

**Consolidated Financial Statements
With Independent Auditors' Report
December 31, 2006
With Comparative Figures for 2004 and 2005**

**PT INDOSAT Tbk
AND SUBSIDIARIES**

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2006
WITH COMPARATIVE FIGURES FOR 2004 AND 2005**

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Independent Auditors' Report

Report No. RPC-6706

Stockholders and Boards of Commissioners and Directors PT Indosat Tbk

We have audited the consolidated balance sheet of PT Indosat Tbk ("the Company") and its subsidiaries as of December 31, 2006, and the related consolidated statements of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated balance sheet of the Company as of December 31, 2005, and the consolidated statements of income, stockholders' equity and cash flows for the years ended December 31, 2004 and 2005 were audited by Prasetio, Sarwoko & Sandjaja, whose report dated February 21, 2006 expressed an unqualified opinion on those statements.

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

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

Purwantono, Sarwoko & Sandjaja

Drs. Hari Purwantono

Public Accountant Licence No. 98.1.0065

March 5, 2007

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

PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)

	Notes	2005 Rp	2006 Rp	2006 (Note 3) US\$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	2d,4,30	4,717,269	2,807,260	311,226
Short-term investments - net of allowance for decline in value of Rp33,984 in 2005 and Rp25,395 in 2006	2e	38,998	-	-
Accounts receivable	2f			
Trade	16			
Related parties				
PT Telekomunikasi Indonesia Tbk ("Telkom")				
- net of allowance for doubtful accounts of Rp89,485 in 2005 and Rp81,803 in 2006	5,30	67,595	55,159	6,115
Others - net of allowance for doubtful accounts of Rp61,492 in 2005 and Rp59,460 in 2006	30	108,804	119,583	13,258
Third parties - net of allowance for doubtful accounts of Rp528,314 in 2005 and Rp423,730 in 2006	6	982,351	1,096,866	121,604
Others - net of allowance for doubtful accounts of Rp34,575 in 2005 and Rp16,572 in 2006	30g	16,316	10,392	1,152
Inventories	2g	203,954	110,935	12,299
Derivative assets	2r,33	79,221	16,550	1,835
Advances		47,728	19,071	2,114
Prepaid taxes	7,14	940,155	1,051,442	116,568
Prepaid expenses	2h,2q,29,30	295,436	324,875	36,017
Other current assets	2d,30	29,165	53,299	5,909
Total Current Assets		7,526,992	5,665,432	628,097

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

PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
NON-CURRENT ASSETS				
Due from related parties - net of allowance for doubtful accounts of Rp1,753 in 2005 and Rp2,795 in 2006	2f,30	30,401	23,336	2,587
Deferred tax assets - net	2t,14	44,197	46,567	5,163
Investments in associated companies - net of allowance for decline in value of Rp56,300 in 2005 and 2006	2i,8	524	286	32
Other long-term investments - net of allowance for decline in value of Rp99,977 in 2005 and 2006	2i,9	2,730	8,509	943
Property and equipment	2j,2k,2p,10,16,24			
Carrying value		35,073,128	41,908,327	4,642,475
Accumulated depreciation		(13,409,736)	(16,846,686)	(1,864,022)
Impairment in value		(98,611)	(98,611)	(10,933)
Net		21,564,781	24,963,030	2,767,520
Goodwill and other intangible assets - net	2c,2l,11	2,682,600	2,645,369	293,278
Long-term receivables	30g	122,281	103,121	11,432
Long-term prepaid pension - net of current portion	2q,29,30	236,491	230,284	25,530
Long-term advances	12,30	327,351	213,771	23,700
Others	2d,2h,30	248,785	328,953	36,469
Total Non-current Assets		25,260,141	28,563,226	3,166,654
TOTAL ASSETS		32,787,133	34,228,658	3,794,751

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

PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable - trade				
Related parties	30	30,462	34,139	3,785
Third parties		163,617	270,292	29,966
Procurement payable	13,30	2,609,278	3,292,543	365,027
Taxes payable	2t, 14	205,852	211,868	23,489
Accrued expenses	15,29,30	843,206	896,435	99,383
Unearned income	2o	488,694	571,944	63,408
Deposits from customers		26,519	93,044	10,315
Derivative liabilities	2r,33	11,539	224,293	24,866
Current maturities of:				
Loans payable	2m,16	49,700	127,191	14,101
Bonds payable	2m,17	981,936	1,055,526	117,021
Other current liabilities		20,577	25,930	2,874
Total Current Liabilities		5,431,380	6,803,205	754,235
NON-CURRENT LIABILITIES				
Due to related parties	30	16,607	29,440	3,264
Deferred tax liabilities - net	2t, 14	865,672	1,244,502	137,971
Loans payable - net of current maturities	2m,16			
Related parties	30	630,251	635,649	70,471
Third parties		678,522	869,045	96,346
Bonds payable - net of current maturities	2m,17	10,161,905	8,734,012	968,294
Other non-current liabilities	18,29,30	511,779	510,440	56,591
Total Non-current Liabilities		12,864,736	12,023,088	1,332,937
TOTAL LIABILITIES		18,296,116	18,826,293	2,087,172
MINORITY INTEREST	2b	175,689	200,620	22,241

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

PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2006
With Comparative Figures for 2005
(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
STOCKHOLDERS' EQUITY				
Capital stock - Rp100 par value per A share and B share Authorized - 1 A share and 19,999,999,999 B shares Issued and fully paid - 1 A share and 5,356,174,499 B shares in 2005, and 1 A share and 5,433,933,499 B shares in 2006	19	535,617	543,393	60,243
Premium on capital stock	19	1,178,274	1,546,587	171,463
Difference in transactions of equity changes in associated companies/subsidiaries	2i	403,812	403,812	44,769
Stock options	2n,20	90,763	-	-
Difference in foreign currency translation	2b	228	182	20
Retained earnings				
Appropriated		49,922	66,157	7,334
Unappropriated		12,056,712	12,641,614	1,401,509
TOTAL STOCKHOLDERS' EQUITY		14,315,328	15,201,745	1,685,338
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		32,787,133	34,228,658	3,794,751

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

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)

	Notes	2004	2005	2006	2006 (Note 3)
		Rp	Rp	Rp	US\$
OPERATING REVENUES	2o,30				
Cellular	21,35,36,37	7,342,061	8,644,951	9,227,537	1,023,009
Multimedia, Data Communication, Internet ("MIDI")	22	1,483,941	1,694,033	1,902,589	210,930
Fixed telecommunication	23,35,36	1,544,684	1,250,807	1,109,281	122,980
Other services		59,420	-	-	-
Total Operating Revenues		10,430,106	11,589,791	12,239,407	1,356,919
OPERATING EXPENSES	2o				
Depreciation and amortization	2j,10,11	2,818,657	3,080,205	3,653,266	405,018
Personnel	2p,2q,20, 24,29,30	1,207,384	1,264,653	1,350,468	149,719
Administration and general	25,30	471,347	606,022	663,921	73,605
Maintenance	2j,30	473,388	614,595	585,158	64,874
Marketing		349,824	360,049	468,920	51,987
Compensation to telecommunications carriers and service providers	26,30,36	513,355	408,411	369,704	40,987
Leased circuits	30	97,667	142,210	180,168	19,974
Other costs of services	27,30	1,300,418	1,461,729	1,569,143	173,963
Total Operating Expenses		7,232,040	7,937,874	8,840,748	980,127
OPERATING INCOME		3,198,066	3,651,917	3,398,659	376,792
OTHER INCOME (EXPENSES)	2o				
Gain (loss) on foreign exchange - net	2s,5,6	(66,116)	(79,932)	304,401	33,747
Interest income	30	187,430	215,103	212,823	23,595
Financing cost	2m,16,17, 28,30	(1,097,531)	(1,264,764)	(1,248,899)	(138,459)
Loss on change in fair value of derivatives - net	2r,33	(170,451)	(44,209)	(438,774)	(48,645)
Amortization of goodwill	2l,11	(226,347)	(226,352)	(226,507)	(25,112)
Gain on sale of investment in associated companies	8	286,204	14,625	-	-
Gain on sale of other long-term investments - net	9	110,929	1,204	-	-
Others - net	14	99,085	85,117	21,202	2,351
Other Expenses - Net		(876,797)	(1,299,208)	(1,375,754)	(152,523)
EQUITY IN NET INCOME (LOSS) OF ASSOCIATED COMPANIES	2i,8	61,489	86	(238)	(26)
INCOME BEFORE INCOME TAX		2,382,758	2,352,795	2,022,667	224,243
INCOME TAX EXPENSE	2t,14				
Current		140,902	331,541	199,629	22,132
Deferred		583,652	366,383	376,478	41,738
Total Income Tax Expense		724,554	697,924	576,107	63,870

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (continued)
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)

	Notes	2004	2005	2006	2006 (Note 3)
		Rp	Rp	Rp	US\$
INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		1,658,204	1,654,871	1,446,560	160,373
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	2b	(24,996)	(31,390)	(36,467)	(4,043)
NET INCOME	32	<u>1,633,208</u>	<u>1,623,481</u>	<u>1,410,093</u>	<u>156,330</u>
BASIC EARNINGS PER SHARE	2v,19,31	<u>313.91</u>	<u>309.04</u>	<u>260.90</u>	<u>0.03</u>
DILUTED EARNINGS PER SHARE	2v,19, 20,31	<u>313.63</u>	<u>309.04</u>	<u>258.82</u>	<u>0.03</u>
BASIC EARNINGS PER ADS (50 B shares per ADS)	2v,19,31	<u>15,695.59</u>	<u>15,452.16</u>	<u>13,045.17</u>	<u>1.45</u>
DILUTED EARNINGS PER ADS	2v,19, 20,31	<u>15,681.59</u>	<u>15,452.16</u>	<u>12,940.98</u>	<u>1.43</u>

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah)

Year Ended December 31, 2004										
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, 2004		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	2n,19, 20	10,781	207,794	-	-	(49,592)	-	-	-	168,983
Proportionate seven months' compensation expense relating to ESOP Phase I and five months' compensation expense relating to ESOP Phase II	2n,20,24	-	-	-	-	95,990	-	-	-	95,990
Increase in difference in foreign currency translation arising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars and Indosat Finance Company B.V. from euro to rupiah - net of applicable income taxes of Rp18 and Rp30, respectively	2b	-	-	-	-	-	113	-	-	113
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

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah)

Year Ended December 31, 2005									
Description	Notes	Capital Stock - Issued and Fully Paid	Premium on Capital Stock	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, 2005		528,531	880,869	403,812	71,207	429	33,590	11,266,154	13,184,592
ESOP:									
Issuance of capital stock resulting from the exercise of ESOP Phase I and Phase II	2n,19,20	7,086	297,405	-	(71,183)	-	-	-	233,308
Proportionate seven months' compensation expense relating to ESOP Phase II	2n,20,24	-	-	-	90,739	-	-	-	90,739
Decrease in difference in foreign currency translation arising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars, and of Indosat Finance Company B.V. and Indosat International Finance Company B.V. from euro to rupiah - net of applicable income taxes of Rp64, Rp19 and Rp3, respectively	2b	-	-	-	-	(201)	-	-	(201)
Resolution during the Annual Stockholders' General Meeting on June 8, 2005									
Declaration of cash dividend	32	-	-	-	-	-	-	(816,591)	(816,591)
Appropriation for reserve fund	32	-	-	-	-	-	16,332	(16,332)	-
Net income for the year		-	-	-	-	-	-	1,623,481	1,623,481
Balance as of December 31, 2005		535,617	1,178,274	403,812	90,763	228	49,922	12,056,712	14,315,328

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah)

Year Ended December 31, 2006									
Description	Notes	Capital Stock - Issued and Fully Paid	Premium on Capital Stock	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, 2006		535,617	1,178,274	403,812	90,763	228	49,922	12,056,712	14,315,328
ESOP: Issuance of capital stock resulting from the exercise of ESOP Phase II	2n,19,20,24	7,776	368,313	-	(90,763)	-	-	-	285,326
Decrease in difference in foreign currency translation arising from the translation of the financial statements of Indosat Finance Company B.V. and Indosat International Finance Company B.V. from euro, and Indosat Singapore Pte. Ltd. and Satelindo International Finance B.V. from U.S. dollar to rupiah - net of applicable income tax benefit (expense) of Rp136, Rp135, (Rp17) and (Rp272), respectively	2b	-	-	-	-	(46)	-	-	(46)
Resolution during the Annual Stockholders' General Meeting on June 29, 2006									
Declaration of cash dividend	32	-	-	-	-	-	-	(808,956)	(808,956)
Appropriation for reserve fund	32	-	-	-	-	-	16,235	(16,235)	-
Net income for the year		-	-	-	-	-	-	1,410,093	1,410,093
Balance as of December 31, 2006		543,393	1,546,587	403,812	-	182	66,157	12,641,614	15,201,745

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

PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollar)

Notes	2004	2005	2006	2006 (Note 3)
	Rp	Rp	Rp	US\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from:				
Customers	10,537,812	11,402,721	12,177,148	1,350,016
Interest income	179,374	215,114	217,152	24,074
Refund of taxes 7	1,044,853	176,408	86,981	9,643
Interest rate swap contracts 33n,33o,33q,33r	34,143	9,174	5,250	582
Cash paid for:				
Employees, suppliers and others	(4,004,149)	(4,405,641)	(5,081,152)	(563,320)
Financing cost	(1,077,747)	(1,166,621)	(1,237,161)	(137,157)
Taxes	(683,481)	(796,369)	(391,881)	(43,446)
Swap cost from cross currency swap contracts 33a,33c-33m	(15,882)	(42,279)	(103,216)	(11,443)
Termination of swap contracts 33c,33n-33q	-	(76,475)	(3,498)	(388)
Net Cash Provided by Operating Activities	6,014,923	5,316,032	5,669,623	628,561
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of short-term investment	141,580	1,131	47,587	5,276
Proceeds from sale of property and equipment 10	18,490	463	1,249	138
Acquisitions of property and equipment 10	(5,238,331)	(6,771,870)	(6,054,014)	(671,176)
Acquisition of intangible assets 11	-	-	(320,000)	(35,477)
Purchase of other long-term investment 9a	-	-	(5,779)	(641)
Proceeds from sale of other long-term investments 9	200,038	100,631	-	-
Decrease (increase) in restricted cash and cash equivalents	(81,287)	81,288	-	-
Proceeds from sale of subsidiaries 1d	-	40,141	-	-
Proceeds from sale of investment in associated companies 8	498,713	14,625	-	-
Purchase of short-term investments	(77,677)	(47,341)	-	-
Additional advances for purchase of property and equipment	(196,972)	(36,550)	-	-
Additional investment in a subsidiary 1d	-	(17,481)	-	-
Net Cash Used in Investing Activities	(4,735,446)	(6,634,963)	(6,330,957)	(701,880)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term loans 16	96,200	40,059	357,366	39,619
Proceeds from exercise of ESOP Phase I and Phase II 20	148,993	233,309	287,910	31,919
Proceeds from bonds payable 17	-	3,484,992	31,150	3,453
Repayment of bonds payable 17	-	(51,347)	(956,644)	(106,058)
Cash dividend paid 32	(753,584)	(816,591)	(808,956)	(89,684)
Repayment of long-term loans 16	(1,251,580)	(653,579)	(84,394)	(9,356)
Swap cost from cross currency swap contracts 33b	(15,392)	(64,121)	(61,885)	(6,861)
Cash dividend paid by subsidiaries to minority interest	(7,671)	(9,046)	(11,537)	(1,279)
Decrease (increase) in restricted cash and cash equivalents	12,542	11,210	(1,685)	(187)
Payment for termination of swap contracts 33b	-	(111,508)	-	-
Repayment of short-term loans	(8,255)	-	-	-
Net Cash Provided by (Used in) Financing Activities	(1,778,747)	2,063,378	(1,248,675)	(138,434)

PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollar)

	Notes	2004	2005	2006	2006 (Note 3)
		Rp	Rp	Rp	US\$
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(499,270)	744,447	(1,910,009)	(211,753)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		4,509,508	4,010,238	4,717,269	522,979
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF A DIVESTED SUBSIDIARY	1d	-	(37,416)	-	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	4,010,238	4,717,269	2,807,260	311,226
DETAILS OF CASH AND CASH EQUIVALENTS:					
Cash on hand and in banks		170,498	136,278	240,406	26,652
Time deposits with original maturities of three months or less		3,839,740	4,580,991	2,566,854	284,574
Cash and cash equivalents as stated in the consolidated balance sheets		4,010,238	4,717,269	2,807,260	311,226
SUPPLEMENTAL CASH FLOW INFORMATION:					
Transactions not affecting cash flows:					
Acquisitions of property and equipment on account credited to procurement payable		672,328	505,666	753,734	83,563
Acquisitions of property and equipment on account credited to long-term advances		-	-	113,580	12,592
Premium on capital stock		49,592	71,182	88,179	9,776
Stock options		46,398	19,556	(90,763)	(10,062)
Bonus retained for exercise of ESOP Phase I		19,990	-	-	-

PT INDOSAT Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Year Ended December 31, 2006
With Comparative Figures for 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollar,
except share and tariff data)

1. GENERAL

a. Company's Establishment

PT Indosat 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 Tadjoeidin, 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 Capital 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. 38 dated November 9, 2006 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) concerning the change in the number of the Company's issued and fully paid capital stock. The latest amendment of the Company's Articles of Association has been reported to and accepted by the Ministry of Law and Human Rights of the Republic of Indonesia based on its letter No. W7.HT.01.04.4134 dated November 28, 2006.

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.

Based on Law No. 3 of 1989 on telecommunications and pursuant to Government Regulation No. 77 of 1991, the Company had been re-confirmed as an Operating Body ("Badan Penyelenggara") that provided international telecommunications service under the authority of the Government.

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

- Telecommunications networks
- Telecommunications services
- Special telecommunications services.

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1. GENERAL (continued)

a. Company's Establishment (continued)

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.

Based on the Telecommunications Law, the Company ceased as an Operating Body and has to obtain licenses from the government for the Company to engage in the provision of specific telecommunication networks and services.

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 exclusivity 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 "e" 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 exclusivity 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 rights on local and domestic long-distance telecommunications services.

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 Announcement No. PM.2 Year 2004 dated March 30, 2004 of the Ministry of Communications regarding the Commencement of Restructuring of the Telecommunications Sector, the Company should pay to the Government the amount of Rp178,000 after tax as a result of the early termination of its exclusivity rights. In turn, the payment of any liability of the Company as a result of the early termination will be settled by the Government which is coordinated by the Ministry of State-owned Enterprises. This is in line with 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), whereby 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.

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1. GENERAL (continued)

a. Company's Establishment (continued)

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.

On October 18, 2004, the Government of the Republic of Indonesia, through the Ministry of Communications, granted the Company an in-principle license for third generation (3G) mobile communications technology.

Based on Decree No. 19/KEP/M.KOMINFO/02/2006 dated February 14, 2006 of the Ministry of Communications and Information Technology, the Company has been determined as one of the winners in the selection of IMT-2000 cellular network providers using 2.1 GHz radio frequency spectrum (known as "3G") for 1 block (2 x 5MHz) of frequency. As a winner, the Company was obliged, among others, to pay the upfront fee of Rp320,000 (Note 11) and radio frequency fee.

Based on Decree No. 102/KEP/M.KOMINFO/10/2006 dated October 11, 2006, the Government of the Republic of Indonesia, through the Ministry of Communications and Information Technology, amended the previous ministerial decree dated March 15, 2004 on the Company's license on GSM cellular mobile network in order to include the rights and obligations of 3G services.

Based on Decree No. 181/KEP/M.KOMINFO/12/2006 dated December 12, 2006 of the Ministry of Communications and Information Technology regarding 800 Mhz Frequency Channels Allocation for Local Fixed Wireless Network Services with Limited Mobility and Mobile Cellular Network, the Company has been granted two nationwide frequency channels, i.e channels 589 and 630 in the 800 MHz spectrum for Local Fixed Wireless Network Services with Limited Mobility.

The Company is domiciled at Jalan Medan Merdeka Barat No. 21, Jakarta and has 8 regional offices located in Jakarta, Bandung, Semarang, Surabaya, Medan, Palembang, Balikpapan and Makassar.

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) have also been traded on the New York Stock Exchange since 1994.

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1. GENERAL (continued)

c. Employees, Directors and Commissioners

Based on a resolution at each of the (i) 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, (ii) Annual Stockholders' General Meeting held on June 8, 2005 which is notarized under Deed No. 40 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date and (iii) Annual Stockholders' General Meeting held on June 29, 2006 which is notarized under Deed No. 175 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, 2004, 2005 and 2006, respectively, is as follows:

	2004	2005 and 2006
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	Sum Soon Lim	Sum Soon Lim
Commissioner	Roes Aryawijaya	Roes Aryawijaya
Commissioner	Umar Rusdi	Setyanto P. Santosa
Commissioner	Lim Ah Doo *	Lim Ah Doo *
Commissioner	Eva Riyanti Hutapea *	Eva Riyanti Hutapea *
Commissioner	Mohammad Ikhsan *	Soeprapto S.IP *

* Independent commissioner

Based on (i) a resolution at the Stockholders' Extraordinary Meeting held on September 30, 2004 which is notarized under Deed No. 144 of Aullia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, (ii) a resolution at the Annual Stockholders' General Meeting held on June 8, 2005 which is notarized under Deed No. 40 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, and (iii) the minutes of the Company's Board of Commissioners' Meeting held on March 3, 2006 and a resolution at the Annual Stockholders' General Meeting held on June 29, 2006 which are notarized under Deed No. 175 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, 2004, 2005 and 2006, respectively, is as follows:

	2004	2005	2006
President Director	- *	Hasnul Suhaimi	- * and **
Deputy President Director	Ng Eng Ho	Kaizad Bomi Heerjee	Kaizad Bomi Heerjee
Finance Director	Wong Heang Tuck	Wong Heang Tuck	Wong Heang Tuck
Corporate Services Director	Sutrisman	S. Wimbo S. Hardjito	S. Wimbo S. Hardjito
Information Technology Director	Joseph Chan Lam Seng	Joseph Chan Lam Seng	Joseph Chan Lam Seng
Jabotabek and Corporate Sales Director	-	-	Johnny Swandi Sjam
Regional Sales Director	-	-	Wityasmoro Sih Handayanto
Marketing Director	-	-	Wahyu Wijayadi
Network Director	-	-	Raymond Tan Kim Meng
Consumer Market Director	-	Johnny Swandi Sjam	-
Planning and Project Development Director	-	Wityasmoro Sih Handayanto	-

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1. GENERAL (continued)

c. Employees, Directors and Commissioners (continued)

	2004	2005	2006
Corporate Market Director	-	Wahyu Wijayadi	-
Network Operation and Quality Management Director	-	Raymond Tan Kim Meng	-
Business Development Director	Wityasmoro Sih Handayanto	-	-
Fixed Telecom and MIDI Director	Wahyu Wijayadi	-	-
Operation and Quality Improvement Director	Raymond Tan Kim Meng	-	-
Cellular Marketing Director	Hasnul Suhaimi	-	-

* In the absence of a President Director, the tasks of the President Director have been carried out by the Deputy President Director.

** On June 16, 2006, the Board of Commissioners approved the resignation of Hasnul Suhaimi effective on June 8, 2006.

The Company and its subsidiaries (collectively referred to hereafter as "the Companies") have approximately 7,820, 8,137 and 7,786 employees, including non-permanent employees, as of December 31, 2004, 2005 and 2006, respectively.

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 (%)		
				2004	2005	2006
Satelindo International Finance B.V.	Amsterdam	Finance	1996	100.00	100.00	100.00
Indosat Finance Company B.V.	Amsterdam	Finance	2003	100.00	100.00	100.00
Indosat International Finance Company B.V.	Amsterdam	Finance	2005	-	100.00	100.00
Indosat Singapore Pte. Ltd.	Singapore	Telecommunication	2005	-	100.00	100.00
PT Indosat Mega Media	Jakarta	Multimedia	2001	99.85	99.85	99.85
PT Satelindo Multi Media	Jakarta	Multimedia	1999	99.60	99.60	99.60
PT Aplikasi Lintasarta	Jakarta	Data Communication	1989	69.46	72.36	72.36
PT Artajasa Pembayaran Elektronik	Jakarta	Telecommunication	2000	45.15	39.80	39.80
PT Sisindosat Lintasbuana *	Jakarta	Information Technology	1990	96.87	-	-
PT Asatelindo Data Buana *	Jakarta	Multimedia	1997	49.40	-	-

Name of Subsidiary	Total Assets (Before Eliminations)		
	2004	2005	2006
Satelindo International Finance B.V.	8,002	8,526	7,555
Indosat Finance Company B.V.	2,820,797	2,984,732	2,762,776
Indosat International Finance Company B.V.	-	2,462,039	2,283,380
Indosat Singapore Pte. Ltd.	-	-	7,300
PT Indosat Mega Media	450,288	523,014	605,538
PT Satelindo Multi Media	11,187	10,690	10,690
PT Aplikasi Lintasarta	798,273	876,201	985,605
PT Artajasa Pembayaran Elektronik	73,964	73,627	94,311
PT Sisindosat Lintasbuana *	159,230	-	-
PT Asatelindo Data Buana *	9,822	-	-

* Sold in January 2005

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1. GENERAL (continued)

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

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

SIB was incorporated in Amsterdam (the Netherlands) in 1996. SIB is a financing company that only facilitates borrowings of PT Satelit Palapa Indonesia ("Satelindo" - see Note 1e) from third parties and is not involved in any other activity. In May 2000, SIB issued Guaranteed Floating Rate Bonds. In October 2003, Satelindo repaid its borrowings from SIB by using the proceeds from the Company's capital contributions.

In the SIB shareholder's meeting conducted on March 28, 2006, the shareholder agreed to start SIB's voluntary liquidation process on April 1, 2006. As of December 31, 2006, such liquidation has not yet been finalized (Note 41d).

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

IFB was incorporated in Amsterdam (the Netherlands) on October 13, 2003. IFB is a company which is involved in the activities of a financing business; borrowing/lending/raising funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness; granting guarantees; and trading in currencies, securities and items of property in general. In October 2003, IFB issued guaranteed notes which are due in 2010 (Note 17).

Based on an IFB shareholder's resolution dated February 20, 2006, the Company made additional capital injection of EUR2,000,000 (in full amount, equivalent to Rp23,352) to IFB on August 31, 2006.

Indosat International Finance Company B.V. ("IIFB")

IIFB was incorporated in Amsterdam (the Netherlands) on April 27, 2005. IIFB is a company which is involved in the activities of a financing business; borrowing/lending/raising funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness; granting guarantees; and trading in currencies, securities and items of property in general. In June 2005, IIFB issued guaranteed notes which are due in 2012 (Note 17).

Based on an IIFB shareholder's resolution dated February 20, 2006, the Company made additional capital injection of EUR2,000,000 (in full amount, equivalent to Rp23,352) to IIFB on August 31, 2006.

Indosat Singapore Pte. Ltd. ("ISP")

ISP was incorporated in Singapore on December 21, 2005 to engage in telecommunication services.

Based on an ISP shareholder's resolution dated April 20, 2006, the Company agreed to make capital injection in ISP totaling US\$650 (equivalent to SGD1,075,750, in full amount). The Company transferred in full such amount to ISP's bank account on April 26, 2006.

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1. GENERAL (continued)

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

PT Indosat Mega Media ("IMM")

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

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.

Based on a circular resolution of SMM's shareholders, SMM will be subject to liquidation effective May 5, 2006. As of December 31, 2006, such liquidation has not yet been finalized.

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%.

On December 21, 2005, the Company entered into a Sale and Purchase Agreement, whereby the Company agreed to purchase 2.90% equity interest in Lintasarta from Dana Pensiun Bank Negara Indonesia ("DPBNI") for Rp17,480. Such purchase of equity interest, which resulted in the recognition of goodwill, increased the Company's ownership in Lintasarta from 69.46% to 72.36%.

PT Artajasa Pembayaran Elektronik ("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 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%.

On June 21, 2005, Lintasarta sold a portion of its ownership in APE to Yayasan Kesejahteraan Karyawan Bank Indonesia ("YKKBI") for Rp7,250, resulting in the decrease of Lintasarta's equity interest in APE from 65% to 55%.

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1. GENERAL (continued)

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

PT Sisindosat Lintasbuana ("Sisindosat", which changed its name to PT Sisindokom Lintasbuana or "Sisindokom" in May 2005)

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 initially had 95.64% equity interest in Sisindosat, which had 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. On January 7, 2005, the Company and Astel closed the transaction on the sale and purchase.

On January 14, 2005, based on the CSPA, the Company paid Rp2,109 to Astel for termination of Sisindosat's employees who chose to take the termination program offered to them as a result of the sale of Sisindosat.

On January 25, 2005, the Company received the final payment amounting to Rp32,891 (net of Rp5,000 previously received on August 27, 2004 as a bidding deposit) for the sale.

PT Asitelindo Data Buana ("Asiatel")

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

Since the Company sold its investment in Sisindosat on January 7, 2005 (see above), the Company no longer has indirect investment in Asiatel.

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, PT Bimagraha Telekomindo ("Bimagraha") and PT Indosat Multi Media Mobile ("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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies adopted by the Company and its subsidiaries (collectively referred to as the "Companies") conform with generally accepted accounting principles in Indonesia. The significant accounting principles applied consistently in the preparation of the consolidated financial statements for the years ended December 31, 2004, 2005 and 2006 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 (%)		
	2004	2005	2006
SIB	100.00	100.00	100.00
IFB	100.00	100.00	100.00
IIFB	-	100.00	100.00
ISP	-	100.00	100.00
IMM	99.85	99.85	99.85
SMM	99.60	99.60	99.60
Lintasarta	69.46	72.36	72.36
Sisindosat	96.87	- *	-

* sold in January 2005

The consolidated financial statements also include the accounts of APE (Lintasarta's subsidiary which was 65%-owned in 2004 and reduced to become 55%-owned starting 2005). The accounts of APE in 2004, 2005 and 2006 were consolidated because its financial and operating policies were controlled by Lintasarta.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation (continued)

The accounts of SIB, IFB, IIFB and ISP 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 year for profit and loss accounts. The resulting differences arising from the translations of the financial statements of SIB, IFB, IIFB and ISP 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

For an acquisition accounted for under the pooling-of-interests method, the historical carrying amount of the net equity of the entity acquired is combined with that of the acquirer, as if they were a single entity for all periods presented, in accordance with Statement of Financial Accounting Standards ("SAK") 38 (Revised 2004), "Accounting for Restructuring Transactions of Entities under Common Control". The difference between the net consideration paid or received and book value, net of applicable income tax, is shown under Stockholders' Equity as "Difference in Value from Restructuring Transactions of Entities under Common Control". 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 transactions.

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.

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".

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Short-term Investments

Short-term investments consist of:

- Investment in debt securities

Investment in debt securities which are classified as available-for-sale is recorded at fair value in accordance with SAK 50, "Accounting for Investments in Certain Securities". Unrealized gain (loss), if any, 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.

Investment in debt securities which are classified as trading is recorded at fair value. Any unrealized gain (loss) at balance sheet date is credited (charged) to current operations.

- 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 using 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".

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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 fifteen 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.

Based on its review and assessment, starting January 1, 2005, the Company changed the estimated useful lives of certain property and equipment. The change in the estimated useful lives was made to reflect the effect of the integration of telecommunications network by location within the country and also in consideration of the effect of technological advancement and upgrades done by the Company. Below are the estimated useful lives (in years) prior to and starting January 1, 2005:

	Prior to January 1, 2005	Starting January 1, 2005
Buildings	3 to 20	15 to 20
Submarine cables	15	12
Earth stations	15	10
Inland link	5 to 15	15
Switching equipment	15	10
Telecommunications peripherals	5 to 15	5
Information technology equipment	5 to 10	3 to 5
Office equipment	3 to 6	5
Building and leasehold improvements	5 to 15	5

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Property and Equipment (continued)

	Prior to January 1, 2005	Starting January 1, 2005
Vehicles	5	5
Cellular technical equipment	5 to 15	10 to 15
Satellite technical equipment	12 to 15	12
Transmission and cross-connection equipment	5 to 24	12
Fixed Wireless Access ("FWA") technical equipment	8	10

Landrights are stated at cost.

The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterment which enhance the asset condition over its initial performance, are capitalized. When properties are retired or otherwise disposed of, their costs 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 mainly of cellular technical equipment, FWA technical equipment, submarine cables, transmission and cross-connection equipment, building and leasehold improvements, inland link, information technology equipment, telecommunications peripherals, satellite technical equipment and switching equipment.

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.

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. Goodwill is amortized using the straight-line method over 15 years.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Goodwill and Other Intangible Assets (continued)

Upfront fee in connection with the license to use 2.1 GHz radio frequency bandwidth (Note 1a) is amortized using the straight-line method over the license period.

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

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

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, monthly service fees are recognized as the service is provided.

For prepaid subscribers, 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 are recognized monthly on the basis of the actual recorded traffic for the month.

Cellular revenues are presented on a net basis, after interconnection expenses and compensation to value added service providers.

MIDI

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Revenue and Expense Recognition (continued)

MIDI (continued)

Internet

Revenues arising from installation service are recognized at the time the installations are placed in service. Revenues from monthly service fees are recognized as the services are provided. Revenues from usage charges are recognized monthly based on the duration of internet usage or based on the fixed amount of charges depending on the arrangement with the customers.

Satellite Lease

Revenues are recognized on the straight-line basis over the lease term.

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

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 accounted for based on estimates.

Operating revenues for interconnection services under interconnection agreements based on revenue-sharing arrangement (Note 37) 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 36), are reported on a gross basis, before interconnection expenses/charges (Note 26) but net of allocations to overseas international carriers. These interconnection expenses/charges are accounted for as operating expenses in the year these are incurred.

Fixed Wireless

Fixed wireless revenues arising from usage charges are recognized based on the duration of successful calls made through the Company's fixed network.

For post-paid subscribers, activation fees are recognized upon activation of new subscribers in the Company's fixed 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. Sale of initial/reload vouchers is 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 are recognized monthly on the basis of the actual recorded traffic for the month.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Revenue and Expense Recognition (continued)

Fixed Telecommunication (continued)

Fixed Line

Revenues from fixed line installations are recognized at the time the installations are placed in service. Revenues from usage charges are recognized based on the duration of successful calls made through the Company's fixed network.

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

Expenses

Expenses are recognized when incurred (accrual basis).

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

Pension costs under the Companies' defined benefit pension plans 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. Prior service cost is recognized over the estimated average remaining service periods of the employees.

The Companies follow SAK 24 (Revised 2004), "Employee Benefits", which regulates the accounting and disclosure for employee benefits, both short-term (e.g. paid annual leave, paid sick leave) and long-term (e.g. long-service leave, post-employment medical benefits).

r. Derivatives

The Company enters into and engages in currency swap and foreign exchange contracts/transactions for the purpose of managing its foreign exchange rate exposures emanating from the Company's bonds payable in foreign currencies.

The Company applies SAK 55, "Accounting for Derivative Instruments and Hedging Activities". SAK 55 sets forth the accounting and reporting standards for derivative transactions and hedging activities, which require that every derivative instrument (including embedded derivatives) be recognized as either asset or liability based on the fair value of each contract. Fair value is a computation of present value by using data and assumption which are commonly used. Based on the specific requirements for hedge accounting under SAK 55, the Company's instruments do not qualify and are not designated as hedge activities for accounting purposes. Accordingly, changes in the fair value of such derivative instruments are recorded directly as a charge or credit to current operations.

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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, 2004, 2005 and 2006, the foreign exchange rates used (in full amounts) were Rp9,290, Rp9,830 and Rp9,020 to US\$1, respectively, computed by taking the average of the buying and selling rates of bank notes last published by Bank Indonesia for the year.

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 directly 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.

Amendment to tax obligations is recorded when an assessment is received or, if appealed, when the result of the appeal is determined.

For each of the consolidated entities, the tax effects of temporary differences and tax loss carry-over, 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. 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 39.

v. 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 by the weighted-average number of shares outstanding during the year after considering the effect of exercise of ESOP Phase I and Phase II (Note 31).

Diluted earnings per share is computed by dividing net income 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 and convertible bonds issued by a subsidiary (Note 17).

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w. 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, 2006 of Rp9,020 to US\$1 (in full amount). 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. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2005	2006
Cash on hand		
Rupiah	868	1,350
U.S. dollar (US\$27 in 2005 and US\$21 in 2006)	270	185
	<u>1,138</u>	<u>1,535</u>
Cash in banks		
Related parties (Note 30)		
Rupiah		
Bank Pembangunan Daerah DKI Jakarta	2,955	17,583
PT Bank Mandiri (Persero) Tbk ("Mandiri")	26,700	11,978
PT Bank Negara Indonesia (Persero) Tbk ("BNI")	802	1,848
PT Bank Internasional Indonesia Tbk ("BII")	-	1,605
Bank Pembangunan Daerah Yogyakarta	853	1,321
PT Bank Mandiri Syari'ah ("Mandiri Syari'ah")	101	1,287
PT Bank Pembangunan Daerah Sumatera Selatan	-	1,128
PT Bank Danamon Indonesia Tbk ("Danamon")	864	515
PT Bank Rakyat Indonesia (Persero) Tbk ("BRI")	1,857	178
PT Bank Tabungan Negara (Persero) ("BTN")	625	85
Others (each below Rp500)	687	1,314
U.S. dollar		
Mandiri (US\$163 in 2005 and US\$575 in 2006)	1,600	5,188
Others (US\$10 in 2005 and US\$40 in 2006)	99	362

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4. CASH AND CASH EQUIVALENTS (continued)

	2005	2006
Cash in banks (continued)		
Third parties		
Rupiah		
PT Bank Central Asia Tbk ("BCA")	18,116	82,836
Deutsche Bank AG, Jakarta Branch	18,752	9,763
The Hongkong and Shanghai Banking Corp. Ltd., Jakarta Branch	7,148	6,107
PT Bank Umum Koperasi Indonesia ("Bukopin")	3,007	4,895
PT Bank Niaga Tbk ("Niaga")	182	4,707
Citibank N.A., Jakarta Branch	852	4,123
PT Bank Permata Tbk	1,106	1,397
PT Bank Lippo Tbk	187	694
PT Bank Artha Graha Internasional Tbk	503	225
Others (each below Rp500)	304	1,522
U.S. dollar		
Fortis Bank, The Netherlands (US\$5,442)	-	49,089
Citibank N.A., Jakarta Branch (US\$1,509 in 2005 and US\$1,867 in 2006)	14,835	16,843
Deutsche Bank AG, Jakarta Branch (US\$2,192 in 2005 and US\$801 in 2006)	21,552	7,227
Bukopin (US\$276 in 2005 and US\$270 in 2006)	2,718	2,430
Citibank N.A., Singapore Branch (US\$651 in 2005 and US\$236 in 2006)	6,400	2,126
Others (US\$238 in 2005 and US\$55 in 2006)	2,335	495
	<u>135,140</u>	<u>238,871</u>
Time deposits		
Related parties (Note 30)		
Rupiah		
Mandiri	504,945	364,285
BNI	173,715	78,715
Danamon	199,400	61,400
BRI	200,000	50,000
BTN	2,000	39,000
Bank Pembangunan Daerah Yogyakarta	-	1,000
Bank Pembangunan Daerah Sulawesi Utara	1,000	1,000
Mandiri Syari'ah	150,000	-
U.S. dollar		
BNI (US\$25,000 in 2005 and US\$20,000 in 2006)	245,750	180,400
Danamon (US\$20,000 in 2005 and US\$15,000 in 2006)	196,600	135,300
Mandiri Syari'ah (US\$23,000 in 2005 and US\$10,000 in 2006)	226,090	90,200
BTN (US\$10,000 in 2005 and US\$5,000 in 2006)	98,300	45,100
Mandiri (US\$52,071 in 2005 and US\$2,603 in 2006)	511,862	23,479
BRI (US\$35,000)	344,050	-

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4. CASH AND CASH EQUIVALENTS (continued)

	2005	2006
Time deposits (continued)		
Third parties		
Rupiah		
Deutsche Bank AG, Jakarta Branch	35,161	112,175
Niaga	109,800	110,000
PT Bank Muamalat Indonesia Tbk ("Muamalat")	210,000	70,000
Bukopin	109,000	57,500
BCA	152,500	54,450
PT Bank Mega Tbk	5,595	14,052
Citibank N.A., Jakarta Branch	7,600	-
Others	6	6
U.S. dollar		
Deutsche Bank AG, Jakarta Branch (US\$42,406 in 2005 and US\$48,950 in 2006)	416,856	441,529
Citibank N.A., Jakarta Branch (US\$25,000)	-	225,500
Bukopin (US\$37,000 in 2005 and US\$18,000 in 2006)	363,710	162,360
Niaga (US\$27,253 in 2005 and US\$17,650 in 2006)	267,901	159,203
Muamalat (US\$5,000 in 2005 and US\$10,000 in 2006)	49,150	90,200
	<u>4,580,991</u>	<u>2,566,854</u>
Total	<u>4,717,269</u>	<u>2,807,260</u>

Time deposits denominated in rupiah earned interest at annual rates ranging from 4.00% to 7.50% in 2004, from 4.00% to 13.00% in 2005 and from 3.25% to 13.20% in 2006, while those denominated in U.S. dollar earned interest at annual rates ranging from 0.54% to 1.50% in 2004, from 0.65% to 4.25% in 2005 and from 1.00% to 5.15% in 2006.

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

5. 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).

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5. ACCOUNTS RECEIVABLE - TRADE - TELKOM (continued)

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	2005		2006	
	Amount	Percentage (%)	Amount	Percentage (%)
0 - 3 months	74,381	47.35	61,270	44.74
4 - 6 months	542	0.35	959	0.70
Over 6 months	82,157	52.30	74,733	54.56
Total	157,080	100.00	136,962	100.00

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

	2005	2006
Balance at beginning of year	86,884	89,485
Provision	4,556	587
Write-off	-	(8,183)
Net effect of foreign exchange adjustment	295	(86)
Deduction due to sale of Sisindosat	(2,250)	-
Balance at end of year	89,485	81,803

The net 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".

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

6. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES

This account consists of the following:

	2005	2006
Overseas international carriers		
DiGi Telecommunications Sdn Bhd, Malaysia (US\$9,095 in 2005 and US\$22,153 in 2006)	89,402	199,823
Saudi Telecom Company, Saudi Arabia (US\$8,086 in 2005 and US\$8,409 in 2006)	79,483	75,852
Telekom Malaysia Berhad, Malaysia (US\$4,773 in 2005 and US\$7,483 in 2006)	46,922	67,501
Maxis International Sdn Bhd, Malaysia (US\$6,284 in 2005 and US\$6,137 in 2006)	61,768	55,356
Cableview Services Sdn Bhd ("Mega TV"), Malaysia (US\$3,289 in 2005 and 2006)	32,334	29,670
Celcom Malaysia Berhad, Malaysia (US\$3,953 in 2005 and US\$3,239 in 2006)	38,857	29,220
DDI Corporation, Japan (US\$2,389 in 2005 and US\$2,254 in 2006)	23,484	20,332
NTT Communication Corporation, Japan (US\$2,205 in 2005 and US\$2,229 in 2006)	21,672	20,109

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6. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES (continued)

	2005	2006
Overseas international carriers (continued)		
Mega Media Broadcasting Network Co. Ltd., Taiwan (US\$2,203 in 2005 and 2006)	21,656	19,872
UAE-Etisalat, United Arab Emirates (US\$4,578 in 2005 and US\$2,161 in 2006)	45,003	19,501
Jabatan Telekom Brunei, Brunei Darussalam (US\$2,992 in 2005 and US\$1,202 in 2006)	29,410	10,843
Korea International Telecommunication, Korea (US\$2,229 in 2005 and US\$817 in 2006)	21,909	7,370
Others (each below Rp20,000; US\$26,607 in 2005 and US\$32,270 in 2006)	261,542	300,097
	<u>773,442</u>	<u>855,546</u>
Local companies		
PT Ratelindo	4,713	12,318
PT Satkomindo Mediyasa (US\$823 in 2005 and US\$701 in 2006)	8,094	6,327
PT Cakrawala Andalas Televisi (US\$872 in 2005 and US\$353 in 2006)	8,575	3,189
Others (each below Rp6,000, including US\$9,908 in 2005 and US\$11,966 in 2006)	239,724	256,505
	<u>261,106</u>	<u>278,339</u>
Post-paid subscribers from:		
Cellular	444,957	361,890
Fixed wireless	16,123	17,885
Fixed line	15,037	6,936
	<u>476,117</u>	<u>386,711</u>
Total	1,510,665	1,520,596
Less allowance for doubtful accounts	528,314	423,730
Net	<u>982,351</u>	<u>1,096,866</u>

The aging schedule of the accounts receivable is as follows:

	2005		2006	
Number of Months Outstanding	Amount	Percentage (%)	Amount	Percentage (%)
0 - 6 months	727,463	48.16	789,330	51.91
7 - 12 months	306,247	20.27	297,928	19.59
13 - 24 months	235,362	15.58	275,329	18.11
Over 24 months	241,593	15.99	158,009	10.39
Total	<u>1,510,665</u>	<u>100.00</u>	<u>1,520,596</u>	<u>100.00</u>

As of December 31, 2006, approximately 1.65% of accounts receivable - trade are pledged as collateral for long-term bank loans obtained by Lintasarta (Note 16).

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

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6. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES (continued)

	2005	2006
Balance at beginning of year	375,001	528,314
Provision	163,956	104,245
Write-off	(10,999)	(204,880)
Net effect of foreign exchange adjustment	4,616	(3,949)
Deduction due to sale of Sisindosat	(4,260)	-
Balance at end of year	528,314	423,730

The net 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 5).

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

7. PREPAID TAXES

This account consists of the following:

	2005	2006
Claims for tax refund	649,608	797,282
Value Added Tax ("VAT")	254,695	217,653
Others	35,852	36,507
Total	940,155	1,051,442

Claims for tax refund in 2005 and 2006 mainly consist of the Company's claims for tax refund from the excess prepayments of the Company's income tax articles 22, 23 and 25 over the Company's current income tax expense.

In March 2005, Lintasarta received the payment amounting to Rp2,197 from the Tax Office for its claim for tax refund for fiscal year 2003.

In June 2005, the Company received the payment of IM3's claims for tax refund from the Tax Office amounting to Rp49,186 consisting of the excess prepayment of IM3's income tax articles 22, 23 and 25 over its current income tax expense for fiscal years 2001 - 2003 and refund for prepaid VAT for fiscal year 2003.

In September 2005, the Company received the payment amounting to Rp119,195 from the Tax Office for the Company's claim for tax refund for fiscal year 2003.

In December 2005, the Company received the payment of Satelindo's claim for tax refund amounting to Rp5,830 for overpayment of income tax article 26 for fiscal year 2001.

On September 5, 2006, the Company received assessment letters on tax overpayment ("SKPLB") from the Directorate General of Taxation for the Company's VAT for the periods April - July 2004 and November - December 2004 totalling Rp86,981, which was collected in November 2006.

On December 4, 2006, the Company received SKPLB from the Directorate General of Taxation for the Company's 2004 Corporate Income Tax amounting to Rp199,552.

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8. INVESTMENTS IN ASSOCIATED COMPANIES

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

	Equity Interest (%)	Cost	Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies	Carrying Value
<u>2005</u>				
Investments in:				
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
PT Swadharma Marga Inforindo	20.00	100	424	524
Total		56,612	212	56,824
Less allowance for decline in value		56,300	-	56,300
Net		312	212	524
<u>2006</u>				
Investments in:				
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
PT Swadharma Marga Inforindo	20.00	100	186	286
Total		56,612	(26)	56,586
Less allowance for decline in value		56,300	-	56,300
Net		312	(26)	286

The changes in the carrying value of the investments in associated companies for the years ended December 31, 2005 and 2006 are as follows:

	2005	2006
Equity in net income (loss) of associated companies	86	(238)
Write-off of allowance for decline in value of investment due to sale and write-off of investment	18,912	-
Sale of investment	(50,012)	-
Write-off of investment	(1,596)	-
Net Change	(32,610)	(238)

The Companies have provided allowance for decline in value amounting to Rp56,300 as of December 31, 2005 and 2006, 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 Pasifik 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.

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8. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

Cambodian Indosat Telecommunication 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.

In 2005, the Company received payments totalling US\$1,500 (equivalent to Rp14,625) from AZ Communication Co. Ltd. of Cambodia for the sale of its 6,590,500 shares in Camintel. In June 2006, all necessary government approvals for the sale were obtained.

9. OTHER LONG-TERM INVESTMENTS

This account consists of the following:

	2005	2006
Investments in shares of stock accounted for under the cost method - net	2,631	8,410
Equity securities which are available-for-sale	99	99
Total	2,730	8,509

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

	2005	
	Equity Interest (%)	Cost/ Carrying Value
PT Broadband Multimedia Tbk	5.00	50,000
ICO Global Communications (Holdings) Limited	0.0087	49,977
Others *	16.67 - 17.60	2,631
Total		102,608
Less allowance for decline in value *		99,977
Net		2,631

* net of investment in PT Patra Telekomunikasi Indonesia sold in August 2005 and write-off of investment in AlphaNet Telecom Inc. in December 2005

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9. OTHER LONG-TERM INVESTMENTS (continued)

- a. Investments in shares of stock which are accounted for under the cost method (continued)

	2006	
	Equity Interest (%)	Cost/ Carrying Value
PT Broadband Multimedia Tbk	5.00	50,000
ICO Global Communications (Holdings) Limited	0.0087	49,977
PT Starone Mitra Telekomunikasi	14.60	5,779
Others	12.80 - 16.67	2,631
Total		108,387
Less allowance for decline in value		99,977
Net		8,410

- b. Equity securities which are available-for-sale

As of December 31, 2005 and 2006, this account consists of:

BNI	89
Telkom	10
Total	99

The Companies provided an allowance for decline in value of their investments in shares of stock accounted for under the cost method amounting to Rp99,977 as of December 31, 2005 and 2006, which management believes is adequate to cover probable losses on the investments.

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.

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.

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9. OTHER LONG-TERM INVESTMENTS (continued)

PT Starone Mitra Telekomunikasi ("SMT")

SMT was established on June 15, 2006 in Semarang, Central Java, by the Company, PT Sarana Pembangunan Jawa Tengah, PT Dawamiba Engineering and PT Trikomsel Multimedia to engage in construction and operation of fixed wireless access network using Code Division Multiple Access (CDMA) 2000-1x technology in Central Java and its surroundings.

Based on an amendment dated August 23, 2006 to SMT's Articles of Association, the Company agreed to contribute Rp51,302 to the capital of SMT that consists of Rp5,779 cash and Rp45,523 in-kind contribution. The Company's capital contribution as of December 31, 2006 represents its initial cash contribution of Rp5,779.

AlphaNet Telecom Inc. ("ATI")

ATI, a company incorporated in Canada, was 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 wrote off its investment in ATI in 2005.

Other

On January 28, 2005, the Company sold its investment in The International Telecommunications Satellite Organization (acquired in 1985) for US\$10,539 (equivalent to Rp96,381) resulting in a loss amounting to Rp1,046. On April 7, 2005, the Company received the proceeds from the sale.

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10. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

	2005					
	Transactions during the Year					
	Balance at Beginning of Year	Additions	Deductions	Reclassifications	Divestment in a Subsidiary	Balance at End of Year
<u>Carrying Value</u>						
Landrights	283,598	7,697	-	42,609	(5,250)	328,654
Buildings	376,075	20,394	-	38,249	(6,546)	428,172
Submarine cables	862,818	-	-	30	-	862,848
Earth stations	116,213	-	-	306	-	116,519
Inland link	399,382	-	-	210,795	-	610,177
Switching equipment	325,287	-	-	17,815	-	343,102
Telecommunications peripherals	1,546,503	212,383	-	83,872	(10,562)	1,832,196
Information technology equipment	871,979	6,310	3,080	144,129	-	1,019,338
Office equipment	1,131,141	154,881	350	118,573	(17,687)	1,386,558
Building and leasehold improvements	918,483	1,743	-	209,016	-	1,129,242
Vehicles	15,361	3,439	1,429	-	(1,425)	15,946
Cellular technical equipment	17,131,651	-	-	4,007,815	-	21,139,466
Satellite technical equipment	1,243,969	-	-	28,877	-	1,272,846
Transmission and cross- connection equipment	471,476	-	-	1,179	-	472,655
FWA technical equipment	317,499	-	-	117,245	-	434,744
Properties under construction and installation	1,810,075	6,891,100	-	(5,020,510)	-	3,680,665
Total	27,821,510	7,297,947	4,859	-	(41,470)	35,073,128
<u>Accumulated Depreciation</u>						
Buildings	177,433	21,873	-	-	(1,994)	197,312
Submarine cables	309,390	108,931	-	-	-	418,321
Earth stations	80,365	30,716	-	-	-	111,081
Inland link	61,782	33,884	-	-	-	95,666
Switching equipment	173,407	50,052	-	-	-	223,459
Telecommunications peripherals	858,291	264,531	-	-	(3,805)	1,119,017
Information technology equipment	528,608	208,168	946	-	-	735,830
Office equipment	587,135	140,678	2,446	-	(13,803)	711,564
Building and leasehold improvements	289,774	176,942	-	-	-	466,716
Vehicles	11,390	1,991	1,248	-	(1,289)	10,844
Cellular technical equipment	6,491,206	1,723,266	-	-	-	8,214,472
Satellite technical equipment	695,875	144,166	-	-	-	840,041
Transmission and cross - connection equipment	174,288	18,958	-	-	-	193,246
FWA technical equipment	22,132	50,035	-	-	-	72,167
Total	10,461,076	2,974,191	4,640	-	(20,891)	13,409,736
Less impairment in value	117,258	-	1,010	-	(17,637)	98,611
Net Book Value	17,243,176					21,564,781

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10. PROPERTY AND EQUIPMENT (continued)

	2006				
	Balance at Beginning of Year	Transactions during the Year			Balance at End of Year
		Additions	Deductions	Reclassifications	
<u>Carrying Value</u>					
Landrights	328,654	-	-	71,943	400,597
Buildings	428,172	6,141	-	21,778	456,091
Submarine cables	862,848	-	-	22,496	885,344
Earth stations	116,519	-	-	8,828	125,347
Inland link	610,177	-	-	247,769	857,946
Switching equipment	343,102	-	-	32,129	375,231
Telecommunications peripherals	1,832,196	223,692	13,248	88,195	2,130,835
Information technology equipment	1,019,338	7,668	1,436	251,269	1,276,839
Office equipment	1,386,558	86,947	52,388	130,566	1,551,683
Building and leasehold improvements	1,129,242	1,450	552	302,381	1,432,521
Vehicles	15,946	4,974	3,422	-	17,498
Cellular technical equipment	21,139,466	4,002	15,083	4,669,353	25,797,738
Satellite technical equipment	1,272,846	-	-	17,729	1,290,575
Transmission and cross- connection equipment	472,655	-	-	6,365	479,020
FWA technical equipment	434,744	-	-	104,889	539,633
Properties under construction and installation	3,680,665	6,586,454	-	(5,975,690)	4,291,429
Total	35,073,128	6,921,328	86,129	-	41,908,327
<u>Accumulated Depreciation</u>					
Buildings	197,312	25,041	-	-	222,353
Submarine cables	418,321	106,870	-	-	525,191
Earth stations	111,081	7,156	-	-	118,237
Inland link	95,666	53,203	-	-	148,869
Switching equipment	223,459	35,238	-	-	258,697
Telecommunications peripherals	1,119,017	258,525	13,199	-	1,364,343
Information technology equipment	735,830	211,434	1,437	-	945,827
Office equipment	711,564	177,067	52,093	-	836,538
Building and leasehold improvements	466,716	231,472	552	-	697,636
Vehicles	10,844	2,385	3,242	-	9,987
Cellular technical equipment	8,214,472	2,182,985	15,069	-	10,382,388
Satellite technical equipment	840,041	145,471	-	-	985,512
Transmission and cross- connection equipment	193,246	19,178	-	-	212,424
FWA technical equipment	72,167	66,517	-	-	138,684
Total	13,409,736	3,522,542	85,592	-	16,846,686
Less impairment in value	98,611	-	-	-	98,611
Net Book Value	21,564,781				24,963,030

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10. PROPERTY AND EQUIPMENT (continued)

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.

During the years ended December 31, 2004, 2005 and 2006, sales of certain property and equipment were made as follows:

	2004	2005	2006
Proceeds from sales	18,490	463	1,249
Net book value	(17,072)	(219)	(537)
Gain	1,418	244	712

Depreciation expense charged to the statement of income amounted to Rp2,712,643, Rp2,974,191 and Rp3,522,542 in 2004, 2005 and 2006, respectively.

In 2003, Lintasarta provided Rp1,010 as impairment reserve on its assets. In 2005, the reserve was debited against the related properties under construction and installation due to the permanent decrease in value of the assets.

In 2004, the Company recognized impairment loss on Sisindosat 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 (Note 27). Following the sale of the Company's investment in Sisindosat in January 2005 (Note 1d), such impairment loss was derecognized due to the derecognition of Sisindosat's property and equipment.

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, 2006, approximately 0.54% of property and equipment are pledged as collateral to credit facilities obtained by Lintasarta (Note 16).

As of December 31, 2006, the Companies insured their respective property and equipment (except submarine cables and landrights) for US\$133,778 and Rp30,086,728, including insurance on the Company's satellite amounting to US\$12,000. Management believes that the sum insured is sufficient to cover possible losses arising from fire, explosion, lightning, aircraft damage and other natural disasters.

Starting January 1, 2005, the Company changed the estimated useful lives of certain of its property and equipment (Note 2j). The effects of the change are to increase income before income tax as follows:

Period	Amount
Year ended December 31, 2006	202,702
Year ending December 31, 2007	197,357
Year ending December 31, 2008	153,148
Year ending December 31, 2009	135,174
Year ending December 31, 2010	81,620

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10. PROPERTY AND EQUIPMENT (continued)

The details of the Companies' properties under construction and installation as of December 31, 2005 and 2006 are as follows:

	Percentage of Completion	Cost	Estimated Date of Completion
2005			
Cellular technical equipment	60 - 95	3,453,533	January - June 2006
Telecommunications peripherals	88 - 98	81,986	January - March 2006
FWA technical equipment	79 - 89	61,192	January - February 2006
Building and leasehold improvements	63 - 82	41,284	January - March 2006
Information technology equipment	67 - 87	15,960	January - April 2006
Office equipment	63 - 83	7,128	January - March 2006
Inland link	86 - 96	5,097	January - March 2006
Building	79 - 89	2,006	January - February 2006
Switching equipment	79 - 89	1,749	February - March 2006
Others	34 - 96	10,730	January - August 2006
Total		3,680,665	
2006			
Cellular technical equipment	14 - 99	3,134,860	January - April 2007
FWA technical equipment	33 - 90	465,233	January - April 2007
Submarine cables	92	356,034	January - April 2007
Transmission and cross-connection equipment	47 - 62	125,341	February - December 2007
Building and leasehold improvements	24 - 97	99,863	January - December 2007
Inland link	27 - 84	52,289	January - June 2007
Information technology equipment	80 - 88	7,387	January - April 2007
Telecommunications peripherals	41 - 92	5,927	January 2007
Satellite technical equipment	99	4,796	January 2007
Switching equipment	99	2,768	January - February 2007
Others	99	36,931	January - April 2007
Total		4,291,429	

Borrowing costs (interest expense) capitalized to properties under construction and installation for the years ended December 31, 2004, 2005 and 2006 amounted to Rp83,064, Rp65,204 and Rp62,154, respectively.

11. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arose from the acquisition of equity interest in Bimagraha and Satelindo in 2001 and 2002, respectively, and from the acquisition of additional equity interest in Lintasarta in 2005 (Note 1d).

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

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

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11. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

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

Period	Amount
Year ended December 31, 2006	271,798
Year ending December 31, 2007	(84,603)

The details of goodwill and other intangible assets are as follows:

	2005	2006
Balance at beginning of year	3,012,578	2,682,600
Addition (Notes 1a and 1d)	2,388	320,000
Amortization of goodwill	(226,352)	(226,507)
Amortization of other intangible assets	(106,014)	(130,724)
Balance at end of year	2,682,600	2,645,369

The addition to goodwill and other intangible assets in 2005 represented the purchase of additional Company's equity interest in Lintasarta (Note 1d), while in 2006 represents the payment of the upfront fee to the Ministry of Communications and Information Technology in connection with the selection of the Company as one of the IMT - 2000 cellular network providers using 2.1 GHz radio frequency bandwidth in Indonesia (Note 1a).

12. 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 or installation of the property and equipment has reached a certain percentage of completion.

13. PROCUREMENT PAYABLE

This account consists of the following:

	2005	2006
Ericsson AB, Sweden (US\$33,482 in 2005 and US\$69,938 in 2006)	329,128	630,841
PT Ericsson Indonesia (including US\$7,570 in 2005 and US\$26,819 in 2006)	204,959	413,365
PT Siemens Indonesia (including US\$5,972 in 2005 and US\$8,511 in 2006)	124,014	309,002
PT Alcatel Indonesia (including US\$4,976 in 2005 and US\$10,260 in 2006)	122,517	227,576
Siemens Aktiengesellschaft, Germany (US\$29,060 in 2005 and US\$23,755 in 2006)	285,660	214,266
PT Nokia Network (including US\$2,166 in 2005 and US\$7,833 in 2006)	25,410	122,324
PT ZTE Indonesia (including US\$13,251)	-	120,195

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13. PROCUREMENT PAYABLE (continued)

	2005	2006
PT Karya Mitra Nugraha	11,608	103,714
Huawei Tech Investment Co. Ltd., Hong Kong (including US\$5,031 in 2005 and US\$11,057 in 2006)	49,455	99,732
PT Huawei Tech Investment (including US\$3,391)	-	62,633
Siemens Mobile Communications S.p.A, Italy (US\$9,282 in 2005 and US\$6,545 in 2006)	91,246	59,040
Alcatel CIT, France (US\$14,468 in 2005 and US\$6,322 in 2006)	142,545	57,024
PT Industri Telekomunikasi Indonesia (Persero) (including US\$1,275 in 2005 and US\$705 in 2006)	27,669	33,667
Kopindosat (including US\$9 in 2005 and US\$24 in 2006)	44,853	33,458
PT Lintas Teknologi Indonesia (including US\$3,987 in 2005 and US\$2,067 in 2006)	44,280	22,959
PT Sisindokom Lintasbuana (including US\$1,842 in 2005 and US\$1,806 in 2006)	22,975	21,789
Nokia Corporation, Finland (US\$21,157 in 2005 and US\$2,288 in 2006)	207,974	20,637
PT NEC Indonesia (including US\$3,866 in 2005 and US\$2,063 in 2006)	39,959	19,684
PT Dawamiba Engineering	38,382	18,928
PT Senopati Sellularindo	47,732	16,515
ZTE Corporation, China (including US\$6,375 in 2005 and US\$1,566 in 2006)	62,666	14,207
PT Kopnatel Jaya (including US\$10 in 2006)	27,358	12,419
PT Bukit Jaya Abadi	22,839	6,179
PT Bahyutama Kerta Mukti	23,910	3,148
PT Berca Hardayaperkasa (including US\$1,953 in 2005 and US\$54 in 2006)	21,195	1,786
PT Sumacom Mitra (US\$2,145)	21,085	-
Others (each below Rp20,000, including US\$21,922 in 2005 and US\$21,353 in 2006)	569,859	647,455
Total	2,609,278	3,292,543

14. TAXES PAYABLE

This account consists of the following:

	2005	2006
Estimated corporate income tax payable, less tax prepayments of Rp330,614 in 2005 and Rp189,276 in 2006	927	10,353
Income tax:		
Article 21	88,290	87,778
Article 22	3,343	3,412
Article 23	45,891	70,161
Article 25	18,766	23,265
Article 26	46,472	7,284
VAT	960	3,044
Others	1,203	6,571
Total	205,852	211,868

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14. TAXES PAYABLE (continued)

The reconciliation between income before income tax and estimated taxable income of the Company for the years ended December 31, 2004, 2005 and 2006 is as follows:

	2004	2005	2006
Income before income tax per consolidated statements of income	2,382,758	2,352,795	2,022,667
Subsidiaries' income before income tax and effect of inter-company consolidation eliminations	(112,210)	(91,286)	(129,605)
Income before income tax of the Company	2,270,548	2,261,509	1,893,062
Positive adjustments			
Accrual of employee benefits	51,300	72,804	98,255
Provision for doubtful accounts	34,246	164,885	88,248
Assessments for income taxes and related penalties	1,616	30,572	73,994
Employee benefits	5,201	20,345	17,001
Donation	20,645	19,494	15,787
Provision for termination, gratuity and compensation benefits of employees	8,823	16,283	11,386
Representation and entertainment	14,787	10,779	8,031
Amortization of debt and bonds issuance cost (Notes 16 and 17)	-	-	3,940
Compensation expense for ESOP (Note 20)	95,990	90,739	-
Loss from decline in value of investments in associated companies and other long-term investments	48,683	-	-
Gain on sale of investment in associated companies	7,688	-	-
Others	6,123	4,091	68,893
Negative adjustments			
Depreciation - net	(772,515)	(985,529)	(1,213,527)
Write-off of accounts receivable	(6,184)	(5,329)	(199,627)
Interest income already subjected to final tax	(178,616)	(193,795)	(183,613)
Equity in net income of investees	(156,882)	(152,244)	(180,626)
Realization of stock option resulting from the exercise of ESOP Phase I and Phase II	(49,592)	(71,182)	(90,763)
Net periodic pension cost	(15,964)	(36,423)	(13,704)
Amortization of goodwill and other intangible assets	(82,663)	(36,219)	(6,872)
Sale of a subsidiary (Note 1d)	-	(109,691)	-
Capitalization of interest expense and personnel expenses to property and equipment (Note 24)	(101,702)	(108,151)	-
Write-off of other long-term investment	-	(103,590)	-
Sale of an associated company (Note 9)	-	(14,697)	-
Amortization of debt and bonds issuance cost (Notes 16 and 17)	(314)	(1,069)	-
Gain from sale of property and equipment	(465)	(160)	(172)
Others	-	(9,155)	(36,673)
Estimated taxable income of the Company before tax losses carry-over	1,200,753	864,267	353,020
Tax losses carry-over at beginning of year	(934,637)	-	-
Estimated taxable income of the Company	266,116	864,267	353,020

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14. TAXES PAYABLE (continued)

The computation of the income tax expense for the years ended December 31, 2004, 2005 and 2006 is as follows:

	2004	2005	2006
Estimated taxable income of the Company	266,116	864,267	353,020
Income tax expense - current (at statutory tax rates)			
Company	79,817	259,263	105,888
Subsidiaries	61,085	72,278	93,741
Total income tax expense - current	140,902	331,541	199,629
Income tax expense (benefit) - deferred			
Company - effect of temporary differences at enacted maximum tax rate (30%)			
Depreciation - net	231,754	295,659	364,058
Write-off of accounts receivable	1,855	1,598	59,888
Equity in net income of investees	47,065	45,673	54,188
Compensation expense for ESOP	(13,919)	(5,867)	27,229
Net periodic pension cost	4,789	10,927	4,111
Amortization of goodwill and other intangible assets	24,799	10,866	2,062
Gain on sale of property and equipment	139	48	52
Accrual of employee benefits	(15,390)	(21,841)	(29,477)
Provision for doubtful accounts	(10,274)	(49,465)	(26,474)
Provision for termination, gratuity and compensation benefits of employees	(2,647)	(4,885)	(3,416)
Amortization of debt and bonds issuance cost (Notes 16 and 17)	94	321	(1,182)
Loss (gain) on sale of subsidiary, investment in associated companies and other long-term investment	(2,306)	37,316	-
Capitalization of interest expense and personnel expenses to property and equipment (Notes 10 and 24)	30,511	32,445	-
Write-off of other long-term investment	-	31,077	-
Tax loss carry-over	280,392	-	-
Loss from decline in value of investments in associated companies and other long-term investments	(14,605)	-	-
Adjustments due to tax audit	-	-	(62,956)
Others	(4,735)	(5,107)	(11,002)
	557,522	378,765	377,081
Subsidiaries			
Effect of temporary differences at enacted maximum tax rate (30%)			
Write-off of accounts receivable	3,316	1,677	6,789
Loss from decline in value of other long-term investments	12,404	6,900	1,116
Depreciation - net	(4,834)	(3,438)	(9,755)
Write-off of (provision for) doubtful accounts	7,961	(3,185)	(825)
Loss from decline in value of short-term investments	-	(2,577)	-
Tax loss	(21,762)	(565)	-
Others	(2,646)	3,718	2,072
Valuation allowance - net	31,691	(14,912)	-
	26,130	(12,382)	(603)
Net income tax expense - deferred	583,652	366,383	376,478
Income tax expense - net	724,554	697,924	576,107

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14. TAXES PAYABLE (continued)

The computation of the estimated income tax payable and claim for tax refund for the years ended December 31, 2005 and 2006 is as follows:

	2005	2006
Income tax expense - current		
Company	259,263	105,888
Subsidiaries	72,278	93,741
Total income tax expense - current	331,541	199,629
Less prepayments of income tax of the Company		
Article 22	108,631	64,986
Article 23	128,046	117,799
Article 25	217,980	231,672
Total prepayments of income tax of the Company	454,657	414,457
Less prepayments of income tax of subsidiaries		
Article 22	2,928	2,600
Article 23	45,975	50,426
Article 25	23,479	30,362
Total prepayments of income tax of subsidiaries	72,382	83,388
Total prepayments of income tax	527,039	497,845
Estimated income tax payable		
Company	-	-
Subsidiaries	927	10,353
Total estimated income tax payable	927	10,353
Claims for tax refund (presented as part of "Prepaid Taxes")		
Company	195,394	308,569
Subsidiaries	1,031	-
Total claims for tax refund	196,425	308,569

The reconciliation between the income tax expense calculated by applying the applicable tax rate of 30% to the combined income before income tax of the Company and Subsidiaries, and the income tax expense as shown in the consolidated statements of income for the years ended December 31, 2004, 2005 and 2006 is as follows:

	2004	2005	2006
Income before income tax per consolidated statements of income	2,382,758	2,352,795	2,022,667
Company's equity in Subsidiaries' income before income tax and reversal of inter-company consolidation eliminations	90,976	153,344	179,275
Combined income, net of loss, before income tax of the Company and Subsidiaries	2,473,734	2,506,139	2,201,942

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14. TAXES PAYABLE (continued)

	2004	2005	2006
Income tax expense at the applicable tax rate of 30%	742,120	751,842	660,583
Tax effect on permanent differences			
Assessments for income taxes and related penalties	2,362	9,823	25,302
Employee benefits	2,251	7,302	6,433
Donation	6,194	5,863	4,797
Interest income already subjected to final tax	(57,473)	(64,647)	(63,434)
Others	3,032	1,794	4,829
Valuation allowance adjustment	31,690	(14,912)	-
Adjustment due to tax audit and others	(5,622)	859	(62,403)
Income tax expense - net per consolidated statements of income	724,554	697,924	576,107

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

	2005	2006
Company		
Deferred tax assets		
Allowance for doubtful accounts	204,610	171,195
Accrual of employee benefits - net	95,729	128,621
Allowance for decline in value of investments in associated companies and other long-term investments	46,883	46,883
Pension cost	28,598	24,487
Allowance for short-term investment	7,618	7,618
Compensation expense for ESOP	27,229	-
Total	410,667	378,804
Deferred tax liabilities		
Property and equipment	1,104,918	1,406,071
Investments in subsidiaries/associated companies - net of amortization of goodwill and other intangible assets	160,593	205,841
Deferred bonds and loans issuance costs and discount	6,914	5,731
Difference in transactions of equity changes in associated companies/subsidiaries	1,752	1,752
Others	887	868
Total	1,275,064	1,620,263
Deferred tax liabilities - net	864,397	1,241,459

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14. TAXES PAYABLE (continued)

	2005	2006
Subsidiaries (APE & SMM in 2005 and 2006, and IMM in 2006)		
Deferred tax assets		
Tax loss carry-over	4,350	1,283
Allowance for doubtful accounts	508	705
Others	27	545
	4,885	2,533
Valuation allowance	(4,708)	(1,640)
Net	177	893
Deferred tax liabilities		
Property and equipment	255	3,345
Others	1,197	591
Total	1,452	3,936
Deferred tax liabilities - net	1,275	3,043
Deferred tax liabilities - net	865,672	1,244,502
Subsidiaries (Lintasarta in 2005 and 2006 and IMM in 2005)		
Deferred tax assets		
Property and equipment	23,951	36,928
Allowance for doubtful accounts	9,569	3,387
Others	11,112	7,479
Total	44,632	47,794
Deferred tax liabilities		
Others	435	1,227
Deferred tax assets - net	44,197	46,567

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14. TAXES PAYABLE (continued)

The breakdown by entity of the foregoing deferred tax assets and liabilities outstanding as of December 31, 2005 and 2006 is as follows:

	2005		2006	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Company	-	864,397	-	1,241,459
Subsidiaries				
Lintasarta	37,094	-	46,567	-
IMM	7,103	-		2,048
APE	-	1,275	-	995
SMM	-	-	-	-
Total	44,197	865,672	46,567	1,244,502

The significant temporary differences on which deferred tax assets have been computed are not deductible for income tax purposes until the doubtful accounts are written off, the accrued employee benefits are paid, the allowance for decline in value of investments in associated companies and other long-term investments are realized upon sale of the investments, and the tax loss carry-over is utilized. The deferred tax liabilities relate to the differences in the book and tax bases of property and equipment, goodwill and other intangible assets, and investments in associated companies/subsidiaries.

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 five years.

On January 19, 2005, the Company received assessment letters on tax underpayment ("SKPKB"/"STP") from the Directorate General on Taxation for 2003 VAT of Satelindo amounting to Rp9,677 (including penalties and interest). The assessments have been fully paid by the Company and are presented as part of "Other Income (Expenses) - Others - net".

On August 9, 2005, the Company received SKPKB/STP from the Directorate General of Taxation for the Company's 2003 VAT amounting to Rp1,734 (including penalties and interest) and income tax articles 4(2), 22, 23, and 26 totalling Rp937 (including penalties and interest). The assessments were fully settled by the Company in August 2005.

In 2005, as a result of the corporate income tax audit for fiscal year 2003, the Company's tax loss carry-over as of December 31, 2003 amounting to Rp934,637 was adjusted by the Tax Office to become Rp501,179. On October 31, 2005, the Company submitted an objection letter to the Tax Office regarding the above tax correction. On October 13, 2006, the Company received the Decision Letter No. KEP-1716/WPJ.07/BD.05/2006 from the Tax Office declining the Company's appeal on the tax correction arising from the corporate income tax audit for the fiscal year 2003. As of December 31, 2006, no provision for probable loss on such loss carry-over adjustment was made in the consolidated financial statements as the Company believes that the Company has computed its corporate income tax in accordance with the tax regulations (Note 41b).

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14. TAXES PAYABLE (continued)

On December 4, 2006, the Company received SKPKB/STP from the Directorate General of Taxation for the Company's VAT for the periods January - March 2004 and August - October 2004 totalling Rp8,238 (including penalties and interest) and income tax articles 23 and 26 totalling Rp60,501 (including penalties and interest). The Company accepted the SKPKB of income tax article 23. As of December 31, 2006, the Company is in the process of preparing an objection letter to the Tax Office regarding the SKPKB of income tax article 26 (Note 41g).

The Company provides for deferred tax liabilities and deferred tax assets 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 tax losses carry-over of SMM as of December 31, 2006 can be carried forward through 2010 based on the following schedule:

Year of Expiration	Amount
2008	356
2009	2,035
2010	1,885
Total	4,276

15. ACCRUED EXPENSES

This account consists of the following:

	2005	2006
Interest	188,572	138,579
Employee benefits	143,255	137,399
Network repairs and maintenance	151,771	132,062
Radio frequency fee	3,033	94,962
Universal Service Obligation ("USO") (Note 41h)	78,788	69,602
Concession fee	65,275	65,584
Marketing	46,153	53,112
Consultancy fees	14,583	38,761
Rental	12,720	12,736
Link	18,870	9,797
Utilities	3,300	5,029
Outsourcing	21,735	2,413
Others	95,151	136,399
Total	843,206	896,435

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16. LOANS PAYABLE

This account consists of the following:

	2005	2006
Related parties		
Syndicated loan facility 2		
BNI - net of unamortized debt issuance cost of Rp6,531 in 2005 and Rp2,131 in 2006	511,114	515,514
Mandiri - net of unamortized debt issuance cost of Rp1,455 in 2005 and Rp457 in 2006	119,137	120,135
Third parties - net of unamortized debt issuance cost of Rp7,700 in 2005 and Rp5,096 in 2006	728,222	996,236
Total loans payable	1,358,473	1,631,885
Less current maturities		
Third parties	49,700	127,191
Long-term portion	1,308,773	1,504,694

The details of the loans from related parties are as follows:

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

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16. LOANS PAYABLE (continued)

Syndicated Loan Facility 2 (continued)

On December 8, 2003, the Company drew Rp200,000 and Rp1,800,000 from its facility under Tranches B and C, respectively. 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 Master Restructuring Agreement, and/or for capital expenditure financing, and/or for other corporate general needs if IM3's debts are repaid using other facility.

The interest rates ranged from 11.00% - 12.67% per annum in 2004 and from 9.30% to 11.92% in 2005. The rate was fixed at 9.30% per annum in 2006.

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.

On March 31, 2005, the Company made early payments of the loans amounting to Rp290,112, Rp245,480 and Rp57,188 to BCA, BNI and Mandiri, respectively. On the same date, the Company also entered into agreements amending the loan agreement with BCA, BNI and Mandiri. The amendments covered, among others, the following:

- The remaining balance of the loan will mature on April 1, 2008. However, the amendment provides early repayment option for the Company, commencing from April 1, 2007 up to the maturity date. Any repayment made before April 1, 2007 will require the Company to pay penalty amounting to 1% of such repaid amount.
- The loan bears interest as follows:
 - April 1, 2005 - March 31, 2007 : fixed interest at the rate of 9.3% per annum
 - April 1, 2007 - March 31, 2008 : 10.5% per annum or a reference rate plus margin rate of 2.5%, whichever rate is higher.

As of December 31, 2005 and 2006, the outstanding balances of the loans are as follows:

Bank	2005	2006
BCA	611,763	611,763
BNI*	517,645	517,645
Mandiri*	120,592	120,592
Balance	1,250,000	1,250,000
Unamortized debt issuance cost	(15,686)	(5,096)
Net	1,234,314	1,244,904

* related parties

The amortization of debt issuance cost charged to operations amounted to Rp9,457 in 2004, Rp9,576 in 2005 and Rp10,590 in 2006.

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16. LOANS PAYABLE (continued)

The loans from third parties consist of the following:

	2005	2006
Syndicated Loan Facility 2 (refer to previous section on loans from related parties)		
BCA - net of unamortized debt issuance cost of Rp7,700 in 2005 and Rp2,508 in 2006	604,063	609,255
Finnish Export Credit Ltd. - net of unamortized debt issuance cost of Rp2,588	-	305,896
Investment Credit Facility 4 from Niaga	38,320	40,446
Investment Credit Facility 3 from Niaga	78,339	39,139
Import Sight Letter of Credit ("L/C") Facility and Investment Credit Facility 2 from Niaga	7,500	1,500
Total	728,222	996,236
Less current maturities	49,700	127,191
Long-term portion	678,522	869,045

a. Finnish Export Credit Ltd. ("FEC")

On May 12, 2006, the Company obtained a new credit facility from FEC amounting to US\$38,000 with ABN-AMRO Bank N.V., Jakarta Branch as the "arranger" and ABN-AMRO Bank N.V., Stockholm Branch as the "facility agent" to be used for the purchase of telecommunications equipment. The loan bears interest at the fixed annual rate of 4.15% and will mature on May 12, 2011. Principal and interest are payable semi-annually.

As of December 31, 2006, the outstanding balance of the loan amounted to US\$34,200 (equivalent to Rp308,484).

Based on the loan agreement, the Company is required to comply with certain covenants, such as maintaining certain financial ratios.

The amortization of debt issuance cost charged to operations amounted to Rp338 in 2006.

b. Investment Credit Facility 4 from Niaga

On August 29, 2005, Lintasarta obtained a credit facility from Niaga amounting to Rp45,000 for the purchase of telecommunication equipment. The loan from the facility bears interest at the prevailing annual rate of 3-month Certificates of Bank Indonesia plus 3% per annum. The first quarterly repayment of the principal has a grace period of 14 months from the date of the loan agreement. The quarterly repayment of the principal will start on November 29, 2006, at Rp4,500 each quarter up to February 28, 2009.

The loan is collateralized by all equipment (Note 10) purchased from the proceeds of the credit facility and receivables from frame relay (Note 6).

The loan also has the same restrictive covenants as the Investment Credit Facilities 2 and 3 from Niaga.

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16. LOANS PAYABLE (continued)

c. Investment Credit Facility 3 from Niaga

On June 29, 2004, Lintasarta obtained a loan from a credit facility from Niaga for the purchase of telecommunication equipment, computer and other supporting facilities amounting to Rp98,000 wherein Rp13,018 or the equivalent of US\$1,574 was used to finance Import Sight L/C facility - see point d below. The loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.5% per annum. The first quarterly repayment of principal has a grace period up to 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.

The loan is collateralized by all equipment (Note 10) purchased from the proceeds of the credit facility, receivables from frame relay (Note 6) and trade receivables from one of Lintasarta's customers.

Based on addendum No. 215/AMD/CBG/JKT/05 dated August 29, 2005 of the credit agreement, the loan covenant that restricted Lintasarta from declaring dividend of more than 50% of the current year's net income has been replaced with the requirement for Lintasarta to maintain a Debt Service Coverage Ratio of not less than 1.2 : 1.

The loan also has the same restrictive covenants as the Investment Credit Facilities 2 and 4 from Niaga.

d. 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 had 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 "c" above). This Import Sight L/C facility expired on December 31, 2004.
- Investment credit facility 2 amounting to Rp15,000 to finance the above facility. The loan from this facility bears interest at 3-month time deposit rate guaranteed by Bank Indonesia plus 2.75% (subsequently changed to 3% on October 1, 2003) per annum. Lintasarta had 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.

The loan is collateralized by all equipment (Note 10) purchased from the proceeds of the credit facilities and receivables from frame relay (Note 6).

Lintasarta is required to obtain prior written approval from Niaga if:

- The combined ownership of the Company and YKKBI in Lintasarta became less than 51% during the facility period.
- Lintasarta obtained new debts (Note 17).
- Lintasarta invested in other than Lintasarta's current business.

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16. LOANS PAYABLE (continued)

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

Lintasarta was also required to maintain certain financial ratios and its dividends distribution should not be more than 50% of the current year's net income. However, based on addendum No. 214/AMD/CBG/JKT/05 dated August 29, 2005 of the credit agreement, this requirement restricting Lintasarta from declaring dividend of more than 50% of the current year's net income has been replaced with the requirement for Lintasarta to maintain a Debt Service Coverage Ratio of not less than 1.2 : 1.

The scheduled principal payments from 2007 to 2011 of all the loans payable as of December 31, 2006 are as follows:

	Twelve months ending December 31,					
	2007	2008	2009	2010	2011	Total
In rupiah						
Syndicated Loan Facility*						
BCA	-	611,763	-	-	-	611,763
BNI	-	517,645	-	-	-	517,645
Mandiri	-	120,592	-	-	-	120,592
Niaga	58,639	18,000	4,446	-	-	81,085
In U.S. dollar						
FEC (US\$34,200)	68,552	68,552	68,552	68,552	34,276	308,484
Total	127,191	1,336,552	72,998	68,552	34,276	1,639,569
Less unamortized debts issuance cost						7,684
Net						1,631,885

* please refer to previous discussion on early repayment option

17. BONDS PAYABLE

As of December 31, 2005 and 2006, this account consists of:

	2005	2006
Guaranteed Notes Due 2010 (US\$300,000) - net of unamortized notes issuance cost of Rp21,171 in 2005 and Rp17,432 in 2006	2,927,829	2,688,568
Third Indosat Bonds in Year 2003 with Fixed Rate - net of unamortized bonds issuance cost of Rp20,345 in 2005 and Rp14,855 in 2006	2,479,655	2,485,145
Guaranteed Notes Due 2012 (US\$250,000) - net of unamortized notes discount of Rp15,312 in 2005 and Rp13,398 in 2006; and unamortized notes issuance cost of Rp32,122 in 2005 and Rp28,105 in 2006	2,410,066	2,213,497
Second Indosat Bonds in Year 2002 with Fixed and Floating Rates	1,075,000	1,075,000
Fourth Indosat Bonds in Year 2005 with Fixed Rate - net of unamortized bonds issuance cost of Rp8,247 in 2005 and Rp7,117 in 2006	806,753	807,883
Indosat Syari'ah Ijarah Bonds in Year 2005 - net of unamortized bonds issuance cost of Rp2,924 in 2005 and Rp2,523 in 2006	282,076	282,477

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17. BONDS PAYABLE (continued)

	2005	2006
Indosat Syari'ah Mudharabah Bonds in Year 2002	175,000	175,000
Limited Bonds II issued by Lintasarta*	-	31,150
Limited Bonds I issued by Lintasarta**	30,436	25,292
Convertible Bonds issued by Lintasarta***	5,526	5,526
First Indosat Bonds in Year 2001 with Fixed and Floating Rates	951,500	-
Total bonds payable	11,143,841	9,789,538
Less current maturities	981,936	1,055,526
Long-term portion	10,161,905	8,734,012

* after elimination of Limited Bonds II amounting to Rp35,000 issued to the Company

** after elimination of Limited Bonds I amounting to Rp9,564 issued to the Company

*** after elimination of Convertible Bonds amounting to Rp14,473 issued to the Company

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 bear interest at the fixed rate of 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.

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

The notes are unconditionally and irrevocably guaranteed by the Company.

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17. BONDS PAYABLE (continued)

Guaranteed Notes Due 2010 (continued)

The amortization of notes issuance cost charged to operations amounted to Rp3,199 in 2004, Rp3,458 in 2005 and Rp3,739 in 2006.

On January 11, 2006, IFB released a consent solicitation statement (the "solicitation") relating to its outstanding Guaranteed Notes Due 2010. The primary purpose of the solicitation was to modify certain covenants under the indenture of Guaranteed Notes Due 2010 to conform with the terms in the indenture of Guaranteed Notes Due 2012. The proposed amendment to the indenture includes, among others, the change in the limit of the permitted debt that can be incurred by IFB and Lintasarta, and IFB's ability to incur new debt (Note 28).

On January 24, 2006, IFB received consents from holders of the Guaranteed Notes Due 2010 representing an aggregate principal amount of US\$239,526 or 79.842% of the outstanding notes.

Based on the latest rating report, the notes currently have BB (released in December 2005) and Ba3 (released in March 2006) ratings from Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"), respectively.

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 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 will 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 4th and 6th anniversaries of the bonds at 100% of the bonds' nominal value.
- *Buy-back Option* : after the 1st 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, pays interest on the bonds, as follows:

Series A	: Starting January 22, 2004 and every quarter thereafter up to October 22, 2008
Series B	: Starting 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 and Guaranteed Floating Rate Bonds (Note 1d - SIB).

The bonds are neither collateralized nor guaranteed by other parties.

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17. BONDS PAYABLE (continued)

Third Indosat Bonds in Year 2003 with Fixed Rate (continued)

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 Rp4,613 in 2004, Rp4,485 in 2005 and Rp5,490 in 2006.

Based on the latest rating report released in May 2006, the bonds currently have ^{id}AA+ (stable outlook) rating from PT Pemeringkat Efek Indonesia ("Pefindo").

Guaranteed Notes Due 2012

On June 22, 2005, the Company, through IIFB, issued Guaranteed Notes Due 2012 with fixed rate. The notes have a total face value of US\$250,000 and were issued at 99.323% of their principal amount. The notes bear interest at the fixed rate of 7.125% per annum payable in semi-annual installments due on June 22 and December 22 of each year, commencing December 22, 2005. The notes will mature on June 22, 2012.

The notes will be redeemable at the option of IIFB, in whole or in part at any time on or after June 22, 2010 at prices equal to 103.5625%, 101.7813% and 100.0000% of the principal amount during the 12-month period commencing June 22, 2010, 2011 and 2012, respectively, plus accrued and unpaid interest and additional amounts, if any. In addition, prior to June 22, 2008, IIFB 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 107.125% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any. The notes are also redeemable at the option of IIFB, in whole but not in part, at any time, at a price equal to 103.5625% of the principal amount thereof, plus any accrued and unpaid interest and additional amounts to the date of redemption, in the event of certain changes affecting withholding taxes in Indonesia and the Netherlands that would require IIFB or the Company to pay an additional amount in respect of any note in excess of certain amounts. Upon a change in control of IIFB (including sale, transfer, assignment, lease, conveyance or other disposition of all or substantially all of IIFB's assets), the holder of the notes has the right to require IIFB 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 June 23, 2005.

The net proceeds, after deducting the underwriting fee and offering expenses, were used for general corporate purposes, including capital expenditures.

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

The notes are unconditionally and irrevocably guaranteed by the Company.

The amortization of notes discount and issuance cost charged to operations amounted to Rp2,949 in 2005 and Rp5,931 in 2006.

Based on the latest rating report, the notes currently have BB (released in December 2005) and Ba3 (released in March 2006) ratings from S&P and Moody's, respectively.

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17. 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 consist of three series:

- Series A bonds amounting to Rp775,000 which bear interest at the fixed rate of 15.75% per annum starting February 6, 2003. The Series A bonds will mature on November 6, 2007.
- 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 5th, 10th, 15th, 20th and 25th 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 15th, 20th and 25th 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 February 6, 2003 and every quarter thereafter up to November 6, 2007 |
| Series B | : | Starting February 6, 2003 and every quarter thereafter up to November 6, 2032 |
| - <i>Buy Option</i> | : | February 6, 2003 and every quarter thereafter up to November 6, 2007, 2012, 2017, 2022 and 2027 |
| - <i>Sell Option</i> | : | 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.

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

Based on the latest rating report released in May 2006, the bonds have *id*AA+ (stable outlook) rating from Pefindo.

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17. BONDS PAYABLE (continued)

Fourth Indosat Bonds in Year 2005 with Fixed Rate

On June 21, 2005, the Company issued its Fourth Indosat Bonds in Year 2005 with Fixed Rate ("Fourth Indosat Bond"), with BRI as the trustee. The bonds have a total face value of Rp815,000 in Rp50 denomination. The bonds bear interest at the fixed rate of 12% per annum, payable on a quarterly basis. The bonds will mature on June 21, 2011.

The bonds will mature before maturity date if the Company exercises the following options:

- *Early Settlement Option* : the Company has the right to make early payment for all the bonds on the 4th anniversary of the bonds at 100% of the bonds' nominal value.
- *Buy-back Option* : after the 1st anniversary of the bonds, the Company has the right to buy back part or all of the bonds at market price.

The proceeds of the bonds are used for capital expenditure to expand the Company's cellular network.

The bonds are not collateralized by any specific Company assets nor guaranteed by other parties and rank *pari passu* with other unsecured debts.

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 Rp540 in 2005 and Rp1,130 in 2006.

Based on the latest rating report released in May 2006, the bonds have _{id}AA+ (stable outlook) rating from Pefindo.

Indosat Syari'ah Ijarah Bonds in Year 2005 ("Syari'ah Ijarah Bonds")

On June 21, 2005, the Company issued its Syari'ah Ijarah Bonds, with BRI as the trustee. The bonds have a total face value of Rp285,000 in Rp50 denomination. The bonds will mature on June 21, 2011.

Each bondholder is entitled to a fixed Ijarah return ("Cicilan Imbalan Ijarah") amounting to Rp8,550, payable on a quarterly basis starting September 21, 2005 up to June 21, 2011.

The bonds will mature before maturity date if the Company exercises the following options:

- *Early Settlement Option* : the Company has the right to make early payment for all the bonds on the 4th anniversary of the bonds at 100% of the bonds' nominal value.
- *Buy-back Option* : after the 1st anniversary of the bonds, the Company has the right to buy back part or all of the bonds at market price.

The proceeds of the bonds are used for capital expenditure to expand the Company's cellular network.

The bonds are not collateralized by any specific Company assets 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.

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17. BONDS PAYABLE (continued)

Indosat Syari'ah Ijarah Bonds in Year 2005 ("Syari'ah Ijarah Bonds") (continued)

The amortization of bonds issuance cost charged to operations amounted to Rp193 in 2005 and Rp401 in 2006.

Based on the latest rating report released in May 2006, the bonds have ^{id}AA_(sy)+ (stable outlook) rating from Pefindo.

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 will mature on November 6, 2007.

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:

Year	Percentage (%)	
	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

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, pays 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.

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17. BONDS PAYABLE (continued)

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

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.

Based on the latest rating report released in May 2006, the bonds have $idAA_{(sy)}^+$ (stable outlook) rating from Pefindo.

Limited Bonds II issued by Lintasarta

On June 14, 2006, Lintasarta entered into an agreement with its stockholders for the former to issue limited bonds II amounting to Rp66,150. The limited bonds represent unsecured bonds which will mature on June 14, 2009 and bear interest at the floating rates determined using the average 3-month rupiah time deposit rates with Mandiri, BNI, BRI and BTN, plus a fixed premium of 3%. The floating rate limits range from 11% to 19% per annum. The interest is payable on a quarterly basis starting September 14, 2006.

On July 17, 2006, Lintasarta obtained approval from Niaga on the issuance of the limited bonds II (Note 16).

The proceeds of the limited bonds II are used for capital expenditure to expand Lintasarta's telecommunication peripherals.

Limited Bonds I issued by Lintasarta

In June 2003, Lintasarta entered into an agreement with its stockholders for the former to issue limited bonds I amounting to Rp40,000. The limited bonds represented unsecured bonds which matured on June 2, 2006 and bore interest at the fixed rate of 16% per annum for the first year and floating rates for the succeeding years. The floating rates were determined using the average 3-month rupiah time deposit rates with Mandiri, BNI, BRI and BTN, plus a fixed premium of 3%. The floating rate limits ranged from 11% to 19% per annum. Lintasarta paid interest on the bonds quarterly starting September 2, 2003.

On the maturity date, Lintasarta paid a certain portion of limited bonds I amounting to Rp5,144 and subsequently extended the maturity date of the remaining balance of Rp34,856 until June 2, 2009. The extension of maturity date was made based on the first amendment dated June 14, 2006 of the Limited Bonds Agreement. These bonds bear interest at floating rates determined using the average 3-month rupiah time deposit rates with Mandiri, BNI, BRI and BTN, plus a fixed premium of 3%. The floating rate limits range from 11% to 19% per annum. The interest is payable on a quarterly basis.

On July 17, 2006, Lintasarta obtained approval from Niaga on the changes in maturity date and nominal value of the limited bonds I (Note 16).

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17. BONDS PAYABLE (continued)

Convertible Bonds issued by Lintasarta

At Lintasarta's Stockholders' Annual General Meeting held in March 2002, the stockholders approved, among others, the declaration of cash dividend amounting to Rp25,300 of which Rp4,149 (net of tax) was paid in June 2002. The remaining dividend was 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 3, 2007.

On May 23, 2003, Lintasarta obtained approval from Niaga on the issuance of the convertible bonds (Note 16).

Based on the first amendment dated July 12, 2004 of the Convertible Bonds 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, BRI 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 July 1, 2004.

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 consisted of two series, had a total face value of Rp1,000,000 in Rp50 denomination and matured on April 12, 2006.

The Series A bonds amounting to Rp827,200 bore 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 bore 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 were 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, paid quarterly interest on the bonds starting July 12, 2001 until April 12, 2006.

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

The proceeds of the bonds had 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 was required to comply with certain conditions, such as maintaining certain financial ratios.

Based on the latest rating report released in April 2005, the bonds had ^{id}AA+ (stable outlook) rating from Pefindo.

On September 12 and 13, 2005, the Company repurchased a portion of the Series A bonds with total principal amount of Rp48,500 at a price which was equal to 101.175% of the principal amount repurchased, plus the accrued and unpaid interest (totalling Rp50,562).

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17. BONDS PAYABLE (continued)

First Indosat Bonds in Year 2001 with Fixed and Floating Rates (continued)

On April 12, 2006, the Company repaid in full the First Indosat Bonds in Year 2001 amounting to Rp951,500 for the principal amount and Rp42,927 for the last quarterly interest.

The scheduled principal payments of all the bonds payable outstanding as of December 31, 2006 are as follows:

Twelve months ending December 31,						
	2007	2008	2009	2010	2011 and thereafter	Total
In U.S. dollar						
Guaranteed Notes *						
Due 2010						
(US\$300,000)	-	-	-	2,706,000	-	2,706,000
Due 2012						
(US\$250,000)	-	-	-	-	2,255,000	2,255,000
Sub-total	-	-	-	2,706,000	2,255,000	4,961,000
In rupiah						
Third Indosat Bonds *	-	1,860,000	-	640,000	-	2,500,000
Second Indosat Bonds *	875,000	-	-	-	200,000	1,075,000
Fourth Indosat Bonds *	-	-	-	-	815,000	815,000
Syariah Ijarah Bonds *	-	-	-	-	285,000	285,000
Syariah Bonds	175,000	-	-	-	-	175,000
Limited Bonds II of Lintasarta	-	-	31,150	-	-	31,150
Limited Bonds I of Lintasarta	-	-	25,292	-	-	25,292
Sub-total	1,050,000	1,860,000	56,442	640,000	1,300,000	4,906,442
Convertible bonds of Lintasarta which will be converted into Lintasarta's shares of common stock						5,526
Total						9,872,968
Less:						
- unamortized notes issuance cost						(45,537)
- unamortized bonds issuance cost						(24,495)
- unamortized notes discount						(13,398)
Net						9,789,538

* Please refer to previous discussion on options for each bond/note.

18. OTHER NON-CURRENT LIABILITIES

This account consists mainly of non-current portions of post-retirement benefits, benefits under Labor Law No. 13/2003 (Note 29), other employee benefits and deposits from customers.

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19. CAPITAL STOCK

The Company's capital stock ownership as of December 31, 2005 and 2006 is as follows:

Stockholders	Number of Shares Issued and Fully Paid	Amount	Percentage of Ownership (%)
<u>2005</u>			
A Share			
Government of the Republic of Indonesia	1	-	-
B Shares			
Indonesia Communications Limited, Mauritius	2,171,250,000	217,125	40.54
Government of the Republic of Indonesia	776,624,999	77,662	14.50
Commissioner:			
Roes Aryawijaya	135,000	14	0.00
Directors:			
Wahyu Wijayadi	252,500	25	0.01
Hasnul Suhaimi	240,000	24	0.01
Wityasmoro Sih Handayanto	200,000	20	0.00
Joseph Chan Lam Seng	90,000	9	0.00
Johnny Swandi Sjam	30,000	3	0.00
Raymond Tan Kim Meng	22,500	2	0.00
S. Wimbo S. Hardjito	2,500	-	-
Others (each holding below 5%)	2,407,327,000	240,733	44.94
Total	5,356,174,500	535,617	100.00
<u>2006</u>			
A Share			
Government of the Republic of Indonesia	1	-	-
B Shares			
Indonesia Communications Limited, Mauritius	2,171,250,000	217,125	39.96
Government of the Republic of Indonesia	776,624,999	77,662	14.29
Indonesia Communications Pte. Ltd., Singapore	46,340,000	4,634	0.85
Commissioners:			
Lee Theng Kiat	135,000	14	0.00
Roes Aryawijaya	135,000	14	0.00
Setyanto P. Santosa	135,000	14	0.00
Directors:			
Wityasmoro Sih Handayanto	287,500	28	0.01
Wahyu Wijayadi	252,500	25	0.01
Raymond Tan Kim Meng	222,500	22	0.01
Joseph Chan Lam Seng	150,000	15	0.00
Wong Heang Tuck	150,000	15	0.00
Johnny Swandi Sjam	30,000	3	0.00
S. Wimbo S. Hardjito	2,500	-	-
Others (each holding below 5%)	2,438,218,500	243,822	44.87
Total	5,433,933,500	543,393	100.00

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19. CAPITAL STOCK (continued)

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 objective and purposes of the Company; (ii) increase of capital without pre-emptive rights; (iii) merger, consolidation and acquisition; (iv) amendment to the provisions regarding the rights of "A" share as stipulated in the Articles of Association; and (v) dissolution and liquidation of the Company. The "A" share also has the right to appoint one director and one commissioner of the Company.

Based on a letter dated March 2, 2004 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 substantially all of its B Shares as collateral for a loan facility obtained by STT Communications Limited, the sole shareholder of ICL, from third parties (Notes 41c and 41f).

On May 5, 2006, Indonesia Communications Pte. Ltd., Singapore ("ICLS"), a wholly-owned subsidiary of STT Communications Limited ("STTC"), informed BAPEPAM that ICLS acquired 46,340,000 B shares of the Company from the market. As of December 31, 2006, ICL and ICLS owned an aggregate of 2,217,590,000 B shares, representing 40.81% ownership interest in the Company.

In connection with the exercise of ESOP Phase I and Phase II from August 1, 2004 and August 1, 2005, respectively, 256,433,500 B shares have been issued as of December 31, 2006 (Note 20) at a total premium of Rp873,512.

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 in reserve which are equal to 5% of the Company's issued and fully paid capital with nominal value of Rp100 per share 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 [i.e. Rp1,567.4 (in full amount)] 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.

The ESOP will be distributed in two phases:

- a. Phase I: 50% of the ESOP shares or 129,437,500 stock options 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 stock 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 [i.e. Rp3,702.6 (in full amount)] 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. It was also resolved that the undistributed ESOP shares from ESOP Phase I would be reallocated for distribution in ESOP Phase II.

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20. STOCK OPTIONS (continued)

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

The total fair values of stock options distributed 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

Based on a Decree dated January 28, 2005 of the Board of Directors, the 7,847,000 forfeited shares under ESOP Phase I 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 was up to July 31, 2005.

The Company recognized the following compensation expense relating to ESOP as part of "Operating Expenses - Personnel" (Note 24):

	2004	2005
ESOP Phase I		
Seven months' compensation expense	31,123	-
ESOP Phase II		
Five months' compensation expense	64,867	-
Seven months' compensation expense	-	90,739
Total	95,990	90,739

The numbers of forfeited shares at the end of the vesting period of ESOP Phase I and ESOP Phase II were 162,500 (equivalent to Rp75) and 2,279,000 (equivalent to Rp2,584) shares, respectively (Note 24).

As of December 31, 2006, the number of stock options under ESOP Phase I and Phase II exercised by the employees is 121,428,000 and 135,005,500 shares, respectively (Note 19).

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21. OPERATING REVENUES - CELLULAR

This account consists of:

	2004	2005	2006
Usage charges	4,218,800	4,794,098	5,317,871
Features	2,131,015	2,815,242	3,022,735
Interconnection income	707,544	746,755	697,265
Connection fee	103,625	191,264	103,506
Monthly subscription charges	130,413	21,048	9,924
Others	50,664	76,544	76,236
Total	7,342,061	8,644,951	9,227,537

The above interconnection income includes interconnection income from related parties amounting to Rp541,660, Rp464,748 and Rp409,075 in 2004, 2005 and 2006, respectively (Note 30).

22. OPERATING REVENUES - MIDI

This account consists of:

	2004	2005	2006
<u>Related parties</u>			
World link and direct link	69,658	91,067	90,190
Frame net	98,842	92,840	87,800
IP VPN	12,108	15,700	54,555
Application services	41,700	42,507	53,472
Internet	35,441	87,789	43,217
Leased line	11,860	20,961	27,795
Satellite lease	24,998	14,549	16,441
Digital data network	28,451	14,838	9,357
Packet net	14,826	8,419	-
Others	3,492	10,890	7,528
Sub-total	341,376	399,560	390,355
<u>Third parties</u>			
Internet	253,675	302,452	378,820
Frame net	275,058	296,586	299,476
World link and direct link	216,922	240,909	211,901
IP VPN	7,241	29,903	189,773
Digital data network	117,256	125,569	142,097
Leased line	81,578	116,485	118,697
Satellite lease	127,934	135,581	108,032
Application services	12,908	18,371	19,393
TV link	10,985	20,902	14,181
Packet net	5,185	4,237	5,687
Others	33,823	3,478	24,177
Sub-total	1,142,565	1,294,473	1,512,234
Total	1,483,941	1,694,033	1,902,589

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23. OPERATING REVENUES - FIXED TELECOMMUNICATION

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

	2004	2005	2006
International Calls			
Incoming calls	859,146	643,861	541,744
Outgoing calls	595,555	441,256	315,995
Fixed Wireless	11,366	86,236	149,906
Fixed Line	71,699	74,405	98,886
Others	6,918	5,049	2,750
Total	1,544,684	1,250,807	1,109,281

Net settlements from other foreign telecommunication carriers of international telephone services amounted to Rp640,924, Rp743,076 and Rp804,733 in 2004, 2005 and 2006, respectively.

Operating revenues from related parties amounted to Rp856,929, Rp368,420 and Rp154,597 in 2004, 2005 and 2006, respectively. These amounts represent 55.48%, 29.45% and 13.94% of total operating revenues - fixed telecommunication in 2004, 2005 and 2006, respectively (Note 30).

24. OPERATING EXPENSES - PERSONNEL

This account consists of:

	2004	2005	2006
Salaries	259,688	262,799	328,781
Incentives and other employee benefits	203,228	276,449	257,003
Employee income tax	161,167	178,787	205,702
Bonuses	216,987	167,755	166,610
Outsourcing	112,868	128,971	116,316
Postretirement healthcare benefit	48,133	81,146	86,152
Early retirement *	-	-	69,630
Medical expense	38,110	45,978	52,566
Pension (Note 29)	33,931	(3,018)	30,174
Separation, appreciation and compensation expense under Labor Law No. 13/2003 (Note 29)	13,253	18,770	20,233
ESOP compensation expense (Note 20)	95,990	90,739	-
Others	24,029	16,277	17,301
Total	1,207,384	1,264,653	1,350,468

- ★ On June 27, 2006, the Company's Directors issued Decree No. 051/DIREKSI/2006, "Additional Benefits for Voluntarily Resigned Employees". Under this decree, employees qualified for early retirement and who voluntarily resigned after the approval from the Board of Directors were given benefits of additional remuneration, traveling and training packages. As of December 31, 2006, there were 169 employees who took the option.

The personnel expenses capitalized to properties under construction and installation in 2004, 2005, and 2006 amounted to Rp18,638, Rp42,947 and Rp39,794, respectively.

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25. OPERATING EXPENSES - ADMINISTRATION AND GENERAL

This account consists of:

	2004	2005	2006
Rent	90,057	90,489	127,525
Provision for doubtful accounts	33,786	161,208	110,224
Professional fees	48,575	32,816	85,153
Travel	55,211	69,225	76,875
Utilities	27,662	36,932	49,601
Insurance	33,772	35,385	35,552
Catering	29,127	29,850	31,683
Training, education and research	30,673	39,124	28,879
Office supplies and stationery	20,673	22,723	16,581
Public relations	13,809	14,868	15,779
Communications	30,140	23,303	12,257
Others	57,862	50,099	73,812
Total	471,347	606,022	663,921

26. OPERATING EXPENSES - COMPENSATION TO TELECOMMUNICATIONS CARRIERS AND SERVICE PROVIDERS

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

	2004	2005	2006
Telkom	492,132	390,136	343,854
Other telecommunications carriers and service providers	21,223	18,275	25,850
Total	513,355	408,411	369,704

The compensation expenses consist of interconnection and other expenses of the Company.

Interconnection relates to the expenses for the interconnection between the Company'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.

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

The Company, Satelindo and IM3 have interconnection arrangements with domestic and overseas operators (Notes 30 and 36). 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:

	2004	2005	2006
<u>Domestic</u>			
Interconnection revenues	1,570,272	1,833,368	1,838,945
Interconnection charges	(1,072,923)	(1,413,829)	(1,572,293)
Net	497,349	419,539	266,652
<u>Overseas</u>			
Revenues from international carriers	1,006,750	909,774	898,615
Charges from international carriers	(365,826)	(166,698)	(93,882)
Net	640,924	743,076	804,733

27. OPERATING EXPENSES - OTHER COSTS OF SERVICES

This account consists of:

	2004	2005	2006
Radio frequency fee	175,854	352,023	461,468
Cost of SIM cards and pulse reload vouchers	426,497	346,900	330,387
Utilities	103,090	148,113	204,580
Rent	123,626	171,667	148,683
Concession fee	99,763	111,627	115,305
USO (Note 36)	70,376	82,172	86,779
Delivery and transportation	29,113	44,793	54,591
Billing and collection	25,129	66,298	50,359
Wartel ("Phone Kiosk") commission	33,481	14,722	19,604
Communications	25,567	16,170	14,698
Insurance	19,370	13,799	3,684
Cost of software sold	83,051	-	-
Impairment loss on property and equipment (Note 10)	17,637	-	-
Others	67,864	93,445	79,005
Total	1,300,418	1,461,729	1,569,143

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28. OTHER EXPENSES - FINANCING COST

This account consists of:

	2004	2005	2006
Interest on loans	1,075,911	1,240,802	1,204,642
Amortization of debts/bonds issuance cost and discount (Notes 16 and 17)	17,269	21,201	27,619
Solicitation fee (Note 17)	-	-	13,481
Bank charges	4,351	2,761	3,157
Total	1,097,531	1,264,764	1,248,899

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.

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.

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

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
- If the average annual interest rate of time deposits of government banks exceeds 15%, the participants' retirement benefit will be increased by a certain percentage in accordance with the formula agreed by both parties.

On April 15, 2005, Lintasarta entered into an agreement with Jiwasraya to replace their existing agreement. Based on the new agreement, the benefits and premium payment pattern were changed. This agreement is effective starting January 1, 2005. The total premium installments based on the agreement amount to Rp61,623 which is payable in 10 annual installments starting 2005 until 2015.

The new agreement covers employees registered as participants of the pension plan as of April 1, 2003. The conditions under the new agreement include the following:

- An increase in basic salary pension by 3% (previously was estimated at 8%) compounded annually starting April 1, 2003
- An increase in periodic payment of retirement benefit at 5% compounded annually starting one year after receiving periodic retirement benefit for the first time
- If the average annual interest rate of time deposits of government banks exceeds 15%, the participants' retirement benefit will be increased by a certain percentage in accordance with the formula agreed by both parties.

On May 2, 2005, Lintasarta entered into an agreement with Jiwasraya to amend the above agreement. The amendment covers employees registered as participants of the pension plan as of April 1, 2003 up to November 30, 2004 with additional total premium installments amounting to Rp1,653 which is payable in 10 annual installments starting 2005 until 2015.

The total contributions of the Company, Satelindo and Lintasarta to Jiwasraya amounted to Rp69,216, Rp73,263 and Rp9,999 for the years ended December 31, 2004, 2005 and 2006, respectively.

The net periodic pension cost for the pension plans for the years ended December 31, 2004, 2005 and 2006 was calculated based on the actuarial valuations as of December 31, 2004, 2005 and 2006, respectively. The actuarial valuation was prepared by an independent actuary, using the projected-unit-credit method and applying the following assumptions:

	2004	2005	2006
Annual discount rate	10.0%	13.0%	10.5%
Expected annual rate of return on plan assets	10.0%	10.0%	10.0%
Annual rate of increase in compensation	6.0 - 9.0%	3.0 - 9.0%	3.0 - 9.0%
Mortality rate	CSO 1980	CSO 1980	CSO 1980

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

- a. The composition of the net periodic pension cost (income) for the years ended December 31, 2004, 2005 and 2006 is as follows:

	2004	2005	2006
Service cost	34,656	26,354	37,660
Interest cost	49,191	54,533	63,649
Return on plan assets	(54,745)	(69,957)	(71,135)
Net amortization	4,829	740	-
Curtailment gain	-	(14,688)	-
Net periodic pension cost (income) (Note 24)	33,931	(3,018)	30,174

- b. The funded status of the plans as of December 31, 2005 and 2006 is as follows:

	2005	2006
Projected benefit obligation	(498,401)	(644,903)
Plan assets at fair value	718,259	727,656
Excess of plan assets over projected benefit obligation	219,858	82,753
Unrecognized actuarial loss	38,614	150,821
Prepaid pension cost - net	258,472	233,574

- c. Movements in the prepaid (accrued) pension cost during the years ended December 31, 2005 and 2006 are as follows:

	2005	2006
Beginning balance		
Company	203,088	255,899
Lintasarta	(20,897)	2,573
Net periodic pension income (cost)		
Company	(10,453)	(26,842)
Lintasarta	13,471	(3,332)
Contribution by		
Company	63,264	-
Lintasarta	9,999	9,999
Refund from Jiwasraya		
Company	-	(3,761)
Lintasarta	-	(962)
Ending balance		
Company	255,899	225,296
Lintasarta	2,573	8,278

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

d. Prepaid pension cost consists of:

	2005	2006
Prepaid pension:		
Current portion (presented as part of "Prepaid Expenses")		
Company	20,899	3,172
Lintasarta	1,082	118
	<u>21,981</u>	<u>3,290</u>
Long-term portion		
Company	235,000	222,124
Lintasarta	1,491	8,160
	<u>236,491</u>	<u>230,284</u>
	<u>258,472</u>	<u>233,574</u>

Plan assets as of December 31, 2005 and 2006 principally consisted 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 for the years ended December 31, 2004, 2005 and 2006 amounted to Rp20,445, Rp17,233 and Rp16,686, 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.

Labor Law No. 13/2003

The Companies also accrue benefits under Labor Law No. 13/2003 ("Labor Law") dated March 25, 2003. The Companies' employees will receive the benefits under this law or defined benefit pension plan, whichever amounts are higher.

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29. PENSION PLAN (continued)

Labor Law No. 13/2003 (continued)

The net periodic Labor Law cost for the years ended December 31, 2004, 2005 and 2006 was calculated based on the actuarial valuations as of December 31, 2004, 2005 and 2006, respectively. The actuarial valuations were prepared by an independent actuary, using the projected-unit-credit method and applying the following assumptions:

	2004	2005	2006
Annual discount rate	10.0%	13.0%	10.5%
Annual rate of increase in compensation	8.0 - 9.0%	3.0 - 11.0%	10.0%

- a. The composition of the periodic Labor Law cost for the years ended December 31, 2004, 2005 and 2006 is as follows:

	2004	2005	2006
Service cost	8,840	11,600	11,709
Interest cost	3,213	7,117	7,230
Net amortization	1,200	53	1,294
Periodic Labor Law cost (Note 24)	13,253	18,770	20,233

- b. The composition of the accrued Labor Law cost as of December 31, 2005 and 2006 is as follows:

	2005	2006
Projected benefit obligation	(85,952)	(88,219)
Unrecognized actuarial loss	29,997	18,819
Accrued Labor Law cost	(55,955)	(69,400)

- c. Movements in the accrued Labor Law cost during the years ended December 31, 2005 and 2006 are as follows:

	2005	2006
Beginning balance		
Company	(35,303)	(51,586)
Lintasarta	(2,812)	(3,887)
IMM	(191)	(482)
Periodic Labor Law cost		
Company	(17,404)	(18,102)
Lintasarta	(1,075)	(1,563)
IMM	(291)	(568)

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29. PENSION PLAN (continued)

Labor Law No. 13/2003 (continued)

	2005	2006
Benefit payment		
Company	1,121	6,716
IMM	-	72
Ending balance		
Company	(51,586)	(62,972)
Lintasarta	(3,887)	(5,450)
IMM	(482)	(978)

As of December 31, 2006, Labor Law cost included in accrued expenses amounted to Rp1,689 (Note 15) for the current portion and Rp67,711 in non-current liabilities for the long-term portion (Note 18).

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 (%)	
	2005	2006	2005	2006
Cash and cash equivalents				
State-owned banks (Note 4)	2,890,855	1,114,271	8.82	3.26
Accounts receivable - trade				
Telkom	157,080	136,962	0.48	0.40
StarHub Pte. Ltd. ("StarHub"), Singapore	39,130	46,354	0.12	0.14
PT Televisi Republik Indonesia (Persero) ("TVRI")	43,167	43,359	0.13	0.13
Singapore Telecommunications Ltd ("SingTel"), Singapore	20,338	27,757	0.06	0.08
State-owned banks	28,350	15,821	0.09	0.05
PT Pos Indonesia (Persero)	9,760	9,187	0.03	0.03
PT Citra Sari Makmur ("CSM")	5,013	5,914	0.02	0.02
PSN	-	3,839	-	0.01
Lembaga Kantor Berita Negara Antara	-	2,045	-	0.01
Telkomsel	2,733	1,494	0.01	0.00
Cable & Wireless Optus ("Optus"), Australia	892	-	0.00	-
Others	20,913	23,273	0.06	0.07
Total	327,376	316,005	1.00	0.94
Less allowance for doubtful accounts	150,977	141,263	0.46	0.43
Net	176,399	174,742	0.54	0.51
Prepaid expenses				
Ministry of Communications and Information Technology	118,902	150,676	0.36	0.44
Jiwasraya	21,981	3,290	0.07	0.01
Kopindosat	8,969	2,376	0.03	0.01
Others	2,362	2,702	0.01	0.01
Total	152,214	159,044	0.47	0.47

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities (%)	
	2005	2006	2005	2006
Other current assets				
State-owned banks	18,872	15,049	0.06	0.04
Others	865	6	0.00	0.00
Total	19,737	15,055	0.06	0.04
Due from related parties				
Key management personnel	18,567	11,032	0.06	0.03
Kopindosat	6,197	6,197	0.02	0.02
Telkomsel	7,048	5,881	0.02	0.02
BNi	-	1,213	-	0.00
Others	342	1,808	0.00	0.01
Total	32,154	26,131	0.10	0.08
Less allowance for doubtful accounts	1,753	2,795	0.01	0.01
Net	30,401	23,336	0.09	0.07
Long-term prepaid pension				
Jiwasraya	236,491	230,284	0.72	0.67
Long-term advances				
Kopindosat	4,328	2,800	0.02	0.01
Others	1,341	1,106	0.00	0.00
Total	5,669	3,906	0.02	0.01
Non-current assets - others				
State-owned banks	1,200	32,649	0.00	0.10
Telkom	26,086	21,681	0.08	0.06
Kopindosat	-	7,430	-	0.02
Others	-	2,853	-	0.01
Total	27,286	64,613	0.08	0.19
Accounts payable - trade				
Telkomsel	22,716	27,280	0.12	0.14
Telkom	6,000	3,169	0.03	0.02
Optus	-	1,417	-	0.01
Others	1,746	2,273	0.01	0.01
Total	30,462	34,139	0.16	0.18
Procurement payable				
PT Industri Telekomunikasi Indonesia	27,669	33,667	0.15	0.18
Kopindosat	44,853	33,458	0.24	0.18
PT SCS Astra Graphia Technologies	2,549	3,062	0.01	0.02
Total	75,071	70,187	0.40	0.38

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities (%)	
	2005	2006	2005	2006
Accrued expenses				
Ministry of Communications and Information Technology	147,096	230,148	0.80	1.22
Ministry of Finance	-	20,633	-	0.11
Key management personnel	8,995	8,861	0.05	0.05
Kopindosat	7,893	2,037	0.04	0.01
BNI	12,303	-	0.07	-
Telkom	1,740	-	0.01	-
Total	178,027	261,679	0.97	1.39
Due to related parties				
PT Pos Indonesia (Persero)	4,100	11,937	0.02	0.06
Comnet	4,597	6,649	0.02	0.04
TVRI	2,262	4,973	0.01	0.03
State-owned banks	1,875	1,875	0.01	0.01
Kopindosat	1,518	1,490	0.01	0.01
Others	2,255	2,516	0.02	0.01
Total	16,607	29,440	0.09	0.16
Loans payable				
State-owned banks	630,251	635,649	3.44	3.38
Other non-current liabilities				
Telkomsel	14,773	13,109	0.08	0.07
Others	2,832	990	0.02	0.01
Total	17,605	14,099	0.10	0.08

	Amount			Percentage to Respective Income or Expenses (%)		
	2004	2005	2006	2004	2005	2006
Operating revenues						
Telkom	1,140,163	806,211	545,060	10.93	6.96	4.45
State-owned banks	221,727	184,291	131,397	2.13	1.59	1.07
SingTel	39,300	29,162	66,564	0.38	0.25	0.54
StarHub	15,141	37,860	66,213	0.15	0.33	0.54
CSM	8,607	11,192	11,058	0.08	0.10	0.09
Lembaga Kantor Berita Negara Antara	22,933	21,324	7,628	0.22	0.18	0.06
PSN	5,283	3,949	5,490	0.05	0.03	0.04
Ministry of Communications and Information Technology	3,339	486	5,383	0.03	0.00	0.04
PT Angkasa Pura (Persero)	5,717	6,334	4,652	0.05	0.05	0.04
PT Garuda Indonesia (Persero)	6,559	3,255	470	0.06	0.03	0.00
Telkomsel	198,126	59,121	(13,539)	1.90	0.51	(0.11)
Optus	5,540	(1,029)	(437)	0.05	(0.01)	0.00
Others	67,530	70,572	124,088	0.65	0.61	1.00
Total	1,739,965	1,232,728	954,027	16.68	10.63	7.76

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount			Percentage to Respective Income or Expenses (%)		
	2004	2005	2006	2004	2005	2006
Operating expenses						
Personnel						
Key management personnel	160,003	108,190	108,589	2.21	1.37	1.23
Kopindosat	102,500	113,112	39,726	1.42	1.42	0.45
Jiwasraya	33,931	(3,018)	30,174	0.47	(0.04)	0.34
Total	296,434	218,284	178,489	4.10	2.75	2.02
Administration and general						
Kopindosat	10,388	49,478	48,560	0.14	0.62	0.55
PLN	13,782	20,249	41,203	0.19	0.26	0.47
UGBDN	4,567	4,066	5,628	0.06	0.05	0.06
Others	3,443	30,005	968	0.05	0.38	0.01
Total	32,180	103,798	96,359	0.44	1.31	1.09
Maintenance						
Kopindosat	5,769	14,788	6,838	0.08	0.19	0.08
PT Industri Telekomunikasi Indonesia	-	3,096	5,001	-	0.04	0.06
SingTel	2,216	1,950	1,204	0.03	0.02	0.01
StarHub	165	-	-	0.00	-	-
Total	8,150	19,834	13,043	0.11	0.25	0.15
Compensation to telecommunications carriers and service providers						
Telkom	492,132	390,136	343,854	6.80	4.91	3.89
Others	525	-	1,108	0.01	-	0.01
Total	492,657	390,136	344,962	6.81	4.91	3.90
Leased circuits						
Comnet	31,979	32,523	34,146	0.44	0.41	0.39
SingTel	18,289	19,529	13,359	0.25	0.25	0.15
StarHub	2,477	6,796	1,835	0.03	0.09	0.02
Intelsat	18,227	-	-	0.25	-	-
Total	70,972	58,848	49,340	0.97	0.75	0.56
Other costs of services						
Ministry of Communications and Information Technology	345,993	545,822	663,552	4.78	6.88	7.51
Pemda DKI Jakarta	1,642	77	15	0.02	0.00	0.00
Others	8,186	2,555	2,355	0.11	0.03	0.03
Total	355,821	548,454	665,922	4.91	6.91	7.54

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount			Percentage to Respective Income or Expenses (%)		
	2004	2005	2006	2004	2005	2006
Other income (expenses)						
Interest income						
(expense) - net						
State-owned banks	(41,069)	33,376	46,841	4.56	(2.57)	(3.40)
Others	3,265	37,321	18,839	(0.36)	(2.86)	(1.37)
Net	(37,804)	70,697	65,680	4.20	(5.43)	(4.77)

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 also obtained loans from BNI and Mandiri (Note 16).

b. Telkom

(1) a. Fixed telecommunication 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 Rp82 (in full amount) per record of outgoing call, as compensation for billing processing (Note 26).
- The compensation arrangement for the services provided is based on interconnection tariffs (Note 36) determined by the Ministry of Communications.

On September 23, 2005, the Company and Telkom signed an agreement regarding the interconnection of local, long-distance and international fixed networks.

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

b. Telkom (continued)

(1) a. Fixed telecommunication services (continued)

The principal matters covered by the agreement are as follows:

- Interconnection between the Company's and Telkom's local, long-distance and international fixed networks enables the Company's fixed telecommunication service subscribers to make or receive calls to or from Telkom's subscribers or international gateways.
- The Company's and Telkom's international services are accessible and continuously open to each other's fixed networks.
- The Company and Telkom are responsible for their respective telecommunications facilities.
- The compensation arrangement for the services provided is based on interconnection tariffs determined by both parties.
- Each party handles subscriber billing and collection for the other party's international calls service used by the other party's subscribers. Each party has to pay the other party 1% of the collections made by the other party, plus the billing process expenses which are fixed at Rp82 (in full amount) per record of outgoing call as compensation for billing processing.

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 agreements with Telkom for the interconnection of Satelindo 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 36).

Furthermore, on December 1, 2005, the Company and Telkom signed an agreement regarding the interconnection between the Company's cellular telecommunication network with Telkom's fixed telecommunication network. Under this agreement, the interconnection between the Company's cellular telecommunication network and Telkom's fixed telecommunication network enables the Company's cellular subscribers to make or receive calls to or from Telkom's fixed telecommunication subscribers.

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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, generally under the same terms as those of the Land Transfer Agreement.
- (3) In 1999, Lintasarta entered into an agreement with Telkom, whereby Telkom agreed to lease transponder to Lintasarta. This agreement has been amended several times, the latest amendment of which is based on the sixth amendment agreement dated September 29, 2006. Transponder lease expense charged to operations amounted to Rp14,516 in 2004, Rp8,025 in 2005 and Rp7,083 in 2006 which is 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 (%)		
	2004	2005	2006	2004	2005	2006
Net operating revenues	1,140,163	806,211	545,060	10.93	6.96	4.45
Operating expenses	492,132	390,136	343,854	6.80	4.91	3.88

c. 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.

d. Telkomsel

The Company, Satelindo and IM3 have interconnection transactions with Telkomsel, a subsidiary of Telkom, under contractual sharing agreements which provide 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.

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

d. Telkomsel (continued)

- 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.

Net interconnection revenues (charges) from Telkomsel for the years ended December 31, 2004, 2005 and 2006 are as follows:

	2004	2005	2006
Interconnection revenues	185,210	683,577	707,850
Interconnection charges	(431,543)	(653,645)	(758,632)
Net revenues (charges)	(246,333)	29,932	(50,782)

e. Jiwasraya

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

f. 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, 2005 and 2006, Kopindosat has investments in the following entities:

	Equity Interest (%)	
	2005	2006
PT Persada Alih Daya	-	99.00
PT Puri Perkasa Farmino	95.00	99.00
Lintasarta	0.66	0.66
IMM	0.50	0.15
PT Duta Sukses Utama	90.00	-
PT Mutiara Data Caraka Lintas	15.00	-
Sisindokom (formerly Sisindosat)	0.53	-

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

f. Kopindosat (continued)

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 which 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.

g. Key Management Personnel

The amounts due from key management personnel represent portions of housing and transportation allowances which were given in advance by the Companies to their 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 are 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 2005 and 2006 amounted to Rp18,567 and Rp11,032, respectively, and are presented as part of "Due from Related Parties". Those given to non-key management personnel amounting to Rp3,597 and Rp2,817 as of December 31, 2005 and 2006, respectively, are presented as part of "Accounts Receivable - Others" for the current portion, and Rp122,281 and Rp103,121 as of December 31, 2005 and 2006, respectively, as "Long-term Receivables" for the non-current portion.

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.	StarHub	Affiliate	Operating revenues - international calls
2.	SingTel	Affiliate	Operating revenues - international calls
3.	TVRI	Affiliate	Operating revenues - MIDI
4.	PT Pos Indonesia (Persero)	Affiliate	Operating revenues - MIDI
5.	Lembaga Kantor Berita Negara Antara	Affiliate	Operating revenues - MIDI
6.	CSM	Affiliate	Operating revenues - MIDI
7.	Optus	Affiliate	Operating revenues - international calls
8.	Ministry of Communications and Information Technology	Government agency	Operating revenues - MIDI and concession fee

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

No.	Related Parties	Relationship	Nature of Account Balances/Transactions
9.	PT Industri Telekomunikasi Indonesia (Persero)	Affiliate	Procurement payable
10.	PT SCS Astra Graphia Technologies	Affiliate	Procurement payable
11.	Ministry of Finance	Government agency	Other expenses - dividend penalty
12.	Comnet	Affiliate	Other cost of services - rent of transmission channel
13.	PT Angkasa Pura (Persero)	Affiliate	Operating revenues - MIDI
14.	PT Garuda Indonesia (Persero)	Affiliate	Operating revenues - MIDI
15.	PLN	Affiliate	Utilities expense
16.	UGBDN	Affiliate	Rent expense

31. EARNINGS PER SHARE

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

	2004	2005	2006
Numerator for basic earnings per share - net income	1,633,208	1,623,481	1,410,093
Dilutive effect of convertible bonds (Note 17)	-	-	(11,262)
Numerator for diluted earnings per share	1,633,208	1,623,481	1,398,831
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 and Phase II)	5,202,760,294	5,253,249,519	5,404,654,859
Denominator for basic earnings per share - adjusted weighted-average number of shares after effect of exercise of ESOP Phase I and Phase II	5,202,760,294	5,253,249,519	5,404,654,859
Dilutive effect of ESOP Phase II (Note 20)	4,646,308	-	-
Denominator for diluted earnings per share	5,207,406,602	5,253,249,519	5,404,654,859

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31. EARNINGS PER SHARE (continued)

	2004	2005	2006
Basic earnings per share	313.91	309.04	260.90
Diluted earnings per share	313.63	309.04	258.82
Basic earnings per ADS (50 B shares per ADS)	15,695.59	15,452.16	13,045.17
Diluted earnings per ADS	15,681.59	15,452.16	12,940.98

32. DISTRIBUTION OF INCOME AND APPROPRIATION OF RETAINED EARNINGS

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) as follows:
 - Rp15,700 for reserve fund
 - Rp145.55 per share for dividend distribution
 - Remaining amount for reinvestment and working capital.
- b. Pay the dividend on July 29, 2004, except the dividend for the Government which would be paid in accordance with the prevailing laws and regulations.

At the Company's Annual Stockholders' General Meeting held on June 8, 2005, the stockholders resolved to, among others:

- a. Approve the utilization of 2004 net income as follows:
 - Rp16,332 for reserve fund
 - Rp154.23 per share for dividend distribution
 - Remaining amount for reinvestment and working capital.
- b. Pay the dividend on July 15, 2005, except the dividend for the Government which would be paid in accordance with the prevailing laws and regulations.

At the Company's Annual Stockholders' General Meeting held on June 29, 2006, the stockholders resolved to, among others:

- a. Approve the utilization of 2005 net income as follows:
 - Rp16,235 for reserve fund
 - Rp149.32 per share for dividend distribution
 - Remaining amount for reinvestment and working capital.
- b. Pay the dividend on August 8, 2006, except the dividend for the Government which will be paid in accordance with the prevailing laws and regulations.

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33. DERIVATIVES

During 2005 and 2006, the Company entered into several swap contracts. Listed below is information related to the contracts and their fair values as of December 31, 2005 and 2006:

		Fair Value (Rp)			
		2005		2006	
	Notional Amount (US\$)	Receivable	Payable	Receivable	Payable
Cross Currency Swap:					
a.	Standard Chartered Bank, Jakarta Branch ("StandChart")	25,000	20,053	-	10,938
b.	Goldman Sachs Capital Market, L.P., New York ("GSCM") ⁽¹⁾	100,000	-	-	-
c.	JPMorgan Chase Bank, Singapore Branch ("JPMorgan") ⁽²⁾	25,000	-	-	-
d.	Goldman Sachs International ("GSI")	100,000	55,260	-	31,202
e.	GSI	25,000	3,908	-	34,511
f.	GSI	75,000	-	1,303	-
g.	Merrill Lynch Capital Market Bank Limited ("MLCMB")	25,000	-	16,550	-
h.	MLCMB	25,000	2,863	-	10,705
i.	StandChart	25,000	7,373	-	45,650
j.	MLCMB	25,000	-	-	34,215
k.	StandChart	25,000	-	-	22,151
l.	StandChart	25,000	-	-	18,022
m.	The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch ("HSBC")	25,000	-	-	7,584
Sub-total		79,221	11,539	16,550	222,264
Interest Rate Swap:					
n.	Barclays Capital, London ("Barclays") ⁽³⁾	50,000	-	-	-
o.	HSBC ⁽¹⁾	25,000	-	-	-
p.	ABN ⁽¹⁾	50,000	-	-	-
q.	GSCM ⁽⁴⁾	25,000	-	-	-
r.	GSCM	25,000	-	-	2,029
Sub-total		-	-	-	2,029
Total		79,221	11,539	16,550	224,293

⁽¹⁾ terminated in May 2005

⁽²⁾ terminated in October 2005

⁽³⁾ terminated in April 2005

⁽⁴⁾ terminated in October 2006

The net change in fair value of the swap contracts totalling Rp170,451, Rp44,209 and Rp438,774 in 2004, 2005 and 2006, respectively, is presented as "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses) in the consolidated statements of income. "Derivative assets" presented under current assets amounted to Rp79,221 and Rp16,550 as of December 31, 2005 and 2006, respectively, and "Derivative liabilities" presented under current liabilities amounted to Rp11,539 and Rp224,293 as of December 31, 2005 and 2006, respectively.

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33. DERIVATIVES (continued)

The following are the details of the swap contracts:

Cross Currency Swap Contracts

- a. On April 23, 2004, the Company entered into a cross currency swap contract with StandChart which is effective starting April 13, 2004. Based on the contract, the Company will swap at the 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 amounting to Rp5,086, Rp13,865 and Rp16,911 in 2004, 2005 and 2006, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- b. 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 that existed prior to August 9, 2004. 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 provided 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 amounting to Rp10,797 and Rp29,142 in 2004 and 2005, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

On May 13, 2005, the Company early terminated its cross currency swap contract with GSCM. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$11,750 (equivalent to Rp111,507). The payment was made on May 16, 2005.

- c. 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 was less than Rp14,000 to US\$1 (in full amounts), the Company would swap at the termination date on November 5, 2010, a total of Rp225,000 for US\$25,000.
 - If the spot rate at termination date was higher than Rp14,000 to US\$1 (in full amounts), the Company would swap at the termination date on November 5, 2010, a certain rupiah amount [i.e., equivalent to US\$25,000 multiplied by exchange rate of Rp9,000 (in full amount) plus the excess of actual spot rate over Rp14,000 (in full amount)] for US\$25,000.

The contract provided for the Company to make semi-annual payments every May 5 and November 5 up to termination date at the fixed rate of 5% of Rp225,000 per annum. Total swap cost amounting to Rp5,687 in 2005 is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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

On October 28, 2005, the Company early terminated its cross currency swap contract with JPMorgan. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$380 (equivalent to Rp3,792), which was made on November 1, 2005.

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33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

- d. On May 13, 2005, the Company entered into a cross currency swap contract with GSI. Based on the contract which is effective starting May 5, 2005, the Company will swap at termination date on November 5, 2010, a total of Rp832,250 for US\$100,000. Based on the contract, the Company will make semi-annual payments every May 5 and November 5 up to termination date, at (i) fixed rate of 6.96% for US\$50,000 and at (ii) 6-month U.S. dollar LIBOR plus 2.62% per annum for US\$50,000 and will receive (i) semi-annual payments in the amount of 6-month U.S. dollar LIBOR per annum multiplied by US\$11,750 during the period May 13, 2005 through May 13, 2008 and (ii) the amount of US\$11,750 on May 13, 2008. Total swap cost amounting to Rp34,979 and Rp61,885 in 2005 and 2006, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- e. On May 13, 2005, the Company entered into a cross currency swap contract with GSI which is effective starting May 5, 2005. Based on the contract, the Company will swap at termination date on November 5, 2010, a total of Rp245,000 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 4.30% of US\$25,000 per annum. Total swap cost amounting to Rp5,642 and Rp9,689 in 2005 and 2006, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- f. On August 22, 2005, the Company entered into a cross currency swap contract with GSI which is effective starting June 22, 2005. Based on the contract, the Company will swap at termination date on June 22, 2012, a certain rupiah amount equivalent to US\$75,000 multiplied by certain predetermined exchange rate for US\$75,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to termination date at the fixed rate of 3.28% of US\$75,000 per annum. Total swap cost amounting to Rp12,180 and Rp22,995 in 2005 and 2006, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- g. On September 20, 2005, the Company entered into a cross currency swap contract with MLCMB which is effective starting September 22, 2005. Based on the contract, the Company will receive, at termination date on June 22, 2012, the following:
 - If the rupiah/US\$ spot rate at termination date is less than Rp9,500 to US\$1 (in full amounts), the Company will receive zero amount from MLCMB.
 - If the rupiah/US\$ spot rate at termination date is greater than Rp9,500 but less than or equal to Rp14,000 to US\$1 (in full amounts), the Company will receive a certain U.S. dollar amount which equals to US\$25,000 multiplied by $(1 - \text{Rp}9,500/\text{rupiah/US\$ spot rate})$ (in full amount).
 - If the rupiah/US\$ spot rate at termination date is greater than Rp14,000 to US\$1 (in full amounts), the Company will receive a certain US\$ amount which equals to US\$25,000 multiplied by $(\text{Rp}14,000 - \text{Rp}9,500)/\text{rupiah/US\$ spot rate}$ (in full amounts).

The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to termination date at the fixed rate of 2.99% of US\$25,000 per annum. Total swap cost amounting to Rp3,640 and Rp6,892 in 2005 and 2006, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

- h. On November 16, 2005, the Company entered into a cross currency swap contract with MLCMB which is effective starting November 18, 2005. Based on the contract, the Company will swap at the termination date on June 22, 2012, a total of Rp245,000 for US\$25,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to termination date at the fixed rate of 5.50% of US\$25,000 per annum. Total swap cost amounting to Rp1,265 and Rp12,677 in 2005 and 2006, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- i. On January 11, 2006, the Company entered into a cross currency swap contract with StandChart which is effective starting January 13, 2006. Based on the contract, the Company will swap at termination date on June 22, 2012, a total of Rp236,250 for US\$25,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to and including termination date at the fixed rate of 4.78% of US\$25,000 per annum. Total swap cost amounting to Rp10,817 in 2006 is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- j. On March 1, 2006, the Company entered into a cross currency swap contract with MLCMB which is effective starting March 3, 2006. Based on the contract, the Company will swap at the termination date on June 22, 2012, a total of Rp229,975 for US\$25,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to termination date at the fixed rate of 4.15% of US\$25,000 per annum. Total swap cost amounting to Rp9,375 in 2006 is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- k. On March 15, 2006, the Company entered into a cross currency swap contract with StandChart which is effective starting March 17, 2006. Based on the contract, the Company will swap at termination date on June 22, 2012, a total of Rp228,550 for US\$25,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to and including termination date at the fixed rate of 3.75% of US\$25,000 per annum. Total swap cost amounting to Rp6,685 in 2006 is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- l. On May 12, 2006, the Company entered into a cross currency swap contract with StandChart. Based on the contract, the Company will swap at termination date on June 22, 2012, a total of Rp217,500 for US\$25,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to and including termination date at the fixed rate of 3.45% of US\$25,000 per annum. Total swap cost amounting to Rp4,897 in 2006 is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- m. On August 8, 2006, the Company entered into a cross currency swap contract with HSBC. Based on the contract, the Company will swap at termination date on November 5, 2010, a total of Rp225,000 for US\$25,000. The contract provides for the Company to make semi-annual payments every May 5 and November 5 up to and including termination date at the fixed rate of 4.00% of US\$25,000 per annum. Total swap cost amounting to Rp2,277 in 2006 is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

All cross-currency swap contracts with GSI (Notes 33d, 33e and 33f) are structured to include credit-linkage with the Company as the reference entity and with the Company's (i) bankruptcy, (ii) failure to pay on certain debt obligations or (iii) restructuring of certain debt obligations as the relevant Credit Events. Upon the occurrence of any of these Credit Events, the Company's obligations and those of GSI under these swap contracts will terminate without any further payments or settlements being made by or owed to either party, including a payment by either party of any marked-to-market value of the swap contracts.

Interest Rate Swap Contracts

- n. 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 was to be located in the pre-determined annual (subsequently changed to semi-annual*) range. The range was to be pre-determined annually (subsequently changed to semi-annually*) up to 2010 and would take effect on May 5 (subsequently changed to May 5 and November 5*) of each year. The swap 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 provided early termination option for Barclays, every May 5 and November 5, commencing on May 5, 2006 up to termination date.

On April 15, 2005, the Company early terminated its interest rate swap contract with Barclays. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$3,880 (equivalent to Rp37,124). The payment was made on April 21, 2005.

* effective on September 15, 2004

- o. 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 swap income arising from this transaction amounting to Rp1,648 and Rp9,174 in 2004 and 2005, respectively, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

On May 12, 2005, the Company early terminated its interest rate swap contract with HSBC. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$1,060 (equivalent to Rp10,065). The payment was made on May 13, 2005.

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33. DERIVATIVES (continued)

Interest Rate Swap Contracts (continued)

- p. On January 20, 2005, the Company entered into an interest rate swap contract with ABN with a notional amount of US\$50,000. Based on the contract which was effective starting May 5, 2005, the interest rate swap contracts that existed prior to January 20, 2005 and all related cash flows were cancelled effective January 20, 2005 and the fair value of the interest rate swap contracts as of January 20, 2005 was 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 was located in the pre-determined ranges up to the termination date.

On May 12, 2005, the Company early terminated its interest rate swap contract with ABN. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$2,685 (equivalent to Rp25,494). The payment was made on May 13, 2005.

- q. On March 15, 2006, the Company entered into an interest swap contract with GSCM with a notional amount of US\$25,000. Based on the contract which was effective starting December 22, 2005, the Company agreed to pay at the fixed rate of 4.90% of US\$25,000 per annum, in quarterly intervals, every March 22, June 22, September 22 and December 22 up to the termination date on June 22, 2012, in exchange for 7.125% per annum times certain index located in the pre-determined quarter range up to 2012. The swap income arising from this transaction amounting to Rp3,860 in 2006, is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

On October 16, 2006, the Company early terminated its interest rate swap contract with GSCM. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$380 (equivalent to Rp3,498), which was made on October 20, 2006.

- r. On July 18, 2006, the Company entered into an interest swap contract with GSCM with a notional amount of US\$25,000. Based on the contract which is effective starting December 22, 2006, the Company agreed to pay at the fixed rate of 5.90% of US\$25,000 per annum, in semi-annual intervals, every June 22 and December 22 up to the termination date on June 22, 2012, in exchange for 7.125% per annum times certain index located in the pre-determined semi-annual range up to 2012. The swap income arising from this transaction amounting to Rp1,389 in 2006, 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 GSCM starting on June 22, 2007 and semi-annually thereafter with five (5) New York business days' prior notice.

34. COMMITMENTS AND CONTINGENCIES

- a. As of December 31, 2006, commitments on capital expenditures which are contractual agreements not yet realized relate to the procurement and installation of property and equipment amounting to US\$243,452, EUR317,034 (in full amount, equivalent to US\$417) and Rp1,392,587 (Note 41i).

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34. COMMITMENTS AND CONTINGENCIES (continued)

The significant commitments on capital expenditures are as follows:

- The Company has issued several Purchase Orders ("POs") for the provision of equipment and services in the installation of BSS Roll-out 2006 to the following major vendors:

<u>Vendor</u>	<u>Area Covered</u>	<u>Total PO Amount</u>	<u>Unserved Issued PO</u>
Ericsson AB and PT Ericsson Indonesia	Jabotabek	US\$21,227 and Rp25,424	US\$8,875 and Rp13,011
Siemens AG and PT Siemens Indonesia	Sumatra and Nusa Tenggara	US\$329 and Rp133,767	US\$147 and Rp43,671
Alcatel CIT and PT Alcatel Indonesia	Kalimantan	US\$3,888 and Rp73,850	US\$2,537 and Rp14,595

- On September 29, 2006, the Company entered into WCDMA/HSDPA Radio Access Network Development Project Agreement with PT Ericsson Indonesia and Ericsson AB. The total contract prices under this agreement amounted to US\$55,220 and Rp216,039. As of December 31, 2006, the Company has issued several POs totalling US\$31,008 and Rp119,476. The issued POs that have not been served amounted to US\$21,867 and Rp75,395.
- On September 25, 2006, the Company entered into Single Intelligent Network Agreement with PT Ericsson Indonesia and Ericsson AB. The total contract prices under this agreement amounted to US\$67,091 and Rp92,364. As of December 31, 2006, the Company has issued several POs totalling US\$8,931 and Rp9,619. The issued POs that have not been served amounted to US\$3,220 and Rp3,468.
- On March 13, 2006, the Company entered into IN Decentralization and IVR Expansion Agreement with PT Ericsson Indonesia and Ericsson AB. This agreement was amended on April 26, 2006. The total contract prices, as amended, under this agreement amounted to US\$16,688 and Rp16,500. As of December 31, 2006, the Company has issued several POs totalling US\$12,787 and Rp16,500. The issued POs that have not been served amounted to US\$5,372 and Rp7,244.
- On July 28, 2005, the Company entered into Supply and Installation Agreements of PDH and SDH Microwave Radio Equipment for West Java, Central Java, Bali and Nusa Tenggara Islands with PT Alcatel Indonesia, Alcatel CIT, and Alcatel Italy. The latest amendment to these agreements was made on December 29, 2006. The total contract prices, as amended, under these agreements amounted to US\$26,492 and Rp135,225. As of December 31, 2006, the Company has issued several POs for the full amount of the contract prices. The issued POs that have not been served amounted to US\$7,722 and Rp69,125.
- On July 1, 2005, the Company entered into 2005 - 2008 BSS Expansion Agreement with PT Nokia Networks. This agreement was amended on June 30, 2006. The total contract prices, as amended, under this agreement amounted to US\$107,989 and Rp257,357. As of December 31, 2006, the Company has issued several POs for the full amount of the contract price. The issued POs that have not been served amounted to US\$15,411 and Rp49,461.

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34. COMMITMENTS AND CONTINGENCIES (continued)

- On March 15, 2005, the Company entered into Supply and Installation of BSS, MSC and IN Expansion Agreements with PT Ericsson Indonesia and Ericsson AB. The latest amendment to these agreements was made on February 13, 2006. The total contract prices, as amended, under these agreements amounted to US\$64,335 and Rp93,982. As of December 31, 2006, the Company has issued several POs for the full amount of the contract prices. The issued POs that have not been served amounted to US\$3,135 and Rp53,010.
- b. On July 20, 2005, the Company obtained facilities from HSBC to fund the Company's short-term working capital needs. The facilities consist of the following:
 - Overdraft facility amounting to US\$2,000 (including overdraft facility denominated in rupiah amounting to Rp16,000). Interest will be charged on daily balances at 3.75% per annum and 6% per annum below the HSBC Best Lending Rate for the loan denominated in rupiah and U.S. dollar, respectively. Interest is payable on a monthly basis by debiting the Company's current account.
 - Revolving loan facility amounting to US\$5,000 (including revolving loan denominated in rupiah amounting to Rp40,000). The loan matures at the maximum period of six months and can be drawn in tranches with minimum amounts of US\$500. Interest will be charged on daily balances at 3% per annum and 6.3% per annum below the HSBC Term Lending Rate for the loan denominated in rupiah and U.S. dollar, respectively. Interest is payable on a monthly basis by debiting the Company's current account.

Based on the loan/overdraft facility agreement, the Company is required to comply with certain conditions, such as maintaining certain financial ratios.

The Company also obtained treasury facilities from HSBC as follows:

- Currency swap limit (weighted) amounting to US\$7,000 to facilitate the Company's requirement for hedging genuine foreign currency and international rate exposure through currency swap and/or interest rate swap, with a maximum maturity of 5 years.
- Exposure risk limit (weighted) amounting to US\$3,000 to facilitate the Company's requirement for hedging genuine foreign currency exposures through spot and forward transactions with maximum maturity of 3 months.

The facilities expired on February 28, 2006 and were extended for 12 months.

As of December 31, 2006, the Company has not used these facilities.

- c. On August 25, 2005, the Company obtained facilities from Deutsche Bank AG, Jakarta Branch to finance the Company's general working capital. The facilities consist of the following:
 - Loan facility amounting to Rp25,000, which can be drawn as advances with a minimum amount of Rp100 for each advance. Each advance will mature at the maximum period of six months and bears interest as follows:
 - The interest on each advance with maturity of three months or less shall be payable at 1.7% per annum over Certificates of Bank Indonesia rates.
 - The interest on each advance with maturities of over three months but less than six months shall be payable at 2.5% per annum over three-month Certificates of Bank Indonesia rates.

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34. COMMITMENTS AND CONTINGENCIES (continued)

Based on the loan facility agreement, the Company is required to comply with certain conditions, such as maintaining certain financial ratios.

- Bank guarantee facility amounting to US\$2,000. The loan from the facility matures at the maximum period of one year. The Company is required to pledge its cash deposit/cash margin/current account in Deutsche Bank AG, Jakarta Branch for the issuance of bank guarantee.

The facilities expired on November 30, 2005 and were extended for 12 months. The facilities shall be automatically extended for further 12-month periods upon expiration, unless early notification of non-extension is made in writing.

As of December 31, 2006, the facilities have not been terminated and the Company has not used these facilities.

- d. 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 collected and distributed 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 managed 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 did not belong to the Company and, therefore, were not recorded in the Company's books. However, the Company managed these funds in separate accounts. On April 25, 2005, the Company was discharged as the CBP.

As of December 31, 2006, the balance of the funds which are under the Company's custody (including interest earned) amounted to US\$22,666. Besides receiving their share of the funds from the sale of IRU, the members of the consortium also received their share of the interest earned by the above funds.

- e. Based on letters No. S-5341/LK/2002 and No. S-5327/LK/2002, both dated December 4, 2002, of the Ministry of Finance ("MOF") of the Republic of Indonesia, the Company was fined 2% interest per month as penalty (for a maximum period of 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. In its letter No. 002/GUI/KU.300/03 dated January 6, 2003, the Company requested the MOF to reconsider its decision to impose the penalties.

On December 1, 2003, the 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.

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34. COMMITMENTS AND CONTINGENCIES (continued)

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.

On June 15, 2005, the MOF, in its letter No. S-1680/AP/2005, reconfirmed the Company's penalties amounting to Rp63,535 and requested the Company to immediately settle the penalties.

Based on the Circular Resolution dated September 18, 2006 of the Company's Board of Directors, after carefully considering the input made by the Government of Indonesia at the Company's Stockholders' Annual General Meeting held on June 29, 2006, the Board of Directors agreed to amicably settle such dividend penalty in such amount and terms of payment acceptable to the MOF. Up to December 31, 2006, no resolution has been agreed between the Company and the MOF.

In 2006, the Company accrued the penalty in the amount of Rp20,633 representing its estimate of the penalty it will pay to the Government.

- f. The Company has committed to pay annual radio frequency fee over the 3G license period, provided the Company holds the 3G license (Note 1a). The amount of annual payment is based on the scheme of payment set out in the Regulation No. 7/PER/M.KOMINFO/2/2006 dated February 8, 2006 of the Ministry of Communications and Information Technology.

35. 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.

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35. 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" and most recently as "Ministry of Communications and Information Technology"). 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 (in full amount) per new connection number. The maximum tariff for monthly charges is Rp65,000 (in full amount). Usage charges consist of the following:

1. Airtime

The maximum airtime tariff charged to the originating cellular subscriber is Rp325 (in full amount) per 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 (in full amount) 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.

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35. TARIFF SYSTEM (continued)

b. Cellular services (continued)

Regulation No. KM.27/PR.301/MPPT-98 dated February 23, 1998 and Decree No. KM.79 Year 1998 of the Ministry of Tourism, Posts and Telecommunications (subsequently renamed "Ministry of Communications" and most recently as "Ministry of Communications and Information Technology") were subsequently superseded by Regulation No. 12/Per/M.KOMINFO/02/2006 dated February 28, 2006 of the Ministry of Communications and Information Technology regarding basic telephony tariff for cellular mobile network service.

As of December 31, 2006, the Company has not yet applied such regulation since it is still waiting for further guidance on the implementation of tariff formula.

c. Fixed telecommunication services

In February 2006, the Ministry of Communications and Information Technology released Regulation No. 09/Per/M.KOMINFO/02/2006 regarding basic telephony tariff for fixed network service.

As of December 31, 2006, the Company has not yet applied such regulation since it is still waiting for further guidance on the implementation of tariff formula.

36. 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 was 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, prescribed 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 two 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:

	<u>Tariff</u>	<u>Basis</u>
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

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36. INTERCONNECTION TARIFFS (continued)

1. Structure of Interconnection Tariff (continued)

a. Between international and domestic PSTN (continued)

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

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 regulation No. 28 year 2005 dated July 5, 2005 of the Government of the Republic of Indonesia, the USO tariff has been changed from Rp750 per successful international outgoing or incoming call to 0.75% of annual gross revenues. Based on the decision letter of the Ministry of Communications and Information Technology, bad debts and compensation to other telecommunication carriers can be deducted in computing annual gross revenues. The Company applied the new tariff starting January 1, 2005 (Note 27).

b. Between domestic PSTN and another domestic PSTN

Interconnection charges for domestic telecommunication traffic (local and long-distance) between a domestic PSTN and another domestic PSTN are based on agreements made by those domestic PSTN telecommunication carriers.

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.

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36. INTERCONNECTION TARIFFS (continued)

1. Structure of Interconnection Tariff (continued)

- 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.

- 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, 2006, as agreed mutually with the cellular telecommunications operators, the Company (including Satelindo until it was merged - Note 1e) still applied the original contractual sharing agreements regarding the interconnection tariffs (Note 37).

- 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 bilaterally arranged between the carriers.

KM.37 Year 1999 and Decree No. 46 were subsequently superseded by Decree No. 32 Year 2004 of the Ministry of Communications which provides cost-based interconnection to replace the current revenue-sharing arrangement. Under the decree, the operator of the network on which calls terminate will determine the interconnection charge to be received by it based on a formula to be mandated by the government, which will be intended to have the effect of requiring that operators charge for calls based on the cost of carrying such calls.

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36. INTERCONNECTION TARIFFS (continued)

The effective date of this decree, which was originally set to start on January 1, 2005, was subsequently postponed until January 1, 2007 based on Regulation No. 08/Per/M. KOMINFO/02/2006 dated February 8, 2006 of the Ministry of Communications and Information Technology. Subsequently, on August 4, 2006, the Directorate General of Post and Telecommunication issued decree No. 278/DIRJEN/2006 which approved the Reference Interconnection Offer ("RIO") of the Company and two other dominant telecommunication operators (Telkom and Telkomsel).

37. 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 telecommunications 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.

As of December 31, 2006, 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 - Note 1e) and the above operators still continue their business under the agreements by applying the original compensation formula.

Net interconnection revenues (charges) from the operators are as follows:

	2004	2005	2006
Excelcom	(18,955)	(30,239)	(34,675)
Komselindo	3,992	3,432	2,028
Net charges	(14,963)	(26,807)	(32,647)

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38. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Companies' monetary assets and liabilities denominated in various foreign currencies as of December 31, 2006 (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	181,510	1,637,216
Accounts receivable		
Trade	123,088	1,110,254
Others	357	3,221
Derivative assets	1,835	16,552
Other current assets	939	8,470
Due from related parties	534	4,816
Non-current assets - others	1,279	11,537
Total assets	309,542	2,792,066
Liabilities:		
Accounts payable - trade	10,095	91,057
Procurement payable	219,618	1,980,954
Accrued expenses	22,379	201,856
Deposits from customers	901	8,125
Derivative liabilities	24,866	224,293
Loans payable (including current maturities)	34,200	308,484
Bonds payable	550,000	4,961,000
Other non-current liabilities	6,300	56,830
Total liabilities	868,359	7,832,599
Net liabilities position	558,817	5,040,533

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

39. 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 geographical 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 costs incurred during the period to acquire segment assets that are expected to be used for more than one year.

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39. SEGMENT INFORMATION (continued)

Consolidated information by industry segment follows:

	Major Segments				
	Cellular	Fixed Telecommunication	MIDI	Other Services	Segment Total
2004					
<u>Operating Revenues</u>					
Revenues from external customers	7,342,061	1,544,684	1,483,941	59,420	10,430,106
Inter-segment revenues	(100,282)	100,282	176,778	134,339	311,117
Total revenues	7,241,779	1,644,966	1,660,719	193,759	10,741,223
Inter-segment revenues elimination					(311,117)
Operating revenues - net					10,430,106
<u>Income</u>					
Operating income (loss)	2,438,107	575,709	269,935	(85,685)	3,198,066
Gain on sale of investment in associated company					286,204
Interest income					187,430
Gain on sale of other long-term investment					110,929
Equity in net income of associated companies					61,489
Financing cost					(1,097,531)
Income tax expense					(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					99,085
Income before Minority Interest in Net Income of Subsidiaries					1,658,204
<u>Other Information</u>					
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
Segment liabilities	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

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39. SEGMENT INFORMATION (continued)

	Major Segments			Segment Total
	Cellular	Fixed Telecommunication	MIDI	
2005				
<u>Operating revenues</u>				
Revenues from external customers	8,644,951	1,250,807	1,694,033	11,589,791
Inter-segment revenues	(115,727)	115,727	269,462	269,462
Total operating revenues	8,529,224	1,366,534	1,963,495	11,859,253
Inter-segment revenues elimination				(269,462)
Operating revenues - net				11,589,791
<u>Income</u>				
Operating income	2,639,498	615,091	397,328	3,651,917
Interest income				215,103
Gain on sale of investment in associated company				14,625
Gain on sale of other long-term investments - net				1,204
Equity in net income of associated companies				86
Financing cost				(1,264,764)
Income tax expense				(697,924)
Amortization of goodwill				(226,352)
Loss on foreign exchange - net				(79,932)
Loss on change in fair value of derivatives - net				(44,209)
Others - net				85,117
Income before Minority Interest in Net Income of Subsidiaries				1,654,871
<u>Other Information</u>				
Segment assets	28,303,265	1,149,005	3,269,091	32,721,361
Unallocated assets				6,410,391
Inter-segment assets elimination				(6,344,619)
Assets - net				32,787,133
Segment liabilities	19,857,524	904,541	960,832	21,722,897
Unallocated liabilities				2,142,746
Inter-segment liabilities elimination				(5,393,838)
Liabilities - net				18,471,805
Capital expenditure	6,330,401	306,349	661,197	7,297,947
Depreciation and amortization	2,431,356	214,206	434,643	3,080,205

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39. SEGMENT INFORMATION (continued)

	Major Segments			Segment Total
	Cellular	Fixed Telecommunication	MIDI	
2006				
<u>Operating revenues</u>				
Revenues from external customers	9,227,537	1,109,281	1,902,589	12,239,407
Inter-segment revenues	(222,650)	222,650	318,119	318,119
Total operating revenues	9,004,887	1,331,931	2,220,708	12,557,526
Inter-segment revenues elimination				(318,119)
Operating revenues - net				12,239,407
<u>Income</u>				
Operating income	2,291,923	627,611	479,125	3,398,659
Gain on foreign exchange - net				304,401
Interest income				212,823
Financing cost				(1,248,899)
Income tax expense				(576,107)
Loss on change in fair value of derivatives - net				(438,774)
Amortization of goodwill				(226,507)
Equity in net loss of associated companies				(238)
Others - net				21,202
Income before Minority Interest in Net Income of Subsidiaries				1,446,560
<u>Other Information</u>				
Segment assets	30,550,224	1,552,003	3,738,044	35,840,271
Unallocated assets				4,520,191
Inter-segment assets elimination				(6,131,804)
Assets - net				34,228,658
Segment liabilities	19,665,806	760,291	931,646	21,357,743
Unallocated liabilities				2,633,240
Inter-segment liabilities elimination				(4,964,070)
Liabilities - net				19,026,913
Capital expenditure	5,961,152	366,718	593,458	6,921,328
Depreciation and amortization	2,967,185	182,702	503,379	3,653,266

40. ECONOMIC CONDITIONS

The operations of the Companies 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 Companies.

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41. SUBSEQUENT EVENTS

- a. On January 2, 2007, the Company and GSCM entered into a currency forward contract with notional amount of US\$10,000 and USD/IDR fixing rate of Rp8,995 to US\$1 (in full amounts). Based on the contract:
 - If the USD/IDR fixing rate is lower than Rp9,600 to US\$1 (in full amounts), the Company will buy US\$10,000 at USD/IDR fixing rate on the respective settlement dates.
 - If the USD/IDR fixing rate is higher than Rp9,600 to US\$1 (in full amounts), there will be no settlement on the respective settlement dates.
- b. On January 10, 2007, the Company submitted an appeal letter to the Tax Court concerning the Company's objection to the tax correction arising from the corporate income tax audit for fiscal year 2003 (Note 14).
- c. On January 17, 2007, ICL, the Company's majority shareholder, notified the Company regarding the plan of Qatar Telecom ("Qtel") to make 25% equity investment in Asia Mobile Holdings Pte. Ltd. ("AMH"). Upon the closing of the transaction, STTC will effectively control 75% of the equity of AMH, which directly owns ICL and ICLS (Note 19).
- d. Based on an online extract from the Dutch Chamber of Commerce, the registration of SIB ended on January 17, 2007. Consequently, the liquidation process of SIB has been officially recognized since that date.
- e. On February 15, 2007, the Company and StandChart entered into a currency forward contract with notional amount of US\$2,000 and USD/IDR fixing rate of Rp8,950 to US\$1 (in full amounts). Based on the contract:
 - If the USD/IDR fixing rate is lower than Rp9,215 to US\$1 (in full amounts), the Company will buy US\$2,000 at USD/IDR fixing rate on the respective settlement dates.
 - If the USD/IDR fixing rate is at/higher than Rp9,215 to US\$1 (in full amounts), there will be no settlement on the respective settlement dates.
- f. On February 27, 2007, the Company received a notification letter from Standard Chartered Bank, security agent, releasing the pledge of ICL's investment in the Company's equity shares in relation to the loan facility obtained by STTC (Note 19).
- g. On February 28, 2007, the Company submitted an objection letter to the Tax Office regarding the tax correction arising from the income tax article 26 audit for fiscal year 2004 (Note 14).
- h. Based on letter No. 40/DJPT.3/KOMINFO/II/2007 dated March 3, 2007 of the Ministry of Communications and Information Technology, the Ministry requested the Company to settle the USO liabilities of Satelindo amounting to Rp19,257 (Note 15).
- i. As of March 5, 2007, the average buying and selling rate of bank notes published by Bank Indonesia is Rp9,200 to US\$1 (in full amounts), while as of December 31, 2006, the average buying and selling rate was Rp9,020 to US\$1 (in full amounts). Using the exchange rate as of March 5, 2007, the Companies suffered foreign exchange loss amounting to approximately Rp100,587 on the foreign currency liabilities, net of foreign currency assets, as of March 5, 2007 (Note 38).

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41. SUBSEQUENT EVENTS (continued)

The translation of the foreign currency liabilities, net of foreign currency assets, should not be construed as a representation that these foreign currency liabilities and assets have been, could have been, or could in the future be converted into rupiah at the rate as of December 31, 2006 or at any other rate of exchange.

The commitments for the capital expenditures denominated in foreign currencies as of December 31, 2006 as disclosed in Note 34a are approximately Rp2,243,595, if translated at the rate as of March 5, 2007.

42. RECLASSIFICATION OF ACCOUNTS

Following are the accounts in the 2004 and 2005 consolidated financial statements which have been reclassified to conform with the presentation of accounts in the 2006 consolidated financial statements:

As Previously Reported	As Reclassified	Amounts
<u>2004</u>		
<u>Consolidated Statements of Cash Flows</u>		
Cash flows from operating activities - employees and suppliers	Cash flows from financing activities - cash dividend paid by subsidiaries to minority interest	(7,671)
Cash flows from investing activities - swap income from interest rate swap contracts	Cash flows from operating activities - interest rate swap contracts	34,143
Cash flows from investing activities - swap cost from cross currency swap contracts	Cash flows from operating activities - swap cost from cross currency swap contracts	(15,882)
	Cash flows from financing activities - swap cost from cross currency swap contracts	(15,392)
<u>2005</u>		
<u>Consolidated Statements of Cash Flows</u>		
Cash flows from operating activities - employees and suppliers	Cash flows from financing activities - cash dividend paid by subsidiaries to minority interest	(9,046)
Cash flows from investing activities - swap income from interest rate swap contracts	Cash flows from operating activities - interest rate swap contracts	9,174
Cash flows from investing activities - payment for termination of swap contracts	Cash flows from operating activities - termination of swap contracts	(76,475)

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42. RECLASSIFICATION OF ACCOUNTS (continued)

<u>As Previously Reported</u>	<u>As Reclassified</u>	<u>Amounts</u>
<u>2005 (continued)</u>		
<u>Consolidated Statements of Cash Flows (continued)</u>		
	Cash flows from financing activities - payment for termination of swap contract	(111,508)
Cash flows from investing activities - swap cost from cross currency swap contracts	Cash flows from operating activities - swap cost from cross currency swap contracts	(42,279)
	Cash flows from financing activities - swap cost from cross currency swap contract	(64,121)

43. COMPLETION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation of the accompanying consolidated financial statements that were completed on March 5, 2007.