

Annual Report



1994



TELKOM

Committed To You

**PT (Persero) Telekomunikasi Indonesia or TELKOM
is Indonesia's State Owned Company
having monopoly rights in providing domestic
telecommunication infrastructure.
Utilizing modern-day technology
in its operation and maintenance,
TELKOM is progressing quickly to expand
its existing subscriber base of 2.5 million.
The Government of Indonesia, TELKOM's owner,
requires TELKOM to install
a minimum of 5 million additional lines
before the year 2000.**

**Hailed as one of Indonesia's most profitable state
owned companies in the last 3 years,
TELKOM looks to the future with confidence in a
more competitive environment.**

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Comments From The Management



For TELKOM 1994, was definitely a year of challenges. It has been characterized by significant programs in preparation for major changes in the Indonesian telecommunications market and industry. As we anticipated a year ago market and industry conditions continued to change. The main thrust of the change were the developments in telecommunications technology and the growth of the economy in the region.

As we anticipated earlier, the government changed the industry regulatory framework in a effort to maintain momentum of growth, and prepare a sufficient telecommunications infrastructure for global competition. Government regulations and continuing policy development both clearly support the opening up of the domestic telecommunications sector to further competition. The essence of industry changes were greater opportunities for the private sector to participate in the industry which, for TELKOM, mean a more competitive environment. This will be a big challenge for TELKOM which has had a monopoly position for almost half a century. From now on, TELKOM will no longer be alone in the telecommunications business. We must get used to a competitive environment.

Our response to the challenge depended on three basic strategies, namely; expansion, efficiency and innovation. The first, expansion, meant commitment to build a big and strong customer base especially in telephone services. Huge demand gave us the opportunity to increase lines and we will continue to do so in order to acquire loyal customers. The second, efficiency, was the effort to build "competitive cutting edge" using economies of scale and the advantage of being the first supplier the industry. We know that there is still room for efficiency improvement and we also believe that the most efficient company will survive the competition and will be critical to the efficiency of other sector. The last strategy was innovation. Our service is dominated by the development of telecommunications technology. Therefore we have tried to manage new technology and utilize it for new services. We have tried to always provide a quality service to the market which we can do know our customers needs.

To implement the strategies that are required to face the challenges, this year, TELKOM has designed a series of programs, as follows :

1. Corporate Restructuring. A program that was designed to build a better and stronger company in order to enhance our customer focus, increase productivity, create innovation, and boost efficiency. Seven autonomous regional divisions, one network division, and several supporting divisions have been created and will be operational the end of 1995.



2. Joint Venture and Joint Operation Schemes. The basic idea of this program is to benefit from the efficiency and productivity of world class operators. The concept of the program has been formulated. Several consortia have already been established and several more are being negotiated. Tender documents for joint operation schemes to provide two million lines have been organized.
3. Preparation for privatization as an effort to find other funding alternatives. Another major challenge for TELKOM in 1994 was to advance its preparation to become financially independent of the Government, TELKOM's current sole owner. A number of projects have been undertaken to prepare TELKOM for the change, including the adoption of accounting procedures and processes to meet commonly accepted international standards.

However besides launching programs as preparation for the future, 1994 was also characterized by many achievements. This affirmed that our strategy of, back to basics and back to core business, has achieved good results in the way we serve our customers, as well as in the area of finance, through our commitment to the shareholder.

TELKOM installed a record number of more than one million additional lines during the year and the company's operational and financial performance has also exceeded previous results: TELKOM's ASR (Call Completion Rate Ratio) was increased by 29%, fault rate reduced by 30% and seven days installation service was recorded in 66% of all installation cases, an increase of 36% from last year.

TELKOM recorded operating revenue of Rp. 4,043 trillion (US\$ 1.87 billion) and a net profit of Rp. 798 billion (US\$ 362 million), an increase of 32% and 67% respectively.

In summary with regard to the future, it is important to note that we are rigorously preparing ourselves for the future challenges. Therefore, we want to share our confidence in the direction being taken. We are optimistic that the basis of competitive advantage that we are now preparing, will lead TELKOM to survive the competition and emerge as a strong player in the competitive Asia-Pacific market in the near future.

SETYANTO P. SANTOSA
President Director & CEO



A note from the Chairman of the Board of Commissioners



The fundamental and critical role of telecommunications in Indonesia's economic development will be apparent, when Indonesia experiences accelerated growth in the demand for telecommunication services. This follows on from the industrialization within the Second Long-Term Development Plan which began in April 1994.

This prediction is supported by empirical data on past telecommunication development experienced in other countries with high levels of economic achievement.

In the mean time, TELKOM is fully aware of the rapid changes occurring both in the international and domestic arenas :

A huge wave of technological advances has changed the way people do business : decision making has to be done quickly and accurately despite restrictions of time and space, using up-to-date information.

Indonesia has adopted the GATT principles in which competition is the rule, rather than the exception.

Companies have to be productive as well as efficient to remain competitive.

Consequently, the supply of modern and efficient telecommunication facilities has been a critical factor in raising the productivity of companies, and enhancing the nation's competitiveness.

As if in a head-on race, Government regulations, issued to complement the Law No. 3/1989, opened up many possibilities for private sector participation in the telecommunication industry.

I am proud to say that TELKOM is in tune with these exciting developments. In 1994, TELKOM underwent many changes, both in management structure and in the technology utilized in its operations. This was done in response to the revolutions in the international and domestic arenas, as I said previously.

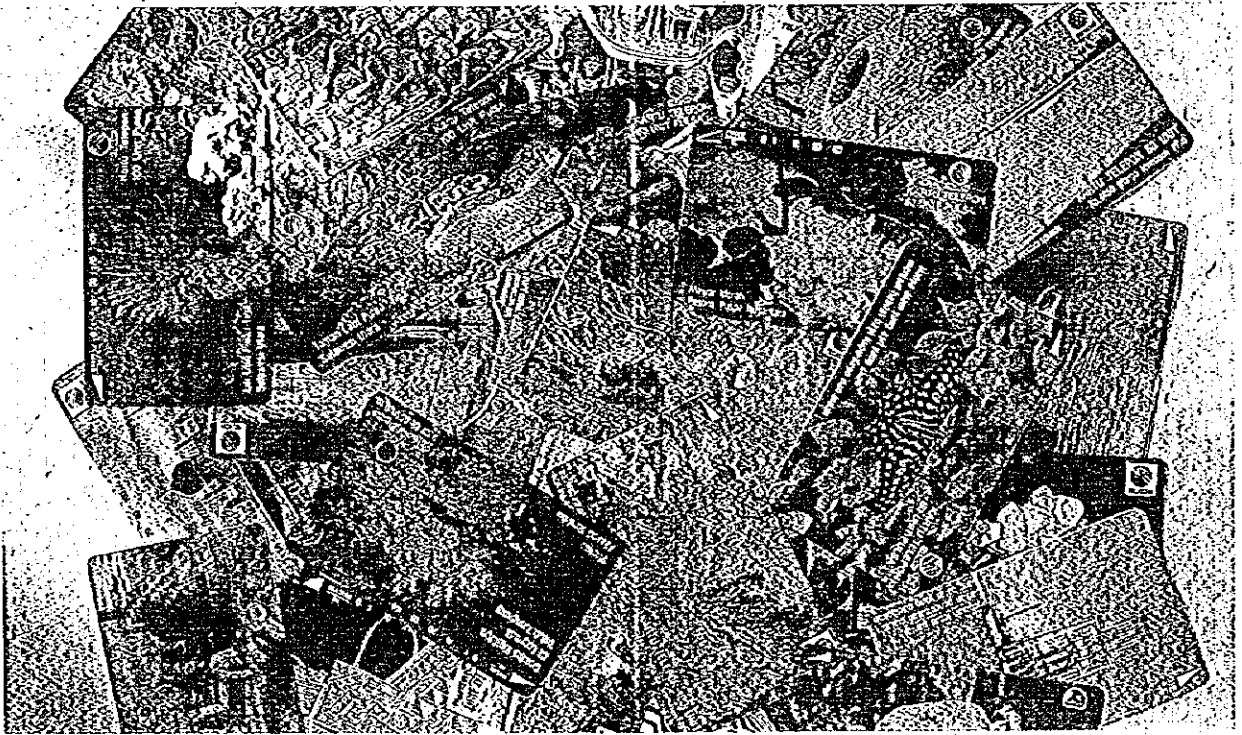
In addition, in 1994, TELKOM became the number one tax paying company in Indonesia, indicating its sound financial capability.

When the Government announced its agenda for more private participation and the faster pay back of the country's debts, TELKOM was in the best position to tackle this challenge.

On behalf of the Board of Commissioners, we thank everyone who has contributed to TELKOM's success and accordingly welcome the more exciting days ahead.

Chairman of Board of Commissioners,

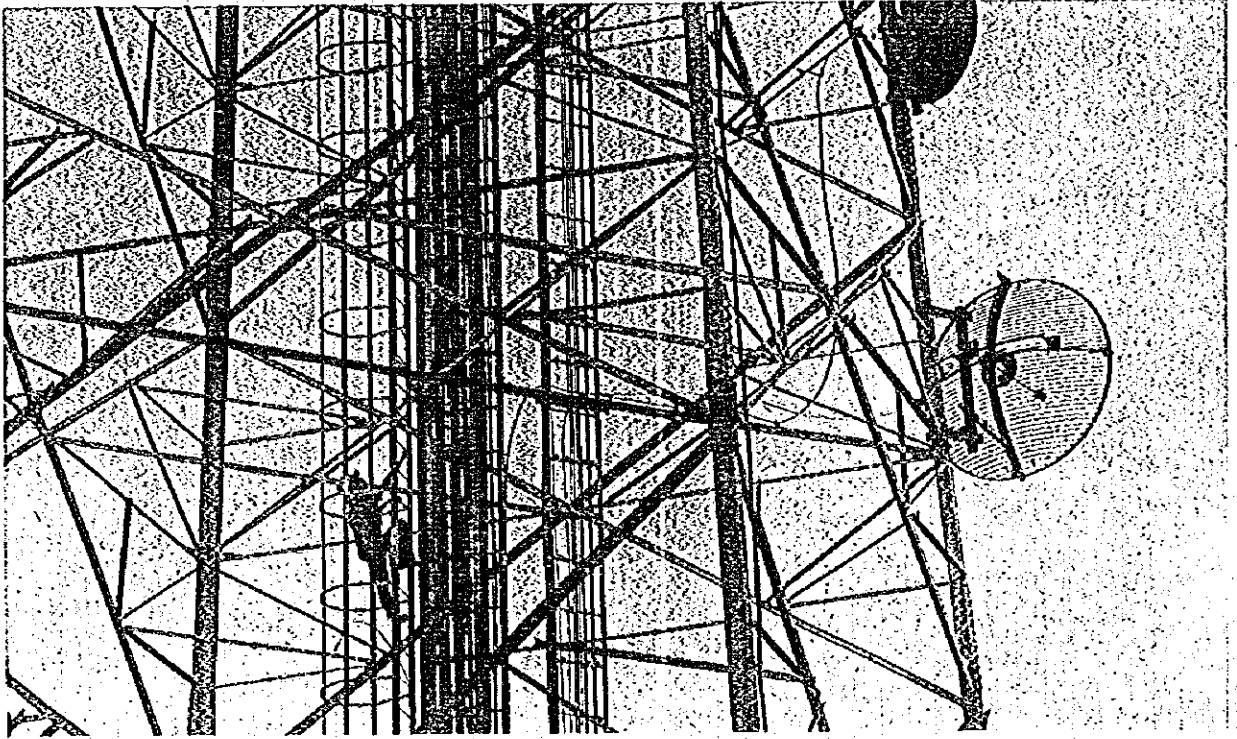
Djakaria Purawidjaja



Performance Highlights

| Description | Unit | 1994 | 1994 <small>(Million US\$)</small> | 1993 | 1992 | Compound Annual Growth Ratio |
|--|---------------------|-----------|---------------------------------------|---------|---------|------------------------------------|
| Revenues | billion Rp. | 4,156 | 1,850 | 3,203 | 2,502 | 29 % |
| Expenses | billion Rp. | 3,010 | 1,340 | 2,403 | 2,009 | 23 % |
| Income Before Income Taxes | billion Rp. | 1,146 | 510 | 800 | 494 | 52 % |
| Provision for Income Taxes | billion Rp. | 351 | 156 | 299 | 191 | 37 % |
| Net Income | billion Rp. | 795 | 354 | 501 | 303 | 62 % |
| Total Assets | billion Rp. | 11,747 | 5,230 | 9,220 | 7,884 | 22 % |
| Stockholder's Equity | billion Rp. | 4,519 | 1,012 | 3,809 | 3,323 | 17 % |
| Long-term Debt - affiliates - Net of current maturities | billion Rp. | 3,300 | 1,469 | 2,777 | 2,240 | 21 % |
| Current Liabilities | billion Rp. | 1,724 | 768 | 1,605 | 1,364 | 12 % |
| Total Lines | thousands line unit | 2,528 | | 1,909 | 1,57 | 27 % |
| Pulse Production - Telephone | million pulse | 23,419 | | 17,904 | 13,221 | 33 % |
| Total Physical Installation | lines | 1,040,525 | | 817,862 | 635,122 | 28 % |
| Total Employees | person | 42,170 | | 39,048 | 39,298 | 4 % |
| ASR - Local | % | 52.66 | | 44.70 | 40.46 | 14 % |
| ASR - Domestic Long Distance | % | 42.68 | | 36.29 | 26.00 | 28 % |
| Fault Rate | per 100 lines | 1.91 | | 2.70 | 3.53 | 26 % |

*) Rate 1 US\$ = Rp. 2,246.00



1994 Achievements

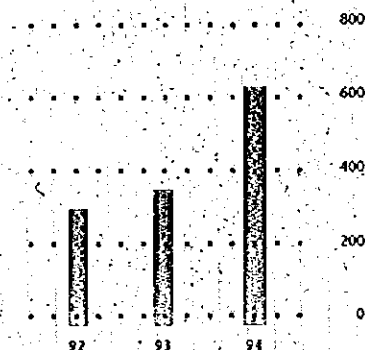
Expansion in
network capacity :
switch installation,
new subscriber lines
and public pay phones
reflect overall
increased demand
for telecommunication services

Among the many production highlights of 1994, one of the most significant was the substantial increase in network capacity. A new switch installation growth rate of 27%, from 818,000 new lines in 1993 to 1,041,000, was achieved during the year.

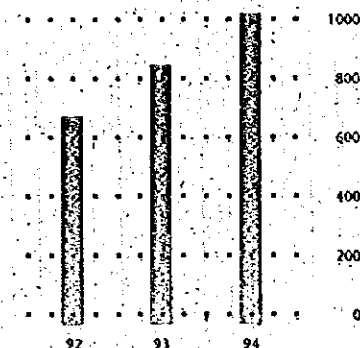
In 1994, more than 600,000 transmission channels were been built.

As business expands and flourishes throughout the archipelago, the need for TELKOM's services increases. Overall, the number of new subscriber lines in 1994 increased by 80%, from 338,769 to 611,021, bringing the total number of subscribers to 2.5 million lines.

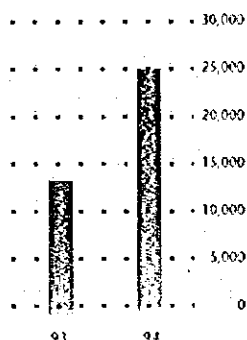
New subscriber lines



New switch installation



Public pay phones

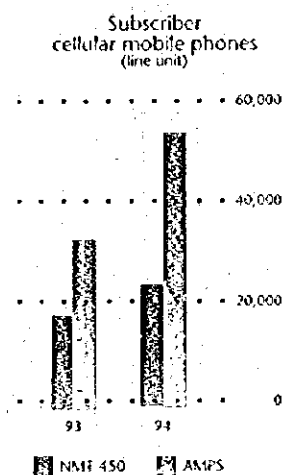


The large increase in subscribers was in addition to more public pay phones (card and coin- box) which rose 90%, from 13,162 to 25,072.

For pay phone services, TELKOM focused primarily on the expansion of 'card' pay phones, because of their convenience, hence the increase of 467%, while the 'coin-box' pay phones increased by 19%.

| Description | Unit | 1994 | 1993 | Growth (%) |
|-----------------------------|-----------|---------|---------|------------|
| NEW SUBSCRIBER LINES | | | | |
| Automated | Line Unit | 609,670 | 336,304 | 81 |
| Manual | Line Unit | 1,351 | 2,465 | (45) |
| New subscriber lines | Line Unit | 611,021 | 338,769 | 80 |
| PUBLIC PHONES | | | | |
| Coin pay phones | Line Unit | 13,133 | 11,056 | 19 |
| Card pay phones | Line Unit | 11,939 | 2,106 | 467 |
| Total | Line Unit | 25,072 | 13,162 | 90 |

Subscribers to NMT 450 and AMPS cellular mobile phones also increased. The NMT 450 increased by 19%, to 22,291 units. The popular AMPS increased by 65%, to 55,733 units.



| Description | Unit | 1994 | 1993 | Growth (%) |
|-------------|------|------|------|------------|
|-------------|------|------|------|------------|

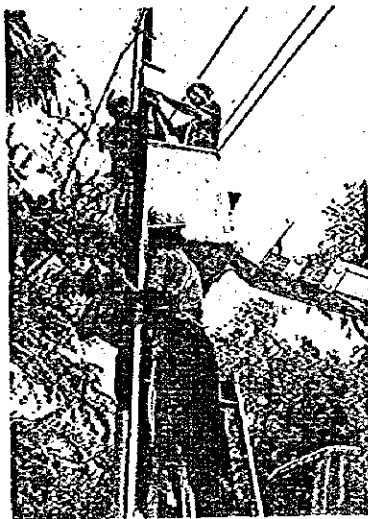
TELEPHONE SUBSCRIBERS

| | | | | |
|-------------------|-----------|-----------|-----------|-------|
| Automated | Line Unit | 2,374,473 | 1,791,560 | 33 |
| Manual | Line Unit | 7,196 | 14,386 | (100) |
| Mobile Cellular | Line Unit | 78,024 | 53,438 | 46 |
| Total subscribers | Line Unit | 2,459,693 | 1,859,384 | 32 |

PUBLIC PHONE LINES

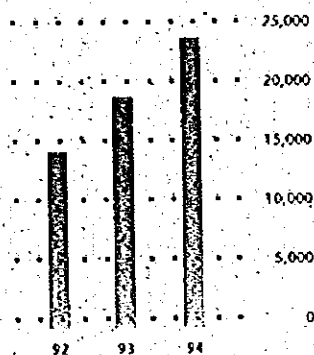
| | | | | |
|--------------------|-------------|--------|--------|-----|
| Coin pay phones | Line Unit | 49,969 | 41,674 | 20 |
| Card pay phones | Line Unit | 18,765 | 7,882 | 138 |
| Leased Line | Line Unit | 2,013 | 1,746 | 15 |
| Wartel* | Unit | 1,692 | 1,103 | 53 |
| Palapa Transponder | Transponder | 70,705 | 70,500 | - |
| Telex | Line Unit | 15,672 | 16,484 | (5) |

*) Wartel : privately public telecommunications counters licensed by TELKOM



*Pulse production
growth :
the proof of
TELKOM's achievements
in revenue.*

The local and long distance call
(million pulse)



In the table below we can clearly see an across the-board growth in pulse production during 1994.

The local and long distance calls in 1994 amounted to 23,419 million units compared with 17,904 million in 1993.

Interestingly, the telex and telegram services decreased by 13% and 6% respectively, thus, reflecting the consumers move to the expanding facsimile and higher quality phone network services supplied by TELKOM.

| Description | Unit | 1994 | 1993 | Growth (%) |
|---|----------------|--------|--------|------------|
| PRODUCTION OF PULSES (local & long distance) | | | | |
| Automated | Million pulsa | 23,419 | 17,904 | 31 |
| Operator assisted long distance calls | Million minute | 56 | 44 | 27 |
| Cellular | Million pulsa | 1,004 | 654 | 54 |
| Domestic telex | Million pulsa | 502 | 574 | (13) |
| Domestic telegram | Million words | 280 | 299 | (6) |
| PUBLIC TELEPHONES PULSE | | | | |
| Coin pay phones | Million pulsa | 1,012 | 819 | (24) |
| Phones cards sales | Million pulsa | 1,184 | 721 | 64 |



1994 ACHIEVEMENTS

• Integrating Operation and Maintenance Systems for Better Quality

To enhance the effectiveness of nationwide network operations, TELKOM developed network management structures, known as the Regional Network Control Center (RNCC) and the National Network Control Center (NNCC). RNCC and NNCC were incorporated into an Integrated Management System (IMS) configuration.

IMS monitors the performance of networks and provides an early warning of possible damage or reduction in the performance of the network elements. IMS also provides software recovery, dynamic routing and switching to back up systems for prime transmission. These preventative measures, offered by IMS are an important network service advancement on the old system of corrective measures.

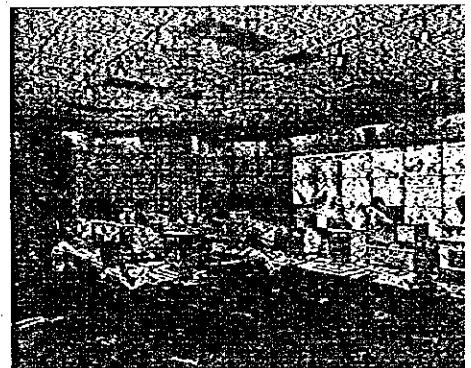
With a total investment of Rp 68.3 billion (US \$ 30 million), in 1994, TELKOM completed the construction of IMS in 6 locations; Jakarta, Surabaya, Medan, Ujung Pandang, Balikpapan and Bandung.

Further advances in the operation and maintenance of outside plants has also been established. TELKOM's Outside Plant Maintenance Centers (OPMC) in 1994 were in 13 locations; North, South, Central, West and East Jakarta, Medan, Bandung, North and South Surabaya, Semarang, Palembang, Ujung Pandang and Denpasar.

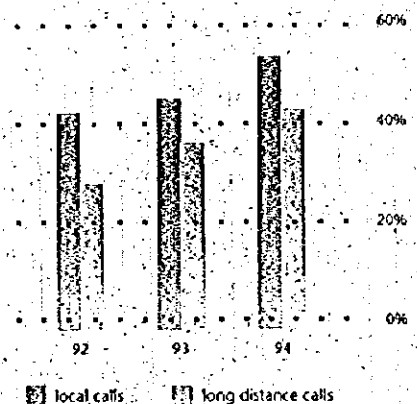
In 1994 TELKOM introduced the cable administration system, SISKASISKAMAYA in 22 cities. This is a technological innovation that is used to locate and identify subscriber line disturbances, as well as new subscriber installation.

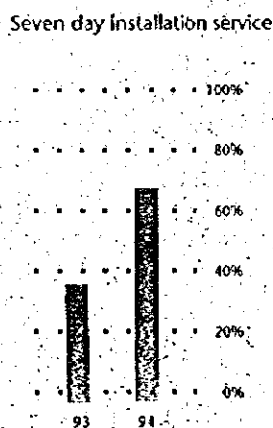
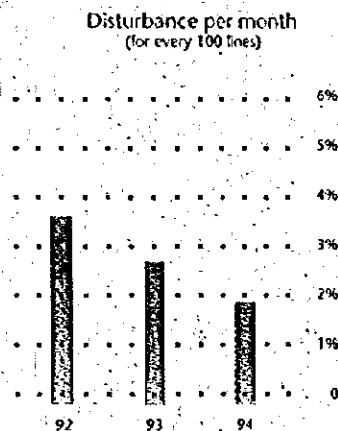
IMS, OPMC's and SISKASISKAMAYA have gone a long way in helping to improve TELKOM's quality of service. This is demonstrated, for example, in the increase of the Call Completion Rate Ratio (ASR) from 44.70%

Advancement in network service highlights the importance in preventive rather than corrective measures.



Call completion rate ratio





*APEC Conference 1994 :
demonstrating TELKOM's
prominence in domestic
and international
telecommunications
capability.*

to 52.66% for local calls and from 36.29% to 42.68% for long distance calls, in conjunction with a reduction in call disturbances.

In 1993, for every 100 lines constructed there were 2.7 fault rate per month. In 1994, the number of fault rate per 100 lines per month was reduced to 1.9, and the number of improvement on the 1994 target of 2.00 fault rate per 100 lines per month.

Furthermore, the seven day installation service rate rose from 36.2% in 1993 to 66.26% in 1994, illustrating TELKOM's commitment to improving services.

The year 1994 also provided TELKOM with the opportunity to demonstrate the prominence of its domestic and international telecommunications capability, when Indonesia hosted the APEC conference.

With 18 Heads of State, their personal staff and over 2500 media representative - TELKOM worked successfully during this intensive and demanding period.

The products and services provided by TELKOM during the APEC conference included: telephone, telex, telegraph, facsimile, data call, leased circuit, hotline service, home country direct and international video conferencing.



• Enhancement of Human Resources

Highly trained and experienced personnel are an asset in any company to strengthen operations and the development of systems, infrastructure, technology and services.

In the lead up to TELKOM's new competitive environment, management and staff have been striving to improve productivity, efficiency and, in turn, profitability.

During 1994 management placed a freeze on new recruitment so that TELKOM's workforce totalled 42,170 employees as of the 31 December 1994, well down from the original target of 45,353.

Evidence of the results of TELKOM's human resources policy can be seen in the following table:

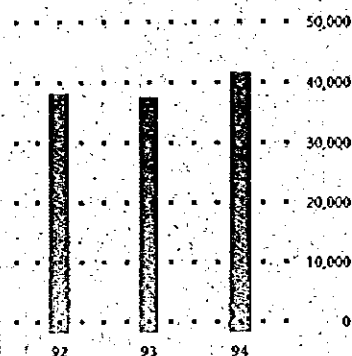
| | 1994 | 1993 | Improvement |
|---|------|------|-------------|
| 1. Employees per 1,000 subscribers | 17 | 22 | 23% |
| 2. Employees per 1,000 lines available (capacity) | 11 | 13 | 15% |

This improvement is largely due to advances made in human resource development, education and training.

Over 14,000 employees were engaged in appropriate training and education throughout 1994. The utilization of these skills in the future will provide a dynamic "launching pad" for the development of TELKOM.

TELKOM's commitment to growing together with its people is demonstrated by the corporation's investment in educational facilities.

Workforce employees



Efficiency and optimization of human resources : higher productivity despite a recruitment freeze.



*Investment
in education :
proof of TELKOM's
commitment
to cultivate
its human resources.*



The TELKOM School of Telecommunications Technology (STT TELKOM) and the Bandung School of Management, are both examples of the leading role TELKOM is taking to achieve excellence in the telecommunications industry.

In 1994 President Suharto officially opened the new campus of STT TELKOM, with new laboratories, buildings and upgraded facilities. STT TELKOM has over 3,000 students taking diploma and graduate qualifications in telecommunication engineering.

TELKOM was the first state-owned corporation in Indonesia to establish a business and management institute to train the future leaders of the industry. The Bandung School of Management, established in 1990, recently gained accreditation from the Ministry of Culture and Education for its new Post-Graduate and Masters courses.

In addition to TELKOM's investment in educational institutions, a new range of technologies have been introduced internally to assist in communication and education.

The use of Indonet access and video conferencing is now available for long distance communication with management, and for seminars and workshops. This has proved to be a major benefit to the company due to its access across the archipelago.

TELKOM's emphasis on education has created a workforce which is more qualified and motivated to lead the telecommunications industry into the future. It is expected that as TELKOM's reputation develops, these characteristics will attract an elite workforce and place TELKOM in a stronger position than ever for the future.

• Advances In Technology

The integration between information technology and telecommunications continues to offer personal and business consumers a wide range of services. TELKOM is committed to investing in these advanced technologies since they offer service choice and provide investment and operation cost-effectiveness.

Investing in advanced technology has created cost effectiveness for TELKOM now and, progressively more so, into the future.

Indonesia's unique geography and demographics - with a predominantly rural population - has led TELKOM to pioneer telecommunications technology to meet these special needs. Rural networks have been developed based on small exchanges and satellite technology. Nowadays, new lines in remote areas provide the whole archipelago with Nationwide Direct Dialling.

During 1994, plans were developed to upgrade the telecommunication services from the Plain Old Telephone Service (POTS) to the Narrow-Band Integrated System of Digital Network (N-ISDN). The 64 kilo-bytes per second access capacity of N-ISDN will have been implemented in Jakarta, Bandung, Surabaya, Medan and Batam by August 1995.

The implementation of Intelligent Network (IN) will enable TELKOM to 'tap' into the Network, which will in turn, increase the products and services that TELKOM can offer to its clients.

The new features that TELKOM will offer in 1995 include toll-free (800 services) numbers, universal access numbers, televoting, calling card and virtual private networks.

*Introducing
digital technology :
an effort to
keep pace with
telecommunication
advances*



1994 started the development of the Metropolitan Area Network (MAN) which has an access capacity of 2 Megabytes per second. It is planned that MAN will be in operation by September 1995 in 2 major metropolitan cities; Jakarta and Surabaya. MAN will enable the consumer to communicate between computer networks in those 2 cities or Local Area Networks using the public telephone network.

In the application of N-ISDN, TELKOM has also adopted Synchronous Digital Hierarchy (SDH) which will guarantee smooth and reliable transmission between busy network centres.

SDH together with Asynchronous Transfer Mode (ATM) are important for linking the development of N-ISDN to B-ISDN, which will become the prevalent form of communication by the end of the century.

When B-ISDN is implemented, the optic fibre medium network will optimize communications by reducing interference and increasing bandwidth capacity. At that time Fibre To The Home (FTTH) or Fibre to the Curb (FITC) will be familiar technology to the customer.



More attention is now paid to the access network, or local loop which constitutes the last section of the line spanning from the nearest central office main distribution frame, to a subscriber's home. Statistically, this was responsible for all disturbances. The in-house cable wiring for instance, used to account for 30% of the disturbances. Acknowledging this, TELKOM published a standard guide book for in-house cable wiring. To implement this, TELKOM initiated a pilot project with real estate developers in Bandung and Jakarta.

The prime key to technological development is innovation. TELKOM recognizes this aspect and in 1994 the annual prize awarded to employees for innovative works was institutionalized. The works are earmarked for TELKOM's standardization and sent out for international contests.

Aside from innovation, the support of a sophisticated laboratory is of importance to technological advances. In 1994, TELKOM managed to restructure the Central Research and Development Laboratory in Bandung, to cover all of the company's changing business aspects. This restructuring covered 3 main areas: Network & Services, Access Network and Quality Assurance, including security aspects currently becoming more necessary to prevent sophisticated telephone crime.



• Restructuring for the Future

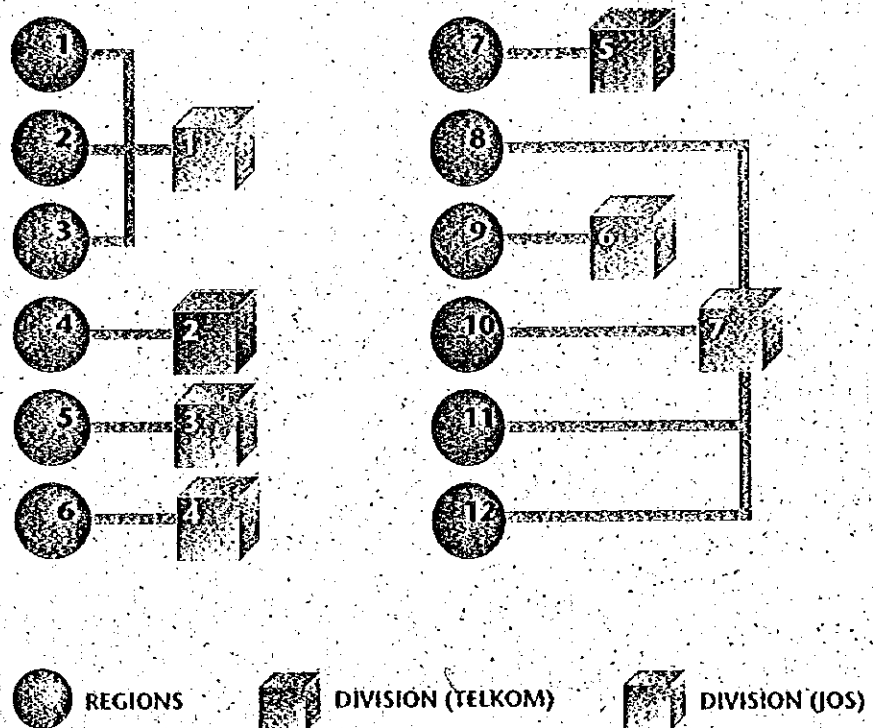
When faced with the massive task of installing 5 million new lines in five years, TELKOM realized it would need to restructure the corporation. The essence of this is to improve productivity and efficiency, minimize bureaucracy and create a culture that is customer focused.

This is to be achieved by:

1. A new corporate structure which will consist of 7 self supporting regional divisions with greater autonomy and more customer focus, a separate long distance network division, centralised key support services creating centers of excellence in property, training, repair, informations systems and billing.

*Internal restructuring :
improving productivity
and efficiency,
creating a customer
focused culture.*

During 1994 this structure was researched and planned, it will be implemented during 1995.



Management realizes the need to be patient in introducing this structure as it represents a major change for TELKOM, in terms of both its internal and external relations. From this process, a new corporate culture will evolve with benefits for all.

*Strategic alliances :
TELKOM's effort
to boost growth and
satisfy the ever
increasing demand.*

2. Strategic alliances : within the existing regulatory framework alliances are planned such as Joint Ventures with foreign Telcos and local companies for several service segments (such as mobile and satellite communications), which have more exposure to a competitive environment. Prior to 1994, TELKOM had successfully developed Joint Ventures with companies such as PT SATELINDO, PT RATELINDO, PT LINTAS ARTA, PT PASIFIK SATELIT NUSANTARA, PT BANGTELINDO and PT TELEKOMINDO, all



1994 ACHIEVEMENTS

in all totalling Rp 58.8 billion (US \$ 26.1 million). Several more are in the negotiation process.

Joint Operation Schemes (JOS) with foreign Telcos consortium for construction of 2 million telephone lines are meant to supply delivery and services within a certain period (e.g. 15 years), with the works supplied for and on behalf of TELKOM. During this period the revenue will be shared with the consortium, afterwards all facilities will be transferred to TELKOM. Their main focus will be in the restructured Regional Divisions.

The specific aims of JOS will be to:

- Speed up growth - i.e. to reach the target of 5 million lines in five years and increase penetration to 3.9 lines per 100 people, without burdening the Government finances.
- To improve TELKOM's performance through joint management of projects and operations.
- To transfer management and experience.
- To directly access new technology.

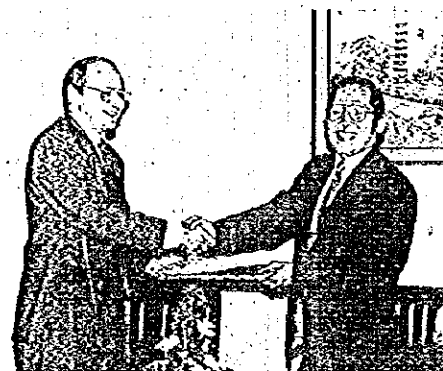
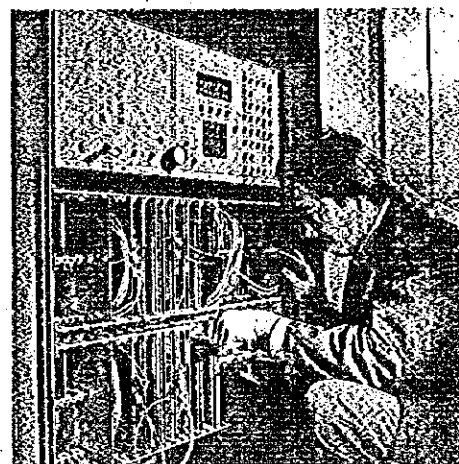
During 1994 TELKOM developed tender documents, terms of reference, business modelling and an organizational structure to facilitate these Joint Operating Schemes.

3. Privatization : with privatization now definitely on the Indonesian Government's agenda, TELKOM has intensively started to prepare itself for assessment by the international financial community.

Some of the initiatives undertaken during 1994 include:

Critical assessment of the corporation's profitability and operations in anticipation of scrutiny by international investors; adoption of a new accounting system to comply with international standards.

The decision as to when privatization will occur is the responsibility of TELKOM's owner - the Indonesian Government.



*Privatization :
Government's resources
allocated to TELKOM
can be distributed
for other projects.*

• Management Discussion and Analysis

The long-term development of Indonesian telecommunications is inseparable from the political, social and economic situations on a global, regional and national scale. When the target of 2.8 million telephone lines was set in the early 5th Five Year Development Plan, the finance department's task was focused on obtaining external sources of funds to strengthen the internal financial capability, covering investment needs and working capital. The profit gained was in line with the increase in the company's business performance, including enhancement in quality and speed of service. It was decided that the company's financial management skill had to be developed to meet that of a stand alone entity, having previously been a government institution which had little choice of sources of funds and ways to utilize them. The management decided in 1987 to re-evaluate, change depreciation methods and redefine the economic cycle of assets.

The economic development of the last three years carried with it a 9% annual inflation rate (except in 1992 which was only 4.9%). This condition resulted in an increased need for funds to cover growing investment and working capital. Hence a flexible method, to control the budget through a proper operating ratio, became important to boost Return On Investment (ROI) and Return On Equity (ROE) in stages.

• Investment and Source of Funds

In 1994, Rp 1,900 billion (US \$ 846 million) was spent on the development of telecommunication infrastructure, such as additional capacity and transmissions, and enhancement in quality of systems and facilities. The total figure equalled a 5.56% increase from last year's or 110% of the average

investment made during the 5th Five Year Development Plan, which was Rp 900 billion (US \$ 406 million). It was also equal to investment made in the 4th Five Year plan.

This was made possible by the utilization of external, as well as strengthening the internal financial resources. Internally, the enhancement of financial capability was geared towards that of a stand alone entity's by revaluation and a change of the depreciation methods. The resources and fund utilization, as depicted in the following table, show yearly increases of internal funds.

• Revenues

TELKOM's investment has been able to increase the company's performance, in terms of measurable quality such as; speed of new subscriber connections, decreasing the number of line disturbances, increasing local and domestic long distance call completion rate ratios and as a result, increasing pulse production and of course financial performance.

In 1994, the operating revenue was Rp 4,043 billion, an increase of 31.61% compared to 1993's. The largest contribution was from the telephone revenues, which accounted for 80.03% of the operating revenues. Other services such as telex accounted for 1.30%, telegram 0.43%, satellite transponder 2.95%, compensation 7.41%, revenue-sharing 7.08%.

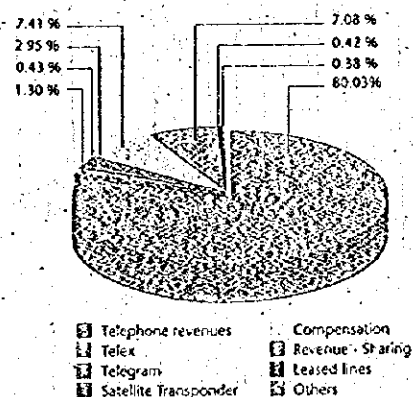
As a service company that relied heavily on fixed assets as the dominant tool in providing service to customers, TELKOM has succeeded in improving its fast fixed assets turnover, reflected in the 48.42% ratio of revenue level to the value of fixed

COMPARATIVE CASH FLOWS

| Description | 1994 | | 1993 |
|---|-------------|--------------|-------------|
| | Billion Rp. | Million US\$ | Billion Rp. |
| Cash flows from operating activities | | | |
| Net Income | 795 | 354 | 501 |
| Adjustment to reconcile net income to net cash provided by operating activities | 774 | 345 | 908 |
| Net cash provided by operating activities | 1,569 | 699 | 1,409 |
| Net cash used in investing activities | (761) | (339) | (1,006) |
| Net cash used in financing activities | (434) | (193) | (338) |
| Net increase (decrease) in cash and cash equivalents | 373 | 166 | 65 |
| Effect of foreign exchange differences | 2 | 1 | 0 |
| Cash and cash equivalents at beginning of period | 304 | 135 | 239 |
| Cash and cash equivalents at end of period | 679 | 302 | 304 |

*) Rate 1 US\$ = Rp 2,246.00

Contribution of telephone services to operating revenues

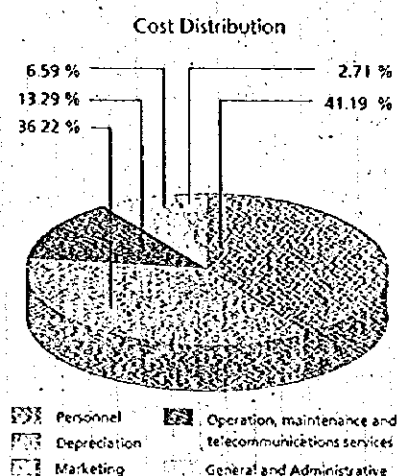


FINANCIAL PERFORMANCE

| Description | 1994 | 1993 | Growth % |
|-----------------------------|------------------------|---------------|----------|
| Operating Revenues per line | Rp. 1,872,361 US\$ 832 | Rp. 1,808,307 | 4 |
| Operating Expenses per line | Rp. 1,268,678 US\$ 564 | Rp. 1,273,959 | -2 |
| Settlement of Receivables | 45 days | 45 days | 0 |
| Operating Ratio | 68 % | 70 % | -3 |
| Profit Margin | 32 % | 30 % | 7 |
| Return On Investment | 7 % | 5 % | 40 |
| Return On Equity | 18 % | 13 % | 40 |
| Fixed Assets Turnover | 48 % | 51 % | -5 |

assets. The growth in the scale of its business was strengthened by better management of liabilities and cashflows. The turnover of receivables was shorter each year, and by the end of 1994 it was maintained at 1993 levels of 17 days after the billing was issued. All

these performances helped the Company settle both short and long-term debts, including payment of dividends (which materialized only 1 month after the shareholder's annual general meeting).



• Expenses

Operating expenses on planned revenues during 1994 totalled Rp 2,740 billion (US \$ 1,220 million), a 26.58% increase from last year. This was in line with the scale of growth of TELKOM's business, as well as the rate of inflation. The largest contribution came from personnel that reached 41.19% of the total operating expenses. While other operating expenses such as depreciation 36.22%, general and administrative 6.59%, marketing 2.71%, operation, maintenance and telecommunications services 13.29%.

• Profit and Tax

The Company's operations during 1994 brought about a profit of Rp 1,146 billion (US\$ 510 million) before income taxes, a substantial increase of 43.22% compared to 1993. By reserving unpaid income taxes of approximately Rp 351 billion (US\$ 156 million), net profit would reach Rp 795 billion (US\$ 354 million), an increase of 58.60% compared with last year. The continuing annual increase in profit is reflected in the 18% ROE, a relatively stable ratio compared to the general level of interest during the year in question.

STATEMENTS OF INCOME

For the Years Ended December 31, 1994 and 1993

| Description | 1994 | | 1993 | Growth % |
|----------------------------|----------------|------------------|----------------|-------------|
| | in Billions Rp | in Millions US\$ | in Millions Rp | |
| Operating Revenues | 4,044 | 1,800 | 3,072 | 32 |
| Operating Expenses | 2,740 | 1,220 | 2,164 | 27 |
| Operating Income | 1,304 | 580 | 908 | 44 |
| Other Income | (113) | (50) | (130) | 14 |
| Other Expenses | 271 | 120 | 238 | 14 |
| Other Expenses - Net | 158 | 70 | 108 | 46 |
| Income Before Income Taxes | 1,146 | 510 | 800 | 43 |
| Provision for Income Taxes | 351 | 156 | 299 | 17 |
| Net Profit After Tax | 795 | 354 | 501 | 59 |

*) Rate 1 US\$ = Rp 2,24

• Dividend

By achieving this profit, dividends will record a 50% increase compared to 1993. Through better cash flow management in 1994, the payment of 1993 dividends amounting to Rp 85 billion (US\$ 38 million) took place in June 1994, or one month after the annual general shareholders meeting.

• Company Performance 1992-1994

TELKOM management succeeded in the dynamic 1992-1994 period in which both international and domestic business environments underwent various changes. In the ongoing 6th Five Year Development Plan, TELKOM has the task of installing a minimum of 5 million additional lines, targeted in 1994.

To sustain and enhance competitive advantage in obtaining the needed funds from international financial resources, the Government of the Republic of Indonesia continued to make efforts to deregulate. The deregulation in the telecommunication sector started in 1989, and was further emphasized by Law No. 3 on Telecommunications and by Government Regulation No. 8, both issued in 1993. Together with the recent reformation of tax laws, they opened wider opportunities for both private sector and government owned companies. These in turn are expected to contribute to economic growth and at the same time improve the trade balance sheets.

COMPANY PERFORMANCE 1992 - 1994

| DESCRIPTION | Unit | 1994 | 1993 | 1992 | % Growth | |
|---|----------------|-----------|-----------|-----------|-----------------|-----------------|
| | | | | | Rate 1993/91 | Rate 1992/91 |
| Telephone Subscribers | lines | 2,381,669 | 1,805,916 | 1,502,925 | 11 | 20 |
| Cellular Subscribers | lines | 78,024 | 53,438 | 35,546 | 48 | 50 |
| Total Telephone Subscribers | lines | 2,459,693 | 1,859,384 | 1,538,471 | 12 | 21 |
| Public Payphone | lines | 68,734 | 49,556 | 38,659 | 39 | 28 |
| Total Lines | lines | 2,528,427 | 1,908,940 | 1,577,130 | 11 | 21 |
| New Subscribers | lines | 611,021 | 338,769 | 268,483 | 80 | 26 |
| Wartel | units | 1,692 | 1,103 | 1,011 | 53 | 9 |
| Telex Subscribers | lines | 15,672 | 16,434 | 16,517 | 5 | 0 |
| Packet Switch Data | - | 825 | 594 | 522 | 39 | 14 |
| Pulse Production - Telephone | million pulses | 23,419 | 17,904 | 13,221 | 31 | 35 |
| Pulse Production - Telex | million pulses | 502 | 574 | 626 | 13 | 8 |
| Physical Installation | lines | 1,040,525 | 817,862 | 635,122 | 27 | 29 |
| Employee | person | 42,170 | 39,048 | 39,298 | 8 | 1 |
| Call Completion Rate Ratio (ASR) : | | | | | | |
| Total | % | 52.66 | 44.70 | 40.46 | 18 | 10 |
| Domestic Long Distance | % | 42.68 | 36.29 | 26.00 | 18 | 40 |
| Fault Rate | per 100 lines | 1.91 | 2.70 | 3.53 | 29 | 24 |
| Operating Revenues | | | | | | |
| Operating Revenues | billion Rp. | 4,043 | 3,072 | 2,426 | 32 | 27 |
| Non Operating Income | billion Rp. | 113 | 130 | 77 | 13 | 65 |
| Operating Expenses | billion Rp. | 2,740 | 2,164 | 1,778 | 27 | 22 |
| Other Expenses | billion Rp. | 271 | 238 | 231 | 14 | 3 |
| Income Before Income Taxes | billion Rp. | 1,146 | 800 | 494 | 43 | 62 |
| Provision for Income Taxes | billion Rp. | 351 | 299 | 191 | 17 | 57 |
| Net Income | billion Rp. | 795 | 501 | 303 | 59 | 65 |
| Fixed Assets Under Revenue-Sharing Arrangements (Net) | | | | | | |
| Fixed Assets (Net) | billion Rp. | 1,553 | 422 | 328 | 270 | 29 |
| Fixed Assets (Net) | billion Rp. | 6,846 | 5,559 | 4,498 | 23 | 24 |
| Current Assets | billion Rp. | 1,700 | 1,480 | 1,240 | 15 | 19 |
| Other Assets | billion Rp. | 1,529 | 1,722 | 1,817 | -8 | -5 |
| Total Assets | billion Rp. | 11,247 | 9,220 | 7,884 | 27 | 17 |
| Long Term Debt - Net of current maturities | | | | | | |
| Long Term Debt - Net of current maturities | billion Rp. | 3,300 | 2,777 | 2,240 | 19 | 24 |
| Current Liabilities | billion Rp. | 1,724 | 1,605 | 1,364 | 7 | 18 |
| Other Liabilities | billion Rp. | 2,203 | 1,029 | 956 | 114 | 8 |
| Total Liabilities | billion Rp. | 7,227 | 5,411 | 4,560 | 34 | 19 |

BUSINESS GROWTH

In percent

| NO. | DESCRIPTION | 1992 | 1993 | 1994 |
|-----|----------------------|------|------|------|
| I | OPERATING REVENUES | 28 | 27 | 32 |
| II | OPERATING EXPENSES | 28 | 22 | 27 |
| | a. Cash Expenses | 28 | 19 | 27 |
| | b. Non-cash Expenses | 27 | 27 | 26 |
| III | NET INCOME | 27 | 65 | 59 |
| IV | INFLATION | 4.90 | 9.80 | 9.20 |
| V | REAL GROWTH : | | | |
| | Operating Revenues | 27 | 24 | 29 |
| | Operating Expenses | 27 | 20 | 25 |
| | Net Income | 26 | 59 | 51 |

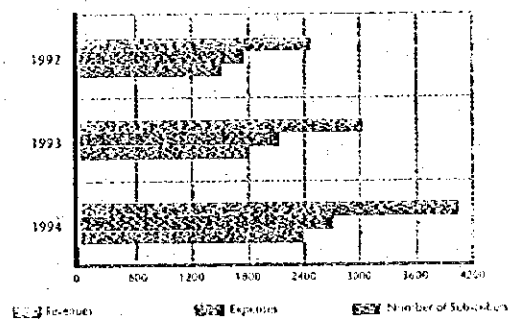
Under these conditions, TELKOM succeeded in enlarging its subscriber base by an average of 24% annually, followed by a reduction in disturbances of 23% per year. Local and domestic long distance call completion rate ratios increased by 14% and 28%, respectively each year. The telephone pulse production increase on average by 33% annually, was reflected in the increase in the Company's revenues and profit.

With the considerable performance and enhancement in service quality, operating revenues grew by an average of 29% during the last three years.

Income before income taxes increased on average by 52% per year. With all these significant performances, topped with the results of investments over the past years, TELKOM recorded a growth of assets in the range of 22% a year.

Meanwhile, long-term debt which grew on average 21% per year was not followed by other liabilities which decreased significantly in 1994.

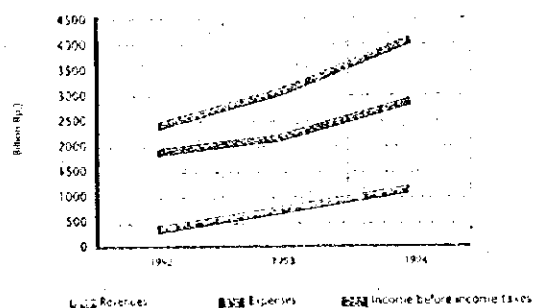
CHART ON REVENUES, EXPENSES & NUMBER OF SUBSCRIBERS

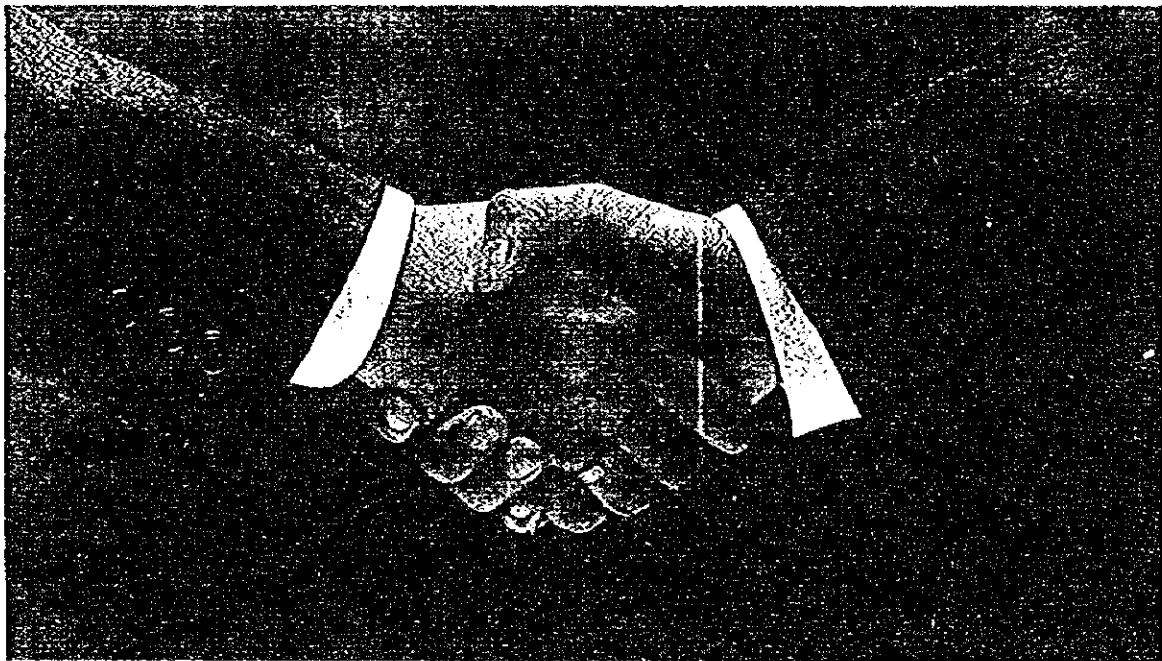


The following table depicts an interesting comparison between revenue, expenses and the number of subscribers to the operating profit.

The higher the trend of these three, the higher the profit. When the growth rate of the profit and loss is measured with the rate of the prevailing inflation against the balance factor, the growth of revenues, expenses and income before income taxes, then an increase in real growth was even more pronounced starting from 1992.

CHART ON REVENUES, EXPENSES & INCOME BEFORE INCOME TAXES





Outlook for 95 and Beyond

• Macro-economic and Industry Trends

The year 1994 marked the beginning of a new era of international open trade and market access for telecommunications with the signing of the General Agreement on Tariffs and Trade (GATT).

The Telecommunication Annex, attached to the GATS (General Agreement on Trade and Services) as an integral part, deals with the access to and use of the Public Switched Telephone Network. It requires transparency, cost-based pricing, reasonable regulatory behaviour, and competition safeguards for implementation.

These global developments mean that the days of telecommunications policy and regulations as a pure domestic concern are about to pass. As the global economy transforms to a more information-dependent structure, reasonable, non-discriminatory and cost-based access to and use of quality information transmission highways is necessary.

TÉLKOM is prepared for the rapid development of telecommunications, and the global challenge that is imminent. Considering the very low telephone penetration rate in Indonesia (1.6 telephone lines per 100 people), the market is certainly ripe for expansion. Much of the large scale expenditure has already been invested in sophisticated infrastructure, such as satellites serving the widely spread archipelago.

*Global economy
transformation :
a new era of
international
open trade and
market access.*

*Regulatory framework :
relying on market forces
while providing
the best environment
for fair and effective
competition.*

In comparison, Malaysia had a ratio of 10.8 lines per 100 people in 1992.

Even after fulfilling the 5 million new lines planned over the next five years, TELKOM will still have only "tapped" into 3.9% of the population (i.e. 3.9 lines per 100 people) by the year 2000.

Although access and demand in rural areas is currently low, international trends in rural businesses show a strong move towards telephone and facsimile usage (for business and personal use) due to the remoteness of the market.

The Indonesian economy itself is developing rapidly as it undergoes a structural transformation, from a resource-dependent to manufacturing-oriented economy. The need for an established telecommunications system in the future is necessary for the further development of the nation.

As Government funds are limited, the opportunity for private (national and international) investment is increasing with the expansion required in Indonesia.

• **Regulatory Framework**

The Government is a powerful force behind the development of Indonesia's regulatory system.

Through Telecommunications Law No. 3 (1989), Indonesia opened the doors for the private sector to play a part, in cooperation with the state-owned company in the provision and supply of services, hence releasing part of its monopoly status.

For TELKOM, the question is not "Competition or Monopoly" but "When and How to Introduce Competition". More recently, Government Regulation No. 8 (1993) was legislated for private sector access to basic services in cooperation with

state owned companies (i.e. TELKOM or INDOSAT), in the format of Joint Ventures, Joint Operations and Management Contracts.

Tariffs are set by the Ministry of Tourism, Post and Telecommunications on the basis of data and proposals prepared by the operators. Usually, tariffs are determined by considering the ability to pay and the grade of service under the budget. The accounting rate in international telecommunication services is determined by direct bilateral agreement between international gateway operators (INDOSAT or SATELINDO) and foreign carriers.

Tariffs for non-basic services are determined by the service providers and have to be approved by the government (Ministry of Tourism, Post and Telecommunication). Interconnection charges between operators are also determined by the government. Private Networks may be operated individually by closed user groups, using facilities provided by TELKOM.

TELKOM understands that even regulatory policy relies more and more on market forces. It does not mean, however, that the government will release control of the market, but instead provide an incentive-compatible environment, best suited for fair and effective competition.

The introduction of competitive market forces in the industry does not and should not result in immediate deregulation and liberalization. Instead, it requires stringent regulatory provisions, such as competitive safeguards and equal access arrangements, at least during the transitional period to full competition if truly effective competition is to be achieved. Therefore during the transitional period, the regulatory burden will be more than that under a monopolistic regime.



*'World Class Operator' :
TELKOM's commitment
to providing
international standard
service quality.*



• Towards World Class Service & Efficiency

The opening up of the Indonesian telecommunications sector has led to TELKOM being compared with other world operators - by customers, competitors, potential partners and investors.

This has led to TELKOM developing world-class service standards. Considering the rapid development strategies TELKOM has in place, management has forecasted the corporations ability to meet the following targets by the year 2001.

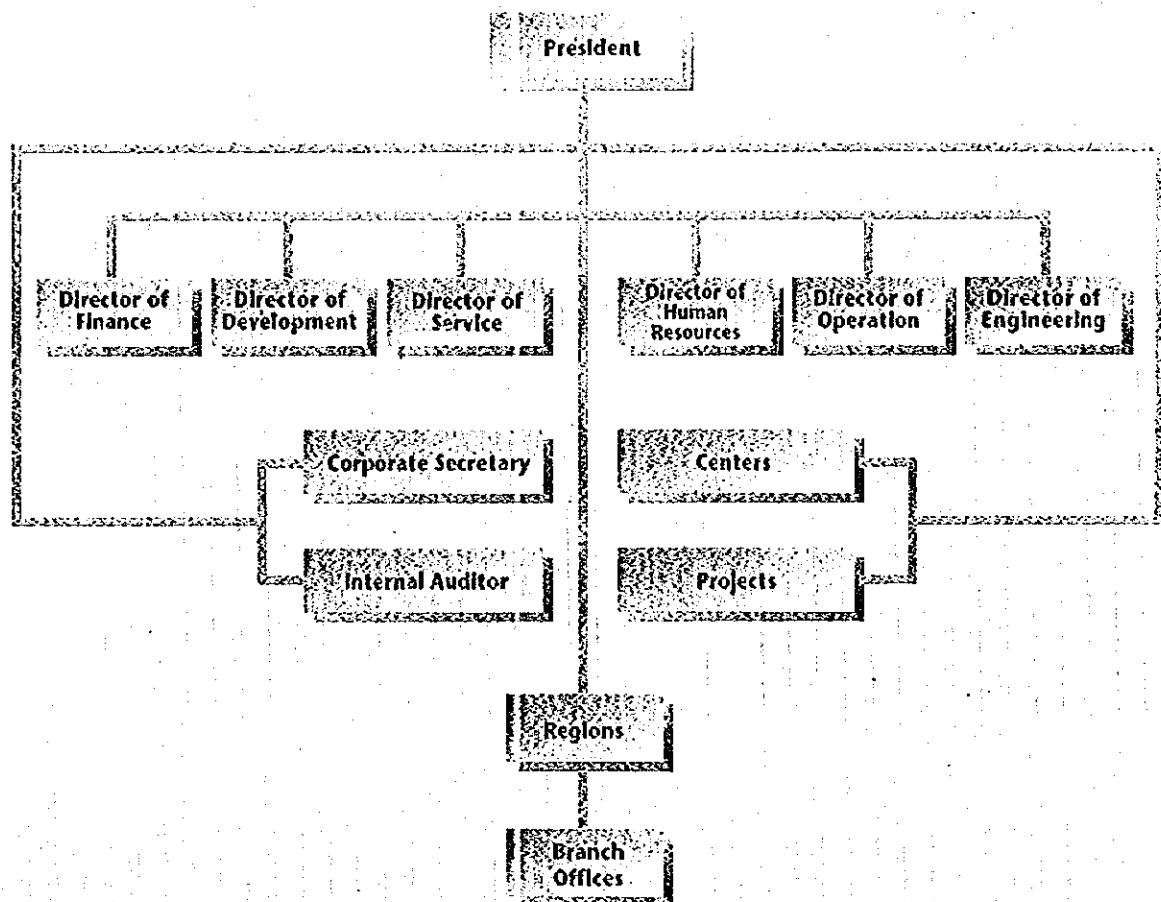
World Class Telecom Operations Objectives

| | Standard (Year 2000) |
|---|-------------------------|
| 1. New service instalment | 3 days or < |
| 2. POTS & leased-line faults fixed | 24 hours or < |
| 3. Customer fault report reducing every year | Yes |
| 4. Customer complaints answered | 20 sec or < |
| 5. Directory update to operator service | 24 hours or < |
| 6. No measurable dial tone delay | Yes |
| 7. Blocking of individual switch network | 1% or < |
| 8. Call completion rate | 99% or > |
| 9. Access lines per employee | 225 or > |

TELKOM's commitment to these service standards and its overall rapid growth plan present a major challenge. But we are confident and determined to say "We did it!".



Management Chart & Organization



Board of Directors



Left to right,

A. Purwo • Dadad Kustiwa • Setyanto P. Santosa • Muljohardjoko • Roesmonhati Soepono • Winda A. Marantika • H. Suratno



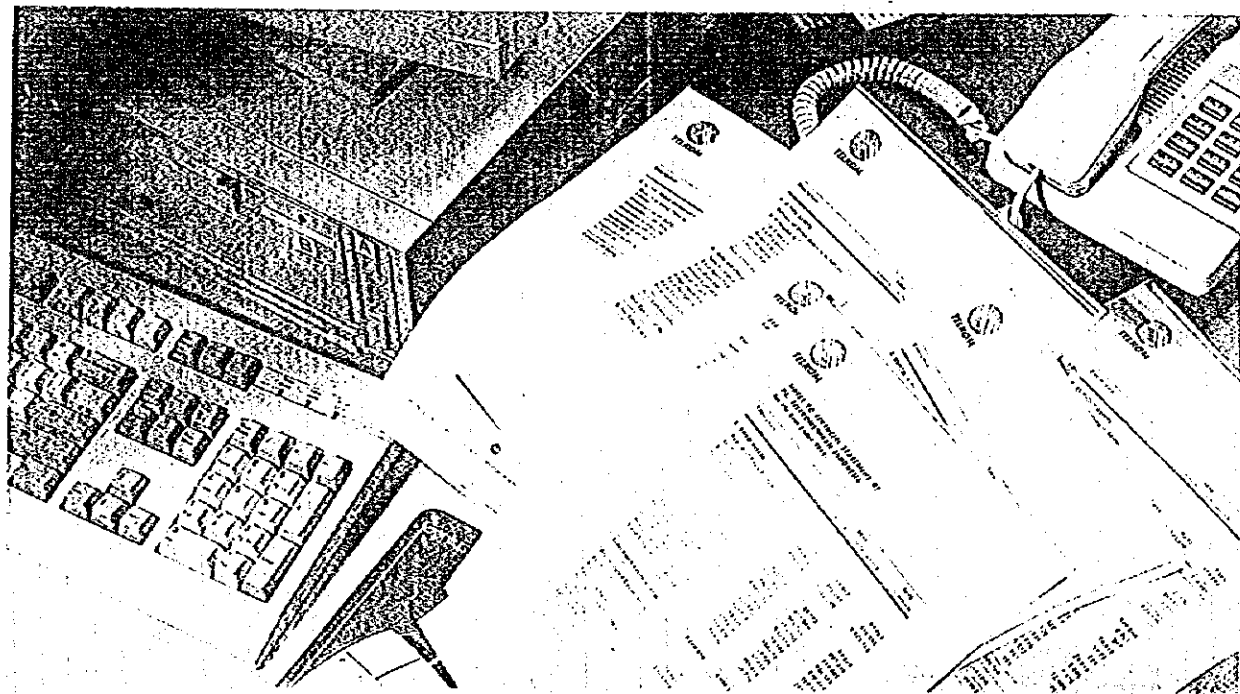
Board of Commissioners



Left to right

Soewito Tjekro • S. Relly, SH • Drs. Siharipō • Ir. Djakaria Purawidjaja BCTI, AISC • Drs. Abdoel Djahar • Prof. Dr. Rustam Didong





Financial Statement

Notes :

The following financial information has been extracted from the audited consolidated financial statements for the years ended December 31, 1992, 1993 and 1994 and the six months ended June 30, 1995 which have been audited by Prasetio, Utomo & Co. and Arthur Andersen LLP. The notes to financial statements which are herein presented have been reorganized and do not contain a complete summary of the notes the audited consolidated financial statements. The complete set of the audited consolidated financial statements are included in the Offering Circular.



BALANCE SHEETS

As of December 31, 1994 and 1993

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|---|-------------------|------------------------------|------------------|
| | Millions Rp. | Thousands US\$ ¹⁾ | Millions Rp. |
| ASSETS | | | |
| Current Assets | | | |
| Cash on hand and in banks | 237,858 | 105,903 | 232,577 |
| Short-term investments - Net | 613,691 | 273,237 | 557,949 |
| Accounts receivable | 580,046 | 258,257 | 445,604 |
| Inventories - net of allowance for obsolescence | 207,776 | 92,509 | 188,437 |
| Prepaid expenses | 60,587 | 26,976 | 55,148 |
| Total Current Assets | 1,699,958 | 756,882 | 1,479,715 |
| Long-term Investments in Stock | 58,822 | 26,190 | 37,467 |
| Property, Plant and Equipment | | | |
| Carrying value | 10,810,134 | 4,813,061 | 8,674,775 |
| Accumulated depreciation | (3,963,785) | (1,764,820) | (3,115,777) |
| Net Book Value | 6,846,349 | 3,048,241 | 5,558,998 |
| Property, Plant and Equipment Under Revenue-Sharing Arrangements | | | |
| Cost | 1,812,170 | 806,843 | 531,019 |
| Accumulated depreciation | (249,531) | (111,100) | (108,786) |
| Net Book Value | 1,562,639 | 695,743 | 422,233 |
| Other Assets | 1,578,797 | 702,937 | 1,721,607 |
| TOTAL ASSETS | 11,746,565 | 5,229,993 | 9,220,020 |

¹⁾ Rate : 1 US\$ = Rp. 2,246.00



FINANCIAL STATEMENT

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|--|-------------------|------------------|------------------|
| | Millions Rp. | Thousands US\$*) | Millions Rp. |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | | |
| Current Liabilities | 1,723,696 | 767,451 | 1,604,982 |
| Deferred Tax Liabilities - Net | 603,704 | 268,791 | 539,161 |
| Unfunded Accumulated Pension Obligation | 187,634 | 83,541 | 165,357 |
| Unearned Income Under Revenue-Sharing Arrangements - Net | 1,411,910 | 628,633 | 324,909 |
| Long Term Debt - affiliates - Net of current maturities | 3,300,466 | 1,469,486 | 2,776,932 |
| STOCKHOLDER'S EQUITY | | | |
| Capital Stock - Rp. 1,000,000 par value per priority stock and common stock | | | |
| Authorized - 2,000,000 shares of priority stock and 8,000,000 shares of common stock | | | |
| Issued and fully paid - 2,000,000 shares of priority stock | 2,000,000 | 890,472 | 2,000,000 |
| Additional Paid-in Capital | 228,847 | 101,891 | 217,921 |
| Retained Earnings | 2,290,308 | 1,019,728 | 1,590,758 |
| Total Stockholder's Equity | 4,519,155 | 2,012,090 | 3,808,679 |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | 11,746,565 | 5,229,993 | 9,220,020 |

*) Rate : 1 US\$ = Rp. 2,246.00

STATEMENTS OF INCOME

For the Years Ended December 31, 1994 and 1993.

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|--|------------------|------------------|------------------|
| | Millions Rp.**) | Thousands US\$*) | Millions Rp.**) |
| OPERATING REVENUES | | | |
| Telephone | 3,235,923 | 1,440,749 | 2,418,331 |
| Others telecommunications services | 807,513 | 359,534 | 653,853 |
| Total Operating Revenues | 4,043,436 | 1,800,283 | 3,072,184 |
| OPERATING EXPENSES | | | |
| Personnel | 1,128,594 | 502,491 | 860,795 |
| Depreciation | 992,209 | 441,767 | 787,830 |
| Operation, maintenance and telecommunications services | 364,130 | 162,124 | 283,496 |
| General and administrative | 180,500 | 80,365 | 170,155 |
| Marketing | 74,327 | 33,093 | 62,089 |
| Total Operating Expenses | 2,739,760 | 1,219,840 | 2,164,365 |
| OPERATING INCOME | 1,303,676 | 580,443 | 907,819 |
| OTHER EXPENSES (INCOME) | | | |
| Interest Expense | 270,698 | 120,524 | 238,447 |
| Interest Income | (60,451) | (26,915) | (63,122) |
| Other - Net | (52,133) | (23,211) | (67,360) |
| Other Expenses - Net | 158,114 | 70,398 | 107,965 |
| INCOME BEFORE INCOME TAXES | 1,145,562 | 510,045 | 799,854 |
| PROVISION FOR INCOME TAXES | | | |
| Current | 286,469 | 127,546 | 196,800 |
| Deferred | 64,543 | 28,736 | 102,076 |
| NET INCOME | 794,550 | 353,763 | 500,978 |
| OPERATING INCOME PER SHARE | 651,838 | 290.22 | 453,910 |
| NET INCOME PER SHARE | 397,275 | 176.88 | 250,489 |

*) Rate : 1 US\$ = Rp. 2,246.00

**) Except Per Share Data



FINANCIAL STATEMENT

OPERATING REVENUES

For the Years Ended December 31, 1994 and 1993.

| Description | 1994 | 1994 | 1993 | Growth |
|---------------------------------|------------------|------------------|------------------|-------------|
| | Millions Rp. | Thousand US\$*) | Millions Rp. | |
| Telephone | 3,235,923 | 1,440,749 | 2,418,331 | 34 % |
| Others | | | | |
| Revenue-sharing | 286,338 | 127,488 | 152,825 | 87 % |
| Compensation | 299,591 | 133,389 | 300,458 | -0.3 % |
| Satellite transponder | 119,088 | 53,022 | 82,506 | 44 % |
| Telex | 52,510 | 23,379 | 58,322 | -10 % |
| Telegram | 17,278 | 7,693 | 18,414 | -6 % |
| Leased lines | 16,954 | 7,549 | 22,623 | -25 % |
| Others | 15,754 | 7,014 | 18,705 | -16 % |
| Total Others | 807,513 | 359,534 | 653,853 | 24 % |
| TOTAL OPERATING REVENUES | 4,043,436 | 1,800,283 | 3,072,184 | 32 % |

*) Rate : 1 US\$ = Rp. 2,246.00



STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 1994, 1993 and 1992

| Description | 1994 | 1994 | 1993 | 1992 |
|---|------------------|-----------------|------------------|------------------|
| | Millions Rp. | Thousands US\$* | Millions Rp. | Millions Rp. |
| Cash Flows from Operating Activities : | | | | |
| Net Income | 794,550 | 353,763 | 500,978 | 302,788 |
| Adjustments to reconcile net income to net cash provided by operating activities : | | | | |
| Depreciation | 992,209 | 441,767 | 787,830 | 622,411 |
| Amortization of unearned income under revenue-sharing arrangements | (194,150) | (86,442) | (88,905) | (72,119) |
| Unrealized loss (gain) on foreign exchange | (2,239) | (997) | 9 | (467) |
| Provision for doubtful accounts and inventory obsolescence | 19,170 | 8,535 | 15,915 | 33,085 |
| Equity in net loss of investees | 7,381 | 3,286 | - | - |
| Gain on sale of property, plant and equipment | (875) | (389) | - | - |
| Deferred tax liabilities - net | 64,543 | 28,736 | 102,076 | 83,943 |
| Increase in accounts receivable | (151,473) | (67,441) | (93,434) | (53,089) |
| Increase in inventories | (21,478) | (9,563) | (52,500) | (10,198) |
| Increase in prepaid expenses | (5,439) | (2,422) | (1,373) | (14,247) |
| Depreciation of property not used in operation | 6,193 | 2,757 | 2,627 | 263 |
| Decrease (increase) in claim for tax refund | - | - | 13,396 | (13,396) |
| Increase (decrease) in accounts payable | (139,744) | (62,219) | 54,205 | 191,051 |
| Increase in accrued expenses | 116,983 | 52,085 | 123,174 | 183,480 |
| Increase in unearned income | 40,835 | 18,181 | 1,282 | 1,023 |
| Increase (decrease) in advances from customers and suppliers | (21,215) | (9,446) | (17,467) | 56,318 |
| Increase in taxes payable | 63,894 | 28,448 | 60,854 | 61,393 |
| Net cash provided by operating activities | 1,569,145 | 698,639 | 1,408,667 | 1,372,239 |
| Cash Flows from Investing Activities : | | | | |
| Purchases of short-term investments with original maturities of more than three months | (324,480) | (144,470) | (568,229) | (646,582) |
| Proceeds from sales and maturity of short-term investments with original maturities of more than three months | 639,131 | 284,564 | 525,123 | 468,420 |
| Proceeds from sale of property, plant and equipment | 3,371 | 1,501 | - | - |
| Increase in long-term receivable - affiliate | (25,809) | (11,491) | - | - |
| Payments for construction in progress | (525,415) | (233,934) | (616,696) | (580,182) |
| Acquisitions of property, plant and equipment | (427,762) | (190,455) | (339,916) | (435,436) |
| Increase in long-term investments in stock | (28,736) | (12,794) | (37,467) | - |
| Acquisitions of property not used in operations | (14,857) | (6,615) | (47,542) | (4,594) |
| Decrease (increase) in advances and others | (56,905) | (25,336) | 78,894 | 19,535 |
| Net cash used in Investing activities | 761,462 | 339,030 | 1,005,833 | 1,178,839 |



FINANCIAL STATEMENT

| Description | 1994 | 1994 | 1993 | 1992 |
|--|--------------|------------------|--------------|--------------|
| | Millions Rp. | Thousands US\$*) | Millions Rp. | Millions Rp. |
| Cash Flows from Financing Activities : | | | | |
| Cash dividend paid | (85,000) | (37,845) | (98,386) | - |
| Repayment of long-term debt - affiliates | (339,248) | (151,045) | (231,212) | (229,112) |
| Cash distribution from appropriated retained earnings | (10,000) | (4,452) | (8,363) | - |
| Net cash used in financing activities | (434,248) | (193,342) | (337,961) | (229,112) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 373,435 | 166,267 | 64,873 | (35,712) |
| Effect of Foreign Exchange Differences | 2,239 | 997 | (9) | 467 |
| Cash and Cash Equivalents at Beginning of Period | 303,908 | 135,310 | 239,044 | 274,289 |
| Cash and Cash Equivalents at End of Period | 679,582 | 302,574 | 303,908 | 239,044 |
| Details of Cash and Cash Equivalents : | | | | |
| Cash on hand and in banks | 237,858 | 105,903 | 232,577 | 157,577 |
| Cash equivalents | 441,724 | 196,671 | 71,331 | 81,467 |
| Cash and cash equivalents | 679,582 | 302,574 | 303,908 | 239,044 |
| Other treasury elements : | | | | |
| Short-term investments with original maturities of more than three months | 171,967 | 75,566 | 486,618 | 443,513 |
| Cash on hand and in banks and short-term investments as stated in the balance sheets | 851,549 | 379,140 | 790,526 | 682,557 |
| SUPPLEMENTAL INFORMATION RELATED TO THE STATEMENT OF CASH FLOWS | | | | |
| Cash paid during the period for : | | | | |
| Income taxes | 226,754 | 100,959 | 226,754 | 226,754 |
| Interest - net of interest capitalized | 251,305 | 111,890 | 249,799 | 190,379 |
| Transactions not affecting cash flows : | | | | |
| Transfer of construction in progress to property, plant and equipment | 1,705,133 | 759,187 | 1,416,476 | 1,148,681 |
| Increase in construction in progress through incurrence of long-term debt - affiliates | 792,645 | 352,914 | 714,718 | 763,037 |
| Additional paid-in capital from : | | | | |
| Transfer of property, plant and equipment | 8,416 | 3,747 | 47,568 | 60,988 |
| Conversion of long-term debt - affiliate | 2,510 | 1,118 | 6,308 | 20,136 |
| Capitalization of Interest during construction | 130,608 | 58,151 | 115,869 | 89,582 |
| Acquisition of property, plant and equipment under revenue-sharing arrangements | 1,281,151 | 570,415 | 138,892 | 239,404 |

*) Rate : 1 US\$ = Rp. 2,246.00

1. Current Assets

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|---|---------------|------------------|---------------|
| | Millions Rp. | Thousands US\$*) | Millions Rp. |
| Cash on hand and in banks | 237,858 | 105,903 | 232,577 |
| Short-term Investment - net | | | |
| Affiliates | | | |
| Indonesian Rupiah | | | |
| Time deposits | 266,030 | 118,446 | 138,864 |
| Marketable securities - net | 6,970 | 3,103 | 6,970 |
| Foreign currencies | | | |
| Time deposits | 262,524 | 116,885 | 396,180 |
| Sub total | 535,524 | 238,435 | 542,014 |
| Third Parties - Time Deposits | | | |
| Indonesian rupiah | 78,055 | 34,753 | 15,935 |
| Foreign currencies | 112 | 50 | — |
| Sub-total | 78,167 | 34,803 | 15,935 |
| Total Short-term Investment | 613,691 | 273,237 | 557,949 |
| Accounts Receivable | | | |
| Trade | | | |
| Affiliates - net of allowance for doubtful accounts of | | | |
| Rp 13,654 as of December 31, 1994 and | | | |
| Rp 10,513 of December 31, 1993 | 132,959 | 59,198 | 111,200 |
| Third Parties - net of allowance for doubtful accounts of | | | |
| Rp 33,644 as of December 31, 1994 and | | | |
| Rp 19,754 of December 31, 1993 | 434,127 | 193,289 | 322,319 |
| Others | 12,960 | 5,770 | 12,085 |
| Total accounts receivable | 580,046 | 258,257 | 445,604 |
| Inventories | | | |
| Cable and transmission installation spare parts | 128,464 | 57,197 | 101,517 |
| Telephone terminal, cards and spare parts | 104,890 | 46,701 | 112,827 |
| Inventories in transit | 8,387 | 3,734 | 8,197 |
| Other spare parts | 10,283 | 4,578 | 8,005 |
| Total | 252,024 | 112,210 | 230,546 |
| Less allowance for obsolescence | 44,248 | 19,701 | 42,109 |
| Net inventories | 207,776 | 92,509 | 188,437 |
| Prepaid expenses | 60,587 | 26,976 | 55,148 |
| Total Current Assets | 1,699,958 | 756,882 | 1,479,715 |

*) Rate : 1 US\$ = Rp. 2,246.00



FINANCIAL STATEMENT

2. Investment In Shares of Stock

| Description | Balance | | Dec. 31, 1993 Millions Rp. |
|------------------------------|-------------------------------|------------------|-------------------------------|
| | Dec. 31, 1994 Millions Rp. | Thousands US\$*) | |
| PT Satelit Palapa Indonesia | 22,619 | 10,071 | 30,000 |
| PT Radio Telepon Indonesia | 18,000 | 8,014 | 7,200 |
| PT Aplikasi Lintasarta | 12,303 | 5,478 | — |
| PT Pasifik Satelit Nusantara | 3,290 | 1,465 | 267 |
| PT Telekomindo Primabhakti | 2,460 | 1,095 | — |
| PT Bangtelindo | 150 | 67 | — |
| Total | 58,822 | 26,190 | 37,467 |

*) Rate : 1 US\$ = Rp. 2,246.00

3. Property, Plant and Equipment

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|---|-------------------|------------------|------------------|
| | Millions Rp. | Thousands US\$*) | Millions Rp. |
| Carrying Value: | | | |
| Land | 64,801 | 28,852 | 43,043 |
| Landrights | 53,279 | 23,722 | 45,163 |
| Buildings | 805,217 | 358,512 | 571,189 |
| Switching equipment | 3,348,943 | 1,491,070 | 2,897,415 |
| Telegraph, telex and data communication equipment | 208,812 | 92,971 | 198,200 |
| Transmission installation and equipment | 1,522,894 | 678,047 | 1,198,844 |
| Satellite, earth station and equipment | 1,201,027 | 534,740 | 1,077,267 |
| Cable network | 2,215,299 | 986,331 | 1,597,981 |
| Power supply | 401,960 | 178,967 | 326,236 |
| Data processing equipment | 189,844 | 84,525 | 101,668 |
| Other telecommunications peripherals | 568,427 | 253,084 | 432,598 |
| Office equipment | 157,710 | 70,218 | 123,097 |
| Vehicles | 70,934 | 31,582 | 61,089 |
| Other equipment | 987 | 439 | 985 |
| Total | 10,810,134 | 4,813,061 | 8,674,775 |
| Less accumulated depreciation: | | | |
| Landrights | 20,707 | 9,220 | 17,638 |
| Buildings | 240,903 | 107,259 | 200,846 |
| Switching equipment | 1,034,533 | 460,611 | 822,901 |
| Telegraph, telex and data communication equipment | 116,335 | 51,797 | 102,845 |
| Transmission installation and equipment | 497,135 | 221,342 | 382,576 |
| Satellite, earth station and equipment | 689,218 | 306,865 | 539,507 |
| Cable network | 714,107 | 317,946 | 563,118 |
| Power supply | 185,838 | 82,742 | 142,333 |
| Data processing equipment | 38,816 | 17,282 | 27,409 |
| Other telecommunications peripherals | 304,857 | 135,733 | 227,621 |
| Office equipment | 80,086 | 35,657 | 57,001 |
| Vehicles | 40,749 | 18,143 | 31,621 |
| Other equipment | 501 | 223 | 361 |
| Total | 3,963,785 | 1,764,820 | 3,115,777 |

*) Rate : 1 US\$ = Rp. 2,246.0



FINANCIAL STATEMENT

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|---|---------------|------------------------------|---------------|
| | Millions Rp. | Thousands US\$ ^{*)} | Millions Rp. |
| Net book value: | | | |
| Land | 64,801 | 28,852 | 43,043 |
| Landrights | 32,572 | 14,502 | 27,525 |
| Buildings | 564,314 | 251,253 | 370,343 |
| Switching equipment | 2,314,410 | 1,030,459 | 2,074,514 |
| Telegraph, telex and data communication equipment | 92,477 | 41,174 | 95,355 |
| Transmission installation and equipment | 1,025,759 | 456,705 | 816,268 |
| Satellite, earth station and equipment | 511,809 | 227,876 | 537,760 |
| Cable network | 1,501,192 | 668,385 | 1,034,863 |
| Power supply | 216,122 | 96,225 | 183,903 |
| Data processing equipment | 151,028 | 67,243 | 74,259 |
| Other telecommunications peripherals | 263,570 | 117,351 | 204,977 |
| Office equipment | 77,624 | 34,561 | 66,096 |
| Vehicles | 30,185 | 13,439 | 29,468 |
| Other equipment | 486 | 216 | 624 |
| Total | 6,846,349 | 3,048,241 | 5,558,998 |

^{*)} Rate : 1 US\$ = Rp. 2,246.00



4. Property, Plant and Equipment Under Revenue-Sharing Arrangements

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|---|------------------|------------------------------|----------------|
| | Millions Rp. | Thousands US\$ ^{*)} | Millions Rp. |
| Cost: | | | |
| Landrights | 15,948 | 7,101 | 1,394 |
| Buildings | 26,790 | 11,928 | 5,963 |
| Switching equipment | 925,346 | 411,997 | 258,519 |
| Transmission installation and equipment | 312,844 | 139,289 | 153,032 |
| Cable network | 408,253 | 181,769 | 65,527 |
| Power supply | 2,549 | 1,135 | 2,549 |
| Other telecommunications peripherals | 120,440 | 53,624 | 44,035 |
| Total | 1,812,170 | 806,843 | 531,019 |
| Less accumulated depreciation: | | | |
| Landrights | 314 | 140 | 52 |
| Buildings | 1,565 | 697 | 612 |
| Switching equipment | 81,908 | 36,468 | 32,727 |
| Transmission installation and equipment | 76,628 | 34,118 | 37,109 |
| Cable network | 41,422 | 18,443 | 11,072 |
| Power supply | 1,900 | 846 | 1,700 |
| Other telecommunications peripherals | 45,794 | 20,389 | 25,514 |
| Total | 249,531 | 111,100 | 108,786 |
| Net book value: | | | |
| Landrights | 15,634 | 6,961 | 1,342 |
| Buildings | 25,225 | 11,231 | 5,351 |
| Switching equipment | 843,438 | 375,529 | 225,792 |
| Transmission installation and equipment | 236,216 | 105,172 | 115,923 |
| Cable network | 366,831 | 163,326 | 54,455 |
| Power supply | 649 | 289 | 849 |
| Other telecommunications peripherals | 74,646 | 33,235 | 18,521 |
| Total | 1,562,639 | 695,743 | 422,233 |

^{*)} Rate : 1 US\$ = Rp. 2,246.00



5. Other Assets

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|---------------------------------|------------------|------------------------------|------------------|
| | Millions Rp. | Thousands US\$ ^{*)} | Millions Rp. |
| Construction in progress | 998,967 | 444,776 | 1,255,432 |
| Advances and others | 308,476 | 137,345 | 251,571 |
| Intangible pension asset | 187,634 | 83,541 | 165,357 |
| Property not used in operations | 57,911 | 25,784 | 49,247 |
| Long-term receivable-affiliate | 25,809 | 11,491 | — |
| Total | 1,578,797 | 702,937 | 1,721,607 |

^{*)} Rate : 1 US\$ = Rp. 2,246.00

6. Current Liabilities

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|---------------------------------------|------------------|------------------------------|------------------|
| | Millions Rp. | Thousands US\$ ^{*)} | Millions Rp. |
| Accounts payable | | | |
| Trade | 611,174 | 272,117 | 751,530 |
| Others | 25,213 | 11,226 | 24,601 |
| Taxes payable | 197,780 | 88,059 | 133,886 |
| Accrued expenses | 465,418 | 207,221 | 348,435 |
| Unearned income | 46,900 | 20,881 | 6,065 |
| Current maturities of long-term debt | 329,608 | 146,753 | 271,647 |
| Advances from customers and suppliers | 47,603 | 21,194 | 68,818 |
| Total | 1,723,696 | 767,451 | 1,604,982 |

^{*)} Rate : 1 US\$ = Rp. 2,246.00

7. Deferred Tax Liabilities - Net

| Description | Dec. 31, 1994 | | Dec. 31, 1993 |
|--------------------------------------|---------------|------------------------------|---------------|
| | Millions Rp. | Thousands US\$ ^{*)} | Millions Rp. |
| Deferred tax assets | | | |
| Pension liability | (41,821) | (18,620) | (45,264) |
| Allowance for doubtful accounts | (14,190) | (6,318) | (10,594) |
| Allowance for inventory obsolescence | (13,274) | (5,910) | (14,737) |
| Deferred tax liabilities | | | |
| Property, plant and equipment | 675,203 | 300,625 | 609,756 |
| Long-term investments in stock | (2,214) | (986) | - |
| Deferred tax liabilities - net | 603,704 | 268,791 | 539,161 |

^{*)} Rate : 1 US\$ = Rp. 2,246.00

8. Long-term debt-Affiliates

| Creditors | Dec. 31, 1994 | | Dec. 31, 1993 |
|---|---------------|------------------------------|---------------|
| | Millions Rp. | Thousands US\$ ^{*)} | Millions Rp. |
| Government of the Republic of Indonesia | | | |
| Two-step loans obtained from: | | | |
| - Overseas bank | 3,295,851 | 1,467,431 | 2,689,582 |
| - Contractor | 216,980 | 96,607 | 146,184 |
| Government Investment Account | 30,491 | 13,575 | 60,962 |
| State-owned banks: | | | |
| Consortium of banks - coordinated by | | | |
| PT Bank Negara Indonesia (Persero) | 84,458 | 37,604 | 83,480 |
| PT Bank Negara Indonesia (Persero) | 2,294 | 1,021 | 2,294 |
| PT Bank Ekspor Import Indonesia (Persero) | - | - | 66,077 |
| Total | 3,630,074 | 1,616,240 | 3,048,579 |
| Less current maturities | 329,608 | 146,753 | 271,647 |
| Net | 3,300,466 | 1,469,486 | 2,776,932 |

^{*)} Rate : 1 US\$ = Rp. 2,246.00



FINANCIAL STATEMENT

Investment in Shares of Stock

| Description | Percentage of Ownership (%) | |
|------------------------------|-----------------------------|-------|
| | 1994 | 1993 |
| PT Satelit Palapa Indonesia | 30.00 | 30.00 |
| PT Radio Telepon Indonesia | 45.00 | 45.00 |
| PT Applikanusa Lintasarta | 25.00 | — |
| PT Pasifik Satelit Nusantara | 30.80 | 40.00 |
| PT Telekomindo Primabhakti | 10.00 | — |
| PT Bangtelindo | 15.00 | — |



Restatement of 1992, 1993, and 1994 Financial Statements

Previously, The Company issued its 1992, 1993 and 1994 financial statements to its stockholder, creditors and other parties deemed necessary by the Company's management and its stockholder. These financial statements were audited by the State Auditors.

In connection with the Company's planned initial public offering, the Company has decided to restate such financial statements based on the following reasons:

- a. To make the 1992, 1993 and 1994 financial statements comparable with those for the six months ended June 30, 1995 prepared under the new Indonesian Statements of Financial Accounting Standards which became effective starting from January 1, 1995.
- b. To conform more closely with common accounting practices in telecommunications industry worldwide.
- c. To conform more closely with U.S. GAAP to an extent that such application is still in conformity with or allowed under Indonesian GAAP. This will minimize differences between the Company's accounting practices and U.S. GAAP.

The significant restatements covered the following areas :

- a. Reinstatement of original cost and accumulated depreciation of property, plant and equipment which were netted off in 1991 when the status of the Company was changed from "Perum" to "Persero".
- b. Change in the depreciation method from the double-declining balance method to the straight-line method. The depreciation rates were also revised to conform with industry practices.
- c. Change in the recognition of pension cost from the accrual method based on the Company's estimated payments to the pension fund for the current period to method in accordance with PSAK 24.
- d. Recognition of the property, plant and equipment which are built by investors under revenue-sharing arrangements as the Company's assets, based on PSAK 35 (and the amortization of the related unearned income in a systematic manner as income over the revenue-sharing period). Previously, no such property, plant equipment under revenue-sharing arrangements and unearned income were recognized.
- e. Revenues from the usage charge were restated to include those which have been earned but not yet taken up in the accounts at balance sheet date (full accrual basis). Previously, revenues from the usage charge for each month were recognized only up to a certain cut-off date within that month, with the revenues for the rest of the month taken up in the succeeding month. Revenues from installations charges were restated to recognize these revenues as current income at the time the installations are placed in service. Previously, revenues from installations charges were deferred and amortized for two years.



- f. Charging to current income employee bonuses previously charged directly to retained earnings.
- g. Change in the accounting for corporate income Tax from the tax payable method to the liability method.
- h. Reclassification of capitalized charges (such as interest during construction), previously accounted for separately as Deferred Charges, to the related property, plant and equipment or to expense accounts.
- i. Charge-off of certain deferred charges to current income.

The financial statements presented herein have been prepared on the restated basis and are significantly different from those previously issued.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basic of Consolidated Financial Statements

The financial statements of the Company and its subsidiary have been prepared in accordance with generally accepted accounting principles in Indonesia ("Indonesian GAAP") which differ in certain respect from generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements also include certain reclassifications and additional disclosures in order to conform more closely to the form and content of financial statements required by the Securities and Exchange Commission of the United States of America (the "SEC").

The financial data and accompanying notes for the six month ended June 30, 1994 are unaudited but reflect all adjustments (consisting only of normally recurring adjustments) which are, in the opinion of management, necessary to present the result of operations for such period on a basis consistent with that applied to the audited annual consolidated financial statements.

The consolidated financial statements are presented on the historical cost basis of accounting, except for certain assets included in property, plant and equipment that were revalued in 1979 and 1987.

b. Principles of Consolidation

The consolidated financial statements include the Company's accounts and those of Telkomsel, the Company's 51%-owned subsidiary. Minority interest in subsidiary company represents the minority stockholder's (Indosat) proportionate share in the equity and income of Telkomsel. All significant inter-company transactions have been eliminated in the consolidated financial statements.

c. Consolidated Statements of Cash Flows

The cash flows from operating activities are reported under the indirect method. For purposes of reporting cash flows, all highly liquid investment purchased with original maturities of three months or less are classified as cash equivalents. The consolidated statements of cash flows classify cash receipts and payments into operating, investing and financing activities.

d. Transactions with Related Parties

The Company and its subsidiary have transactions with certain parties which are related to them. A related party relationship is defined as follows:

- (i) enterprises that, through one or more intermediaries, control, are controlled by, or are under common control with, the reporting enterprise (including holding companies, subsidiaries and fellow subsidiaries);
- (ii) associated companies;
- (iii) individuals owning, directly or indirectly, an interest in the voting power of the reporting enterprise that gives them significant influence over the enterprise, and close members of the family of any such individual (close members of a family are defined as those members who are able to exercise influence or can be influenced by such individuals, in conjunction with their transactions with the reporting enterprise);
- (iv) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting enterprise, including commissioners, directors and managers of the enterprise and close members of the families of such individuals; and
- (v) enterprise in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (iii) or (iv) or over which such a person is able to exercise significant influence. This includes enterprises owned by commissioners, directors or major stockholders of the reporting enterprise that have a member of key management in common with the reporting enterprise.

e. Short-term Investments

Short-term investments consist of time deposits and marketable securities traded on the stock exchanges. Marketable securities are stated at the lower of cost or market value.

f. Allowance for Doubtful Accounts

An allowance for doubtful receivables is provided based upon the evaluation of the collectibility of the receivables at the end of the period.

g. Inventories

Inventories are stated at cost, determined on the weighted-average method. Allowance is made to reduce the carrying value of inventories to their net realizable value.

h. Prepaid Expenses

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

i. Long-term Investments in Stock

Investments in which the Company or its subsidiary has an ownership interest of at least 20% but not exceeding 50% are accounted for by the equity method whereby the investment cost is increased or decreased by the Company or subsidiary's share of the net earnings or losses of the investee companies and decreased by dividend income. Investments in which the ownership interest of less than 20% are carried at cost.

At the time a subsidiary or an investee which is accounted for under the equity method sells its stock to unrelated parties at a price different from its book value, the Company's net investment in that subsidiary or investee is affected. The Company recognizes the resultant changes in its net investment in the subsidiary or investee by a credit to "Additional Paid-In Capital".

j. Property, Plant and Equipment

Most of the Company's property, plant and equipment which were being used in operations and acquired prior to January 1, 1979 and January 1, 1987 have been revalued in accordance with decree No. 109/KMK.04/1979 dated March 27, 1979 of the Minister of Finance of the Republic of Indonesia and Government Regulation No. 45 of 1986, respectively. The revaluation increments of Rp. 86,787 resulting from the 1979 revaluation and Rp. 381,908 resulting from the 1987 revaluation, were capitalized to capital stock in 1984 and 1988, respectively. Acquisitions after those dates are stated at cost.

Depreciation of property, plant and equipment is computed on the straight-line method, based on the estimated useful lives of the assets as follows:

| | No. of Years |
|---|--------------|
| Landrights | 20 to 30 |
| Buildings | 20 |
| Switching equipment | 5 to 15 |
| Telegraph, telex and data communication equipment | 5 to 15 |
| Transmission installation and equipment | 5 to 20 |
| Satellite, earth station and equipment | 5 to 15 |
| Cable network | 5 to 15 |
| Power supply | 5 to 10 |
| Data processing equipment | 5 to 10 |
| Other telecommunications peripherals | 5 |
| Office equipment | 5 |
| Vehicles | 5 |
| Other equipment | 5 |

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

k. Revenues-Sharing Arrangements

Under Indonesian Statement of Financial Accounting Standards No. 35, "Accounting for Income from Telecommunications Services" ("PSAK 35"), assets under revenue-sharing arrangements are to be capitalized by the party (the organizing body) to whom ownership in such assets shall be transferred at the end of the revenue-sharing period, if the following criteria are met:

- There is a certainty that the organizing body will acquire the assets, the ownership of which will be transferred at the end of the cooperation period.
- The organizing body will be free from any claims from third parties with respect to the acquisition of such assets.
- The agreement covering the revenue-sharing arrangement is irrevocable.

The Company records such assets as "Property, Plant and Equipment under Revenue-Sharing Arrangements" (with a corresponding initial credit to "Unearned Income under Revenue-Sharing

Arrangements" presented under the Liabilities section of the balance sheets) based on the costs incurred by the investors as agreed upon in the contracts entered into by the Company and the investors. The property, plant and equipment are depreciated over their estimated useful lives on the straight-line basis.

The property, plant and equipment and unearned income are recorded at the beginning of the revenue-sharing period. The unearned income related to the acquisition of the property, plant and equipment is amortized over the revenue-sharing period on the straight-line basis.

At the end of the revenue-sharing period, the respective property, plant and equipment under revenue-sharing arrangements are reclassified to the "Property, Plant and Equipment" account. When property, plant and equipment under revenue-sharing arrangements are acquired by the Company before a revenue-sharing period ends, the net book value of the assets is reclassified to the "Property, Plant and Equipment" account, and the balance of the related unearned income is closed out. Any resulting gain or loss thereon is reflected in current income.

l. Construction In Progress

Construction in progress represents property, plant and equipment under construction. This includes the costs of the construction, direct labor costs spent on the construction, and interest on loans used to finance the construction. Capitalization of interest ceases when the construction is completed and the constructed assets is ready for its intended use.

m. Pension Plan

The Company has a defined benefit plan covering all of its employees.

The plan is managed by Yayasan Dana Pensiun Pegawai PT Telkom Indonesia ("YDPP Telkom"), a pension foundation. Pension contributions are determined by periodic actuarial calculations. The employees contribute 8.4% of their basic salaries plus managerial allowances (up to July 1, 1994, the rate was 5% of their basic salaries) to the plan and any remaining amount required to fund the plan is contributed by the Company. The Company accounts for the pension defined benefit plan on a basis consistent with Indonesian Statement of Financial Accounting Standards No. 24, "Accounting for Pension Benefit Cost" ("PSAK 24"), with effect from January 1, 1992.

n. Loans Obtained by the Government from Overseas Banks and Contractor ("Two-step loans")

The recognition of two-step loans is based on the Withdrawal Authorization ("WA") or other similar documents issued by the lenders. The loans entered into up to July 1994 are recorded and are payable in Indonesian rupiah based on the exchange rate at the date of withdrawal. Loans entered into after July 1994 are payable in their original currencies and any resulting foreign exchange gain or loss is borne by the Company.

o. Revenues and Expense Recognition

Revenues, excluding Value Added Tax ("VAT"), are accounted for on the accrual basis.

Revenues from installations are recognized as income at the time installations are placed in service. Revenues from the usage charges which have been earned but not yet taken up in the accounts are estimated at the end of the period, based on prior month's traffic. Differences between estimated and actual revenues, which have not been significant, are recognized in the following period.

Revenues under revenue-sharing arrangements are recognized based on the Company's share as provided in contractual agreements.

Revenues from network interconnection with other domestic and international telecommunication carriers are recognized on a net basis.

Expenses are recognized as these are incurred.

p. Postretirement Health Care Plan

The Company has a postretirement health care plan which provides benefits to all of its pensioners who have worked for more than 20 years, including their eligible dependents. The cost of providing these benefits was recognized when claimed. With effect from January 1, 1995, the Company recognizes the cost of the benefits over the working lives of its employees based on actuarial computations. This practice is similar to that provided by Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postemployment Benefits Other Than Pensions" ("SFAS 106") of U.S. GAAP.

q. 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, assets and liabilities denominated in foreign currencies are adjusted to reflect the rates prevailing at such date. The resulting gains or losses on foreign exchange transactions and translation of foreign currency assets and liabilities are credited or charged to current operations.

r. Deferred Income Taxes

The Company follows the liability method in accounting for Income Taxes. Deferred Income Taxes are provided to reflect the tax effect of temporary differences between financial and tax reporting principally relating to pension, depreciation, provision for doubtful accounts, provision for inventory obsolescence and equity in net assets of investee. This practice is similar to that provided by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109") of U.S. GAAP.

s. Operating Income per Share and Net Income per Share

Operating income per share and net income per share are computed by dividing operating income and net income, respectively, by the weighted average number of priority shares outstanding during the period.

Translations of Indonesian Rupiah Amounts Into United States Dollar Amounts

The financial statements are stated in Indonesian rupiah. The translations of the Indonesian rupiah amounts into United States dollars are included solely for the convenience of the readers, using the average buying and selling rates published by Bank Indonesia (Central Bank) on June 30, 1995 of Rp. 2,246 to U.S.\$1. The convenience translations should not be construed as representations that the Indonesian rupiah amounts have been, could have been, or could, in the future be, converted into United States dollars at this or any other rate of exchange.

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