capital expenditures are as follows:

   - On April 15, 2004, the Company entered into a Construction of Single Network Jabotabek Area Agreement with PT Ericsson Indonesia and Ericsson AB (“Ericsson”), whereby Ericsson agreed to provide equipment and services in the construction of a single network for the Company’s GSM telecommunication system for contract amounts of US$95,951 and Rp194,087.

     As of December 31, 2004, the Company has issued several Purchase Orders (“POs”) which relate to the purchase commitment under this agreement. The POs that have not been served amount to US$16,555 and Rp16,737 as of December 31, 2004.

**34. COMMITMENTS AND CONTINGENCIES (continued)**

- On November 5, 2003, IM3 entered into an agreement with Nokia for the latter to enhance the former's radio network in East Java for contract amounts of Rp61,761 and US$43,074. On October 19, 2004, the Company and Nokia amended the contract amounts to Rp113,923 and US$65,247.

  As of December 31, 2004, the Company has issued several POs which relate to the purchase commitment under this agreement and its amendment. The POs that have not been served amount to Rp73,045 and US$29,007 as of December 31, 2004.

- On March 29, 1996, Satelindo and Siemens AG entered into a GSM Public Land Mobile Network ("PLMN") Agreement for Satelindo to procure GSM PLMN in order to fulfill its operational requirements. This agreement has been amended from time to time, the latest amendment of which is Amendment III dated June 6, 2003 covering Switching Subsystem Expansion Project. The total contract price under this agreement and its related amendments amounts to US$66,182 and an additional amount based on the future actual growth of Satelindo's cellular subscribers ("pay-as-you-grow scheme").

  As of December 31, 2004, Satelindo has issued several POs which relate to the purchase commitment under this agreement and its amendments. The POs that have not been served amount to US$7,095 as of December 31, 2004.

- On September 15, 2004, the Company and PT Alcatel Indonesia ("Alcatel") entered into a Relocation Equipment Ex-Inner Jabotabek Agreement, whereby Alcatel agreed to dismantle cellular base station subsystem ex-Inner Jabotabek to be relocated outside of Jabotabek for a contract amount of Rp88,161.

  As of December 31, 2004, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amount to Rp70,529 as of December 31, 2004.

b. As of December 31, 2004, commitments made by the Company under operating lease agreements amounted to Rp9,729 and US$69, which have less than one year maturities (Note 42f).

c. In 1994 and 1998, the Company was appointed as a Financial Administrator ("FA") and Central Billing Party ("CBP"), respectively, by a consortium which was established to build and sell/lease Asia Pacific Cable Network ("APCN") submarine cable in countries in the Asia-Pacific Region. As an FA, the Company collects and distributes funds from the sale of APCN's IRU and Defined Underwritten Capacity ("DUC") and Occasional Commercial Use ("OCU") service, while as a CBP, the Company manages funds from the members of the consortium for upgrading the APCN cable. The funds received from the sale of IRU and DUC, OCU services and funds received for upgrading the APCN cable do not belong to the Company and, therefore, are not recorded in the Company's books. However, the Company manages these funds in separate accounts. As of December 31, 2004, the balance of the funds (including interest earned) amounted to US$31,459. Besides the funds from the sale of IRU, the members of the consortium also receive their share of the interest earned by the above funds.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 34. COMMITMENTS AND CONTINGENCIES (continued)

d. Based on letters No. S-5341/LK/2002 and No. S-5327/LK/2002, both dated December 4, 2002, from the Ministry of Finance ("MOF") of the Republic of Indonesia, the Company was fined 2% interest per month as penalty (maximum of interest for 24 months) for the late payment of the Government's dividends. The Company paid the dividends in accordance with the payment schedule approved in its Stockholders' Annual General Meeting.

   The penalties amounted to Rp20,633 and Rp38,096 for the dividends from the Company's net income in 1999 and 2000, respectively. Based on a letter dated January 6, 2003, the Company requested the MOF to reconsider its decision to impose the penalties.

   On December 1, 2003, MOF, through its letter No. S-6287/LK/2003, refused to reconsider its decision. Based on the letter, the penalty for the dividend from the Company's net income in 2000 has been increased from Rp38,096 to Rp42,902.

   Based on letter No. S-20/MBU.S/2004 dated January 28, 2004 of the Ministry of State-owned Enterprises of the Republic of Indonesia, the Ministry requested the MOF to reconsider its decision to penalize the Company for the late payment of dividends to the Government.

   On February 5, 2004, the MOF, in its letter No. S-498/LK/2004, reminded the Company to settle the penalties.

   In response to letter No. S-20/MBU.S/2004 dated January 28, 2004 from the Ministry of State-owned Enterprises (see above), the MOF through its letter No. S-126/MK.6/2004 dated March 15, 2004 stated that the request of the Ministry of State-owned Enterprises to release the Company from the penalty on late payment of dividends was difficult to consider as there was no regulation for the release of the penalty on the late payments of dividends.

   As of December 31, 2003 and 2004, the Company did not accrue any penalties on the dividends because, in the opinion of the Company's legal counsels, the MOF had no basis to impose the penalties.

## 35. TROUBLED DEBTS RESTRUCTURING

a. On May 30, 2000, Satelindo completed its debts restructuring negotiations with its lenders. In connection with the successful completion of these negotiations, Satelindo executed the MRA between itself and its lenders. The carrying amount of the long-term debts amounted to US$448,042 as of May 30, 2000. The difference amounting to US$14,102 between the carrying amount of the long-term debts and the total future payments of principal had been deferred and intended to be offset against future interest expense on the debts since the total payments of principal and interest over the remaining term of the debts exceeded the carrying amount of the long-term debts.

   The significant terms and conditions of Satelindo's debts pursuant to the provisions of the MRA were as follows:

   1. Ex - IBRA Term Loan

| | |
|---|---|
| Lender | IBRA |
| Principal | US$65,402 |
| Interest | LIBOR plus 2.5% |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 35. TROUBLED DEBTS RESTRUCTURING (continued)

2. Term Loan with IntesaBci S.p.A

| | |
|---|---|
| Facility Agent | IntesaBci S.p.A, Singapore Branch |
| Principal | US$45,640 |
| Interest | LIBOR plus 2.5% |

3. GECA Credit

| | | |
|---|---|---|
| Lead Manager | Commerzbank AG, Frankfurt am Main | |
| Principal | US$108,008 | |
| Interest | 2000 - 2003 | : LIBOR plus 2.5% |
| | 2004 | : LIBOR plus 4.5% |
| | 2005 | : LIBOR plus 5.0% |
| | 2006 | : LIBOR plus 5.5% |

4. Guaranteed Floating Rate Bonds

| | | |
|---|---|---|
| Trustee | The Bank of New York | |
| Principal | US$214,890 | |
| Interest | 2000 - 2003 | : LIBOR plus 2.5% |
| | 2004 | : LIBOR plus 4.5% |
| | 2005 | : LIBOR plus 5.0% |
| | 2006 | : LIBOR plus 5.5% |

Under the MRA, the repayment (in U.S. dollars) of the loans had been scheduled as follows:

| | Ex - IBRA | IntesaBci S.p.A | GECA Credit | Guaranteed Floating Rate Bonds | Total |
|---|---|---|---|---|---|
| June 30, 2000 | 3,000 | 2,282 | - | - | 5,282 |
| December 31, 2000 | 3,000 | 2,282 | - | - | 5,282 |
| June 30, 2001 | 3,000 | 2,282 | - | - | 5,282 |
| December 31, 2001 | 3,000 | 2,282 | - | - | 5,282 |
| June 30, 2002 | 12,200 | 9,128 | - | - | 21,328 |
| December 31, 2002 | 12,200 | 9,128 | - | - | 21,328 |
| June 30, 2003 | 14,500 | 9,128 | - | - | 23,628 |
| December 31, 2003 | 14,502 | 9,128 | - | - | 23,630 |
| April 30, 2004 | - | - | 18,001 | - | 18,001 |
| October 31, 2004 | - | - | 18,001 | - | 18,001 |
| December 31, 2004 | - | - | - | 71,630 | 71,630 |
| April 30, 2005 | - | - | 18,001 | - | 18,001 |
| October 31, 2005 | - | - | 18,002 | - | 18,002 |
| December 31, 2005 | - | - | - | 71,630 | 71,630 |
| April 30, 2006 | - | - | 18,001 | - | 18,001 |
| October 31, 2006 | - | - | 18,002 | - | 18,002 |
| December 31, 2006 | - | - | - | 71,630 | 71,630 |
| **Total** | **65,402** | **45,640** | **108,008** | **214,890** | **433,940** |

The MRA included provisions for mandatory prepayment (under certain conditions) and voluntary prepayments. On July 28, 2002, Satelindo made mandatory prepayments amounting to US$56,250, which included accrued interest. On October 31, 2003, Satelindo repaid all the loans under the MRA (Note 17).

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 35. TROUBLED DEBTS RESTRUCTURING (continued)

b. Debt Facility with Alcatel CIT and Enkomindo

In addition to the four loans above, Satelindo also converted a payable to Alcatel CIT and Enkomindo into a long-term debt facility, with details as follows:

| | | |
|---|---|---|
| Lender | Alcatel CIT and Enkomindo | |
| Principal | US$116,000 | |
| Interest | 2000 -2003 | : LIBOR plus 2.50% |
| | 2004 | : LIBOR plus 4.50% |

The regular repayment (in U.S. dollar) of this debt facility had been scheduled as follows:

| | **Amount** |
|---|---|
| March 31, 2000 | 11,600 |
| September 30, 2000 | 11,600 |
| March 31, 2001 | 11,600 |
| September 30, 2001 | 11,600 |
| March 31, 2002 | 11,600 |
| September 30, 2002 | 11,600 |
| March 31, 2003 | 11,600 |
| September 30, 2003 | 11,600 |
| March 31, 2004 | 11,600 |
| September 30, 2004 | 11,600 |
| **Total** | **116,000** |

On October 31, 2003, Satelindo fully repaid this debt.

## 36. TARIFF SYSTEM

a. International telecommunications services

The service rates (“tariffs”) for overseas exchange carriers are set based on the international telecommunications regulations established by the International Telecommunications Union (“ITU”). These regulations require the international telecommunications administrations to establish and revise, under mutual agreement, accounting rates to be applied among them, taking into account the cost of providing specific telecommunications services and relevant recommendations from the Consultative Committee on International Telegraph and Telephone (“CCITT”). The rates are divided into terminal shares payable to the administrations of terminal countries and, where appropriate, into transit shares payable to the administrations of transit countries.

The ITU also regulates that the monetary unit to be used, in the absence of special arrangements, shall be the Special Drawing Right (“SDR”) or the Gold franc which is equivalent to 1/3.061 SDR. Each administration shall, subject to applicable national law, establish the charges to be collected from its customers.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 36. TARIFF SYSTEM (continued)

a. International telecommunications services (continued)

The tariffs billed to domestic subscribers for international calls originating in Indonesia, also known as collection rates, are established in a decision letter of the Ministry of Communications, which rates are generally higher than the accounting rates. During the period 1996 to 1998, the Ministry of Communications made tariff changes effective January 1, 1997, March 15, 1998 and November 15, 1998.

b. Cellular services

Tariffs for cellular providers are set on the basis of Regulation No. KM 27/PR.301/MPPT-98 dated February 23, 1998 of the Ministry of Tourism, Posts and Telecommunications (subsequently renamed “Ministry of Communications”). Under this regulation, the cellular tariffs consist of the following:

- Connection fee
- Monthly charges
- Usage charges

The maximum tariff for connection fee is Rp200,000 per new connection number. The maximum tariff for monthly charges is Rp65,000. Usage charges consist of the following:

1. Airtime

The maximum airtime tariff charged for “origin” cellular is Rp325/minute. The details of the tariff system are as follows:

| | |
|---|---|
| a. Cellular to cellular | : 2 times airtime rate |
| b. Cellular to PSTN | : 1 time airtime rate |
| c. PSTN to cellular | : 1 time airtime rate |
| d. Card phone to cellular | : 1 time airtime rate plus 41% surcharge |

2. Usage

a. Usage tariff charged to a cellular subscriber who makes a call to another subscriber using PSTN network is similar to the usage tariff of PSTN, which is applied on a time differentiation basis. For the use of local PSTN network, the tariff is computed at 50% of the prevailing local PSTN tariff.

b. Long-distance usage tariff between two different service areas without using PSTN network is similar to the prevailing tariff on domestic long-distance call (“SLJJ”) for a PSTN subscriber.

The maximum tariff for active roaming is Rp1,000 per call and is charged to in-roaming cellular subscriber who makes a call.

Tariffs for prepaid customers are also regulated by the Ministry of Communications in its Decree No. KM.79 Year 1998 dated December 14, 1998, and are typically higher than tariffs for post-paid subscribers. Cellular operators are allowed to set their own tariffs. However, the maximum usage tariffs for prepaid customers may not exceed 140% of peak time tariffs for post-paid subscribers.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 37. INTERCONNECTION TARIFFS

Interconnection tariffs among domestic telecommunications operators are regulated by the Ministry of Communications through its decree No. KM.108/PR.301/MPPT-94 dated December 28, 1994. The decree has been updated several times with the latest update being decree No. KM.37 Year 1999 dated June 11, 1999. This decree, along with decree No. KM.46/PR.301/MPPT-98 dated February 27, 1998, prescribes interconnection tariff structures between mobile cellular telecommunications network and PSTN, mobile cellular telecommunications network and international telecommunications network, mobile cellular telecommunications network and other domestic mobile cellular telecommunications network, international telecommunications network and PSTN, and between other domestic PSTNs.

Based on the decree of the Ministry of Communications, the interconnection tariff arrangements are as follows:

1. Structure of Interconnection Tariff

   a. Between international and domestic PSTN

   Based on decision letter No. KM.37 Year 1999 dated June 11, 1999 of the Ministry of Communications, the interconnection tariffs are as follows:

| | Tariff | Basis |
|---|---|---|
| Access charge | Rp850 per call | Number of successful outgoing and incoming calls |
| Usage charge | Rp550 per paid minute | Duration of successful outgoing and incoming calls |
| USO | Rp750 per call | Number of successful outgoing and incoming calls |

   For a ten-year period effective January 1, 1995, the Company (Indosat only, not including Satelindo) was originally exempted from the obligation to pay USO to Telkom.

   Based on a letter from the Ministry of Communications, the access and usage charges to be paid by an international telecommunications carrier to a domestic carrier for the next ten years up to 2004 are not to exceed 25% of the international telecommunications carrier's international telecommunications revenue.

   Based on letter No. 1685/Dittel/X/2003 dated September 3, 2003 of the Directorate General of Post and Telecommunications and decision letter No.KM.34 Year 2004 dated March 11, 2004 of the Ministry of Communications, the USO tariff has been changed from Rp750 per successful international outgoing or incoming call to 0.75% of gross revenues from all services after considering the interconnection expense and provision for doubtful accounts. The new tariff has been applied effective on March 11, 2004.

   b. Between domestic PSTN and other domestic PSTN

   Interconnection charges for domestic telecommunication traffic (local and SLJJ) between domestic PSTN with other domestic PSTN are based on agreements made by those domestic PSTN telecommunication carriers.

## 37. INTERCONNECTION TARIFFS (continued)

1. Structure of Interconnection Tariff (continued)

   c. Between cellular telecommunications network and domestic PSTN

      Based on the Ministry of Tourism, Posts and Telecommunications Decree No. KM.46/PR.301/ MPPT-98 ("Decree No. 46") dated February 27, 1998 which became effective starting April 1, 1998, the interconnection tariffs are as follows:

      (1) Local Calls

      For local calls from a cellular telecommunications network to a PSTN subscriber, the cellular operator pays the PSTN operator 50% of the prevailing tariff for local calls. For local calls from the PSTN to a cellular subscriber, the cellular operator receives the airtime charged by the PSTN operator to its subscribers.

      (2) SLJJ

      For SLJJ which originates from the PSTN to a cellular subscriber, the cellular operator receives a portion of the prevailing SLJJ tariff, which portion ranges from 15% of the prevailing SLJJ tariff plus the airtime charges in cases where the entire long-distance portion is not carried by the cellular operator, to 60% of the tariff plus the airtime charges in cases where the entire long-distance portion is carried by the cellular operator.

      For SLJJ which originates from a cellular telecommunications network to a PSTN subscriber, the cellular operator is entitled to retain a portion of the prevailing SLJJ tariff, which portion ranges from 15% of the tariff in cases where the entire long-distance portion is not carried by the cellular operator, to 60% of the tariff in cases where the entire long-distance portion is carried by the cellular operator.

   d. Between cellular telecommunications network and another cellular telecommunications network

      Based on Decree No. 46, the interconnection tariffs are as follows:

      (1) Local Calls

      For local calls from a cellular telecommunications network to another, the "origin" cellular operator pays the airtime to the "destination" cellular operator. If the call is carried by a PSTN, the cellular operator pays the PSTN operator 50% of the prevailing tariff for local calls.

      (2) SLJJ

      For SLJJ which originates from a cellular telecommunications network, the cellular operator is entitled to retain a portion of the prevailing SLJJ tariff, which portion ranges from 15% of the tariff in cases where the entire long-distance portion is not carried by the cellular operator, to 85% of the tariff in cases where the entire long-distance portion is carried by the cellular operator and the call is delivered to another cellular operator, and to 100% if the call is delivered to the same cellular operator.

## 37. INTERCONNECTION TARIFFS (continued)

1. Structure of Interconnection Tariff (continued)

   e. Between international PSTN and cellular telecommunications network

   Starting from 1998, the interconnection tariff for international cellular call traffic to/from overseas from/to domestic cellular subscribers, regardless of whether the traffic is made through domestic PSTN or not, is based on the same tariff applied to traffic made through domestic PSTN as mentioned in “a” above. However, up to December 31, 2004, as agreed mutually with the cellular telecommunications operators, the Company (including Satelindo until it was merged - see Note 1d) still applied the original contractual sharing agreements regarding the interconnection tariffs (Note 38).

   f. Between international gateway exchanges

   Interconnection charges for international telecommunications traffic between international gateway exchanges are based on agreements between international telecommunications carriers and international telecommunications joint ventures.

2. Revenue Sharing

   Revenue from access and usage charges from international telecommunications traffic with telecommunications networks owned by more than one domestic telecommunications carrier which is not regulated by this decree, is to be proportionally shared with each carrier, which proportion is to be arranged by the Director General of Post and Telecommunications.

## 38. INTERCONNECTION AGREEMENTS WITH OTHER CELLULAR TELECOMMUNICATIONS OPERATORS

The Company, Satelindo and IM3 have interconnection agreements with each of PT Excelcomindo Pratama or “Excelcom” and Komselindo (for the interconnection agreement with Telkomsel, see Note 30). The principal matters covered by the agreements are as follows:

- The Company’s and Satelindo’s international gateway exchanges are interconnected with mobile cellular telecommunication operators’ networks to make outgoing or receive incoming international calls through the Company’s and Satelindo’s international gateway exchanges.
- The Company and Satelindo receive, as compensation for the interconnection, a portion of the cellular telecommunications operators’ revenues from the related services that are made through the Company’s and Satelindo’s international gateway exchanges.
- Satelindo and IM3 also have an agreement with the above operators for the interconnection of Satelindo’s and IM3’s GSM mobile cellular telecommunications network with the above operators’ network, enabling the above operators’ customers to make calls/send short message services (“SMS”) to or receive calls/SMS from Satelindo’s and IM3’s customers.
- The agreements are renewable annually.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 38. INTERCONNECTION AGREEMENTS WITH OTHER CELLULAR TELECOMMUNICATIONS OPERATORS (continued)

As of December 31, 2004, the latest agreement with Komselindo was signed on July 6, 2004, while the latest agreement with Excelcom was signed on May 12, 2003. The Company (including Satelindo and IM3 until they were merged - see Note 1d) and the above operators still continue their business under the agreements by applying the original compensation formula.

Interconnection revenues (net of interconnection charges) earned by the Company, Satelindo and IM3 from the operators are as follows:

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| Excelcom | 23,898 | 5,787 | (18,957) |
| Komselindo | 554 | 675 | 3,986 |
| **Total** | **24,452** | **6,462** | **(14,971)** |

## 39. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Companies' monetary assets and liabilities denominated in various foreign currencies as of December 31, 2004 (converted to equivalent U.S. dollar if currency is other than U.S. dollar) are as follows:

| | Amount in U.S. Dollar | Equivalent Rupiah * |
|---|---|---|
| *Assets:* | | |
| Cash and cash equivalents | 122,260 | 1,135,797 |
| Accounts receivable | 93,328 | 867,013 |
| Derivative assets | 226 | 2,102 |
| Other current assets | 22 | 205 |
| Due from related parties | 615 | 5,713 |
| Non-current assets - others | 12,098 | 112,389 |
| Total assets | 228,549 | 2,123,219 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 39. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (continued)

| | Amount in U.S. Dollar | Equivalent Rupiah * |
|---|---|---|
| *Liabilities:* | | |
| Short-term loan | 678 | 6,295 |
| Accounts payable - trade | 14,445 | 134,196 |
| Procurement payable | 171,985 | 1,597,743 |
| Accrued expenses | 17,295 | 160,670 |
| Derivative liabilities | 18,883 | 175,420 |
| Other current liabilities | 12 | 113 |
| Due to related parties | 139 | 1,299 |
| Bonds payable | 300,000 | 2,787,000 |
| Other non-current liabilities | 1,420 | 13,189 |
| Total liabilities | 524,857 | 4,875,925 |
| **Net liabilities position** | **296,308** | **2,752,706** |

* translated using the average of the buying and selling rates prevailing at balance sheet date as published by Bank Indonesia

## 40. SEGMENT INFORMATION

The Companies manage and evaluate their operations in three major reportable segments: cellular, fixed telecommunication, and MIDI. The operating segments are managed separately because each offers different services/products and serves different markets. The Companies operate in one geographic area only, so no geographical information on segments is presented.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Expenditures for segment assets represent the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

(Expressed in millions of Rupiah and thousands of U.S. Dollars,
except share and tariff data)**

## 40. SEGMENT INFORMATION (continued)

Consolidated information by industry segment follows:

| | Major Segments | | | | |
|---|---|---|---|---|---|
| | Cellular | Fixed Telecommunication | MIDI | Other Services | Segment Total |
| **2002 (As Restated - Note 4)** | | | | | |
| Revenues | | | | | |
| Revenues from external customers | 3,271,652 | 2,137,939 | 1,263,038 | 94,353 | 6,766,982 |
| Inter-segment revenues | 55,275 | 12,898 | 122,990 | 4,693 | 195,856 |
| Total revenues | 3,326,927 | 2,150,837 | 1,386,028 | 99,046 | 6,962,838 |
| Inter-segment revenues elimination | | | | | (195,856) |
| **Revenues - net** | | | | | **6,766,982** |
| Income | | | | | |
| Operating income (loss) | 757,837 | 1,068,203 | 60,097 | (8,766) | 1,877,371 |
| Interest income | | | | | 822,302 |
| Gain on foreign exchange - net | | | | | 393,820 |
| Equity in net income of associated companies | | | | | 72,288 |
| Income tax expense - net | | | | | (776,458) |
| Amortization of goodwill | | | | | (693,086) |
| Financing cost | | | | | (586,131) |
| Provision for doubtful interest receivable from convertible bonds | | | | | (287,792) |
| Adjustment of accounts receivable - trade from Telkom | | | | | (118,018) |
| Others - net | | | | | (130,524) |
| **Income before Extraordinary Item, Minority Interest in Net Income of Subsidiaries and Preacquisition Income** | | | | | **573,772** |
| Other Information | | | | | |
| Segment assets | 13,742,708 | 1,948,613 | 2,453,517 | 142,781 | 18,287,619 |
| Unallocated assets | | | | | 14,461,211 |
| Inter-segment assets elimination | | | | | (10,896,670) |
| **Assets - net** | | | | | **21,852,160** |
| Segment liabilities | 8,449,075 | 906,677 | 663,016 | 58,084 | 10,076,852 |
| Unallocated liabilities | | | | | 1,452,982 |
| Inter-segment liabilities elimination | | | | | (109,991) |
| **Liabilities - net** | | | | | **11,419,843** |
| Capital expenditure | 5,874,082 | 101,718 | 451,987 | 16,525 | 6,444,312 |
| Depreciation and amortization | 1,335,922 | 172,896 | 272,270 | 3,254 | 1,784,342 |

(Expressed in millions of Rupiah and thousands of U.S. Dollars,
except share and tariff data)**

## 40. SEGMENT INFORMATION (continued)

| | Major Segments | | | | |
|---|---|---|---|---|---|
| | Cellular | Fixed Telecommunication | MIDI | Other Services | Segment Total |
| **2003 (As Restated - Note 4)** | | | | | |
| Revenues | | | | | |
| Revenues from external customers | 5,117,580 | 1,807,669 | 1,228,334 | 81,684 | 8,235,267 |
| Inter-segment revenues | 58,947 | 14,016 | 125,640 | 64,307 | 262,910 |
| Total revenues | 5,176,527 | 1,821,685 | 1,353,974 | 145,991 | 8,498,177 |
| Inter-segment revenues elimination | | | | | (262,910) |
| **Revenues - net** | | | | | **8,235,267** |
| Income | | | | | |
| Operating income (loss) | 1,962,438 | 422,821 | 23,808 | (61,172) | 2,347,895 |
| Gain on foreign exchange - net | | | | | 200,050 |
| Interest income | | | | | 147,712 |
| Equity in net income of associated companies | | | | | 33,771 |
| Income tax benefit - net | | | | | 17,828 |
| Financing cost | | | | | (838,666) |
| Amortization of goodwill | | | | | (252,907) |
| Others - net | | | | | (51,162) |
| **Income before Extraordinary Item, Minority Interest in Net Income of Subsidiaries and Preacquisition Income** | | | | | **1,604,521** |
| Other Information | | | | | |
| Segment assets | 15,071,457 | 1,858,703 | 2,337,131 | 177,740 | 19,445,031 |
| Unallocated assets | | | | | 9,930,445 |
| Inter-segment assets elimination | | | | | (3,316,284) |
| **Assets - net** | | | | | **26,059,192** |
| Liabilities segment | 10,608,375 | 1,013,702 | 702,488 | 86,045 | 12,410,610 |
| Unallocated liabilities | | | | | 4,154,944 |
| Inter-segment liabilities elimination | | | | | (2,546,244) |
| **Liabilities - net** | | | | | **14,019,310** |
| Capital expenditure | 3,841,999 | 140,514 | 335,211 | 1,786 | 4,319,510 |
| Depreciation and amortization | 1,549,599 | 159,762 | 325,557 | 3,088 | 2,038,006 |

**(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share and tariff data)**

## 40. SEGMENT INFORMATION (continued)

| | Major Segments | | | | |
|---|---|---|---|---|---|
| | Cellular | Fixed Telecommunication | MIDI | Other Services | Segment Total |
| **2004** | | | | | |
| Revenues | | | | | |
| Revenues from external customers | 7,450,777 | 1,554,932 | 1,483,941 | 59,420 | 10,549,070 |
| Inter-segment revenues | (100,282) | 100,282 | 176,778 | 134,339 | 311,117 |
| Total revenues | 7,350,495 | 1,655,214 | 1,660,719 | 193,759 | 10,860,187 |
| Inter-segment revenues elimination | | | | | (311,117) |
| **Revenues - net** | | | | | **10,549,070** |
| Income | | | | | |
| Operating income (loss) | 2,474,750 | 575,709 | 269,935 | (85,685) | 3,234,709 |
| Gain on sale of investments | | | | | 397,133 |
| Interest income | | | | | 187,430 |
| Equity in net income of associated companies | | | | | 61,489 |
| Financing cost | | | | | (1,097,531) |
| Income tax expense - net | | | | | (724,554) |
| Amortization of goodwill | | | | | (226,347) |
| Loss on change in fair value of derivatives - net | | | | | (170,451) |
| Loss on foreign exchange - net | | | | | (66,116) |
| Others - net | | | | | 62,442 |
| **Income before Extraordinary Item, Minority Interest in Net Income of Subsidiaries and Preacquisition Income** | | | | | **1,658,204** |
| Other Information | | | | | |
| Segment assets | 20,490,078 | 1,803,385 | 3,003,617 | 160,567 | 25,457,647 |
| Unallocated assets | | | | | 6,058,820 |
| Inter-segment assets elimination | | | | | (3,644,000) |
| **Assets - net** | | | | | **27,872,467** |
| Liabilities segment | 13,861,414 | 1,069,168 | 977,572 | 65,908 | 15,974,062 |
| Unallocated liabilities | | | | | 1,508,706 |
| Inter-segment liabilities elimination | | | | | (2,794,893) |
| **Liabilities - net** | | | | | **14,687,875** |
| Capital expenditure | 4,611,015 | 507,556 | 790,817 | 1,271 | 5,910,659 |
| Depreciation and amortization | 2,209,323 | 182,040 | 425,002 | 2,292 | 2,818,657 |

## 41. ECONOMIC CONDITIONS

The operations of the Company have been affected and may continue to be affected for the foreseeable future by the 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 Company.

## 42. SUBSEQUENT EVENTS

a. On January 7, 2005, the Company and Astel closed the transaction on the sale of Sisindosat (Note 1d - Sisindosat). Subsequently, based on the CSPA, on January 14, 2005, the Company paid Rp2,109 to Astel for termination expense of Sisindosat's employees who chose to take the termination program offered to them as a result of the sale of Sisindosat.

b. On January 20, 2005, the Company entered into an interest rate swap contract with ABN with a notional amount of US$50,000 to unwind its existing 2 interest rate swap contracts with ABN (Notes 33h and 33j). Based on the contract which will be effective starting May 5, 2005, the existing interest rate swap contracts and all related cash flows are cancelled effective January 20, 2005 and the fair value of the existing interest rate swap contracts as of January 20, 2005 will be transferred into the new interest rate swap contract. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, on November 5, 2005 and thereafter every May 5 and November 5 up to the termination date on November 5, 2008, 6-month U.S. dollar LIBOR plus 3.15% in exchange for 7.75% per annum times the actual number of days in which the 6-month U.S.dollar LIBOR is located in the pre-determined ranges up to the termination date.

c. On January 28, 2005, the Company sold its investment in Intelsat for US$10,539 (equivalent to Rp96,381) resulting in loss on sale of investment amounting to Rp1,046 (Note 10).

d. Since 7,847,000 shares under ESOP Phase I (Note 20) were forfeited, based on the Directors' Decree dated January 28, 2005, they were added to the total shares to be distributed in ESOP Phase II resulting in the number of shares allocated in ESOP Phase II to become 137,284,500 shares. The vesting period for the additional shares granted in ESOP Phase II is the same as the original ESOP Phase II, which is up to July 31, 2005.

e. Up to March 18, 2005, 1,616,000 additional share options from ESOP Phase I have been exercised by the employees (Note 20).

f. As of March 18, 2005, the average buying and selling rate of bank notes published by Bank Indonesia is Rp9,369 to US$1, while as of December 31, 2004, the average buying and selling rate was Rp9,290 to US$1. On the basis of the rate as of March 18, 2005, the Companies incurred foreign exchange loss amounting to approximately Rp23,408 on the foreign currency liabilities, net of foreign currency assets, as of December 31, 2004 (Note 39).

   The commitments for the capital expenditures and operating leases denominated in foreign currencies as of December 31, 2004 as disclosed in Notes 34a and 34b would approximate Rp1,048,113 and Rp646, respectively, if translated at the rates as of March 18, 2005.

**(Expressed in millions of Rupiah and thousands of U.S. Dollars,**
**except share and tariff data)**

## 43. RECLASSIFICATION OF ACCOUNTS

Following are the accounts in the 2002 and 2003 consolidated financial statements which have been reclassified to conform with the presentation of accounts in the 2004 consolidated financial statements:

| As Previously Reported | As Reclassified | Amount |
|---|---|---|
| 2002 | | |
| Consolidated Statements of Income | | |
| Operating expenses - maintenance | Operating expenses - personnel | 4,249 |
| Operating expenses - leased circuits | Operating expenses - compensation to telecommunication carriers and service providers | 39,195 |
| Consolidated Statements of Cash Flows | | |
| Cash flows from investing activities - increase in restricted cash and cash equivalents | Cash flows from financing activities - increase in restricted cash and cash equivalents | 151,166 |
| Cash flows from financing activities - proceeds from the exercise of derivative instruments | Cash flows from investing activities - proceeds from the exercise of derivative instruments | 36,984 |
| 2003 | | |
| Consolidated Balance Sheets | | |
| Other current assets | Advances | 34,033 |
| Consolidated Statements of Income | | |
| Operating expenses - maintenance | Operating expenses - personnel | 10,997 |
| Operating expenses - leased circuits | Operating expenses - compensation to telecommunication carriers and service providers | 54,232 |
| Other income (expenses) - others - net | Operating expenses - other costs of services | 1,010 |

## 43. RECLASSIFICATION OF ACCOUNTS (continued)

| As Previously Reported | As Reclassified | Amount |
|---|---|---|
| 2003 (continued) | | |
| Consolidated Statements of Cash Flows | | |
| Cash flows from investing activities - decrease in restricted cash and cash equivalents | Cash flows from financing activities - decrease in restricted cash and cash equivalents | 193,956 |
| Cash flows from investing activities - acquisitions of property and equipment | Cash flows from operating activities - employees and suppliers | 292,845 |

## 44. COMPLETION OF THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation of the accompanying consolidated financial statements that were completed on March 18, 2005.