

**Consolidated Financial Statements  
With Independent Accountants' Review Report  
Three Months Ended March 31, 2005 and 2006**

**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 ACCOUNTANTS' REVIEW REPORT  
THREE MONTHS ENDED MARCH 31, 2005 AND 2006**

**Table of Contents**

	Page
Independent Accountants' Review Report	
Consolidated Balance Sheets .....	1 - 4
Consolidated Statements of Income .....	5 - 6
Consolidated Statements of Changes in Stockholders' Equity .....	7 - 8
Consolidated Statements of Cash Flows .....	9 - 10
Notes to Consolidated Financial Statements .....	11 - 96

\*\*\*\*\*

*This report is originally issued in Indonesian language.*

## **Independent Accountants' Review Report**

Report No. RPC-5670

### **Stockholders and Boards of Commissioners and Directors PT Indosat Tbk**

We have reviewed the consolidated balance sheets of PT Indosat Tbk ("the Company") and Subsidiaries as of March 31, 2005 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with auditing standards established by the Indonesian Institute of Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Indonesia, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with generally accepted accounting principles in Indonesia.

**Purwantono, Sarwoko & Sandjaja**  
**(Formerly Prasetyo, Sarwoko & Sandjaja)**

**Drs. Hari Purwantono**  
Public Accountant License No. 98.1.0065

May 18, 2006

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 review such financial statements are those generally accepted and applied in Indonesia.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	2d,4,29	3,240,132	4,136,132	455,772
Short-term investments - net of allowance for decline in value of Rp27,459 in 2005 and Rp31,532 in 2006	2e	37,716	42,530	4,687
Accounts receivable				
Trade	2f,16			
Related parties				
PT Telekomunikasi Indonesia Tbk ("Telkom") - net of allowance for doubtful accounts of Rp88,880 in 2005 and Rp84,855 in 2006	5,29	139,690	117,991	13,002
Others - net of allowance for doubtful accounts of Rp72,922 in 2005 and Rp56,695 in 2006	29	131,110	122,555	13,505
Third parties - net of allowance for doubtful accounts of Rp428,308 in 2005 and Rp538,910 in 2006	6	975,290	980,943	108,093
Others - net of allowance for doubtful accounts of Rp39,728 in 2005 and Rp32,319 in 2006	2f,29e	114,799	9,528	1,050
Inventories	2g	147,742	101,653	11,201
Derivative assets	2r,31	-	3,568	393
Advances		62,734	31,637	3,486
Prepaid taxes	7,14	721,881	876,733	96,610
Prepaid expenses	2h,2q,28,29	212,358	247,479	27,270
Other current assets	2d,29,31	188,028	51,918	5,721
<b>Total Current Assets</b>		<b>5,971,480</b>	<b>6,722,667</b>	<b>740,790</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>NON-CURRENT ASSETS</b>				
Due from related parties - net of allowance for doubtful accounts of Rp11,767 in 2005 and Rp1,718 in 2006	2f,29	43,223	31,078	3,425
Deferred tax assets - net	2t,14	38,221	46,867	5,165
Investments in associated companies - net of allowance for decline in value of Rp72,444 in 2005 and Rp56,300 in 2006	2i,8	438	524	58
Other long-term investments - net of allowance for decline in value of Rp221,567 in 2005 and Rp99,977 in 2006	2i,9	4,730	2,730	301
Property and equipment	2j,2k,2p,10,16,23			
Carrying value		29,130,250	36,253,307	3,994,854
Accumulated depreciation		(11,171,445)	(14,206,565)	(1,565,461)
Impairment in value		(99,621)	(98,611)	(10,866)
Net		17,859,184	21,948,131	2,418,527
Goodwill and other intangible assets - net	2c,2l,11	2,929,488	2,918,759	321,626
Long-term receivables	29e	127,508	121,965	13,439
Long-term prepaid pension - net of current portion	2q,28,29	174,457	230,996	25,454
Long-term advances	12,29	320,882	353,483	38,951
Others	2d,2h,16,29	211,916	270,064	29,759
Total Non-current Assets		21,710,047	25,924,597	2,856,705
<b>TOTAL ASSETS</b>		<b>27,681,527</b>	<b>32,647,264</b>	<b>3,597,495</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable - trade				
Related parties	29	4,838	27,080	2,984
Third parties		190,424	181,969	20,052
Procurement payable	13,29	2,111,473	2,298,806	253,312
Taxes payable	2t,14	110,313	88,984	9,805
Accrued expenses	15,28,29	712,812	778,821	85,820
Unearned income	2o	625,912	541,212	59,638
Deposits from customers		24,798	26,525	2,923
Derivative liabilities	2r,31	278,186	159,602	17,587
Current maturities of:				
Loans payable	2m,16	60,849	54,200	5,973
Bonds payable	2m,17	-	981,936	108,202
Other current liabilities		10,158	18,887	2,081
Total Current Liabilities		4,129,763	5,158,022	568,377
<b>NON-CURRENT LIABILITIES</b>				
Due to related parties	29	27,548	20,821	2,294
Deferred tax liabilities - net	2t,14	527,936	916,272	100,966
Loans payable - net of current maturities	2m,16			
Related parties	29	626,546	631,550	69,592
Third parties		674,628	668,932	73,712
Bonds payable - net of current maturities	2m,17	7,582,634	9,750,687	1,074,456
Other non-current liabilities	28,29	432,902	533,595	58,798
Total Non-current Liabilities		9,872,194	12,521,857	1,379,818
<b>MINORITY INTEREST</b>	2b	<b>170,474</b>	<b>184,935</b>	<b>20,379</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>STOCKHOLDERS' EQUITY</b>				
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 5,287,115,999 B shares in 2005, and 1 A share and 5,378,666,499 B shares in 2006	18	528,712	537,867	59,269
Premium on capital stock	18	884,353	1,284,809	141,577
Difference in transactions of equity changes in associated companies/subsidiaries	2i	403,812	403,812	44,497
Stock options	2n,19	109,295	65,257	7,191
Difference in foreign currency translation	2b	369	142	15
Retained earnings				
Appropriated		33,590	49,922	5,501
Unappropriated		11,548,965	12,440,641	1,370,871
Total Stockholders' Equity		13,509,096	14,782,450	1,628,921
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>27,681,527</b>	<b>32,647,264</b>	<b>3,597,495</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>OPERATING REVENUES</b>				
Cellular	2o,29 20,33,34,35	2,107,368	2,171,917	239,329
Multimedia, Data Communication, Internet ("MIDI")	22	391,506	455,672	50,212
Fixed Telecommunication	21,33,34,35	317,021	272,005	29,973
<b>Total Operating Revenues</b>		<b>2,815,895</b>	<b>2,899,594</b>	<b>319,514</b>
<b>OPERATING EXPENSES</b>				
Depreciation and amortization	2o 2, 10,11	757,763	836,453	92,171
Personnel	2n,2p,2q,19,23,28,29	327,319	286,902	31,614
Administration and general	24,29	169,713	154,246	16,997
Maintenance	2j	134,030	128,848	14,198
Compensation to telecommunications carriers and service providers	25,29,34	108,027	85,603	9,433
Marketing		80,867	80,365	8,856
Leased circuits	29	37,853	40,216	4,432
Other costs of services	26,29	345,111	438,524	48,321
<b>Total Operating Expenses</b>		<b>1,960,683</b>	<b>2,051,157</b>	<b>226,022</b>
<b>OPERATING INCOME</b>		<b>855,212</b>	<b>848,437</b>	<b>93,492</b>
<b>OTHER INCOME (EXPENSES)</b>				
Gain (loss) on foreign exchange - net	2o 2s,5,6	(67,243)	264,467	29,142
Interest income	29	39,344	66,835	7,365
Financing cost	2m,16,17,27,29	(290,105)	(328,373)	(36,184)
Loss on change in fair value of derivatives – net	2r,31	(104,868)	(222,441)	(24,511)
Amortization of goodwill	2l,11	(56,587)	(56,627)	(6,240)
Loss on sale of other long-term investment	9	(1,046)	-	-
Others - net		47,686	(14,715)	(1,622)
<b>Other Expenses – Net</b>		<b>(432,819)</b>	<b>(290,854)</b>	<b>(32,050)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>422,393</b>	<b>557,583</b>	<b>61,442</b>
<b>INCOME TAX EXPENSE</b>				
Current	2t,14	96,956	116,442	12,831
Deferred		34,562	47,966	5,286
<b>Total Income Tax Expense</b>		<b>131,518</b>	<b>164,408</b>	<b>18,117</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.



These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (continued)**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar, except share data)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES</b>		290,875	393,175	43,325
<b>MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES</b>	2b	(8,064)	(9,246)	(1,019)
<b>NET INCOME</b>		<b>282,811</b>	<b>383,929</b>	<b>42,306</b>
<b>BASIC EARNINGS PER SHARE</b>	2v,18,30	<b>54.19</b>	<b>71.46</b>	<b>0.01</b>
<b>DILUTED EARNINGS PER SHARE</b>	2v,18,19,30	<b>53.97</b>	<b>70.67</b>	<b>0.01</b>
<b>BASIC EARNINGS PER ADS (50 B shares per ADS)</b>	2v,18,30	<b>2,709.25</b>	<b>3,572.97</b>	<b>0.39</b>
<b>DILUTED EARNINGS PER ADS</b>	2v,18,19,30	<b>2,698.62</b>	<b>3,533.51</b>	<b>0.39</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah)**

Description	Notes	Three Months Ended March 31, 2005							
		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	18	181	3,484	-	(832)	-	-	-	2,833
• Proportionate three months' compensation expense relating to ESOP Phase II	2n,19	-	-	-	38,920	-	-	-	38,920
Decrease in difference in foreign currency translation arising from the translations of the financial statements of Indosat Finance Company B.V. from European euro and Satelindo International Finance B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp10 and Rp16, respectively	2b	-	-	-	-	(60)	-	-	(60)
Net income for the period		-	-	-	-	-	-	282,811	282,811
<b>Balance as of March 31, 2005</b>		<b>528,712</b>	<b>884,353</b>	<b>403,812</b>	<b>109,295</b>	<b>369</b>	<b>33,590</b>	<b>11,548,965</b>	<b>13,509,096</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah)**

Three Months Ended March 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	18	2,250	106,535	-	(25,506)	-	-	-	83,279
Decrease in difference in foreign currency translation arising from the translations of the financial statements of Indosat Finance Company B.V. and Indosat International Finance Company B.V. from European euro to rupiah - net of applicable income tax of Rp32 and Rp4, respectively	2b	-	-	-	-	(86)	-	-	(86)
Net income for the period		-	-	-	-	-	-	383,929	383,929
<b>Balance as of March 31, 2006</b>		<b>537,867</b>	<b>1,284,809</b>	<b>403,812</b>	<b>65,257</b>	<b>142</b>	<b>49,922</b>	<b>12,440,641</b>	<b>14,782,450</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from:				
Customers		2,777,162	2,870,069	316,261
Interest income		44,242	67,601	7,449
Cash paid to/for:				
Employees and suppliers		(992,763)	(992,015)	(109,313)
Financing cost		(228,953)	(232,550)	(25,625)
Taxes		(262,641)	(169,888)	(18,720)
Other expenses - net		(129,559)	(442,954)	(48,811)
<b>Net Cash Provided by Operating Activities</b>		<b>1,207,488</b>	<b>1,100,263</b>	<b>121,241</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Swap income from interest rate swap contract	31q	-	1,275	141
Proceeds from sale of short-term investment		-	346	38
Proceeds from sale of property and equipment	10	-	148	16
Acquisitions of property and equipment	10	(1,210,591)	(1,192,589)	(131,415)
Acquisition of intangible assets	11	-	(320,000)	(35,262)
Payment of acquisitions of property and equipment previously credited to procurement payable		-	(218,666)	(24,095)
Additional advances for purchase of property and equipment		(30,081)	(26,132)	(2,879)
Purchase of short-term investments		(38,549)	(1,426)	(157)
Proceeds from sale of a subsidiary	1d	32,890	-	-
Increase in restricted cash and cash equivalents	31b	(93,523)	-	-
<b>Net Cash Used in Investing Activities</b>		<b>(1,339,854)</b>	<b>(1,757,044)</b>	<b>(193,613)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from exercise of ESOP Phase I and Phase II	19	2,860	83,280	9,177
Proceeds from long-term loans	16	1,330	4,961	546
Repayment of long-term loans	16	(604,029)	(11,300)	(1,245)
Increase in restricted cash and cash equivalents		(485)	(1,297)	(143)
<b>Net Cash Provided by (Used in) Financing Activities</b>		<b>(600,324)</b>	<b>75,644</b>	<b>8,335</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(732,690)</b>	<b>(581,137)</b>	<b>(64,037)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		4,010,238	4,717,269	519,809
<b>BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF A DIVESTED SUBSIDIARY</b>	1d	(37,416)	-	-
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	4	<b>3,240,132</b>	<b>4,136,132</b>	<b>455,772</b>

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar)**

	Notes	2005	2006	2006 (Note 3)
		Rp	Rp	US\$
<b>DETAILS OF CASH AND CASH EQUIVALENTS:</b>				
Cash on hand and in banks		124,376	163,728	18,042
Time deposits with original maturities of three months or less		3,115,756	3,972,404	437,730
<b>Cash and cash equivalents as stated in the consolidated balance sheets</b>		<b>3,240,132</b>	<b>4,136,132</b>	<b>455,772</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>				
Transactions not affecting cash flows:				
Acquisitions of property and equipment on account credited to procurement payable		118,198	-	-
Sale of other long-term investment	9	96,381	-	-
Premium on capital stock		832	25,506	2,810
Stock options		38,088	-	-

See Independent Accountants' Review Report on review of consolidated financial statements.  
The accompanying notes form an integral part of these consolidated financial statements.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(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", formerly PT Indonesian Satellite Corporation Tbk) 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. 122 dated January 23, 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.C-04216 HT.01.04.TH 2006 dated February 15, 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 starting on September 8, 2000. Under the Telecommunications Law, telecommunications activities cover:

- Telecommunications networks
- Telecommunications services
- Special telecommunications services.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**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 18), 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.

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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**1. GENERAL (continued)**

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

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 bandwidth (known as "third generation (3G) of mobile communication technology") for 1 block (2 x 5MHz) of frequency. As a winner, the Company is obliged, among others, to pay the upfront fee of Rp320,000 (Note 11) and radio frequency fee.

The Company is domiciled at Jalan Medan Merdeka Barat No. 21, Jakarta and has 5 regional offices located in Jakarta, Medan, Surabaya, Semarang 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.

**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 and (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, the composition of the Company's Board of Commissioners as of March 31, 2005 and 2006 is as follows:

	<u>2005</u>	<u>2006</u>
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



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**1. GENERAL (continued)**

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

Based on (i) the Company's Board of Commissioners' Circular Resolution No.30/30-11-04 dated November 30, 2004 and (ii) a Minutes of the Company's Board of Commissioners Meeting held on March 3, 2006, the composition of the Company's Board of Directors as of March 31, 2005 and 2006 is as follows:

	2005	2006
President Director	- *	Hasnul Suhaimi
Deputy President Director	Ng Eng Ho	Kaizad Bomi Heerjee
Planning Project		
Development Director	Wityasmoro Sih Handayanto	-
Consumer Market Director	Hasnul Suhaimi	-
Corporate Market Director	Wahyu Wijayadi	-
Finance Director	Wong Heang Tuck	Wong Heang Tuck
Corporate Services Director	Sutrisman	S. Wimbo S. Hardjito
Network Operation and Quality		
Management Director	Raymond Tan Kim Meng	-
Information Technology		
Director	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

\* In the absence of a President Director, the tasks of the President Director were carried out by the Deputy President Director.

The Company and its subsidiaries (collectively referred to hereafter as "the Companies") have approximately 7,780 and 8,052 employees, including non-permanent employees, as of March 31, 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 (%)	
				2005	2006
Satelindo International Finance B.V.	Amsterdam	Finance	1996	100.00	100.00
Indosat Finance Company B.V.	Amsterdam	Finance	2003	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
PT Indosat Mega Media	Jakarta	Multimedia	2001	99.85	99.85
PT Satelindo Multi Media	Jakarta	Multimedia	1999	99.60	99.60
PT Aplikanusa Lintasarta	Jakarta	Data Communication	1989	69.46	72.36
PT Artajasa Pembayaran Elektronik	Jakarta	Telecommunication	2000	45.15	39.80
				<b>Total Assets (Before Eliminations)</b>	
Name of Subsidiary				2005	2006
Satelindo International Finance B.V.				8,612	8,526
Indosat Finance Company B.V.				2,933,614	2,808,304
Indosat International Finance Company B.V.				-	2,313,593
Indosat Singapore Pte. Ltd.				-	-
PT Indosat Mega Media				458,204	556,837
PT Satelindo Multi Media				11,052	10,690
PT Aplikanusa Lintasarta				813,029	921,307
PT Artajasa Pembayaran Elektronik				70,797	81,072

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**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. On May 30, 2000, SIB issued Guaranteed Floating Rate Bonds. On October 31, 2003, Satelindo repaid its borrowings from SIB by using the proceeds from the Company's capital contributions. Following such repayment of all borrowings, this company is now in the process of voluntary liquidation. Based on the Resolution of Shareholder on May 3, 2005, the liquidation process is effective starting June 1, 2005. As of March 31, 2006, such liquidation has not yet been finalized.

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

IFB was incorporated in Amsterdam (The Netherlands) on October 13, 2003. IFB is a financing company which involves in the activities of financing business and companies; borrowing/lending/raising funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness; granting quarantees 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).

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

IIFB was incorporated in Amsterdam (The Netherlands) on April 27, 2005. IIFB is a financing company which involves in the activities of financing business and companies; borrowing/lending/raising funds, including the issue of bonds, promissory notes or other securities or evidence of indebtedness; granting quarantees 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).

Indosat Singapore Pte. Ltd. ("ISP")

ISP was incorporated in Singapore on December 21, 2005. It shall engage in telecommunication services (Note 39b).

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 (Note 39c).

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%.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**1. GENERAL (continued)**

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

PT Aplikanusa Lintasarta ("Lintasarta") (continued)

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 assets consisting of property and equipment, rights of use of data communication equipment and application services, with a total value of Rp30,286 in exchange for APE's shares of stock that increased Lintasarta's equity interest in APE from 40% to 65%.

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%.

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 Rp32,890 (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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**1. GENERAL (continued)**

**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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies adopted by the Company conform with generally accepted accounting principles in Indonesia. The significant accounting principles applied consistently in the preparation of the consolidated financial statements for the three months ended March 31, 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:

	<b>Equity Interest (%)</b>	
	<b>2005</b>	<b>2006</b>
SIB	100.00	100.00
IFB	100.00	100.00
IIFB	100.00	100.00
ISP	-	100.00
IMM	99.85	99.85
SMM	99.60	99.60
Lintasarta	69.46	72.36

The consolidated financial statements also include the accounts of APE (Lintasarta's subsidiary which was 65%-owned in 2003 and 2004 and reduced to become 55%-owned in June 2005). The accounts of APE in 2005 and 2006 were consolidated because its financial and operating policies were controlled by Lintasarta.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**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 period 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".

**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". Any unrealized gain (loss) at balance sheet date is credited (charged) to "Unrealized Holding Gain (Loss) on Marketable Securities", which is a component of Stockholders' Equity, and will be recognized as income or loss upon realization.

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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

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

**e. Short-term Investments (continued)**

- 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 period.

**g. Inventories**

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

**h. Prepaid Expenses**

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

**i. Investments**

Investments consist of:

- Investments in associated companies

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

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

- Investments in shares of stock that do not have readily determinable fair value in which the equity interest is less than 20%, and other long-term investments are carried at cost.
- Investments in equity shares that have readily determinable fair value which are classified as available-for-sale are recorded at fair value, in accordance with SAK 50.
- Investments in bonds which are classified as held-to-maturity securities are recorded at cost, adjusted for amortization of premium or accretion of discount to maturity.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

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

**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:

	<u>Prior to January 1, 2005</u>	<u>Starting January 1, 2005</u>
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
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 carrying values and the related accumulated depreciation are removed from the accounts, and any resulting gains or losses are reflected in income for the period.

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

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

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

**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 fifteen years.

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

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

	<u>Years</u>
Brand	8
Customer base	
- Prepaid	6
- Post-paid	5
Spectrum license	5

**m. Bonds/Debt Issuance Cost**

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

**n. Stock-based Compensation**

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

**o. Revenue and Expense Recognition**

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



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

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

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

Cellular (continued)

Revenues from interconnection fees with operators (usage revenues) 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.

*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 period, income from outgoing international call traffic is recognized on the basis of the actual recorded traffic for the period. Income from international call traffic from overseas international carriers, for which statements have not been received, is estimated based on historical data.

Operating revenues for interconnection services under interconnection agreements based on revenue-sharing arrangement (Note 35) 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 34), are reported on a gross basis, before interconnection expenses/charges (Note 25) but net of allocations to overseas international carriers. These interconnection expenses/charges are accounted for as operating expenses in the period these are incurred.

*Fixed Wireless*

Fixed wireless revenues arising from airtime 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

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

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

Fixed Telecommunication (continued)

*Fixed Wireless (continued)*

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 (usage revenues) are recognized monthly on the basis of the actual recorded traffic for the month.

*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 (usage revenues) are recognized monthly on the basis of the actual recorded traffic for the month.

Other Services

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

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).

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

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

**r. Derivatives**

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

**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 March 31, 2005 and 2006, the rates of exchange used (in full amounts) were Rp9,480 and Rp9,075 to US\$1, respectively, computed by taking the average of the last buying and selling rates of bank notes published by Bank Indonesia.

**t. Income Tax**

Current tax expense is provided based on the estimated taxable income for the period. 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 period 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 period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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. The Revised SAK 5 provides more detailed guidance for identifying reportable business segments and geographical segments. The financial information which is used by management for evaluating the segment performance is presented in Note 37.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

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

**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 period (Note 30).

Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding during the period, after considering the dilutive effect caused by convertible bonds issued by a subsidiary (Note 17) and the stock options relating to the ESOP (Note 19).

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.

**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 March 31, 2006 of Rp9,075 to US\$1 (in full amounts). 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:

	<b>2005</b>	<b>2006</b>
Cash on hand		
Rupiah	1,402	738
U.S. dollar (US\$9 in 2005 and US\$13 in 2006)	85	121
	<u>1,487</u>	<u>859</u>
Cash in banks		
Related parties (Note 29)		
Rupiah		
PT Bank Mandiri (Persero) Tbk ("Mandiri")	10,200	29,910
Bank Pembangunan Daerah DKI Jakarta	5,442	4,653
PT Bank Negara Indonesia (Persero) Tbk ("BNI")	3,094	3,793
PT Bank Danamon Indonesia Tbk ("Danamon")	3,762	1,638
Bank Pembangunan Daerah Yogyakarta	711	1,236
Bank Pembangunan Daerah Sumatera Selatan	10	890
Others (each below Rp500)	2,877	1,456

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**4. CASH AND CASH EQUIVALENTS (continued)**

	<b>2005</b>	<b>2006</b>
Cash in banks (continued)		
Related parties (Note 29) (continued)		
U.S. dollar		
Mandiri (US\$63 in 2005 and US\$551 in 2006)	603	5,000
Others (US\$6 in 2005 and US\$12 in 2006)	54	105
Third parties		
Rupiah		
The Hongkong and Shanghai Banking Corp. Ltd., Jakarta Branch	-	17,057
Deutsche Bank AG, Jakarta Branch	13,038	8,878
PT Bank Niaga Tbk ("Niaga")	-	5,608
PT Bank Central Asia Tbk ("BCA")	52,073	5,075
Citibank N.A., Jakarta Branch	3,655	4,472
PT Bank Umum Koperasi Indonesia ("Bukopin")	2,861	3,833
PT Bank Permata Tbk	625	1,110
Bank Artha Graha	89	505
Others (each below Rp500)	1,847	897
U.S. dollar		
Deutsche Bank AG, Jakarta Branch (US\$712 in 2005 and US\$3,657 in 2006)	6,747	33,186
Citibank N.A., Jakarta Branch (US\$1,223 in 2005 and US\$2,034 in 2006)	11,598	18,460
Citibank N.A., Singapore Branch (US\$3 in 2005 and US\$650 in 2006)	25	5,897
Niaga (US\$316 in 2005 and US\$630 in 2006)	2,997	5,719
Bukopin (US\$283)	-	2,569
Others (US\$61 in 2005 and US\$101 in 2006)	581	922
	<u>122,889</u>	<u>162,869</u>
Time deposits		
Related parties (Note 29)		
Rupiah		
Mandiri	679,220	1,363,235
Danamon	450,900	97,900
PT Bank Tabungan Negara (Persero) ("BTN")	6,450	54,500
BNI	125,215	24,715
PT Bank Rakyat Indonesia Tbk ("BRI")	297,000	-
Mandiri Syari'ah	162,000	-
Others	2,500	1,000
U.S. dollar		
BRI (US\$12,000 in 2005 and US\$35,000 in 2006)	113,760	317,625
BNI (US\$33,000)	-	299,475
Mandiri Syari'ah (US\$5,000 in 2005 and US\$20,000 in 2006)	47,400	181,500
Danamon (US\$10,000 in 2005 and US\$15,000 in 2006)	94,800	136,125
BTN (US\$10,000)	-	90,750
Mandiri (US\$1,751 in 2005 and US\$2,450 in 2006)	16,604	22,232

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**4. CASH AND CASH EQUIVALENTS (continued)**

	<b>2005</b>	<b>2006</b>
Time deposits (continued)		
Third parties		
Rupiah		
Deutsche Bank AG, Jakarta Branch	308,153	223,164
BCA	-	10
Niaga	80,914	68,500
Bukopin	302,000	11,500
PT Bank Mega Tbk	21,852	10,052
PT Bank Muamalat Indonesia Tbk ("Muamalat")	80,000	-
Standard Chartered Bank, Jakarta Branch	50,000	-
Others	6	5
U.S. dollar		
Deutsche Bank AG, Jakarta Branch (US\$3,933 in 2005 and US\$53,236 in 2006)	37,282	483,119
Bukopin (US\$15,000 in 2005 and US\$32,000 in 2006)	142,200	290,400
Niaga (US\$5,285 in 2005 and US\$21,500 in 2006)	50,100	195,107
BCA (US\$5,000)	47,400	-
	<b>3,115,756</b>	<b>3,972,404</b>
<b>Total</b>	<b>3,240,132</b>	<b>4,136,132</b>

Time deposits denominated in rupiah earned interest at annual rates ranging from 4.00% to 7.50% in 2005 and from 5.00% to 13.00% in 2006, while those denominated in U.S. dollar earned interest at annual rates ranging from 1.38% to 4.50% in 2005 and from 0.65% to 4.25% 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 29).

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	<b>2005</b>		<b>2006</b>	
	Amount	Percentage (%)	Amount	Percentage (%)
0 - 3 months	107,453	47.01	126,889	62.56
4 - 6 months	39,407	17.24	88	0.04
over 6 months	81,710	35.75	75,869	37.40
<b>Total</b>	<b>228,570</b>	<b>100.00</b>	<b>202,846</b>	<b>100.00</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**5. ACCOUNTS RECEIVABLE - TRADE - TELKOM (continued)**

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

	<u>2005</u>	<u>2006</u>
Balance at beginning of period	86,884	89,485
Provision (reversal)	4,012	(4,556)
Deduction due to sale of Sisindosat	(2,250)	-
Effect of foreign exchange adjustment	234	(74)
<b>Balance at end of period</b>	<b><u>88,880</u></b>	<b><u>84,855</u></b>

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:

	<u>2005</u>	<u>2006</u>
Overseas international carriers		
DiGi Telecommunications Sdn Bhd (previously Mutiara Telecommunications Sdn Bhd), Malaysia (US\$3,197 in 2005 and US\$15,823 in 2006)	30,310	143,594
Saudi Telecom Company, Saudi Arabia (US\$8,322 in 2005 and US\$9,326 in 2006)	78,893	84,633
Telekom Malaysia Berhad, Malaysia (US\$1,710 in 2005 and US\$6,821 in 2006)	16,209	61,901
Maxis International Sdn Bhd, Malaysia (US\$4,459 in 2005 and US\$6,377 in 2006)	42,276	57,871
UAE-Etisalat, United Arab Emirates (US\$2,866 in 2005 and US\$4,708 in 2006)	27,165	42,723
Cableview Services Sdn Bhd ("Mega TV"), Malaysia (US\$3,289 in 2005 and 2006)	31,183	29,848
DDI Corporation, Japan (US\$6,214 in 2005 and US\$2,433 in 2006)	58,909	22,080
Mega Media Broadcasting Network Co. Ltd., Taiwan (US\$2,203 in 2005 and 2006)	20,885	19,993
Jabatan Telekom Brunei, Brunei Darussalam (US\$3,275 in 2005 and US\$763 in 2006)	31,043	6,924
Korea International Telecommunication, Korea (US\$2,281 in 2005 and US\$734 in 2006)	21,623	6,661
Celcom Malaysia Berhad, Malaysia (US\$3,759 in 2005 and US\$733 in 2006)	35,636	6,652
TT dotCom Sdn Bhd, Malaysia (US\$2,426 in 2005 and US\$723 in 2006)	23,001	6,561
MCI Worldcom, U.S.A. (US\$3,722 in 2005 and US\$551 in 2006)	35,286	5,001

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

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

	<b>2005</b>	<b>2006</b>
Overseas international carriers (continued)		
Reach Hongkong, Hong Kong (US\$2,345 in 2005 and US\$478 in 2006)	22,230	4,338
AT&T, U.S.A. (US\$3,563)	33,777	-
Others (each below Rp20,000, including US\$24,738 in 2005 and US\$26,627 in 2006)	247,817	242,765
	<u>756,243</u>	<u>741,545</u>
Local companies		
PT Ratelindo	7,116	8,995
PT Satkomindo Mediyasa (US\$996 in 2005 and US\$863 in 2006)	8,083	7,835
PT Cakrawala Andalas Televisi (US\$1,209 in 2005 and US\$811 in 2006)	11,458	6,816
Others (each below Rp6,000, including US\$10,591 in 2005 and US\$11,396 in 2006)	216,157	259,022
	<u>242,814</u>	<u>282,668</u>
Post-paid subscribers from:		
Cellular	382,943	459,646
Others	21,598	35,994
	<u>404,541</u>	<u>495,640</u>
<b>Total</b>	<b>1,403,598</b>	<b>1,519,853</b>
Less allowance for doubtful accounts	428,308	538,910
<b>Net</b>	<b><u>975,290</u></b>	<b><u>980,943</u></b>

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	<b>2005</b>		<b>2006</b>	
	Amount	Percentage (%)	Amount	Percentage (%)
0 - 6 months	853,566	60.81	787,373	51.80
7 - 12 months	208,569	14.86	239,716	15.77
13 - 24 months	147,175	10.49	255,717	16.83
over 24 months	194,288	13.84	237,047	15.60
<b>Total</b>	<b><u>1,403,598</u></b>	<b><u>100.00</u></b>	<b><u>1,519,853</u></b>	<b><u>100.00</u></b>

As of March 31, 2006, approximately 3.63% of accounts receivable - trade are pledged as collateral for long-term bank loans obtained by Lintasarta (Note 16).



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

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

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

	<u>2005</u>	<u>2006</u>
Balance at beginning of period	375,001	528,314
Provision	55,458	39,460
Write-off	-	(18,141)
Deduction due to sale of Sisindosat	(4,259)	-
Effect of foreign exchange adjustment	2,108	(10,723)
<b>Balance at end of period</b>	<b><u>428,308</u></b>	<b><u>538,910</u></b>

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:

	<u>2005</u>	<u>2006</u>
Claims for tax refund	500,750	657,896
Value Added Tax ("VAT")	173,991	176,172
Others	47,140	42,665
<b>Total</b>	<b><u>721,881</u></b>	<b><u>876,733</u></b>

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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**8. INVESTMENTS IN ASSOCIATED COMPANIES**

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

2005				
	Equity Interest (%)	Cost	Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies/Sale of Investments	Carrying Value
<b>Investments in:</b>				
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
Cambodian Indosat Telecommunication S.A.	49.00	14,697	(149)	14,548
PT Yasawirya Indah Mega Media	35.00	5,000	(3,404)	1,596
PT Swadharma Marga Inforindo	20.00	100	338	438
Total		76,309	(3,427)	72,882
Less allowance for decline in value		72,444	-	72,444
<b>Net</b>		<b>3,865</b>	<b>(3,427)</b>	<b>438</b>

2006				
	Equity Interest (%)	Cost	Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies/Sale of Investments	Carrying Value
<b>Investments in:</b>				
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
<b>Net</b>		<b>312</b>	<b>212</b>	<b>524</b>

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

	2005	2006
Equity in net income of a ssociated companies	-	-
Deduction in the carrying value of the investment due to sale of investment in Sisindosat	(32,696)	-
<b>Net Change</b>	<b>(32,696)</b>	<b>-</b>

The economic difficulties faced by Indonesia (Note 38) have substantially affected the Companies' long-term investments in associated companies. Due to the decline in the value of their investments, the Companies have provided allowance for decline in value amounting to Rp72,444 and Rp56,300 as of March 31, 2005 and 2006, respectively, which the Companies believe is adequate to cover probable losses on those investments.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**8. INVESTMENTS IN ASSOCIATED COMPANIES (continued)**

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.

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

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

On August 11, 2005, the Company entered into a shares sale and purchase agreement to sell its 6,590,500 shares in Camintel to a third party for US\$1,500.

On August 12 and October 27, 2005, the Company received the payment of the selling price in two installments of US\$150 and US\$1,350, respectively (equivalent to Rp14,625).

Other

Sisindosat (Note 1d) had an investment in an associated company (PT Electronic Datainterchange Indonesia or "EDI").

Since the Company sold its investment in Sisindosat on January 7, 2005, the Company no longer had an indirect investment in EDI as of that date.

**9. OTHER LONG-TERM INVESTMENTS**

This account consists of the following:

	<u>2005</u>	<u>2006</u>
Investments in:		
Shares of stock accounted for under the cost method - net	4,631	2,631
Convertible bonds - net	-	-
Equity securities which are available-for-sale	99	99
<b>Total</b>	<b><u>4,730</u></b>	<b><u>2,730</u></b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**9. OTHER LONG-TERM INVESTMENTS (continued)**

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

	<b>2005</b>	
	Equity Interest (%)	Cost/ Carrying Value
PT Broadband Multimedia Tbk	5.00	50,000
ICO Global Communications (Holdings) Limited	0.87	49,977
AlphaNet Telecom Inc.	-	32,149
Others (cost/carrying value below Rp4,000 each)	10.00 - 16.67	4,631
Total		136,757
Less allowance for decline in value		132,126
<b>Net</b>		<b>4,631</b>

	<b>2006</b>	
	Equity Interest (%)	Cost/ Carrying Value
PT Broadband Multimedia Tbk	5.00	50,000
ICO Global Communications (Holdings) Limited	0.87	49,977
Others (cost/carrying value below Rp4,000 each) <sup>(a)</sup>	16.67 - 17.60	2,631
Total		102,608
Less allowance for decline in value <sup>(a)</sup>		99,977
<b>Net</b>		<b>2,631</b>

<sup>(a)</sup> net of investment in PT Patra Telekomunikasi Indonesia sold in August 2005 and write-off of investment in AlphaNet Telecom Inc. in December 2005

- b. Investments in convertible bonds

This account consists of:

	<b>2005</b>	<b>2006</b>
AlphaNet Telecom Inc.	71,441	-
PT Yasawirya Indah Mega Media	18,000	-
Total <sup>(b)</sup>	89,441	-
Less allowance for decline in value <sup>(b)</sup>	89,441	-
<b>Net</b>	-	-

<sup>(b)</sup> The Company and IMM wrote off their investments in December 2005

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**9. OTHER LONG-TERM INVESTMENTS (continued)**

c. Equity securities which are available-for-sale

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

BNI	89
Telkom	10
	99
<b>Total</b>	<b>99</b>

The economic difficulties faced by Indonesia (Note 38) have substantially affected the Companies' other long-term investments. Consequently, the Companies provided an allowance for decline in value of their investments in shares of stock accounted for under the cost method and in convertible bonds amounting to Rp221,567 and Rp99,977 as of March 31, 2005 and 2006, respectively, 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.

*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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**10. PROPERTY AND EQUIPMENT**

The details of property and equipment are as follows:

End of Period	2005					Balance at a Subsidiary
	Balance at Beginning of Period	Transactions during the Period			Divestment in	
		Additions	Deductions	Reclassifications		
<u>Carrying Value</u>						
Landrights	283,598	14,468	-	-	(5,250)	292,816
Buildings	376,075	-	-	2,594	(6,546)	372,123
Submarine cables	862,818	-	-	-	-	862,818
Earth stations	116,213	-	-	-	-	116,213
Inland link	399,382	-	-	32,636	-	432,018
Switching equipment	325,287	-	-	1,060	-	326,347
Telecommunications peripherals	1,546,503	59,434	-	14,659	(10,562)	1,610,034
Information technology equipment	871,979	228	-	27,701	-	899,908
Office equipment	1,131,141	36,648	-	1,763	(17,687)	1,151,865
Building and leasehold improvements	918,483	501	-	118,216	-	1,037,200
Vehicles	15,361	-	-	-	(1,425)	13,936
Cellular technical equipment	17,131,651	-	-	256,630	-	17,388,281
Satellite technical equipment	1,243,969	-	-	-	-	1,243,969
Transmission and cross- connection equipment	471,476	-	-	-	-	471,476
FWA technical equipment	317,499	-	-	-	-	317,499
Properties under construction and installation	1,810,075	1,238,931	-	(455,259)	-	2,593,747
<b>Total</b>	<b>27,821,510</b>	<b>1,350,210</b>	<b>-</b>	<b>-</b>	<b>(41,470)</b>	<b>29,130,250</b>
<u>Accumulated Depreciation</u>						
Buildings	177,433	5,963	-	-	(1,994)	181,402
Submarine cables	309,390	14,466	-	-	-	323,856
Earth stations	80,365	1,826	-	-	-	82,191
Inland link	61,782	7,479	-	-	-	69,261
Switching equipment	173,407	5,600	-	-	-	179,007
Telecommunications peripherals	858,291	51,506	-	-	(3,805)	905,992
Information technology equipment	528,608	41,165	-	-	-	569,773
Office equipment	587,135	29,396	-	-	(13,803)	602,728
Building and leasehold Improvements	289,774	42,872	-	-	-	332,646
Vehicles	11,390	470	-	-	(1,289)	10,571
Cellular technical equipment	6,491,206	480,639	-	-	-	6,971,845
Satellite technical equipment	695,875	33,656	-	-	-	729,531
Transmission and cross - connection equipment	174,288	6,300	-	-	-	180,588
FWA technical equipment	22,132	9,922	-	-	-	32,054
<b>Total</b>	<b>10,461,076</b>	<b>731,260</b>	<b>-</b>	<b>-</b>	<b>(20,891)</b>	<b>11,171,445</b>
Less impairment in value	117,258	-	-	-	(17,637)	99,621
<b>Net Book Value</b>	<b>17,243,176</b>					<b>17,859,184</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**10. PROPERTY AND EQUIPMENT (continued)**

	2006				Balance at End of Period
	Balance at Beginning of Period	Transactions during the Period			
		Additions	Deductions	Reclassifications	
<u>Carrying Value</u>					
Landrights	328,654	-	-	2,965	331,619
Buildings	428,172	5,545	-	11,362	445,079
Submarine cables	862,848	-	-	390	863,238
Earth stations	116,519	-	-	-	116,519
Inland link	610,177	-	-	105,177	715,354
Switching equipment	343,102	-	-	2,977	346,079
Telecommunications peripherals	1,832,196	58,762	9,978	11,641	1,892,621
Information technology equipment	1,019,338	1,679	1,436	70,818	1,090,399
Office equipment	1,386,558	11,145	801	17,606	1,414,508
Building and leasehold improvements	1,129,242	470	-	101,453	1,231,165
Vehicles	15,946	662	195	-	16,413
Cellular technical equipment	21,139,466	-	-	944,390	22,083,856
Satellite technical equipment	1,272,846	-	-	2,848	1,275,694
Transmission and cross- connection equipment	472,655	-	-	1,861	474,516
FWA technical equipment	434,744	-	-	1,173	435,917
Properties under construction and installation	3,680,665	1,114,326	-	(1,274,661)	3,520,330
<b>Total</b>	<b>35,073,128</b>	<b>1,192,589</b>	<b>12,410</b>	<b>-</b>	<b>36,253,307</b>
<u>Accumulated Depreciation</u>					
Buildings	197,312	6,150	-	-	203,462
Submarine cables	418,321	26,921	-	-	445,242
Earth stations	111,081	2,120	-	-	113,201
Inland link	95,666	11,330	-	-	106,996
Switching equipment	223,459	8,606	-	-	232,065
Telecommunications peripherals	1,119,017	61,150	9,978	-	1,170,189
Information technology equipment	735,830	49,122	1,436	-	783,516
Office equipment	711,564	40,629	801	-	751,392
Building and leasehold improvements	466,716	52,336	-	-	519,052
Vehicles	10,844	511	195	-	11,160
Cellular technical equipment	8,214,472	494,737	-	-	8,709,209
Satellite technical equipment	840,041	36,263	-	-	876,304
Transmission and cross - connection equipment	193,246	4,786	-	-	198,032
FWA technical equipment	72,167	14,578	-	-	86,745
<b>Total</b>	<b>13,409,736</b>	<b>809,239</b>	<b>12,410</b>	<b>-</b>	<b>14,206,565</b>
Less impairment in value	98,611	-	-	-	98,611
<b>Net Book Value</b>	<b>21,564,781</b>				<b>21,948,131</b>

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**10. PROPERTY AND EQUIPMENT (continued)**

During the three months ended March 31, 2006, sales of certain fully depreciated property and equipment were made for Rp148.

Depreciation charged to operations amounted to Rp731,260 and Rp809,239 in 2005 and 2006, respectively.

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. 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 March 31, 2006, approximately 0.81% of property and equipment are pledged as collateral to letter of credit facilities obtained by Lintasarta (Note 16).

As of March 31, 2006, the Companies carry insurance on their respective property and equipment (except submarine cables and landrights) for US\$102,390 and Rp23,624,677, including insurance on the Company's satellite amounting to US\$12,000. In management's opinion, the sum insured is sufficient to cover possible losses arising from fire, explosion, lightning and aircraft damage and other natural disasters.

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:

<u>Period</u>	<u>Amount</u>
Three months ended March 31, 2006	55,780
Nine months ending December 31, 2006	146,922
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

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

	<u>Percentage of Completion</u>	<u>Cost</u>	<u>Estimated Date of Completion</u>
<b>2005</b>			
Cellular technical equipment	20 - 84	2,319,319	April - December 2005
Inland link	55	99,850	April - May 2005
Building and leasehold improvements	44 - 99	54,754	April - May 2005
FWA technical equipment	0 - 50	38,587	April - June 2005
Telecommunications peripherals	0 - 50	18,845	April - May 2005
Information technology equipment	24 - 90	16,511	April - August 2005
Satellite technical equipment	0 - 67	7,397	April - May 2005
Building	5 - 99	5,720	April - December 2005
Switching equipment	55	3,676	April - May 2005
Submarine cables	95	22	April 2005
Others	25 - 99	29,066	April - August 2005
<b>Total</b>		<b><u>2,593,747</u></b>	



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**10. PROPERTY AND EQUIPMENT (continued)**

	Percentage of Completion	Cost	Estimated Date of Completion
<b>2006</b>			
Cellular technical equipment	79 - 96	3,104,209	April - August 2006
FWA technical equipment	93 - 97	112,512	April - June 2006
Submarine cables	20	97,663	June 2006
Building and leasehold improvements	76 - 80	80,027	April - June 2006
Inland link	57 - 92	52,623	April - November 2006
Satellite technical equipment	99	14,279	April 2006
Transmission and cross-connection equipment	79 - 90	14,039	April - May 2006
Information technology equipment	45 - 83	13,310	April - June 2006
Telecommunications peripherals	95 - 99	16,046	April - May 2006
Switching equipment	87 - 89	1,598	April - May 2006
Building	99	25	April 2006
Others	55 - 99	13,999	April - August 2006
<b>Total</b>		<b>3,520,330</b>	

Borrowing costs (interest expense) capitalized to properties under construction and installation for the three months ended March 31, 2005 and 2006 amounted to Rp3,295 and Rp25,639, respectively.

**11. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill arose from the acquisition of equity interest in Bimagraha and Satelindo in 2001 and 2002, respectively (Note 1e) 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
<b>Total</b>	<b>597,448</b>

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

Period	Amount
Three months ended March 31, 2006	67,950
Nine months ending December 31, 2006	203,848
Year ending December 31, 2007	(84,603)

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**11. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)**

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

	<b>2005</b>	<b>2006</b>
Balance at beginning of period	3,012,578	2,682,600
Addition	-	320,000
Amortization of goodwill	(56,587)	(56,627)
Amortization of other intangible assets	(26,503)	(27,214)
<b>Balance at end of period</b>	<b>2,929,488</b>	<b>2,918,759</b>

The addition to goodwill and other intangible assets 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 payables to the following vendors/contractors:

	<b>2005</b>	<b>2006</b>
Ericsson AB, Sweden (US\$55,569 in 2005 and US\$36,766 in 2006)	526,797	333,650
PT Alcatel Indonesia (including US\$5,994 in 2005 and US\$14,843 in 2006)	85,400	209,970
Siemens Aktiengesellschaft, Germany (including US\$28,484 in 2005 and US\$19,881 in 2006)	269,965	180,420
PT Siemens Indonesia (including US\$2,642 in 2005 and US\$5,533 in 2006)	66,286	146,638
Nokia Corporation, Finland (including US\$5,815 in 2005 and US\$15,593 in 2006)	55,126	141,504
Alcatel CIT, France (including US\$20,349 in 2005 and US\$10,983 in 2006)	193,233	99,998
Siemens Mobile Communications S.p.A, Italy (US\$4,043 in 2005 and US\$9,367 in 2006)	38,327	85,003
PT Ericsson Indonesia (including US\$3,576 in 2005 and US\$2,750 in 2006)	57,074	78,344
ZTE Corporation, China (including US\$2,897 in 2005 and US\$4,364 in 2006)	27,849	53,161
Huawei Tech Investment Co. Ltd., Hong Kong (US\$5,759)	-	52,266
Kopindosat	31,471	44,604

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**13. PROCUREMENT PAYABLE (continued)**

	<b>2005</b>	<b>2006</b>
PT Varindo Buana Abadi (including US\$248 in 2005 and US\$3,303 in 2006)	2,632	34,427
Dawamiba Engineering	34,221	31,126
PT Kopnatel Jaya	14,807	31,018
PT ZTE Indonesia (including US\$391 in 2005 and US\$2,817 in 2006)	4,553	27,312
PT Nokia Network (including US\$715 in 2005 and US\$2,490 in 2006)	6,778	26,927
PT Senopati Sellularindo	19,236	26,413
PT Industri Telekomunikasi Indonesia (Persero) (including US\$546 in 2005 and US\$1,336 in 2006)	25,819	24,608
PT Bahyutama Kerta Mukti	6,789	20,386
PT Bukit Jaya Abadi	9,181	20,364
Alcatel Italia S.p.A, Italy (US\$1,606 in 2005 and US\$2,204 in 2006)	15,227	20,002
PT NEC Indonesia (including US\$3,504 in 2005 and US\$1,463 in 2006)	33,857	13,647
PT Ekaprasarana Primatel (US\$2,364 in 2005 and US\$975 in 2006)	22,414	9,658
PT Sekar Kedaton Nusantara	20,943	7,058
Convergys Singapore, Pte. Ltd., Singapore (including US\$3,063 in 2005 and US\$489 in 2006)	29,037	4,946
PT Alvarid Mas (including US\$3,696)	39,058	-
Others (including US\$22,805 in 2005 and US\$28,283 in 2006, each below Rp20,000)	475,393	575,356
<b>Total</b>	<b>2,111,473</b>	<b>2,298,806</b>

**14. TAXES PAYABLE**

The taxes payable as of March 31, 2005 and 2006 are as follows:

	<b>2005</b>	<b>2006</b>
Estimated corporate income tax payable, less tax prepayments of Rp86,341 in 2005 and Rp104,767 in 2006	10,615	11,675
Income tax:		
Article 21	34,689	8,904
Article 22	1,541	2,951
Article 23	27,384	28,949
Article 25	21,168	21,484
Article 26	6,039	6,194
VAT	5,081	1,007
Others	3,796	7,820
<b>Total</b>	<b>110,313</b>	<b>88,984</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**14. TAXES PAYABLE (continued)**

The reconciliation between income before income tax and estimated taxable income of the Company for the three months ended March 31, 2005 and 2006 is as follows:

	<u>2005</u>	<u>2006</u>
Income before income tax per consolidated statements of income	422,393	557,583
Subsidiaries' income before income tax and effect of inter-company consolidation eliminations	(23,400)	(33,114)
Income before income tax of the Company	398,993	524,469
Positive adjustments		
Accrual of employee benefits - net	16,030	40,668
Provision for doubtful accounts	72,586	15,950
Provision for termination, gratuity and compensation benefits of employees	2,473	5,775
Donation	4,257	1,887
Representation and entertainment	3,931	1,748
Amortization of goodwill and other intangible assets	(11,103)	1,140
Amortization of debt and bonds issuance cost	648	782
Compensation expense for ESOP (Note 19)	38,920	-
Assessments for VAT and related penalties	9,677	-
Others	5,272	38,748
Negative adjustments		
Depreciation - net	(97,784)	(142,234)
Interest income already subjected to final tax	(34,800)	(60,630)
Equity in net income of investees	(27,887)	(47,430)
Capitalization of interest expense and personnel expenses to property and equipment (Notes 10 and 23)	(10,119)	(34,939)
Realization of stock option resulting from the exercise of ESOP Phase I and Phase II	(832)	(25,506)
Write-off of accounts receivable	-	(16,585)
Net periodic pension cost	(4,016)	(5,029)
Gain from sale of property and equipment	-	(52)
Sale of investment in subsidiary (note 1d)	(109,951)	-
<b>Estimated taxable income of the Company</b>	<b>256,295</b>	<b>298,762</b>

The computation of the income tax expense for the three months ended March 31, 2005 and 2006 is as follows:

	<u>2005</u>	<u>2006</u>
<b>Estimated taxable income of the Company</b>	<b>256,295</b>	<b>298,762</b>
Income tax expense - current (at statutory tax rates)		
Company	76,871	89,611
Subsidiaries	20,085	26,831
Total income tax expense - current	96,956	116,442

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**14. TAXES PAYABLE (continued)**

	<b>2005</b>	<b>2006</b>
Income tax expense - deferred		
Effect of temporary differences at enacted maximum tax rate (30%)		
Company		
Depreciation - net	29,335	42,670
Equity in net income of investees	8,366	14,229
Capitalization of interest expense and personnel expense to property and equipment (Notes 10 and 23)	3,036	10,482
Compensation expense for ESOP	(11,427)	7,652
Write-off of accounts receivable	-	4,976
Net periodic pension cost	1,205	1,509
Gain on sale of property and equipment	-	15
Accrual of employee benefits	(4,809)	(12,200)
Provision for doubtful accounts	(21,776)	(4,785)
Provision for termination, gratuity and compensation benefits of employees	(742)	(1,733)
Amortization of goodwill and other intangible assets	3,331	(342)
Amortization of debt and bonds issuance cost	(194)	(235)
Sale of investment in subsidiary	32,985	-
Others	-	(11,309)
	<u>39,310</u>	<u>50,929</u>
Subsidiaries		
Provision for doubtful accounts	(294)	716
Depreciation - net	(2,674)	(2,432)
Others	(1,780)	(1,247)
	<u>(4,748)</u>	<u>(2,963)</u>
Net income tax expense - deferred	<u>34,562</u>	<u>47,966</u>
<b>Total income tax expense</b>	<b><u>131,518</u></b>	<b><u>164,408</u></b>

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

	<b>2005</b>	<b>2006</b>
Income tax expense - current		
Company	76,871	89,611
Subsidiaries	20,085	26,831
	<u>96,956</u>	<u>116,442</u>
Total income tax expense - current	<u>96,956</u>	<u>116,442</u>
Less prepayments of income tax of the Company		
Article 22	9,534	-
Article 23	8,096	41,582
Article 25	54,469	58,156
	<u>72,099</u>	<u>99,738</u>
Total prepayments of income tax of the Company	<u>72,099</u>	<u>99,738</u>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**14. TAXES PAYABLE (continued)**

	<b>2005</b>	<b>2006</b>
Less prepayments of income tax of Subsidiaries		
Article 22	420	394
Article 23	7,790	8,076
Article 25	6,032	6,686
Total prepayments of income tax of Subsidiaries	14,242	15,156
Total prepayments of income tax	86,341	114,894
Estimated income tax payable		
Company	4,772	-
Subsidiaries	5,843	11,675
<b>Total estimated income tax payable</b>	<b>10,615</b>	<b>11,675</b>
<b>Claim for tax refund (presented as part of "Prepaid Taxes")</b>		
<b>Company</b>	<b>-</b>	<b>10,127</b>

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 three months ended March 31, 2005 and 2006 is as follows:

	<b>2005</b>	<b>2006</b>
Income before income tax per consolidated statements of income	422,393	557,583
Company's equity in Subsidiaries' income before income tax and reversal of inter-company consolidation eliminations	27,073	47,036
<b>Combined income before income tax of the Company and Subsidiaries</b>	<b>449,466</b>	<b>604,619</b>
Income tax expense at the applicable tax rate of 30%	134,840	181,386
Tax effect on permanent differences		
Assessments for VAT and related penalties	2,903	732
Donation	1,278	574
Representation and entertainment	1,193	539
Employee benefits	474	401
Interest income already subjected to final tax	(11,847)	(20,296)
Others	2,528	1,188
Valuation allowance adjustment	205	-
Adjustment due to tax audit and others	(56)	(116)
<b>Total Income tax expense per consolidated statements of income</b>	<b>131,518</b>	<b>164,408</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**14. TAXES PAYABLE (continued)**

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

	<b>2005</b>	<b>2006</b>
Company		
Deferred tax assets		
Allowance for doubtful accounts	178,518	204,419
Accrual of employee benefits	74,553	109,661
Allowance for decline in value of investments in associated companies and other long-term investments	82,324	46,883
Pension cost	38,320	27,089
Compensation expense for ESOP	32,789	19,577
Allowance for short-term investment	7,619	7,618
Others	-	11,309
Total	<u>414,123</u>	<u>426,556</u>
Deferred tax liabilities		
Property and equipment	809,136	1,158,085
Investments in subsidiaries/associated companies-net of amortization of goodwill and other intangible assets	120,891	174,480
Deferred bonds and loans issuance costs	6,398	6,679
Difference in transactions of equity changes in associated companies/subsidiaries	1,752	1,752
Others	949	850
Total	<u>939,126</u>	<u>1,341,846</u>
Deferred tax liabilities - net	<u>525,003</u>	<u>915,290</u>
Subsidiaries (APE in 2005 and 2006; IMM in 2005; SMM in 2006)		
Deferred tax assets		
Tax loss carry-over	5,027	4,351
Allowance for doubtful accounts	7,542	512
Allowance for decline in value of other long-term investments	9,462	-
Others	423	288
	<u>22,454</u>	<u>5,151</u>
Valuation allowance	<u>(20,448)</u>	<u>(4,708)</u>
Net	2,006	443
Deferred tax liabilities		
Property and equipment	267	195
Investments in subsidiaries/associated companies	1,891	-
Others	2,781	1,230
Total	<u>4,939</u>	<u>1,425</u>
Deferred tax liabilities - net	<u>2,933</u>	<u>982</u>
<b>Deferred tax liabilities - net</b>	<b><u>527,936</u></b>	<b><u>916,272</u></b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**14. TAXES PAYABLE (continued)**

	<u>2005</u>	<u>2006</u>
Subsidiaries (Lintasarta in 2005 and 2006; IMM in 2006)		
Deferred tax assets		
Property and equipment	23,829	27,471
Allowance for doubtful accounts	1,908	10,011
Allowance for decline in value of investments in associated companies and other long-term investments	-	1,413
Others	12,950	8,393
Total	<u>38,687</u>	<u>47,288</u>
Deferred tax liabilities		
Others	466	421
<b>Deferred tax assets - net</b>	<b><u>38,221</u></b>	<b><u>46,867</u></b>

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

Deferred Tax	<u>2005</u>		<u>2006</u>	
	<u>Deferred Tax</u>	<u>Deferred Tax</u>	<u>Deferred Tax</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Company	-	525,003	-	915,290
Subsidiaries				
Lintasarta	38,221	-	39,546	-
IMM	-	-	7,321	-
APE	-	2,933	-	982
<b>Total</b>	<b><u>38,221</u></b>	<b><u>527,936</u></b>	<b><u>46,867</u></b>	<b><u>916,272</u></b>

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 decrease in the carrying value of investments in subsidiaries/associated companies and the allowance for decline in value of investments in associated companies and other long-term investments are realized upon sale of the investments, the tax loss carry-over is utilized, and the accrued employee benefits are paid. 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 5 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".



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**14. TAXES PAYABLE (continued)**

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. As of March 31, 2006, the Company has not received any decision from the Tax Office regarding such objection. 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.

No income tax was provided for SMM in 2005 and 2006 because it was in tax loss position during those periods.

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

The tax losses carry-over of SMM as of March 31, 2006 can be carried forward through 2010 based on the following schedule:

Year of Expiration	Amount
2006	10,226
2008	356
2009	2,035
2010	1,885
<b>Total</b>	<b>14,502</b>

**15. ACCRUED EXPENSES**

This account consists of the following:

	<u>2005</u>	<u>2006</u>
Interest	224,257	268,499
Employee benefits	140,827	122,445
Network repairs and maintenance	87,909	117,987
Concession fee	91,135	35,608
Marketing	34,987	34,589
Universal Service Obligation ("USO")	27,290	22,443
Consultancy fees	12,723	21,697
Link	23,820	18,534
General and administration	12,244	14,768
Rental	13,815	11,993
Outsourcing	19,276	11,674
Utilities	2,980	4,039
Radio frequency fee	7,464	3,446
Insurance	2,165	2,628
Others	11,920	88,471
<b>Total</b>	<b>712,812</b>	<b>778,821</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**16. LOANS PAYABLE**

This account consists of the following:

	<b>2005</b>	<b>2006</b>
Related parties		
Syndicated loan facility 2		
BNI - net of unamortized debt issuance cost of Rp9,551 in 2005 and Rp5,472 in 2006	508,094	512,173
Mandiri - net of unamortized debt issuance cost of Rp2,140 in 2005 and Rp1,215 in 2006	118,452	119,377
Third parties - net of unamortized debt issuance cost of Rp11,264 in 2005 and Rp6,451 in 2006	735,477	723,132
Total loans payable	1,362,023	1,354,682
Less current maturities		
Third parties	60,849	54,200
<b>Long-term portion</b>	<b>1,301,174</b>	<b>1,300,482</b>

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:

<b>Bank</b>	<b>Amount</b>
BCA	975,000
Mandiri *	900,000
BNI *	900,000
Danamon *	240,000
Bukopin	150,000
<b>Total</b>	<b>3,165,000</b>

\* related parties

The facility is divided into 3 tranches:

<b>Tranche</b>	<b>Bank</b>	<b>Amount</b>
A	Danamon	240,000
	Bukopin	150,000
B	Mandiri	900,000
C	BCA	975,000
	BNI	900,000
<b>Total</b>		<b>3,165,000</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**16. LOANS PAYABLE (continued)**

Syndicated Loan Facility 2 (continued)

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

Based on the loan agreement, the Company should use the proceeds of the loans to repay IM3's debts and Satelindo's debts based on the MRA, 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% - 11.92% per annum for the three months ended March 31, 2005. The rate was fixed at 9.30% per annum for the three months ended March 31, 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 on 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 rate of 9.3% per annum
  - April 1, 2007 - March 31, 2008 : 10.5% or a reference rate plus margin rate of 2.5%, whichever rate is higher.

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

<b>Bank</b>	<b>2005</b>	<b>2006</b>
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	(22,955)	(13,138)
<b>Net</b>	<b>1,227,045</b>	<b>1,236,862</b>

\* related parties

The amortization of debt issuance cost charged to operations amounted to Rp2,307 in 2005 and Rp2,548 in 2006.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**16. LOANS PAYABLE (continued)**

The loans from third parties consist of the following:

	<b>2005</b>	<b>2006</b>
Syndicated Loan Facility 2 (refer to previous section on loans from related parties) BCA - net of unamortized debt issuance cost of Rp11,264 in 2005 and Rp6,451 in 2006	600,499	605,312
Investment Credit Facility 3 from Niaga	97,529	68,539
Investment Credit Facility 4 from Niaga	-	43,281
Import Sight Letter of Credit ("L/C") Facility and Investment Credit Facility 2 from Niaga	12,000	6,000
Investment Credit Facility 1 from Niaga	25,449	-
<b>Total</b>	<b>735,477</b>	<b>723,132</b>
Less current maturities	60,849	54,200
<b>Long-term portion</b>	<b>674,628</b>	<b>668,932</b>

a. Investment Credit Facility 3 from Niaga

On June 29, 2004, Lintasarta obtained a loan from a new credit facility from Niaga for the purchase of telecommunication equipment, computer and other supporting facilities amounting to Rp98,000. The loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.5% per annum. The loan has a grace period in the repayment of principal up to the quarter ended June 29, 2005. The quarterly repayment of the principal will start on September 29, 2005, at Rp9,800 each quarter up to December 29, 2007. As of March 31, 2005 and 2006, the outstanding balances of the loan amounted to Rp97,529 and Rp68,539, respectively, (of which Rp13,018 or the equivalent of US\$1,574 was used to finance Import Sight L/C facility - see point c below).

The loan is collateralized by all equipment purchased from the proceeds of the credit facility, receivables from frame relay (Note 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 Debt Service Coverage Ratio of not less than 1.2 : 1.

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

b. Investment Credit Facility 4 from Niaga

On August 29, 2005, Lintasarta obtained a new credit facility amounting to Rp45,000 from Niaga for the purchase of telecommunication equipment. The loan from the facility bears interest at prevailing annual rate of 3-month Certificate of Bank Indonesia plus 3.00% per annum. The loan has a grace period in the repayment of principal for 14 months from the date of loan agreement. The quarterly repayment of the principal will start on November 29, 2006, at Rp4,500 each quarter up to February 28, 2009. As of March 31, 2006, Lintasarta has drawn Rp43,281 from the facility.

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**16. LOANS PAYABLE (continued)**

b. Investment Credit Facility 4 from Niaga (continued)

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

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

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

- Import Sight L/C facility for the purchase of telecommunication equipment, computer and other supporting facilities amounting to US\$10,000 wherein Rp15,000 of the facility would be financed through investment credit facility 2 and the remainder would be financed by Lintasarta itself. The expiry date of the facility was extended from August 14, 2004 to December 31, 2004. As of December 31, 2004, Lintasarta 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 "a" above). This facility expired on December 31, 2004.
- Investment credit facility 2 amounting to Rp15,000 to finance the above facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 2.75% (subsequently changed to 3% on October 1, 2003) 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. As of March 31, 2006, Lintasarta has fully drawn the amount of this facility.

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

Based on addendum No. 214/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 Debt Service Coverage Ratio of not less than 1.2 : 1.

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

d. Investment Credit Facility 1 from Niaga

On October 16, 2001, Lintasarta obtained investment credit facility amounting to Rp117,000 from Niaga. In 2002, Lintasarta drew Rp113,199 from the facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.25% (subsequently changed to 2.75% on April 8, 2002 and 3% on October 1, 2003) per annum. The repayment of the principal started on January 6, 2003, with installments amounting to Rp9,750 payable quarterly up to October 6, 2005. As of March 31, 2005, this loan had an outstanding balance of Rp25,449.

On October 6, 2005, Lintasarta repaid in full the Investment Credit Facility 1 from Niaga.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**16. LOANS PAYABLE (continued)**

d. Investment Credit Facility 1 from Niaga (continued)

The loan was collateralized by all equipment purchased from the proceeds of the credit facilities, receivables from frame relay (Note 6) and time deposit placed in Niaga amounting to Rp10,000 (presented as part of "Non-current Assets - Others"). Based on amendment No. 201/CBG/JKT/2004 dated June 29, 2004 of the credit agreement, the loan was also secured by trade receivables from one of Lintasarta's customers. Lintasarta was required to obtain 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.

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.

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

- Standby L/C facility amounting to US\$5,000 for the importation of electronic and telecommunication equipment and amounting to US\$100 for the payment to Lintasarta's supplier. On August 6, 2003, the facility was rolled over until August 6, 2004 but the facility amount was reduced to US\$1,000. The facility has been rolled over until August 6, 2006. As of March 31, 2006, Lintasarta has not used this facility.
- Bank guarantee facility amounting to US\$3,000. On August 6, 2003, this facility was rolled over until August 6, 2004 but the facility amount was reduced to US\$500. The facility has been rolled over until August 6, 2006. No drawdowns have been made from the reduced facility as of March 31, 2006.

e. Overdraft Facility and Revolving Loan from The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Jakarta Branch

On July 20, 2005, the Company obtained facilities from HSBC to fund the Company's short-term working capital needs. The facilities, which consist of the following individual amounts, have a combined amount of US\$5,000.

- 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**16. LOANS PAYABLE (continued)**

e. Overdraft Facility and Revolving Loan from The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Jakarta Branch (continued)

The Company also obtained treasury facilities 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 March 31, 2006, the Company has not used these facilities.

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

f. Loan Facility and Bank Guarantee from Deutsche Bank AG, Jakarta Branch

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 bear 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.
- 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 March 31, 2006, the Company has not used these facilities.

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**16. LOANS PAYABLE (continued)**

The scheduled principal payments from 2007 to 2009 of all the loans payable as of March 31, 2006 are as follows:

	<b>Twelve months ended March 31,</b>			<b>Total</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	
<u>In rupiah</u>				
Syndicated Loan Facility 2*				
BCA	-	-	611,763	611,763
BNI	-	-	517,645	517,645
Mandiri	-	-	120,592	120,592
Niaga	54,200	47,339	16,281	117,820
<b>Total</b>	<b>54,200</b>	<b>47,339</b>	<b>1,266,281</b>	<b>1,367,820</b>
Less unamortized debts issuance cost				13,138
<b>Net</b>				<b>1,354,682</b>

\* please refer to previous discussion on early repayment option

**17. BONDS PAYABLE**

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

	<b>2005</b>	<b>2006</b>
Guaranteed Notes Due 2010 (US\$300,000) - net of unamortized notes issuance cost of Rp23,792 in 2005 and Rp20,265 in 2006	2,820,122	2,702,235
Third Indosat Bonds in Year 2003 with Fixed Rate - net of unamortized bonds issuance cost of Rp24,030 in 2005 and Rp19,037 in 2006	2,475,970	2,480,963
Guaranteed Notes Due 2012 (US\$250,000) - net of unamortized notes discount of Rp14,843 and unamortized notes issuance cost of Rp31,138	-	2,222,769
Second Indosat Bonds in Year 2002 with Fixed and Floating Rates	1,075,000	1,075,000
First Indosat Bonds in Year 2001 with Fixed and Floating Rates	1,000,000	951,500
Fourth Indosat Bonds in Year 2005 with Fixed Rate - net of unamortized bonds issuance cost of Rp7,978	-	807,022
Indosat Syari'ah Ijarah Bonds in Year 2005 - net of unamortized bonds issuance cost of Rp2,828	-	282,172
Indosat Syari'ah Mudharabah Bonds in Year 2002	175,000	175,000
Limited bonds issued by Lintasarta*	30,436	30,436
Convertible bonds issued by Lintasarta**	6,106	5,526
Total bonds payable	7,582,634	10,732,623
Less current maturities	-	981,936
<b>Long-term portion</b>	<b>7,582,634</b>	<b>9,750,687</b>

\* after elimination of limited bonds amounting to Rp9,564 issued to the Company

\*\* after elimination of convertible bonds amounting to Rp13,893 in 2005 and Rp14,473 in 2006 issued to and purchased by the Company



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**17. BONDS PAYABLE (continued)**

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 fixed interest rate at 7.75% per annum payable in semi-annual installments on May 5 and November 5 of each year, commencing May 5, 2004. The notes will mature on November 5, 2010.

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

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

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

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 issuance cost charged to operations amounted to Rp837 in 2005 and Rp906 in 2006.

On January 11, 2006, IFB, a wholly owned subsidiary of the Company, 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.

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**17. BONDS PAYABLE (continued)**

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

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

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

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

The bonds are neither collateralized nor guaranteed by other parties.

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

The amortization of bonds issuance cost charged to operations amounted to Rp800 in 2005 and Rp1,308 in 2006.

Based on the latest rating report released in September 2005, 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 fixed interest rate at 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**17. BONDS PAYABLE (continued)**

Guaranteed Notes Due 2012 (continued)

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 on 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 Rp469 and Rp984, respectively, in 2006.

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

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 for 5 years starting February 6, 2003
- Series B bonds amounting to Rp200,000 which bear interest at the fixed rate of 16% per annum for 30 years starting February 6, 2003. The bonds mature if the Company or the bondholder exercises the following options:
  - *Buy Option* : the Company has the right to make early payment for all the Series B bonds on the 5<sup>th</sup>, 10<sup>th</sup>, 15<sup>th</sup>, 20<sup>th</sup> and 25<sup>th</sup> anniversaries of the bonds at 101% of the bonds' nominal value.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**17. BONDS PAYABLE (continued)**

Second Indosat Bonds in Year 2002 with Fixed and Floating Rates (continued)

- *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 <sub>id</sub>AA- or lower (Special Sell Option) or 2) on the 15<sup>th</sup>, 20<sup>th</sup> and 25<sup>th</sup> 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
- *Buy Option* : February 6, 2003 and every quarter thereafter up to November 6, 2007, 2012, 2017, 2022 and 2027
- *Sell Option* : February 6, 2003 and every quarter thereafter up to November 6, 2017, 2022 and 2027

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

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

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 April 2005, the bonds have <sub>id</sub>AA+ rating (stable outlook) from Pefindo.

First Indosat Bonds in Year 2001 with Fixed and Floating Rates

On April 12, 2001, the Company issued its First Indosat Bonds in Year 2001 with Fixed and Floating Rates ("First Indosat Bond"), with BRI as the trustee. The bonds, which consist of two series, have a total face value of Rp1,000,000 in Rp50 denomination and will mature on April 12, 2006 (Note 39a).

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**17. BONDS PAYABLE (continued)**

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

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

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

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

Based on the latest rating report released in April 2005, the bonds have *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 is equal to 101.175% of the principal amount repurchased, plus the accrued and unpaid interest (totalling Rp50,562).

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 4<sup>th</sup> anniversary of the bonds at 100% of the bonds' nominal value.
- *Buy-back Option* : after the 1<sup>st</sup> 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 Rp269 in 2006.

Based on the latest rating report released in June 2005, the bonds have *id*AA+ (stable outlook) rating from Pefindo.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**17. BONDS PAYABLE (continued)**

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 4<sup>th</sup> anniversary of the bonds at 100% of the bonds' nominal value.
- *Buy-back Option* : after the 1<sup>st</sup> 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.

The amortization of bonds issuance cost charged to operations amounted to Rp96 in 2006.

Based on the latest rating report released in June 2005, the bonds have *idAA<sub>(sy)</sub>*+ (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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**17. BONDS PAYABLE (continued)**

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

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

<u>Year</u>	<u>Percentage (%)</u>
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.

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 April 2005, the bonds have  $i_dAA_{(sy)}$ + (stable outlook) rating from Pefindo.

Limited Bonds Issued by Lintasarta

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

On September 26, 2003, Lintasarta obtained approval from Niaga on the issuance of the limited bonds (Note 16).

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**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.

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

	Twelve months ended March 31,					
	2007	2008	2009	2011	2012 and thereafter	Total
<b><u>In U.S. dollar</u></b>						
Guaranteed Notes *						
Due 2010						
(US\$300,000)	-	-	-	2,722,500	-	2,722,500
Due 2012						
(US\$250,000)	-	-	-	-	2,268,750	2,268,750
<b>Sub-total</b>	-	-	-	<b>2,722,500</b>	<b>2,268,750</b>	<b>4,991,250</b>
<b><u>In rupiah</u></b>						
Third Indosat Bonds *	-	-	1,860,000	640,000	-	2,500,000
Second Indosat Bonds *	875,000	-	-	-	200,000	1,075,000
First Indosat Bonds	951,500	-	-	-	-	951,500
Fourth Indosat Bonds *	-	-	-	-	815,000	815,000
Syari'ah Ijarah Bonds *	-	-	-	-	285,000	285,000
Syari'ah Bonds	-	175,000	-	-	-	175,000
Limited Bonds of Lintasarta	30,436	-	-	-	-	30,436
<b>Sub-total</b>	<b>1,856,936</b>	<b>175,000</b>	<b>1,860,000</b>	<b>640,000</b>	<b>1,300,000</b>	<b>5,831,936</b>
<b>Convertible bonds of Lintasarta which will be converted into Lintasarta's shares of common stock</b>						<b>5,526</b>
<b>Total</b>						<b>10,828,712</b>
Less:						
- unamortized notes issuance cost						(51,403)
- unamortized bonds issuance cost						(29,843)
- unamortized notes discount						(14,843)
<b>Net</b>						<b>10,732,623</b>

\* please refer to previous discussion on options for each bond/note



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**18. CAPITAL STOCK**

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

**2005**

<b>Stockholders</b>	<b>Number of Shares Issued and Fully Paid</b>	<b>Amount</b>	<b>Percentage of Ownership (%)</b>
A Share			
Government of the Republic of Indonesia	1	-	-
B Shares			
Indonesia Communications Limited, Mauritius	2,171,250,000	217,125	41.07
Government of the Republic of Indonesia	776,624,999	77,662	14.69
Directors:			
Hasnul Suhaimi	240,000	24	0.01
Wahyu Wijayadi	27,500	3	0.00
Sutrisman	17,500	2	0.00
Others (each holding below 5%)	2,338,956,000	233,896	44.23
<b>Total</b>	<b>5,287,116,000</b>	<b>528,712</b>	<b>100.00</b>

**2006**

<b>Stockholders</b>	<b>Number of Shares Issued and Fully Paid</b>	<b>Amount</b>	<b>Percentage of Ownership (%)</b>
A Share			
Government of the Republic of Indonesia	1	-	-
B Shares			
Indonesia Communications Limited, Mauritius	2,171,250,000	217,125	40.37
Government of the Republic of Indonesia	776,624,999	77,662	14.44
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
Jos eph 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%)	2,429,819,000	242,983	45.17
<b>Total</b>	<b>5,378,666,500</b>	<b>537,867</b>	<b>100.00</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**18. 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 from ICL to the Company dated March 2, 2004 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.

In connection with the exercise of ESOP Phase I and Phase II commencing from August 1, 2004 and August 1, 2005, respectively, 201,166,500 B shares have been issued as of March 31, 2006 (Note 19) at a total premium of Rp611,734.

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:
  - 50% for reinvestment and working capital
  - 1% for reserve fund
  - 49% for dividend or Rp154.23 per share
- b. Pay the dividend on July 15, 2005, except payment of dividend for the Government which will be made in accordance with the prevailing laws and regulations.

**19. 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 of the Company's shares within 25 consecutive exchange days in the regular market prior to the announcement for the above-mentioned Annual Stockholders' General Meeting [i.e., Rp1,567.4 (in full amount)].

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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**19. STOCK OPTIONS (continued)**

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

In 2004, the Company made an adjustment to decrease the compensation expense of ESOP Phase I as a result of options 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:

	<u>Phase I</u>	<u>Phase II</u>
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

In 2005, the Company recognized proportionate three months' compensation expense relating to ESOP Phase II amounting to Rp38,920 as part of "Operating Expenses - Personnel" (Note 23).

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

As of March 31, 2006, the number of stock options under ESOP Phase I and Phase II exercised by the employees is 121,428,000 and 79,738,500 shares, respectively (Note 18).

**20. OPERATING REVENUES - CELLULAR**

This account consists of:

	<u>2005</u>	<u>2006</u>
Usage charges	1,300,225	1,156,077
Features	545,115	723,077
Interconnection income	179,973	218,057
Connection fee	30,366	57,379
Monthly subscription charges	10,829	3,688
Others	40,860	13,639
<b>Total</b>	<b><u>2,107,368</u></b>	<b><u>2,171,917</u></b>

The above interconnection income includes interconnection income from related parties amounting to Rp107,638 and Rp149,864 in 2005 and 2006, respectively (Note 29).

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**21. OPERATING REVENUES - FIXED TELECOMMUNICATION**

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

	<u>2005</u>	<u>2006</u>
International calls		
Incoming calls	158,622	112,834
Outgoing calls	125,099	97,079
Fixed wireless	12,060	35,451
Fixed line	5,398	25,700
Others	15,842	941
<b>Total</b>	<b><u>317,021</u></b>	<b><u>272,005</u></b>

Net settlements from other foreign telecommunications carriers of international telephone services amounted to Rp108,939 and Rp100,361 in 2005 and 2006, respectively.

Operating revenues from related parties amounted to Rp119,217 and Rp52,364 in 2005 and 2006, respectively. These amounts represent 37.61% and 19.25% of total operating revenues - fixed telecommunication in 2005 and 2006, respectively (Note 29).

**22. OPERATING REVENUES - MIDI**

This account consists of:

	<u>2005</u>	<u>2006</u>
<u>Related parties</u>		
World link and direct link	15,557	23,268
Frame net	19,403	18,531
Internet	17,911	18,349
IPVPN	3,603	9,956
Application services	-	9,834
Leased line	10,936	3,608
Digital data network	6,384	3,067
Satellite lease	4,692	1,633
Packet net	4,424	1,175
Others	1,352	2,449
Sub-total	<u>84,262</u>	<u>91,870</u>
<u>Third parties</u>		
Internet	79,843	85,422
Frame net	67,511	79,208
World link and direct link	43,965	45,289
IPVPN	4,120	39,458
Digital data network	31,848	37,353
Satellite lease	29,677	33,276
Leased line	28,325	29,389
Application services	15,485	6,287

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**22. OPERATING REVENUES - MIDI (continued)**

	<b>2005</b>	<b>2006</b>
TV link	1,691	3,327
Packet net	1,014	1,359
Others	3,765	3,434
Sub-total	307,244	363,802
<b>Total</b>	<b>391,506</b>	<b>455,672</b>

**23. OPERATING EXPENSES - PERSONNEL**

This account consists of:

	<b>2005</b>	<b>2006</b>
Salaries	61,088	70,673
Incentives and other employee benefits	55,269	62,010
Bonuses	48,611	39,535
Outsourcing	33,246	37,000
Employee income tax	44,193	29,318
Postretirement healthcare benefit	22,323	19,752
Medical expense	10,345	11,497
Separation, appreciation, and compensation expense under Labor Law No.13/2003 (Note 28)	2,758	10,836
Pension (Note 28)	7,077	5,495
ESOP compensation expense (Note 19)	38,920	-
Others	3,489	786
<b>Total</b>	<b>327,319</b>	<b>286,902</b>

The personnel expenses capitalized to properties under construction and installation amounted to Rp6,824 in 2005 and Rp9,300 in 2006.

**24. OPERATING EXPENSES - ADMINISTRATION AND GENERAL**

This account consists of:

	<b>2005</b>	<b>2006</b>
Provision for doubtful accounts	66,439	34,966
Rent	20,661	31,856
Travel	16,326	13,766
Professional fees	8,189	12,854
Utilities	5,642	11,004
Insurance	8,628	10,089
Catering	7,382	8,824
Training, education and research	7,862	5,103
Communication	5,533	4,579
Office supplies and stationery	2,868	4,030
Public relations	5,272	1,895
Others	14,911	15,280
<b>Total</b>	<b>169,713</b>	<b>154,246</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

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

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

	<u>2005</u>	<u>2006</u>
Telkom	103,627	82,663
Other telecommunications carriers and service providers	4,400	2,940
<b>Total</b>	<b><u>108,027</u></b>	<b><u>85,603</u></b>

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 29). Other expenses charged by other telecommunications carriers mainly consist of billings for the use of their circuits.

The Company, Satelindo and IM3 have interconnection arrangements with domestic and overseas operators (Notes 29 and 34). 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 2c). The details of interconnection revenues which are presented on a net basis and shown as part of Operating Revenues, are as follows:

	<u>2005</u>	<u>2006</u>
<u>Domestic</u>		
Interconnection revenues	417,638	347,366
Interconnection charges	(324,176)	(149,419)
<b>Net</b>	<b><u>93,462</u></b>	<b><u>197,947</u></b>
<u>Overseas</u>		
Revenues from international carriers	220,844	177,972
Charges from international carriers	(49,180)	(12,679)
<b>Net</b>	<b><u>171,664</u></b>	<b><u>165,293</u></b>

**26. OPERATING EXPENSES - OTHER COSTS OF SERVICES**

This account consists of:

	<u>2005</u>	<u>2006</u>
Cost of SIM cards and pulse reload vouchers	81,453	177,350
Radio frequency fee	97,332	82,239
Utilities	25,492	43,702

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**26. OPERATING EXPENSES - OTHER COSTS OF SERVICES (continued)**

	<b>2005</b>	<b>2006</b>
Rent	40,975	32,527
Concession fee	27,225	28,801
USO (Note 34)	12,957	21,884
Communications	3,620	10,949
Delivery and transportation	8,833	10,421
Billing and collection	15,480	8,262
Wartel ("Phone Kiosk") commission	7,932	4,904
Insurance	3,183	621
Others	20,629	16,864
<b>Total</b>	<b>345,111</b>	<b>438,524</b>

**27. OTHER EXPENSES - FINANCING COST**

This account consists of:

	<b>2005</b>	<b>2006</b>
Interest on loans	285,782	321,120
Amortization of debts/bonds issuance cost (Notes 16 and 17)	3,944	6,111
Bank charges	379	673
Amortization of bonds discount (Note 17)	-	469
<b>Total</b>	<b>290,105</b>	<b>328,373</b>

**28. PENSION PLAN**

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

Defined Benefit Pension Plan

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**28. PENSION PLAN (continued)**

Defined Benefit Pension Plan (continued)

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 were paid on due dates.

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

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

- An increase in pension basic salary at 6% compounded annually starting from December 25, 2002
- Thirteenth-month retirement benefit, which is payable annually 14 days before Idul Fitri
- An increase in periodic payment of retirement benefit at 6% compounded annually starting one year after receiving periodic retirement benefit for the first time
- 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



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**28. PENSION PLAN (continued)**

Defined Benefit Pension Plan (continued)

- 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 are payable in 10 annual installments starting 2005 until 2015.

The composition of the net periodic pension cost for the three months ended March 31, 2005 and 2006 is as follows:

	<u>2005</u>	<u>2006</u>
Service cost	10,208	7,445
Interest cost	14,055	15,910
Net amortization	213	-
Return on plan assets	(17,399)	(17,860)
<b>Net periodic pension cost</b>	<b><u>7,077</u></b>	<b><u>5,495</u></b>

The net periodic pension cost for the pension plans for the three months ended March 31, 2005 and 2006 was calculated based on the actuarial valuations as of December 31, 2004 and 2005, respectively.

The actuarial valuation was prepared by an independent actuary, using the projected-unit-credit method and applying the following assumptions:

	<u>2005</u>	<u>2006</u>
Annual discount rate	10%	13%
Expected annual rate of return on plan assets	10%	10%
Annual rate of increase in compensation	6 - 9%	3 - 9%

The funded status of the plans as of March 31, 2005 and 2006 is as follows:

	<u>2005</u>	<u>2006</u>
Projected benefit obligation	(595,363)	(521,756)
Plan assets at fair value	688,516	736,119
Excess of plan assets over projected benefit obligation	93,153	214,363
Unrecognized actuarial loss	81,962	38,614
<b>Prepaid pension cost</b>	<b><u>175,115</u></b>	<b><u>252,977</u></b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**28. PENSION PLAN (continued)**

Defined Benefit Pension Plan (continued)

Prepaid pension cost - net consists of:

	<b>2005</b>	<b>2006</b>
<b>Prepaid pension:</b>		
Current portion (presented as part of "Prepaid Expenses")		
Company	22,905	20,899
Lintasarta	-	1,082
	22,905	21,981
Long-term portion		
Company	174,457	229,774
Lintasarta	-	1,222
	174,457	230,996
<b>Accrued pension -</b>		
Lintasarta	(188)	-
<b>Other non-current liabilities -</b>		
Lintasarta	(22,059)	-
<b>Net</b>	<b>175,115</b>	<b>252,977</b>

Plan assets as of March 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 three months ended March 31, 2005 and 2006 amounted to Rp4,279 and Rp4,226, 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

On June 20, 2000, the Ministry of Manpower issued Decree No. KEP-150/Men/2000 ("KEP-150") regarding the settlement of work dismissal and determination of separation, appreciation and compensation benefits by companies. Subsequently, KEP-150 was revoked by Labor Law No. 13/2003 dated March 25, 2003. The Companies' employees will receive the benefits under this new law at the minimum. As of March 31, 2005 and 2006, the balances of accruals provided by the Companies in accordance with this law amounted to Rp43,902 and Rp62,360, respectively. The accruals provided as of March 31, 2005 and 2006 were determined on the basis of actuarial computations. Such benefits provided are included in Personnel Expenses in the consolidated statements of income.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**29. 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
<b>Cash and cash equivalents</b>				
State-owned banks (Note 4)	<b>2,022,602</b>	<b>2,637,738</b>	<b>7.31</b>	<b>8.08</b>
<b>Accounts receivable - trade</b>				
Telkom	228,570	202,846	0.83	0.62
PT Televisi Republik Indonesia (Persero) ("TVRI")	41,635	39,856	0.15	0.12
StarHub Pte. Ltd. ("StarHub"), Singapore	34,847	35,136	0.13	0.11
Singapore Telecommunications Ltd. ("SingTel"), Singapore	25,679	31,822	0.09	0.10
State-owned banks	20,177	30,031	0.07	0.09
PT Pos Indonesia (Persero)	9,413	9,011	0.03	0.03
Lembaga Kantor Berita Negara ("LKBN") Antara	612	5,258	0.00	0.02
PT Citra Sari Makmur ("CSM")	3,768	3,816	0.02	0.01
PSN	3,570	3,124	0.01	0.01
PT Telekomunikasi Selular ("Telkomsel")	23,277	3,020	0.08	0.01
Cable & Wireless Optus ("Optus"), Australia	3,326	-	0.01	-
Others	37,728	18,176	0.14	0.05
Total	432,602	382,096	1.56	1.17
Less allowance for doubtful accounts	161,802	141,550	0.58	0.43
<b>Net</b>	<b>270,800</b>	<b>240,546</b>	<b>0.98</b>	<b>0.74</b>
<b>Prepaid expenses</b>				
Ministry of Communications and Information Technology	57,423	76,005	0.21	0.23
Jiwasraya	22,905	21,981	0.08	0.07
Kopindosat	1,843	9,415	0.01	0.03
Others	4,116	4,144	0.01	0.01
<b>Total</b>	<b>86,287</b>	<b>111,545</b>	<b>0.31</b>	<b>0.34</b>
<b>Other current assets</b>				
State-owned banks	3,208	33,333	0.01	0.10
Others	-	1,687	-	0.01
<b>Total</b>	<b>3,208</b>	<b>35,020</b>	<b>0.01</b>	<b>0.11</b>
<b>Due from related parties - net</b>				
Key management personnel	27,330	18,472	0.10	0.06
Kopindosat	6,197	6,197	0.02	0.02
Telkomsel	5,340	5,668	0.02	0.02
BNI	496	1,061	0.00	0.00
PT Yasawirya Indah Mega Media ("YIMM")	10,413	-	0.04	-
Optus	2,327	-	0.01	-
Others	2,887	1,398	0.01	0.00
Total	54,990	32,796	0.20	0.10
Less allowance for doubtful accounts	11,767	1,718	0.04	0.01
<b>Net</b>	<b>43,223</b>	<b>31,078</b>	<b>0.16</b>	<b>0.09</b>
<b>Long-term prepaid pension</b>				
Jiwasraya	174,457	230,996	0.63	0.71

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**29. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)**

	Amount		Percentage to Total Assets/Liabilities (%)	
	2005	2006	2005	2006
<b>Long-term advances</b>				
Kopindosat	23,915	4,328	0.09	0.01
Others	472	1,341	0.00	0.00
<b>Total</b>	<b>24,387</b>	<b>5,669</b>	<b>0.09</b>	<b>0.01</b>
<b>Non-current assets - others</b>				
State-owned banks	9,773	26,676	0.04	0.08
Telkom	27,134	25,736	0.10	0.08
Others	-	4,387	-	0.02
<b>Total</b>	<b>36,907</b>	<b>56,799</b>	<b>0.14</b>	<b>0.18</b>
<b>Accounts payable - trade</b>				
Telkomsel	-	23,233	-	0.13
Telkom	-	2,513	-	0.01
Kopindosat	2,818	-	0.02	-
Others	2,020	1,334	0.01	0.01
<b>Total</b>	<b>4,838</b>	<b>27,080</b>	<b>0.03</b>	<b>0.15</b>
<b>Procurement payable</b>				
Kopindosat	31,471	44,604	0.22	0.25
PT Industri Telekomunikasi Indonesia (Persero)	25,819	24,608	0.18	0.14
Others	3,119	-	0.02	-
<b>Total</b>	<b>60,409</b>	<b>69,212</b>	<b>0.42</b>	<b>0.39</b>
<b>Accrued expenses</b>				
Ministry of Communications and Information Technology	125,889	66,836	0.89	0.37
Key management personnel	76,737	26,395	0.54	0.15
Kopindosat	3,263	7,893	0.02	0.05
Telkom	8,103	5,762	0.06	0.03
Jiwasraya	188	-	0.00	-
Others	6,759	4,396	0.04	0.02
<b>Total</b>	<b>220,939</b>	<b>111,282</b>	<b>1.55</b>	<b>0.62</b>
<b>Due to related parties</b>				
PT Indonesia Comnet Plus ("Comnet")	4,782	8,016	0.03	0.04
PT Pos Indonesia (Persero)	3,450	4,100	0.02	0.02
TVRI	2,256	2,262	0.02	0.01
State-owned banks	2,125	1,875	0.01	0.01
Kopindosat	1,518	1,518	0.01	0.01
Telkom	9,620	450	0.07	0.00
Others	3,797	2,600	0.03	0.02
<b>Total</b>	<b>27,548</b>	<b>20,821</b>	<b>0.19</b>	<b>0.11</b>
<b>Other non-current liabilities</b>				
Ministry of Communications and Information Technology	145,991	145,991	1.03	0.82
Telkomsel	16,020	14,357	0.11	0.08
Starhub	1,226	1,091	0.01	0.01
Jiwasraya	22,059	-	0.16	-
<b>Total</b>	<b>185,296</b>	<b>161,439</b>	<b>1.31</b>	<b>0.91</b>
<b>Loans payable (including current maturities)</b>				
State-owned banks	626,546	631,550	4.42	3.53

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**29. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)**

	Amount		Percentage to Respective Income or Expenses (%)	
	2005	2006	2005	2006
<b>Operating revenues</b>				
Telkom	225,816	194,649	8.02	6.71
State-owned banks	46,038	35,867	1.63	1.24
SingTel	(942)	24,149	(0.03)	0.83
StarHub	6,963	11,461	0.25	0.40
LKBN Antara	4,670	6,339	0.17	0.22
CSM	1,583	2,465	0.05	0.09
PSN	792	1,230	0.03	0.04
PT Angkasa Pura (Persero)	1,691	1,139	0.06	0.04
Telkomsel	8,465	593	0.30	0.02
Others	16,041	16,206	0.57	0.55
<b>Total</b>	<b>311,117</b>	<b>294,098</b>	<b>11.05</b>	<b>10.14</b>
<b>Operating expenses</b>				
<b>Personnel</b>				
Key management personnel	29,908	33,697	1.53	1.64
Kopindosat	33,246	19,355	1.69	0.94
Jiwasraya	7,077	5,495	0.36	0.27
<b>Total</b>	<b>70,231</b>	<b>58,547</b>	<b>3.58</b>	<b>2.85</b>
<b>Administration and general</b>				
Kopindosat	14,853	3,025	0.76	0.15
UGBDN	1,060	99	0.05	0.00
Others	29	4,080	0.00	0.20
<b>Total</b>	<b>15,942</b>	<b>7,204</b>	<b>0.81</b>	<b>0.35</b>
<b>Compensation to telecommunications carriers and service providers</b>				
Telkom	103,627	82,663	5.28	4.03
Others	698	163	0.04	0.00
<b>Total</b>	<b>104,325</b>	<b>82,826</b>	<b>5.32</b>	<b>4.03</b>
<b>Leased circuits</b>				
SingTel	2,100	6,289	0.10	0.31
Comnet	8,364	4,536	0.43	0.22
StarHub	764	1,875	0.04	0.09
<b>Total</b>	<b>11,228</b>	<b>12,700</b>	<b>0.57</b>	<b>0.62</b>
<b>Other costs of services</b>				
Ministry of Communications and Information Technology	129,138	126,848	6.59	6.18
PT Pos Indonesia (Persero)	10,614	-	0.54	-
Others	172	1,058	0.01	0.05
<b>Total</b>	<b>139,924</b>	<b>127,906</b>	<b>7.14</b>	<b>6.23</b>
<b>Other income (expenses)</b>				
Interest income (expense) - net				
State-owned banks	(5,564)	24,991	1.29	(8.59)

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**29. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)**

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 Mandiri and BNI (Note 16).

b. Telkom

(1) a. Fixed telecom munications 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 25).
- The compensation arrangement for the services provided is based on interconnection tariffs (Note 34) 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.

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 telecommunications 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**29. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)**

b. Telkom (continued)

(1) a. Fixed telecommunications services (continued)

- 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 34).

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.

The principal matters covered by the agreement are as follows:

- 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.
- The Company's cellular subscribers can make or receive calls to or from any telecommunication services provided by Telkom together with or without other telecommunication operator, and vice versa.

- (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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**29. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)**

*b. Telkom (continued)*

(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 fifth amendment agreement dated May 1, 2006. Transponder lease expense charged to operations amounted to Rp2,275 in 2005 and Rp1,350 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 (%)	
	2005	2006	2005	2006
<b>Net operating revenues</b>	<b>225,816</b>	<b>194,649</b>	<b>8.02</b>	<b>6.71</b>
<b>Operating expenses</b>	<b>103,627</b>	<b>82,663</b>	<b>5.28</b>	<b>4.03</b>

*c. 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.
- 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 three months ended March 31, 2005 and 2006 are as follows:

	2005	2006
Interconnection revenues	160,909	170,347
Interconnection charges	(156,557)	(177,482)
<b>Net revenues (charges)</b>	<b>4,352</b>	<b>(7,135)</b>



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**29. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)**

d. Jiwasraya

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

e. 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 is amortized over the average remaining service period of the employees. The prepaid/unamortized portions of housing and transportation advances and transformation incentives which were given to key management personnel in 2005 and 2006 amounted to Rp27,330 and Rp18,472, respectively, and are presented as part of "Due from Related Parties", while those given to non-key management personnel amounting to Rp2,343 and Rp1,791 as of March 31, 2005 and 2006 are presented as part of "Accounts Receivable - Others" for the current portion, and Rp127,508 and Rp121,965 as of March 31, 2005 and 2006, respectively, as "Long-term Receivables" for the long-term portion.

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 March 31, 2005 and 2006, Kopindosat has investments in the following entities:

	<b>Equity Interest (%)</b>	
	<b>2005</b>	<b>2006</b>
PT Puri Perkasa Farmino	95.00	88.00
Lintasarta	0.66	0.66
IMM	0.15	0.15
PT Duta Sukses Utama	90.00	-
PT Mutiara Data Caraka Lintas	15.00	-
Sisindokom (formerly Sisindosat)	0.53	-

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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**29. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)**

*g. 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.

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.	TVRI	Affiliate	Operating revenues - MIDI and marketing expenses
2.	StarHub	Affiliate	Operating revenues - international calls
3.	SingTel	Affiliate	Operating revenues - international calls
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
9.	YIMM	Associated company	Interest-bearing loan
10.	PT Industri Telekomunikasi Indonesia (Persero)	Affiliate	Procurement payable
11.	Comnet	Affiliate	Other cost of services - rent of transmission channel
12.	PT Angkasa Pura (Persero)	Affiliate	Operating revenues - MIDI
13.	UGBDN	Affiliate	Rent expense

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**30. EARNINGS PER SHARE**

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

	<b>2005</b>	<b>2006</b>
Numerator for basic earnings per share	282,811	383,929
Dilutive effect of convertible bonds (Note 17)	-	(2,922)
Numerator for diluted earnings per share	282,811	381,007
Denominator - number of shares		
Denominator for basic earnings per share		
Weighted-average number of shares outstanding during the period (including effect of exercise of ESOP Phase I and Phase II)	5,219,354,875	5,372,684,141
Dilutive effect of ESOP Phase II (Note 19)	20,566,478	18,655,622
<b>Denominator for diluted earnings per share</b>	<b>5,239,921,353</b>	<b>5,391,339,763</b>
<b>Basic earnings per share</b>	<b>54.19</b>	<b>71.46</b>
<b>Diluted earnings per share</b>	<b>53.97</b>	<b>70.67</b>
<b>Basic earnings per ADS (50 B shares per ADS)</b>	<b>2,709.25</b>	<b>3,572.97</b>
<b>Diluted earnings per ADS</b>	<b>2,698.62</b>	<b>3,533.51</b>

**31. 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 March 31, 2005 and 2006:

**Cross Currency Swap:**

	Notional Amount (US\$)	Fair Value (Rp)			
		2005		2006	
		Receivable	Payable	Receivable	Payable
a. Standard Chartered Bank, Jakarta Branch ("StandChart")	25,000	-	18,123	-	11,113
b. Goldman Sachs Capital Market, L.P., New York ("GSCM") <sup>(1)</sup>	100,000	-	153,078	-	-
c. JPMorgan Chase Bank, Singapore Branch ("JPMorgan") <sup>(2)</sup>	25,000	-	24,378	-	-
d. Goldman Sachs International ("GSI")	100,000	-	-	-	43,544
e. GSI	25,000	-	-	-	25,902
f. GSI	75,000	-	-	-	1,935
g. Merrill Lynch Capital Market Bank Limited ("MLCMB")	25,000	-	-	-	10,243
h. MLCMB	25,000	-	-	-	36,257
i. StandChart	25,000	-	-	-	15,042
j. MLCMB	25,000	-	-	-	11,760
k. StandChart	25,000	-	-	3,568	-
<b>Sub-total</b>		-	<b>195,579</b>	<b>3,568</b>	<b>155,796</b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**31. DERIVATIVES (continued)**

**Interest Rate Swap:**

	Notional Amount (US\$)	Fair Value (Rp)			
		2005		2006	
		Receivable	Payable	Receivable	Payable
I. Barclays Capital, London ("Barclays") <sup>(3)</sup>	50,000	-	48,538	-	-
m. ABN-AMRO Bank, N.V., London Branch ("ABN") <sup>(4)</sup>	25,000	-	-	-	-
n. ABN <sup>(4)</sup>	25,000	-	-	-	-
o. The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch ("HSBC") <sup>(1)</sup>	25,000	-	2,324	-	-
p. ABN <sup>(1)</sup>	50,000	-	31,745	-	-
q. GSCM	25,000	-	-	-	3,806
<b>Sub-total</b>		-	<b>82,607</b>	-	<b>3,806</b>
<b>Total</b>		-	<b>278,186</b>	<b>3,568</b>	<b>159,602</b>

<sup>(1)</sup> terminated in May 2005

<sup>(2)</sup> terminated in October 2005

<sup>(3)</sup> terminated in April 2005

<sup>(4)</sup> terminated in January 2005

The net change in fair value of the swap contracts totalling Rp104,868 and Rp222,441 in 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 Rp3,568 as of March 31, 2006, and "Derivative Liabilities" presented under current liabilities amounting to Rp278,186 and Rp159,602 as of March 31, 2005 and 2006, respectively.

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 Standard Chartered Bank, Jakarta Branch ("StandChart"). 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.
- b. On August 9, 2004, the Company entered into a new cross currency swap contract with Goldman Sachs Capital Market, L.P., New York ("GSCM") to roll over the outstanding balance under its 3 previous cross currency swap contracts with GSCM. 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.

As of March 31, 2005, the Company had transferred margin deposit to GSCM's account amounting to US\$16,250 which was charged to restricted cash, a component of "Other Current Assets" account.

On May 13, 2005, the Company 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 Rp111,508). The payment was made on May 16, 2005.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**31. DERIVATIVES (continued)**

Cross Currency Swap Contracts (continued)

- c. On November 5, 2004, the Company entered into a cross currency swap contract with JP Morgan Chase Bank, Singapore Branch ("JPMorgan"). Based on the contract:
- If the spot rate at termination date is less than Rp14,000 to US\$1 (in full amounts), the Company will 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 is higher than Rp14,000 to US\$1 (in full amounts), the Company will 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.

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 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.

- d. On May 13, 2005, the Company entered into a cross currency swap contract with Goldman Sachs International ("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.
- 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.
- 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.

- g. On September 20, 2005, the Company entered into a cross currency swap contract with Merrill Lynch Capital Market Bank Limited ("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:

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**31. DERIVATIVES (continued)**

Cross Currency Swap Contracts (continued)

- 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.

- 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.
- 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.
- 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.
- 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.

All cross-currency swap contracts with GSI (Notes 31d, 31e and 31f) 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**31. DERIVATIVES (continued)**

Interest Rate Swap Contracts

- i. On February 10, 2004, the Company and Barclays Capital, London ("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 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 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

- m. On April 19, 2004, the Company and ABN-AMRO Bank N.V., London Branch ("ABN") entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every May 5 and November 5 up to termination date on November 5, 2008, 6-month U.S. dollar LIBOR plus 0.25%, in exchange for 7.75% per annum times the actual number of days on which the 6-month U.S. dollar LIBOR was less than the upper limit. The upper limit was to be pre-determined semi-annually up to 2008 and would take effect on May 5 and November 5 of each semester.

The contract allowed ABN to terminate the contract, every May 5 and November 5, commencing on May 5, 2006.

On January 20, 2005, ABN preterminated this contract (Note 31p).

- n. On May 6, 2004, the Company and ABN entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in annual intervals, every November 5 up to termination date on November 5, 2006, 12-month U.S. dollar LIBOR plus 3.50% in exchange for 7.75% per annum.

On January 20, 2005, ABN preterminated this contract (Note 31p).

- o. On May 7, 2004, the Company and The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch ("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.

On May 12, 2005, the Company 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**31. 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 to unwind its existing 2 interest rate swap contracts with ABN (Notes 31m and 31n). Based on the contract which was effective starting May 5, 2005, the existing interest rate swap contracts and all related cash flows were cancelled effective January 20, 2005 and the fair value of the existing 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 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 Rp1,275 in 2006, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

**32. COMMITMENTS AND CONTINGENCIES**

- a. As of March 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\$443,313, EUR413,855 (in full amount, equivalent to US\$497) and Rp961,997 (Note 39g).

The significant commitments on capital expenditures are as follows:

- On July 28, 2005, the Company entered into Supply and Installation Agreement 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 Italia ("Alcatel"), whereby Alcatel agreed to provide equipment and services in the installation of Cellular Transmission (PDH and SDH Microwave Radio) for total contract amounts of US\$13,667 and Rp56,234.

As of March 31, 2006, the Company has issued several *Purchase Orders* ("POs"), which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$788 and Rp43,493 as of March 31, 2006.

- On July 4, 2005, the Company entered into Supply and Installation of Base Station Subsystem ("BSS") Back-up Plan and BSS Network Tender 2005 Agreements with Siemens AG ("Siemens"), whereby Siemens agreed to provide equipment and services in the installation of BSS Back-up Plan and BSS Network Tender 2005 for a total contract amount of US\$18,086 and Rp133,895, respectively.



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

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

As of March 31, 2006, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$4,586 and Rp84,725 as of March 31, 2006.

- On July 1, 2005, the Company entered into 2005 - 2008 BSS Expansion Agreement with PT Nokia Networks ("Nokia"), whereby Nokia agreed to provide equipment and services in the installation of BSS for total contract amounts of US\$76,282 and Rp175,608.

As of March 31, 2006, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$13,635 and Rp13,265 as of March 31, 2006.

- On July 1, 2005, the Company entered into 2005 BSS Roll-out Agreement for Sulawesi, Maluku and Papua with Huawei Tech Investment Co. Ltd. and PT Huawei Tech Investment ("Huawei"), whereby Huawei agreed to provide equipment and services for the installation of BSS for total contract amounts of US\$9,264 and Rp30,726.

As of March 31, 2006, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$4,234 and Rp30,726 as of March 31, 2006.

- On March 15, 2005, the Company entered into Supply and Installation of BSS, MSC and IN Expansion Agreements with Ericsson, whereby Ericsson agreed to provide equipment and services in the installation of BSS, MSC and IN. These agreements have been amended from time to time, the latest amendment of which 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 March 31, 2006, the Company has issued several POs which relate to the purchase commitment under these agreements. The POs that have not been served amounted to US\$10,889 and Rp75,906 as of March 31, 2006.

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

As of March 31, 2006, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$8,096 as of March 31, 2006.

- b. 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. Subsequently, on April 25, 2005, the Company was discharged as the CBP.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

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

As of March 31, 2006, the balance of the funds which are under The Company's custody (including interest earned) amounted to US\$22,323. Besides the funds from the sale of IRU, the members of the consortium also received their share of the interest earned by the above funds.

- c. 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. Based on a letter dated January 6, 2003, the Company requested the MOF to reconsider its decision to impose the penalties.

On December 1, 2003, 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.

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.

As of March 31, 2005 and 2006, the Company has not accrued any penalties on the dividends because, in the opinion of the Company's legal counsels, the Company has assurance that it may not be liable to pay such penalties.

**33. 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**33. TARIFF SYSTEM (continued)**

a. International telecommunications services (continued)

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.

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 for "origin" cellular 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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**33. 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 March 31, 2006, the Company has not yet applied such regulation since it is still waiting for further guidance on the basis of the tariff computation.

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 March 31, 2006, the Company has not yet applied such regulation since it is still waiting for further guidance on the basis of the tariff computation.

**34. INTERCONNECTION TARIFFS**

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

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

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

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**34. INTERCONNECTION TARIFFS (continued)**

1. Structure of Interconnection Tariff (continued)

a. Between international and domestic PSTN (continued)

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 26).

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.

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.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

---

**34. INTERCONNECTION TARIFFS (continued)**

1. Structure of Interconnection Tariff (continued)

- d. Between cellular telecommunications network and another cellular telecommunications network (continued)

(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 March 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 35).

- 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.

KM. 37 Year 1999 and Decree No. 46 were subsequently superseded by regulation No. 08/Per/M.KOMINFO/02/2006 dated February 8, 2006 of the Ministry of Communications and Information Technology on cost-based interconnection fees.

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.

**35. INTERCONNECTION AGREEMENTS WITH OTHER CELLULAR TELECOMMUNICATIONS OPERATORS**

The Company, Satelindo and IM3 have interconnection agreements with each of PTExcelcomindo Pratama or "Excelcom" and Komselindo (for the interconnection agreement with Telkomsel, see Note 29). The principal matters covered by the agreements are as follows:

- The Company's and Satelindo's international gateway exchanges are interconnected with mobile cellular telecommunication operators' networks to make outgoing or receive incoming international calls through the Company's and Satelindo's international gateway exchanges.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**35. INTERCONNECTION AGREEMENTS WITH OTHER CELLULAR TELECOMMUNICATIONS OPERATORS (continued)**

- 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 March 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.

Interconnection revenues (charges) from the operators are as follows:

	<b>2005</b>	<b>2006</b>
Excelcom	(9,603)	(12,526)
Komselindo	725	292
<b>Net charges</b>	<b>(8,878)</b>	<b>(12,234)</b>

**36. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

The Companies' monetary assets and liabilities denominated in various foreign currencies as of March 31, 2006 (converted to equivalent U.S. dollar if currency is other than U.S. dollar) are as follows:

	<b>Amount in U.S. Dollar</b>	<b>Equivalent Rupiah *</b>
<i>Assets:</i>		
Cash and cash equivalents	230,117	2,088,312
Accounts receivable		
Trade	109,695	995,482
Others	317	2,877
Derivative assets	393	3,566
Other current assets	1,806	16,389
Due from related parties	516	4,683
Non-current assets - others	1,265	11,480
Total assets	344,109	3,122,789

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**36. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (continued)**

	Amount in U.S. Dollar	Equivalent Rupiah *
<i>Liabilities:</i>		
Accounts payable - trade	8,197	74,388
Procurement payable	169,199	1,535,481
Accrued expenses	15,039	136,479
Derivative liabilities	17,587	159,602
Other current liabilities	200	1,815
Due to related parties	62	563
Bonds payable	550,000	4,991,250
Total liabilities	760,284	6,899,578
<b>Net liabilities position</b>	<b>416,175</b>	<b>3,776,789</b>

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

**37. 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.

Consolidated information by industry segment follows:

	Major Segments			Segment Total
	Cellular	Fixed Telecommunication	MIDI	
<b>2005</b>				
<u>Operating revenues</u>				
Revenues from external customers	2,107,368	317,021	391,506	2,815,895
Inter-segment revenues	(28,059)	28,059	54,551	54,551
Total operating revenues	2,079,309	345,080	446,057	2,870,446
Inter-segment revenues elimination				(54,551)
<b>Operating revenues - net</b>				<b>2,815,895</b>
<u>Income</u>				
Operating income	724,060	68,555	62,597	855,212
Interest income				39,344
Financing cost				(290,105)
Income tax expense				(131,518)
Loss on change in fair value of derivatives - net				(104,868)
Loss on foreign exchange - net				(67,243)
Amortization of goodwill				(56,587)
Loss on sale of other long-term investment				(1,046)
Others - net				47,686
<b>Income before Minority Interest in Net Income of Subsidiaries</b>				<b>290,875</b>



**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**37. SEGMENT INFORMATION (continued)**

	Major Segments			Segment Total
	Cellular	Fixed Telecommunication	MIDI	
<b>2005</b>				
<u>Other Information</u>				
Segment assets	21,344,172	1,585,681	3,061,533	25,991,386
Unallocated assets				5,435,518
Inter-segment assets elimination				(3,745,377)
<b>Assets - net</b>				<b><u>27,681,527</u></b>
Liabilities segment	13,479,752	1,021,120	1,108,117	15,608,989
Unallocated liabilities				1,482,400
Inter-segment liabilities elimination				(2,918,958)
<b>Liabilities - net</b>				<b><u>14,172,431</u></b>
Capital expenditure	1,069,726	99,206	181,278	1,350,210
Depreciation and amortization	594,983	48,226	114,554	757,763
<b>2006</b>				
<u>Operating revenues</u>				
Revenues from external customers	2,171,917	272,005	455,672	2,899,594
Inter-segment revenues	(33,822)	33,822	65,090	65,090
Total operating revenues	2,138,095	305,827	520,762	2,964,684
Inter-segment revenues elimination				(65,090)
<b>Operating revenues - net</b>				<b><u>2,899,594</u></b>
<u>Income</u>				
Operating income	574,034	151,538	122,865	848,437
Gain on foreign exchange - net				264,467
Interest income				66,835
Financing cost				(328,373)
Loss on change in fair value of derivatives - net				(222,441)
Income tax expense				(164,408)
Amortization of goodwill				(56,627)
Others - net				(14,715)
<b>Income before Minority Interest in Net Income of Subsidiaries</b>				<b><u>393,175</u></b>
<u>Other Information</u>				
Segment assets	28,431,755	1,128,760	3,469,075	33,029,590
Unallocated assets				5,716,070
Inter-segment assets elimination				(6,098,396)
<b>Assets - net</b>				<b><u>32,647,264</u></b>

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**37. SEGMENT INFORMATION (continued)**

	Major Segments			Segment Total
	Cellular	Fixed Telecommunication	MIDI	
<b><u>2006</u></b>				
Segment liabilities	19,026,439	905,917	991,099	20,923,455
Unallocated liabilities				2,034,176
Inter-segment liabilities elimination				(5,092,817)
<b>Liabilities – net</b>				<b>17,864,814</b>
Capital expenditure	1,017,717	48,028	126,844	1,192,589
Depreciation and amortization	675,986	43,661	116,806	836,453

**38. 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.

**39. SUBSEQUENT EVENTS**

- a. On April 12, 2006, the Company repaid in full the First Indosat Bond in Year 2001 (Note 17) amounting to Rp951,500 for the principal amount and Rp42,927 for the last quarterly interest.
- b. Based on a shareholder's resolution dated April 20, 2006 of Indosat Singapore Pte. Ltd. ("ISP"), a Company subsidiary, the Company agreed to make capital injection in ISP totaling US\$650 [equivalent to SGD1,075,750 (full amount)]. The Company fully transferred such amount to ISP's bank account on April 26, 2006 (Note 1d).
- c. Based on a shareholders' circular resolution of PT Satelindo Multi Media ("SMM"), a subsidiary, SMM will be subject to liquidation effective May 5, 2006 (Note 1d).
- d. On May 12, 2006, the Company entered into a cross currency swap contract with StandChart which is effective starting May 12, 2006. 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 until the termination date of swap premium at the fixed annual rate of 3.45% of US\$25,000.
- e. On May 12, 2006, the Company obtained a new credit facility from Finish Export Credit Ltd. ("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". The proceeds from the loan will be used for the purchase of telecommunications equipment. The loan bears fixed interest at a fixed annual rate of 4.15% and will mature 5 years after the first drawdown date. The repayment of the loan and its interest will be made in semi-annual installments. Based on the loan agreement, the Company is required to comply with certain covenants, such as maintaining certain financial ratios.
- f. On May 18, 2006, Indonesia Communications Pte. Ltd., Singapore, a wholly-owned subsidiary of STT Communications Limited, acquired 0.86% ownership in the Company by purchasing 46,340,000 shares from the market.

**PT INDOSAT Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Three Months Ended March 31, 2005 and 2006 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollar,**  
**except share and tariff data)**

**39. SUBSEQUENT EVENTS (continued)**

- g. As of May 18, 2006, the average buying and selling rate of bank notes published by Bank Indonesia is Rp9,230 to US\$1 (in full amounts), while as of March 31, 2006, the average buying and selling rate was Rp9,075 to US\$1 (in full amounts). On the basis of the rate as of May 18, 2006, the Companies incurred foreign exchange loss amounting to approximately Rp64,507 on the foreign currency liabilities, net of foreign currency assets, as of March 31, 2006 (Note 36).

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 on May 18, 2006 or at any other rate of exchange, and could result in the above-mentioned foreign exchange loss.

The commitments for the capital expenditures denominated in foreign currencies as of March 31, 2006 as disclosed in Note 32a would approximate Rp4,096,366 if translated at the rate as of May 18, 2006.

**40. RECLASSIFICATION OF ACCOUNTS**

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

<u>As Previously Reported</u>	<u>As Reclassified</u>	<u>Amount</u>
<i>Consolidated Balance Sheet</i>		
Non-current assets - others	Cash and cash equivalents	17,294
	Current assets - other current assets	181,558
Accrued expenses	Other non-current liabilities	212,383
<i>Consolidated Statement of Income</i>		
Operating revenues - other services	Operating revenues - MIDI	137
Operating expenses - compensation to telecommunication carriers and service providers	Operating revenues - fixed telecommunication	(3,837)
Operating expenses - other cost of services	Operating revenues - cellular	(45,828)

**41. COMPLETION OF THE FINANCIAL STATEMENTS**

The management of the Company is responsible for the preparation of the accompanying consolidated financial statements that were completed on May 18, 2006.