


**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF XL FOR THE FINANCIAL YEARS ENDED  
31 DECEMBER 2004 TO 31 DECEMBER 2006 AND THE AUDITORS' REPORT**

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**INDEPENDENT AUDITORS' REPORT  
TO THE SHAREHOLDERS OF  
PT EXCELCOMINDO PRATAMA Tbk**

We have audited the accompanying consolidated balance sheets of PT Excelcomindo Pratama Tbk (the "Company") and subsidiaries (together, "the Group") as of 31 December 2006, 2005 and 2004 and the related consolidated statements of income, changes in equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of PT Excelcomindo Pratama Tbk and subsidiaries as of 31 December 2006, 2005 and 2004, and the consolidated results of their operations, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Indonesia.

As explained in Notes 2m and 3 to the consolidated financial statements, in 2005 the Group adopted Statement of Financial Accounting Standards (PSAK) No. 24 (Revised 2004), *Employee Benefits*. Accordingly, the 2004 consolidated financial statements have been restated.

JAKARTA  
22 February 2007



**Drs. Haryanto Sahari**  
License of Public Accountant No. 93.1.0285

*The accompanying consolidated financial statements are not intended to present the consolidated financial position, consolidated results of operations, and consolidated cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Indonesia. Accordingly, the accompanying consolidated financial statements and their utilisation are not designed for those who are not informed about Indonesian accounting principles, procedures and practices.*

*The standards, procedures, and practices utilised in Indonesia to audit such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than Indonesia.*

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
AS OF 31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, except par value per share)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>	<u>2004<sup>1)</sup></u>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	2a,4	587,176,395	880,484,818	426,886,773
Trade receivables - net of allowance for doubtful accounts	2e			
- Third parties	5	187,395,919	145,215,352	117,349,021
- Related parties	2c,21b	16,902,019	1,513,210	-
Other receivables				
- Third parties		3,767,409	7,919,338	1,496,409
- Related parties	2c,21c	6,446	-	-
Inventories	2f	35,376,788	42,751,883	57,677,148
Prepaid taxes	2l,19a	185,535,217	181,183,143	88,970,854
Advances and other prepayments	6	167,095,423	107,168,979	65,869,006
Other assets	2h, 7	148,305	4,612,121	44,531,250
Total current assets		<u>1,183,403,921</u>	<u>1,370,848,844</u>	<u>802,780,461</u>
<b>NON-CURRENT ASSETS</b>				
Fixed assets - net of accumulated depreciation	2g,2k,8	10,462,009,661	7,471,058,241	5,273,119,855
Deferred tax assets	2l,19d	-	1,354,943	-
Other assets	2h, 7	991,162,178	510,687,811	398,559,116
Total non-current assets		<u>11,453,171,839</u>	<u>7,983,100,995</u>	<u>5,671,678,971</u>
<b>TOTAL ASSETS</b>		<u><b>12,636,575,760</b></u>	<u><b>9,353,949,839</b></u>	<u><b>6,474,459,432</b></u>
<b>CURRENT LIABILITIES</b>				
Trade payables:				
- Third parties	9	1,664,883,959	1,210,931,390	609,943,831
- Related parties	2c,21d	6,621,242	5,575	-
Taxes payable	2l,19b	46,220,252	30,573,088	22,087,586
Other payables and accruals				
- Third parties	10	453,759,693	235,672,575	204,425,224
- Related parties	2c,21e	-	591,796	198,661
Deferred revenue	2d	128,721,847	74,578,740	59,407,330
Derivatives payable	2j,11	42,154,808	-	-
Short term lenders loan	12	-	688,100,000	-
Total current liabilities		<u>2,342,361,801</u>	<u>2,240,453,164</u>	<u>896,062,632</u>
<b>NON-CURRENT LIABILITIES</b>				
Trade payables - third parties	9	282,170,298	52,358,496	-
Deferred tax liabilities	2l,19d	347,152,940	-	90,023,957
Long term bonds	2i,13	5,345,184,876	3,401,284,548	4,430,519,788
Provision for employee benefits	2m,14a	38,511,362	30,542,601	27,154,276
Total non-current liabilities		<u>6,013,019,476</u>	<u>3,484,185,645</u>	<u>4,547,698,021</u>
<b>EQUITY</b>				
Share capital - authorised capital 22,650,000,000 (2004: 2,265,000) ordinary shares, issued and fully paid 7,090,000,000 (2004:2,265,000) ordinary shares with par value of Rp 100 (2004: Rp 250,000) per share	15	709,000,000	709,000,000	566,250,000
Capital surplus	15	2,691,684,344	2,691,684,344	11,730,000
Retained earnings		880,510,139	228,626,686	452,718,779
Total equity		<u>4,281,194,483</u>	<u>3,629,311,030</u>	<u>1,030,698,779</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>12,636,575,760</b></u>	<u><b>9,353,949,839</b></u>	<u><b>6,474,459,432</b></u>

<sup>1)</sup>As restated - refer to Notes 2m and 3

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

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME  
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, except earning/(loss) per share)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>	<u>2004<sup>*)</sup></u>
<b>REVENUE</b>	2d, 2o, 17			
GSM revenue net of interconnection charges and other GSM telecommunication charges		4,437,166,993	2,956,384,044	2,528,484,082
Revenue from other telecommunication services net of other telecommunication services cost		<u>244,507,527</u>	<u>102,743,143</u>	<u>62,219,571</u>
<b>NET REVENUE</b>		<u>4,681,674,520</u>	<u>3,059,127,187</u>	<u>2,590,703,653</u>
<b>OPERATING EXPENSES</b>	2d			
Depreciation expenses	2g,8	1,508,019,737	1,163,609,018	962,352,273
Selling expenses	18	653,707,317	358,267,383	280,761,169
General and administration expenses	2o	491,444,656	289,229,457	209,298,095
Salaries and employee benefits	2m,14b	397,589,454	279,267,677	210,458,670
Rental expenses		186,483,078	122,725,143	84,381,690
Repair and maintenance expenses		180,605,291	161,253,314	128,170,818
Professional fees		123,866,239	75,595,024	32,936,468
Others		<u>112,097,393</u>	<u>39,120,789</u>	<u>19,943,452</u>
		<u>3,653,813,165</u>	<u>2,489,067,805</u>	<u>1,928,302,635</u>
<b>OPERATING INCOME</b>		<u>1,027,861,355</u>	<u>570,059,382</u>	<u>662,401,018</u>
<b>OTHER (EXPENSE)/INCOME</b>				
Interest expense		(416,203,300)	(400,632,560)	(419,898,140)
Interest income		51,667,952	21,532,428	27,230,763
Foreign exchange gain/(loss) - net	2j,2k	344,793,611	(362,322,288)	(273,890,441)
Others		<u>(5,697,320)</u>	<u>(141,864,100)</u>	<u>(42,423,944)</u>
		<u>(25,439,057)</u>	<u>(883,286,520)</u>	<u>(708,981,762)</u>
<b>INCOME/(LOSS) BEFORE INCOME TAX</b>		<u>1,002,422,298</u>	<u>(313,227,138)</u>	<u>(46,580,744)</u>
<b>INCOME TAX (EXPENSE)/BENEFIT</b>				
- Current	2i,19c	(2,030,963)	(2,243,855)	(1,244,399)
- Deferred	2i,19c	<u>(348,507,882)</u>	<u>91,378,900</u>	<u>2,522,521</u>
		<u>(350,538,845)</u>	<u>89,135,045</u>	<u>1,278,122</u>
<b>NET INCOME/(LOSS)</b>		<u>651,883,453</u>	<u>(224,092,093)</u>	<u>(45,302,622)</u>
<b>EARNING/(LOSS) PER SHARE:</b>				
BASIC	2n,16	<u>92</u>	<u>(37)</u>	<u>(8)</u>
DILUTED	2n,16	<u>92</u>	<u>(37)</u>	<u>(8)</u>

<sup>\*)</sup> As restated - refer to Notes 2m and 3

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

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, except par value per share)

	<u>Notes</u>	<u>Share capital</u>	<u>Capital surplus</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance at 1 January 2004, as restated</b>		566,250,000	11,730,000	498,021,401	1,076,001,401
Net loss, as restated	3	-	-	(45,302,622)	(45,302,622)
<b>Balance at 31 December 2004, as restated</b>		<u>566,250,000</u>	<u>11,730,000</u>	<u>452,718,779</u>	<u>1,030,698,779</u>
Public offering - 1,427,500,000 shares with par value of Rp 100 per share	1b	142,750,000	2,724,769,591	-	2,867,519,591
Share issuance costs		-	(44,815,247)	-	(44,815,247)
Net loss for the year		-	-	(224,092,093)	(224,092,093)
<b>Balance at 31 December 2005</b>		<u>709,000,000</u>	<u>2,691,684,344</u>	<u>228,626,686</u>	<u>3,629,311,030</u>
Net income for the year		-	-	651,883,453	651,883,453
<b>Balance at 31 December 2006</b>		<u><u>709,000,000</u></u>	<u><u>2,691,684,344</u></u>	<u><u>880,510,139</u></u>	<u><u>4,281,194,483</u></u>

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

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED 31 DECEMBER 2006, 2005 AND 2004**  
(Expressed in thousand Rupiah)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and other operators		5,774,415,426	3,775,806,430	3,172,374,014
Interest income received		51,588,710	21,488,218	26,133,508
Payments for suppliers and operating expenses		(2,542,398,543)	(1,671,607,514)	(1,331,433,864)
Payments of corporate income tax		(33,411,453)	(45,362,029)	(77,532,214)
Payments to employees		(389,620,693)	(247,775,423)	(206,374,187)
<b>Net cash flows provided from operating activities</b>		<u>2,860,573,447</u>	<u>1,832,549,682</u>	<u>1,583,167,257</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchases of fixed assets		(4,027,420,081)	(3,062,523,050)	(1,705,194,597)
Additions of other assets		(493,098,124)	(72,710,153)	(193,006,823)
Proceeds from sale of fixed assets and insurance claims	8	<u>2,616,484</u>	<u>2,467,391</u>	<u>10,831,962</u>
<b>Net cash flows used in investing activities</b>		<u>(4,517,901,721)</u>	<u>(3,132,765,812)</u>	<u>(1,887,369,458)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Payment of short term lenders loan interest		(4,187,058)	(28,293,557)	-
Bond issuance costs		(30,597,809)	-	(48,286,189)
Payment of bond interest		(351,180,270)	(394,244,039)	(300,938,444)
Repayment of short term lenders loan		(688,100,000)	(775,065,000)	-
Proceeds from long term bond		2,440,862,725	-	2,947,788,113
Share issuance costs		-	(44,815,247)	-
Repayment of IDR bond		-	(1,312,500,000)	-
Proceeds from short term lenders loan		-	1,454,975,000	-
Receipts from Initial Public Offering		-	2,867,519,591	-
Payment of long term lenders loan interest		-	-	(9,218,947)
Repayment of long term lenders loan		-	-	(2,470,705,836)
<b>Net cash flows provided from financing activities</b>		<u>1,366,797,588</u>	<u>1,767,576,748</u>	<u>118,638,697</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(290,530,686)	467,360,618	(185,563,504)
<b>Cash and cash equivalents at the beginning of year</b>		880,484,818	426,886,773	608,145,479
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<u>(2,777,737)</u>	<u>(13,762,573)</u>	<u>4,304,798</u>
<b>Cash and cash equivalents at the end of year</b>	4	<u><u>587,176,395</u></u>	<u><u>880,484,818</u></u>	<u><u>426,886,773</u></u>
Consisting of:				
- Cash on hand		1,269,990	1,375,184	879,748
- Cash in bank		233,646,405	80,159,634	158,107,025
- Time deposits, mature within three months		<u>352,260,000</u>	<u>798,950,000</u>	<u>267,900,000</u>
		<u>587,176,395</u>	<u>880,484,818</u>	<u>426,886,773</u>
<b>ACTIVITIES NOT AFFECTING CASH FLOWS:</b>				
Purchase of fixed assets by means of trade payables		475,631,460	305,901,961	144,205,867

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

## PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006, 2005 AND 2004

(Expressed in thousand Rupiah, unless otherwise stated)

#### 1. GENERAL

##### a. Establishment

PT Excelcomindo Pratama Tbk (“the Company”) was previously established under the name PT Grahametropolitan Lestari and has its legal domicile in Jakarta. The Company is a limited liability company under the laws of the Republic of Indonesia and was established under the Deed of Establishment No. 55, dated 6 October 1989, as amended by Deed No. 79, dated 17 January 1991. The preparation of both deeds was overseen by Rachmat Santoso, SH, Notary in Jakarta. The deeds were approved by the Minister of Justice of the Republic of Indonesia in the ministry’s Decision Letter No. C2-515.HT.01.01.TH.91, dated 19 February 1991, registered in the District Court of South Jakarta under No. 670/Not/1991/PN.JKT.SEL and No. 671/Not/1991/ PN.JKT.SEL, dated 21 August 1991, and published in the State Gazette of the Republic of Indonesia No. 90, Supplement No. 4070, dated 8 November 1991.

The Company has the status of a foreign investment company according to Law No. 1 Year 1967 *juncto* Law No. 11 Year 1970 on Foreign Capital Investment.

The Articles of Association of the Company as stated in the Deed of Establishment have been amended several times. Based on the Deed of Minutes of Meeting No. 190, dated 26 June 1995, prepared before Agus Madjid SH, Notary in Jakarta, amendments were made to Articles 1, 2 and 4 in respect of the name, purpose, objective, and capital of the Company.

Based on this Deed, the name of the Company was changed to PT Excelcomindo Pratama. This Deed has been approved by the Minister of Justice of the Republic of Indonesia based on the ministry’s Decision Letter No. C2-8741.HT.01.04.TH.95, dated 19 July 1995, registered in the District Court of South Jakarta under No. 1550/A.Not/HKM/1995.PN.JAK.SEL, dated 7 August 1995, and published in the State Gazette of the Republic of Indonesia No. 78, Supplement No. 8070, dated 29 September 1995.

The General Meeting of Shareholders’ Resolution, dated 20 November 1995, as drawn up in the Deed of Resolution No. 10, dated 20 November 1995, prepared before Endang Sugiharti Antariksa, SH, Notary in Jakarta, amended the entire Articles of Association of the Company in relation to the change of the status of the Company to a Foreign Capital Investment Company under Law No. 1 Year 1967 *juncto* Law No. 11 Year 1970 on Foreign Capital Investment. This Deed was approved by the Minister of Justice of the Republic of Indonesia based on the ministry’s Decision Letter No. C2-15.601.HT.01.04.TH.95, dated 30 November 1995, registered in the District Court of Central Jakarta under No. 1373/1995, dated 18 December 1995, and published in the State Gazette of the Republic of Indonesia No. 9, Supplement No. 1141, dated 30 January 1996.

The Company commenced its commercial operations in 1996.

Based on the Shareholders’ Resolution dated 18 March 1997, as drawn up in the Deed of Resolution No. 4, dated 2 June 1997, prepared before Mudofir Hadi, SH, Notary in Jakarta, an amendment was made to Article 4 paragraph 2 of the Articles of Association of the Company on Issued Capital and Paid-up Capital. This Deed was reported to the Minister of Justice of the Republic of Indonesia based on the Report Letter from Mudofir Hadi, SH, Notary in Jakarta, dated 7 June 1997, and was registered by the Company Registrar at the Central Jakarta Office of the Company Registrar No. 312/RUB.IX.5/VI/1997, dated 17 June 1997. Up to the date of this report, efforts towards publication of this Deed in the State Gazette is currently in process.

## PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2006, 2005 AND 2004

(Expressed in thousand Rupiah, unless otherwise stated)

#### 1. GENERAL (continued)

##### a. Establishment (continued)

The Company's Articles of Association were amended to comply with Limited Liability Company Law (Law No. 1 of 1995). This amendment was based on the approval of the shareholders, as drawn up in the Deed of Resolution by way of Circular Resolution of the Shareholders of the Company No. 20, dated 5 February 1999, prepared before Irawan Soerodjo, SH, Notary in Jakarta, and approved by the Minister of Justice of the Republic of Indonesia in its Decision Letter No. C-11478 HT.01.04.TH.99, dated 21 June 1999, registered by the Company Registrar at the Office of the Company Registrar of the City of South Jakarta No. 252/RUB.09.03/III/2000, dated 14 March 2000, and published in the State Gazette of the Republic of Indonesia No. 35, Supplement No. 2187, dated 2 May 2000.

Based on the Resolution of Shareholders dated 16 April 2002, Article 11 paragraph 6 of the Company's Articles of Association were amended by Deed No. 63, dated 18 April 2002, prepared before Aulia Taufani, SH, substitute for Sutjipto, SH, Notary in Jakarta. This Deed was reported to the Minister of Law and Human Rights of the Republic of Indonesia as evidenced by the Report Acceptance Letter No. C-06817.HT.01.04.TH.2002, dated 23 April 2002, registered by the Company Registrar at the Office of the Company Registrar of the City of South Jakarta No. 540/RUB.09.03/IV/2002, dated 30 April 2002, and published in the State Gazette of the Republic of Indonesia No. 65, Supplement No. 562, dated 13 August 2002.

The Company's Articles of Association were amended by Deed No. 24, dated 4 February 2005, prepared before Mercy Mareta, SH., MKn., substitute for Harun Kamil, SH, Notary in Jakarta, amending Article 10 paragraph 1, and Article 13 paragraphs 1 and 2, regarding number of Directors and Commissioners on the Company Board. This Deed was reported to the Minister of Law and Human Rights of the Republic of Indonesia as evidenced by the Report Acceptance Letter No. C-12169 HT.01.04.TH.2005, dated 4 May 2005, registered by the Company Registrar at the Office of the Company Registrar of the City of South Jakarta No. 759/RUB.09.03/VI/2005, dated 30 June 2005, and published in the State Gazette of the Republic of Indonesia No. 59 year 2005, Supplement No. 697/L/2005, dated 26 July 2005.

Based on a Shareholders' Resolution dated 19 July 2005, as stated in the Deed No. 127, dated 19 July 2005, in relation to the Initial Public Offering of the Company, all of the Company's Articles of Association were entirely amended by Deed No. 8, dated 2 August 2005, prepared before Aulia Taufani, SH, substitute for Sutjipto, SH, Notary in Jakarta. This amendment has been accepted and approved by the Minister of Law and Human Rights of the Republic of Indonesia in Letter No. C-21651.HT.01.04.TH.2005, dated 4 August 2005, and C-21974.HT.01.04.TH.2005, dated 8 August 2005, registered by the Company Registrar of the District of South Jakarta under registration No. 947/RUB.09.03/VIII/2005, dated 16 August 2005, and published by the State Gazette of the Republic of Indonesia No. 70, dated 1 September 2005, Supplement No. 9425 Year 2005.

Based on an increase in the number of issued and fully paid shares in the Company, Article 4 paragraphs 2 and 3 of the Company's Articles of Association were amended, as stated in Deed No. 47, dated 6 October 2005, prepared before Sutjipto, SH, Notary in Jakarta. This amendment has been accepted by the Minister of Law and Human Rights of the Republic of Indonesia in Letter No. C-28115.HT.01.04.TH.2005, dated 12 October 2005, registered by the Company Registrar of the District of South Jakarta under registration No. 1331/RUB.09.03/X/2005, dated 28 October 2005, and published in the State Gazette of the Republic of Indonesia No. 103, dated 27 December 2005, Supplement No. 1218 Year 2005.

## PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006, 2005 AND 2004

(Expressed in thousand Rupiah, unless otherwise stated)

#### 1. GENERAL (continued)

##### b. Company's public offerings

On 23 October 2003, the Company issued a bond known as Obligasi Excelcom I Year 2003 (the "Excelcom Bond") with a nominal value of Rp 1.25 trillion (full amount) over a five-year period and which was listed on the Surabaya Stock Exchange. The bond was bought back on 21 July 2005 (refer to Note 13a).

On 27 January 2004, the Company's wholly owned subsidiary, Excelcomindo Finance Company B.V., domiciled in Amsterdam, issued amounting USD 350 million-worth of five-years notes, which are listed on the Singapore Exchange Securities Trading, Ltd (refer to Note 13b).

On 16 September 2005, the Company acquired effective statement from Indonesian Capital Market Supervisory Agency (Bapepam) No. S-2531/PM/2005 to perform initial stock public offering for 1,427,500,000 of its shares with a par value of Rp 100 (full amount).

All of the Company's issued shares were listed on the Jakarta Stock Exchange on 29 September 2005 at the offering price of Rp 2,000 (full amount) per share.

Based on the Resolution of an Extraordinary General Meeting of Shareholders, as stated in Deed No. 127, dated 19 July 2005, prepared before Aulia Taufani, SH, substitute of Sutjipto, SH, Notary in Jakarta, the Company's shareholders approved the plan of implementing an employees' stock option program through Employee Stock Allocation (ESA) which was realised together with the Company's initial stock public offering.

The members of ESA received free shares from the Company totalling 5,000,000, shares which were distributed proportionally to the Company's employees based on their respective working periods and positions. This program is only valid for permanent employees who have been working for a minimum of 12 months on the date of stock listing on the Stock Exchange.

The shares from the ESA program will be returned to the Company if the employee resigns or has their contract terminated within one year from the date on which the shares were recorded. Shares for this program can not be sold within one year of the stock listing on the Stock Exchange and cannot be taken as cash by the member of the ESA.

On 18 January 2006, Excelcomindo Finance Company B.V. issued second bond amounting to USD 250 million of 7 years notes which are listed on the Singapore Exchange Securities Trading, Ltd (refer to Note 13b).

##### c. Investment license

The Company operates within the framework of Law No. 1 of 1967 *juncto* Law No. 11 of 1970 concerning Foreign Capital Investment.

In accordance with its Articles of Association, the Company's objective is to engage in telecommunications services and/or telecommunications networks and/or multimedia.

The Company obtained a permission, or *Ijin Usaha Tetap* ("IUT"), to provide basic telecommunication services based on a Decree Letter from the Investment Coordinating Board ("BKPM") No. 437/T/PERHUBUNGAN/2003, dated 20 November 2003. The license is valid for 30 years starting from October 1995.

The Company obtained approval from BKPM for the expansion of investment towards facilities supply and the operation of telecommunication networks based on approval letter No. 243/11/PMA/2003, dated 20 November 2003. BKPM approved the extension of the project completion period in letter No. 1531/III/PMA/2005, dated 29 December 2005.



## PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006, 2005 AND 2004

(Expressed in thousand Rupiah, unless otherwise stated)

#### 1. GENERAL (continued)

##### c. Investment license (continued)

On 7 December 2004, the Company obtained approval from BKPM with regard to the changes to services and to the Company's production area pursuant to the approval letter No. 933/B.1/A.6/2004. The changes were made in accordance with the rules on service area modification as provided by the Law No. 36 of 1999 on Telecommunication Services.

##### d. Operating license

The Company obtained its first operating license for basic telecommunication services as required under the terms as stipulated in the Decree of Minister of Tourism, Post and Telecommunication No. KM.86/PT.102/MPPT-96, dated 7 October 1996.

This license was replaced with a Modern License to Operate Cellular Mobile Network as required under the terms of the Decree of Minister of Transportation No. 158 of 2003 dated 7 May 2003, which was then superseded by the Decree of Minister Communication and Information No. 100/KEP/M.KOMINFO/10/2006, dated 11 October 2006 regarding the acquisition of an Operating License for a Cellular Mobile Network for the establishment of:

- (i) a GSM 900/DCS1800 cellular mobile network with a frequency band allocation of 907.5 - 915 MHz paired with 952.5 - 960 MHz as well as 1710 - 1717.5 MHz paired with 1805 - 1812.5 MHz radio frequency bands allocation;
- (ii) an IMT-2000/3G cellular mobile network with a frequency band allocation of 1945 - 1950 MHz paired with 2135 - 2140 MHz;
- (iii) basic telephony services.

In 2000, the Company was granted an Operating License for Internet Services as is required under the terms of the Decree of Director General of Post and Telecommunication No. 235/DIRJEN/2000, dated 1 December 2000, as amended by the Decree of the Directorate General of Post and Telecommunication No. 114/DIRJEN/2002, dated 24 May 2002. This license was replaced by Modern Licensing to Operate Internet Access Services (ISP) as determined in the Decree of Director General of Post and Telecommunication No. 197/Dirjen/2006 dated 24 May 2006.

The Company also obtained an Operating License for Terrestrial Leased Line Operation according to The Decree of Minister of Transportation No. KP.78 of 2001, dated 19 March 2001, which was then amended based on the Decree of Minister of Transportation No. KP.166 of 2002, dated 27 May 2002. This license was replaced by Modern Licensing to Operate a Fixed Closed Network as determined in the Decree of Minister of Transportation No. 159/2003, dated 7 May 2003. This was granted for operating a fixed closed network with a cable transmission system (fiber optic), micro wave radio transmission, wireless access usage, wireline and other technology.

Based on the Decree of Director General of Post and Telecommunication No. 207/Dirjen/2004, dated 29 June 2004, the Company obtained a Modern License to Operate Internet Telephony Services for Public Interest ("ITKP")/VoIP, which includes single stage and double stage.

To operate internet interconnection services, the Company was granted a Modern License to Operate Internet Interconnection Services (NAP) based on the Decree of Director General of Post and Telecommunication No. 17/Dirjen/2005, dated 16 February 2005.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, unless otherwise stated)

**1. GENERAL** (continued)

**d. Operating license** (continued)

With reference to Telecommunication Law No. 36/1999, the Modern Licenses mentioned above were obtained to replace the existing operating licenses. These new licenses stipulate the rights and obligations of the operator, including any sanctions. The licenses are valid for an unlimited period as long as the Company complies to prevailing laws and telecommunication regulations. However there will be an overall evaluation every five years based on annual reports and a quarterly *ITKP/VoIP* report submitted to the Directorate General of Post and Telecommunication comprising factors such as operational performance, revenues, universal service contribution and coverage areas.

Based on the Decree of Minister of Communication and Information No. 19/KEP/M.KOMINFO/2/2006, dated 14 February 2006, on Determination of Successful Applicant IMT-2000 Cellular Mobile Network on 2,1 GHz Radio Frequency Band ("KM.19 Year 2006"), the Company has been chosen as one of the winners in the 3G license tender for the 2x5 MHz block as stipulated in the Decree of Minister Communication and Information No. 100/KEP/M.KOMINFO/10/2006, dated 11 October 2006, regarding its Operating License for a Cellular Mobile Network.

In accordance with KM.19 Year 2006, the Company was obliged to pay upfront premium fee equalling twice the bid price amounting to Rp 376 billion (full amount) within 30 working days after the settlement date. The Company was also obliged to set up a Performance Bond in the amount of Rp 20 billion (full amount) as well as pay the following annual Spectrum Frequency Band Usage Fee:

Year of Payment	BI Rate (%)	Multiplying Index	Annual BHP Frequency
Year 1			20% x HL
Year 2	R1	I1 = (1+R1)	40% x I1 x HL
Year 3	R2	I2 = I1(1+R2)	60% x I2 x HL
Year 4	R3	I3 = I2(1+R3)	100% x I3 x HL
Year 5	R4	I4 = I3(1+R4)	130% x I4 x HL
Year 6	R5	I5 = I4(1+R5)	130% x I5 x HL
Year 7	R6	I6 = I5(1+R6)	130% x I6 x HL
Year 8	R7	I7 = I6(1+R7)	130% x I7 x HL
Year 9	R8	I8 = I7(1+R8)	130% x I8 x HL
Year 10	R9	I9 = I8(1+R9)	130% x I9 x HL

Notes :

- a. HL = Tender Result per 2x5 MHz block (referring to the lowest winner bid price of Rp 160 billion, full amount)
- b. Ri = Average Rate BI for the preceding year.
- c. Multiplying Index is index which is utilized to conduct an adjustment for Bid Price every year.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**1. GENERAL (continued)**

**d. Operating license (continued)**

Expenses related to the Company's operation, i.e. Telecommunication Service Fee, Universal Service Obligations, Spectrum Frequency Usage Band Fee and Annual Spectrum Frequency Usage Fee for 3G Band for the years ended 31 December 2006, 2005 and 2004, each amounting Rp 286,079,225, Rp 154,421,422 and Rp 136,358,525.

The Company has to comply with the regulations as stipulated in Decree of Minister Communication and Information No. 100/KEP/M.KOMINFO/10/2006, dated 11 October 2006, in applying the Operating License for Cellular Mobile Network for GSM 900/DCS1800 system.

**e. Board of Directors and Commissioners**

Based on the resolution of the Extraordinary General Meeting of Shareholders held on 22 December 2006, as stated in the Deed of Resolution No. 292, dated 22 December 2006, prepared before Aulia Taufani, SH, substitute of Sutjipto, SH, Notary in Jakarta, the latest composition of the Company's Board of Directors and Board of Commissioners is as follows:

**Board of Directors**

President Director : Hasnul Suhaimi  
Directors : Joris de Fretes  
Md. Nasir Ahmad  
P. Nicanor V. Santiago III  
Hilmi bin Mohd Yunus  
Joy Wahjudi  
Willem Lucas Timmermans

**Board of Commissioners**

President Commissioner : YBhg Tan Sri Dato' Ir. Muhammad Radzi bin Haji Mansor  
Commissioners : Yusof Annuar bin Yaacob  
YB Datuk Nur Jazlan bin Tan Sri Mohamed Rosli bin Man  
Bazlan bin Osman  
Peter J. Chambers  
Abdul Farid bin Alias  
Independent Commissioners : Jend. (Purn) Wismoyo Arismunandar  
Ir. Tjahjono Soerjodibroto, MBA  
YBhg Dato' Mohamad Norza bin Haji Zakaria

The Company's head office is currently located at grhaXL, Jalan Mega Kuningan Lot. E4-7 No.1 Kawasan Mega Kuningan, Jakarta 12950, Indonesia.

## PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006, 2005 AND 2004

(Expressed in thousand Rupiah, unless otherwise stated)

#### 1. GENERAL (continued)

##### f. Subsidiaries

The Company has direct investments in subsidiaries as follows:

	<u>Percentage of ownership</u>	<u>Country of domicile</u>	<u>Business activities</u>	<u>Year of participations</u>
Excel Phoneloan 818 B.V.	100%	Netherlands	Financing company	1997
GSM One (L) Limited	100%	Malaysia	Financing company	1996
GSM Two (L) Limited	100%	Malaysia	Financing company	1997
Excelcomindo Finance Company B.V.	100%	Netherlands	Financing company	2003

Total subsidiaries' assets before elimination are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Excel Phoneloan 818 B.V.	20,384,388	21,905,819	20,527,686
GSM One (L) Limited	9	10	9
GSM Two (L) Limited	9	10	9
Excelcomindo Finance Company B.V.	5,580,742,586	3,567,656,120	3,352,422,718

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of PT Excelcomindo Pratama Tbk and its subsidiaries (together, "the Group") were prepared by the Board of Directors and completed on 22 February 2007.

Presented below are the significant accounting policies adopted in preparing the consolidated financial statements of the Group, which conform to accounting principles generally accepted in Indonesia.

##### a. Basis for preparation of the consolidated financial statements

The consolidated financial statements have been prepared on the historical cost concept and accrual basis, except for derivative instruments (Note 2j) which are stated at fair value.

The consolidated statements of cash flows present the source and uses of cash and cash equivalents according to operating, investing and financing activities. Short-term time deposits with original maturities of three months or less are considered as cash equivalents. The consolidated statements of cash flows are prepared using the direct method.

Figures in the consolidated financial statements are rounded to and stated in thousands of Rupiah unless otherwise stated.

##### b. Principles of consolidation

The consolidated financial statements include the accounts of entities controlled by the Company and in which the Company directly or indirectly has ownership of more than 50% of the voting rights or if there is an indication of control.

The subsidiaries are consolidated from the date on which effective control is transferred to the Company and are no longer consolidated when the Company ceases to have effective control.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, unless otherwise stated)

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

**b. Principles of consolidation (continued)**

The effect of all transactions and balances between companies in the Group have been eliminated in preparing the consolidated financial statements.

The accounts of the subsidiaries domiciled outside Indonesia are translated into Rupiah amounts on the following basis:

- Monetary balance sheet accounts are translated using the prevailing Bank of Indonesia middle rate at the balance sheet date as mentioned in Note 2k. Non monetary balance sheet accounts are translated using historical rate at the transaction date.
- Statement of income accounts are translated using the average rate during the period as follows (full amount):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
United States Dollar (USD)	9,208.75	9,705.58	8,916.67
Euro (EUR)	11,512.00	12,154.56	11,021.07
Singapore Dollar (SGD)	5,776.07	5,832.07	5,261.62

The resulting difference arising from the translation of balance sheets and statement of income accounts of the subsidiaries are recognized in the current period's consolidated statement of income on the basis that the operations of the foreign subsidiaries formed an integral part of the Company and, as a result, the transactions of the foreign operations have been considered as if they had been carried out by the Company.

The accounting policies adopted in preparing the consolidated financial statements have been consistently applied by the subsidiaries unless otherwise stated.

**c. Related party transactions**

The Company and its subsidiaries have transactions with related parties. The definition of related parties used is in accordance with SFAS No. 7 "Related Party Disclosures".

All material transactions with related parties that have not been eliminated on consolidation are disclosed in the notes to the consolidated financial statements.

**d. Revenues and expenses recognition**

Revenues for prepaid services are derived from the sale of starter packs and vouchers. The sale of starter packs is recognized upon sale to distributors or directly to customers, exclude value added taxes.

Revenues from sales of vouchers for prepaid services are not recognized at the time of sale. When a voucher is sold, the full amount of airtime sold is credited, without deduction for any commissions, to the "Deferred Revenue" account.

As prepaid customers use the prepaid airtime or upon expiration of the voucher, the charges are debited from the "Deferred Revenue" account and the amount used or expired is recognized as GSM telecommunication revenues in the income statement.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, unless otherwise stated)

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

**d. Revenues and expenses recognition (continued)**

Revenues for the use of the Company's network by postpaid customers, including charges for airtime, local interconnection, domestic long distance, international long distance and international roaming, are recognized based on applicable tariffs and the duration of successful calls made through the network. Revenues are recognized at the time when the service is rendered based on the actual usage of the network by customers during each period.

Non-voice revenues, such as monthly service charges and value added services, are recognized on a monthly basis upon billing. Revenues from activation fees are recognized at the time of delivery of the SIM cards to customers.

Revenues from interconnection with other operators are recognized at the time when the service is rendered on the basis of actual recorded traffic.

Inbound roaming revenues from overseas telecommunication providers for calls made and received by customers on the Company's network are recognized at the time when the service is rendered based upon applicable tariffs.

Revenues from leased lines and internet service provider revenues are recognized on a monthly basis upon billing based on prices agreed with customers. When unearned revenues are received, the amounts received are recorded as deferred revenue and recognized as revenue when the services are provided.

Revenues from *ITKP/VoIP* services are recognized at the time when the service is rendered based upon applicable tariffs.

Expenses are recognized on an accrual basis.

**e. Trade receivables**

Trade receivables are presented at their estimated recoverable amount after an allowance for doubtful accounts. An allowance for doubtful accounts is made based on management's evaluation of the status of the accounts at each balance sheet date. Accounts are written-off in the period in which they are determined to be uncollectible.

**f. Inventories**

Inventories, comprising primarily of vouchers and SIM cards, are valued at the lower of cost or net realisable value. Cost is calculated using the moving average method.

A provision for obsolete and slow moving inventory is determined on the basis of the estimated future sales of individual inventory items.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, unless otherwise stated)

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

**g. Fixed assets and depreciation**

Fixed assets are stated at acquisition cost, which includes any applicable import taxes, custom duties, freight costs, handling costs, storage costs, site preparation costs, installation costs, and internal labour costs less accumulated depreciation. Depreciation is applied from the date the assets are placed into service or when the assets are ready for service using the straight line method over the estimated useful lives resulting in the following annual percentages of cost:

Buildings	: 5%, 12.5%
Network equipment	: 6.25%, 12.5%, 25%, 50%
Leasehold improvements	: 25%
Office machinery and equipment	: 25%
Furniture and fixtures	: 25%
Support systems	: 25%
Motor vehicles	: 25%

Land is not depreciated.

Normal maintenance expenses are charged to the income statement for the current period, while repairs, renovations and betterment which increase the useful life of assets are capitalised.

Management conducts regular reviews and ensures that the carrying amount of the Company's assets are never higher than their estimated recoverable amounts.

The accumulated costs of network equipment are initially capitalised as Assets Under Construction. These costs are subsequently reclassified to fixed asset accounts when the assets are commissioned into service.

The cost of upgrading software is capitalised and the previously recorded balance is written off at the time the software upgrade is performed.

When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are eliminated from the consolidated financial statements, and the resulting gains and losses on the disposal of fixed assets are recognized in the current period statements of income.

**h. Intangible asset**

3G spectrum licence is shown at historical cost. It has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over its estimated useful life of asset (10 years). The amortisation commences from the date when such assets are available for use and amortisation cost is charged to operating expenses.

Management conducts regular reviews and ensures that the carrying amount of the Company's intangible assets are never higher than their estimated recoverable amounts.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, unless otherwise stated)

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

**h. Intangible asset (continued)**

The accounting principles generally accepted in Indonesia does not provide a clear and explicit guidance on whether the commitment to pay annual fees over 10 years as a consequence of obtaining the 3G spectrum license is a liability and whether the ten-year annual fees (*biaya hak penggunaan* or BHP) are to be considered as part of the acquisition cost of the license. Management assess that continuation of payment of annual fees will no longer be required if the company no longer use the license. Management considers the annual payment as usage fee based on management interpretation of the license conditions and written confirmation from the Directorate General of Post and Telecommunication. These annual fees are therefore not considered as part of the acquisition cost for obtaining the license.

In case in future, the regulation and conditions with regards to payment of the annual fees would be changed with the consequence that payment of remaining outstanding annual fees can not be avoided upon the company returning the license, the company will gross up its balance sheets by recognizing intangible assets and the corresponding liability at the present value of remaining annual fees at that point in time.

**i. Bond issuance costs**

Bond issuance costs are directly deducted from the issuance proceeds in the consolidated balance sheets as discount and are amortised using the straight line method over the period of the bonds.

**j. Derivative financial instruments**

In implementing their risk management policies, the Company periodically enters into forward foreign currency contracts with external counterparties.

In order to qualify for a hedge accounting, SFAS 55 "Accounting for Derivative Instruments and Hedging Activities" set out certain criteria, such as a documentation that should have been made at the inception of the hedge and the hedge should be effective.

Derivative instruments are measured at fair value and recognized as either assets or liabilities on the balance sheet. Changes in the fair value of derivatives are recognized in earnings or as part of equity depending on the designated purpose of the derivatives and whether it qualifies for hedge accounting.

**k. Foreign currency translation**

Transactions denominated in foreign currencies are translated into Rupiah at the rates prevailing at the date of the transaction.

At the balance sheet date, monetary assets and monetary liabilities denominated in foreign currencies are translated into Rupiah using the Bank of Indonesia middle rate prevailing at that date. The exchange rates of the major foreign currencies used are as follows (full amount):



**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006, 2005 AND 2004**

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

**k. Foreign currency translation (continued)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
United States Dollar (USD)	9,020.00	9,830.00	9,290.00
Euro (EUR)	11,858.15	11,659.87	12,652.06
Singapore Dollar (SGD)	5,878.73	5,906.57	5,685.45

Realised and unrealised foreign exchange gains or losses arising from transactions in foreign currency and from the translation of foreign currency monetary assets and liabilities are recognized in the current year statements of income.

In 1997 and 1998, as permitted under Interpretation of Statement of Financial Accounting Standard (ISFAS) No. 4 "Interpretation of Paragraph 32 of Statement of Financial Accounting Standard No. 10 on the Allowed Alternative Treatment for Exchange Difference", certain foreign exchange losses are capitalised into the cost of fixed assets in recognition of the severe depreciation in the value of the Rupiah against the US Dollar. Since 1 January 1999, the condition for "unusual depreciation" is no longer met and all foreign exchange differences in 1999, and subsequent years have been charged/(credited) to the statement of income.

**l. Taxation**

In accordance with Indonesian Taxation Law, corporate income tax is calculated for the Company and each of its subsidiaries on the understanding that they are separate legal entities (consolidated financial statements are not permitted for computing the corporate income tax).

Deferred income tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Amendments to taxation obligations are recorded when an assessment is received or, if appealed against, when the results of the appeal are determined.

**m. Employee benefits**

**Short-term employee benefits**

Short-term employee benefits are recognized when they accrue to the employees.

**Long-term and post-employment benefits**

Long-term and post-employment benefits such as retirement, severance, service payments and other benefits are calculated based on Labor Law No. 13/2003 ("Law 13/2003").

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**m. Employee benefits (continued)**

**Long-term and post-employment benefits (continued)**

In relation to pension benefits, since April 2002 the Company entered into a defined contribution pension plan organised by PT Asuransi Jiwa Manulife Indonesia. This program is provided for all permanent employees who were under 50 years of age at the commencement of the program in April 2002. Contributions to the plan are 10% of the net base salary comprising 7% from the Company and 3% from the employee. Employees are entitled to benefits from the pension plan, comprising pension fund contributions and accumulated interest, on retirement, disability or death.

In accordance with Law 13/2003, the Company has further payment obligations if the benefit provided by the existing plan does not adequately cover the obligations under Law 13/2003.

The liabilities recognized in the consolidated balance sheets are the present value of the defined benefit obligation at the balance sheet date in accordance with Law 13/2003 or the Company's regulation (whichever is higher), less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs.

The defined benefit obligation is calculated by an independent actuary using the projected unit credit method. In calculating the long-term and post-employment benefits, the independent actuary has considered the contribution made by the Company to PT Asuransi Jiwa Manulife Indonesia.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Rupiah in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans in excess of the greater than 10% of the fair value of plan assets or 10% of the present value of the defined benefit obligations are charged or credited to profit and loss over the employees' expected average remaining service lives.

Past-service costs are recognized immediately in the consolidated statements of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Current service cost is expensed in the prevailing period.

**Change in accounting policy**

SFAS 24 (Revised 2004) "Employee Benefits" was approved by the Indonesian Accounting Standards Board of the Indonesian Institute of Accountants in June 2004, and is applicable for financial statements with periods beginning on or after 1 July 2004.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

**m. Employee benefits (continued)**

**Change in accounting policy (continued)**

Adoption of SFAS 24 (Revised 2004) "Employee Benefits" has resulted in an increase in the provision for employee benefits and decrease in retained earnings amounting to Rp 19,577,244 and Rp 12,656,306, respectively, in the consolidated balance sheet as at 1 January 2004. Refer to Note 3 for a summary of the balances before and after restatement as at and for the year ended 31 December 2004.

**n. Earning/(loss) per share**

Basic earning/(loss) per share are computed by dividing net income/(loss) by the weighted average number of ordinary shares outstanding during the year.

Diluted earning/(loss) per share are calculated by dividing net income/(loss) by weighted average number of ordinary shares outstanding during the year, adjusted to assume conversion of all potential dilutive ordinary shares. Net income/(loss) is adjusted to eliminate the interest expense of the potential dilutive ordinary shares during the year.

**o. Management's use of estimates**

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

**3. RESTATEMENT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

As mentioned in Note 2m, the Company adopted SFAS 24 (Revised 2004) for 31 December 2005 financial statements. This revised standard requires that the provision for employee benefits is calculated using the actuarial projected unit credit method.

Previously, management estimated this provision without using an actuarial method. The change in methodology is considered a change in accounting policy, which required a restatement of prior years' financial statements.

A summary of balances as at 31 December 2004 before and after restatement is as follows:

	<u>Before restatement</u>	<u>After restatement</u>
Provision for employee benefits	11,151,333	27,154,276
Deferred tax liabilities	98,170,240	90,023,957
Retained earnings	460,575,439	452,718,779
Total equity	1,038,555,439	1,030,698,779
Salaries and employee benefits	214,032,971	210,458,670
Income tax benefit	52,777	1,278,122
Net loss	(50,102,268)	(45,302,622)

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, unless otherwise stated)

**4. CASH AND CASH EQUIVALENTS**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Cash on hand</b>	1,269,990	1,375,184	879,748
<b>Cash in bank</b>			
<u>Rupiah</u>			
- PT Bank Central Asia Tbk	193,403,093	32,728,385	34,158,572
- Deutsche Bank AG	5,150,056	-	-
- PT Bank Danamon Indonesia Tbk	4,842,515	3,218,488	2,608,451
- PT Bank Negara Indonesia (Persero) Tbk	4,278,748	389,907	-
- PT Bank Mandiri (Persero) Tbk	3,112,184	1,124,523	679,508
- JPMorgan Chase Bank, N.A.	1,247,231	17,987,620	62,083,793
- Others (individual amount less than Rp 3 billion)	10,776,721	6,509,541	4,448,819
<u>US Dollar</u>			
- JPMorgan Chase Bank, N.A.	10,021,283	18,201,170	54,127,882
- Deutsche Bank AG	763,748	-	-
- Standard Chartered Bank	50,826	-	-
	<u>233,646,405</u>	<u>80,159,634</u>	<u>158,107,025</u>
<b>Time deposits (mature within three months)</b>			
<u>Rupiah</u>			
- PT Bank Niaga Tbk	75,000,000	-	-
- PT Bank Internasional Indonesia Tbk	40,000,000	-	-
- PT Bank NISP Tbk	28,500,000	-	-
- Deutsche Bank AG	1,300,000	-	-
- Bank of Tokyo Mitsubishi	-	160,000,000	-
- JPMorgan Chase Bank, N.A.	-	-	150,000,000
- PT Bank Danamon Indonesia Tbk	-	-	25,000,000
<u>US Dollar</u>			
- Bank of Tokyo Mitsubishi	126,280,000	49,150,000	-
- ABN AMRO Bank N.V.	45,100,000	-	-
- PT Rabobank International Indonesia	36,080,000	196,600,000	-
- JPMorgan Chase Bank, N.A.	-	196,600,000	92,900,000
- PT Bank Mandiri (Persero) Tbk	-	98,300,000	-
- PT Bank Niaga Tbk	-	98,300,000	-
	<u>352,260,000</u>	<u>798,950,000</u>	<u>267,900,000</u>
	<u>587,176,395</u>	<u>880,484,818</u>	<u>426,886,773</u>

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2006, 2005 AND 2004**

(Expressed in thousand Rupiah, unless otherwise stated)

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

The annual interest rates of the above time deposits are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Rupiah deposit	3.00% - 15.00%	5.50% -13.75%	5.50% - 11.50%
US Dollar deposit	4.15% - 5.40%	3.36% - 4.25%	0.83% - 1.60%

**5. TRADE RECEIVABLES - THIRD PARTIES**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Domestic partners</b>			
- PT Mora Telematika Indonesia	26,858,679	3,244,638	1,282,776
- PT Indosat Tbk	17,670,327	11,151,068	12,585,448
- PT Telekomunikasi Indonesia Tbk	8,327,798	29,801,018	32,727,461
- PT Nettocyber Indonesia	4,561,623	2,989,433	1,588,516
- PT Bakrie Telecom (formerly PT Radio Telepon Indonesia)	3,618,592	1,656,142	1,041,957
- PT Indo Pratama Teleglobal	3,308,524	5,745,391	6,227,734
- PT Telekomunikasi Selular	3,183,657	3,111,625	9,473,632
- Others (individual amount less than Rp 3 billion, in USD and Rupiah)	<u>182,220,126</u>	<u>82,311,569</u>	<u>42,376,320</u>
	<u>249,749,326</u>	<u>140,010,884</u>	<u>107,303,844</u>
<b>International partners</b>			
<b>US Dollar</b>			
- Shinetown Telecommunication Ltd.	5,816,364	4,333,131	-
- Unifone Pte. Ltd.	3,845,792	-	-
- Telstra Corporation Ltd. - Australia	3,260,496	2,880,682	1,525,883
- Others (individual amount less than Rp 3 billion)	<u>9,539,478</u>	<u>15,888,139</u>	<u>18,245,196</u>
	<u>22,462,130</u>	<u>23,101,952</u>	<u>19,771,079</u>
	272,211,456	163,112,836	127,074,923
Allowance for doubtful accounts	<u>(84,815,537)</u>	<u>(17,897,484)</u>	<u>(9,725,902)</u>
	<u>187,395,919</u>	<u>145,215,352</u>	<u>117,349,021</u>

Aging analysis of trade receivables is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current	151,552,568	137,368,609	103,027,429
Overdue 1 - 30 days	39,209,175	5,593,738	10,139,389
Overdue 31 - 60 days	8,400,764	174,015	3,789,993
Overdue > 61 days	<u>73,048,949</u>	<u>19,976,474</u>	<u>10,118,112</u>
	<u>272,211,456</u>	<u>163,112,836</u>	<u>127,074,923</u>

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**5. TRADE RECEIVABLES - THIRD PARTIES (continued)**

Changes in the amounts of the allowance for doubtful accounts are detailed as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Allowance for doubtful accounts			
- beginning	17,897,484	9,725,902	5,593,440
Bad debt expenses	68,036,542	17,813,126	5,002,875
Doubtful debts written off	<u>(1,118,489)</u>	<u>(9,641,544)</u>	<u>(870,413)</u>
Allowance for doubtful accounts			
- ending	<u>84,815,537</u>	<u>17,897,484</u>	<u>9,725,902</u>

Based on a review of the status of the individual receivable accounts at the balance sheet date, management believes that the allowance for doubtful accounts is sufficient to cover losses from non-collection of the accounts.

**6. ADVANCES AND OTHER PREPAYMENTS**

This account represents advances to employee, related party and third parties for the payment of the Company's operational expenses; such as utilities expenses, custom duties, and prepaid expenses for rental, insurance and maintenance.

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Prepayments	158,387,586	94,869,040	57,426,110
Advances on operational expenses	<u>8,707,837</u>	<u>12,299,939</u>	<u>8,442,896</u>
	<u>167,095,423</u>	<u>107,168,979</u>	<u>65,869,006</u>

**7. OTHER ASSETS**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
- Prepayments - long term portion	522,784,264	357,042,077	166,852,681
- Downpayment to suppliers	87,837,021	124,712,656	171,165,677
- Deferred charges	8,057,202	15,121,146	4,466,922
- Restricted bank deposits and bank	243,999	10,271,442	95,062,500
- Others	<u>9,580,980</u>	<u>8,152,611</u>	<u>5,542,586</u>
	628,503,466	515,299,932	443,090,366
Intangible assets - 3G license:			
Acquisition cost	376,000,000	-	-
Accumulated amortisation	<u>(13,192,983)</u>	<u>-</u>	<u>-</u>
	<u>991,310,483</u>	<u>515,299,932</u>	<u>443,090,366</u>
Deduct:			
- Restricted bank deposits and bank			
- current	<u>(148,305)</u>	<u>(4,612,121)</u>	<u>(44,531,250)</u>
Other assets - non-current	<u>991,162,178</u>	<u>510,687,811</u>	<u>398,559,116</u>

Restricted bank deposits for 31 December 2004 include a sinking fund for bond interest payments amounting to Rp 44,531,250.

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**8. FIXED ASSETS**

	<b>2006</b>				
	<b>01/01/2006</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>31/12/2006</b>
<b>Cost</b>					
Land	101,082,744	15,690,149	-	252,577	117,025,470
Buildings	31,266,333	9,956,266	-	7,075,577	48,298,176
Network equipment	10,856,531,528	3,336,779,835	(340,436,615)	557,608,907	14,410,483,655
Leasehold improvements	98,453,470	12,639,893	(85,447)	(2,389,875)	108,618,041
Office machinery and equipment	210,040,099	41,656,653	(5,838,906)	8,463,000	254,320,846
Furniture and fixtures	14,657,529	7,500,829	(150,838)	786,135	22,793,655
Support systems	105,382,012	16,691,183	(18,456)	1,521,706	123,576,445
Motor vehicles	33,867,263	4,807,530	(807,026)	-	37,867,767
	<u>11,451,280,978</u>	<u>3,445,722,338</u>	<u>(347,337,288)</u>	<u>573,318,027</u>	<u>15,122,984,055</u>
Assets under construction	<u>923,971,931</u>	<u>1,057,329,203</u>	<u>(1,504,521)</u>	<u>(573,318,027)</u>	<u>1,406,478,586</u>
	<u>12,375,252,909</u>	<u>4,503,051,541</u>	<u>(348,841,809)</u>	<u>-</u>	<u>16,529,462,641</u>
<b>Accumulated depreciation</b>					
Buildings	(11,384,533)	(3,530,006)	-	1,327,525	(13,587,014)
Network equipment	(4,574,226,949)	(1,431,108,991)	338,086,338	(624,330)	(5,667,873,932)
Leasehold improvement	(63,036,684)	(14,510,952)	85,447	(1,327,525)	(78,789,714)
Office machinery and equipment	(144,333,149)	(35,522,692)	5,631,646	518,295	(173,705,900)
Furniture and fixtures	(8,614,570)	(3,591,192)	150,838	138,937	(11,915,987)
Support systems	(75,043,537)	(15,951,975)	13,457	(32,902)	(91,014,957)
Motor vehicles	(27,555,246)	(3,803,929)	793,699	-	(30,565,476)
	<u>(4,904,194,668)</u>	<u>(1,508,019,737)</u>	<u>344,761,425</u>	<u>-</u>	<u>(6,067,452,980)</u>
<b>Net book value</b>	<u>7,471,058,241</u>				<u>10,462,009,661</u>
	<b>2005</b>				
	<b>01/01/2005</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>31/12/2005</b>
<b>Cost</b>					
Land	82,465,199	13,100,812	-	5,516,733	101,082,744
Buildings	31,371,828	34,249	(252,944)	113,200	31,266,333
Network equipment	7,937,321,362	2,227,756,517	(3,486,538)	694,940,187	10,856,531,528
Leasehold improvements	74,711,144	24,856,045	(2,356,432)	1,242,713	98,453,470
Office machinery and equipment	171,966,375	37,071,456	(1,865,419)	2,867,687	210,040,099
Furniture and fixtures	11,468,983	3,012,092	(336,021)	512,475	14,657,529
Support systems	89,817,843	13,991,364	-	1,572,805	105,382,012
Motor vehicles	36,034,671	135,850	(3,502,118)	1,198,860	33,867,263
	<u>8,435,157,405</u>	<u>2,319,958,385</u>	<u>(11,799,472)</u>	<u>707,964,660</u>	<u>11,451,280,978</u>
Assets under construction	<u>586,976,196</u>	<u>1,048,466,626</u>	<u>(3,506,231)</u>	<u>(707,964,660)</u>	<u>923,971,931</u>
	<u>9,022,133,601</u>	<u>3,368,425,011</u>	<u>(15,305,703)</u>	<u>-</u>	<u>12,375,252,909</u>
<b>Accumulated depreciation</b>					
Buildings	(8,802,078)	(2,796,124)	213,669	-	(11,384,533)
Network equipment	(3,481,455,042)	(1,094,507,303)	1,735,396	-	(4,574,226,949)
Leasehold improvement	(54,988,944)	(9,955,109)	1,907,369	-	(63,036,684)
Office machinery and equipment	(114,807,155)	(31,353,723)	1,827,729	-	(144,333,149)
Furniture and fixtures	(6,140,270)	(2,764,487)	290,187	-	(8,614,570)
Support systems	(58,448,262)	(16,595,275)	-	-	(75,043,537)
Motor vehicles	(24,371,995)	(5,636,997)	2,453,746	-	(27,555,246)
	<u>(3,749,013,746)</u>	<u>(1,163,609,018)</u>	<u>8,428,096</u>	<u>-</u>	<u>(4,904,194,668)</u>
<b>Net book value</b>	<u>5,273,119,855</u>				<u>7,471,058,241</u>

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**8. FIXED ASSETS (continued)**

	2004				
	01/01/2004	Additions	Disposals	Transfers	31/12/2004
<b>Cost</b>					
Land	72,508,025	8,930,632	-	1,026,542	82,465,199
Buildings	30,746,572	335,417	-	289,839	31,371,828
Network equipment	6,222,794,968	1,487,748,722	(21,084,245)	247,861,917	7,937,321,362
Leasehold improvements	67,154,046	9,739,281	(2,962,311)	780,128	74,711,144
Office machinery and equipment	147,809,648	28,300,957	(10,137,668)	5,993,438	171,966,375
Furniture and fixtures	13,091,828	3,172,558	(5,337,131)	541,728	11,468,983
Support systems	71,622,161	14,385,547	-	3,810,135	89,817,843
Motor vehicles	30,904,211	5,230,460	(100,000)	-	36,034,671
	<u>6,656,631,459</u>	<u>1,557,843,574</u>	<u>(39,621,355)</u>	<u>260,303,727</u>	<u>8,435,157,405</u>
Assets under construction	573,481,641	291,556,890	(17,758,608)	(260,303,727)	586,976,196
	<u>7,230,113,100</u>	<u>1,849,400,464</u>	<u>(57,379,963)</u>	<u>-</u>	<u>9,022,133,601</u>
<b>Accumulated depreciation</b>					
Buildings	(6,004,652)	(2,797,426)	-	-	(8,802,078)
Network equipment	(2,609,497,625)	(891,032,339)	19,074,922	-	(3,481,455,042)
Leasehold improvement	(43,762,088)	(12,334,311)	1,107,455	-	(54,988,944)
Office machinery and equipment	(92,751,348)	(29,857,095)	7,801,288	-	(114,807,155)
Furniture and fixtures	(5,584,522)	(2,570,794)	2,015,046	-	(6,140,270)
Support systems	(42,146,897)	(16,301,365)	-	-	(58,448,262)
Motor vehicles	(17,013,052)	(7,458,943)	100,000	-	(24,371,995)
	<u>(2,816,760,184)</u>	<u>(962,352,273)</u>	<u>30,098,711</u>	<u>-</u>	<u>(3,749,013,746)</u>
<b>Net book value</b>	<u>4,413,352,916</u>				<u>5,273,119,855</u>

The Company owns land located throughout Indonesia with Building Use Rights (*Hak Guna Bangunan* or "HGB") for periods of 20-30 years which will expire between 2009-2035.

As of 31 December 2006, there are 249 location of the Company's land with a book value of Rp 49,025,750 and for which a HGB certificate is in process.

Management believes that there will be no difficulty in renewing the land rights.

**Assets under construction**

Assets under construction consist of:

	2006	2005	2004
Network equipment	1,335,077,342	911,155,059	581,406,937
Non network equipment	71,401,244	12,816,872	5,569,259
	<u>1,406,478,586</u>	<u>923,971,931</u>	<u>586,976,196</u>

Assets under construction mainly represent new equipment comprising Base Transceiver Stations ("BTS") and other equipment which are still to be installed and being installed. When the equipment units are finally installed, their carrying values are reclassified to fixed assets (network equipment).

Management believes that there are no significant obstacles to impede the completion of assets under construction mentioned above.



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**8. FIXED ASSETS (continued)**

The calculation of the loss on sale and write off of fixed assets is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Cost	348,841,809	15,305,703	57,379,963
Accumulated depreciation	<u>(344,761,425)</u>	<u>(8,428,096)</u>	<u>(30,098,711)</u>
Net book value	4,080,384	6,877,607	27,281,252
Sales and insurance proceeds	<u>(2,616,484)</u>	<u>(2,467,391)</u>	<u>(10,831,962)</u>
Loss on sale and write off of fixed assets	<u>(1,463,900)</u>	<u>(4,410,216)</u>	<u>(16,449,290)</u>

As at 31 December 2006, fixed assets of the Company and subsidiaries are insured by insurance policies covering "property all risks and business interruption" for USD 1,169.1 million which management believes is adequate to cover possible losses.

In 1997 and 1998 the Company capitalised foreign exchange losses into the cost of fixed assets amounting to Rp 147,949 million (full amount) and Rp 492,751 million (full amount), respectively (refer to Note 2k). Included in the fixed assets net book value of the Company as at 31 December 2006, 2005 and 2004 were the remaining balance of foreign exchange losses capitalised amounting to Rp 5,541 million (full amount), Rp 6,812 million (full amount), and Rp 81,653 million (full amount) respectively.

**9. TRADE PAYABLES - THIRD PARTIES**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Ericsson AB	348,249,004	167,875,078	73,426,023
Ericsson AB (EAW)	120,338,845	36,575,819	13,738,514
PT Ericsson Indonesia	101,704,197	151,351,914	53,814,976
Siemens Network GmbH Co. KG. (formerly Siemens AG)	72,924,777	30,984,707	87,168,380
PT Huawei Tech Investment	46,314,691	26,079,039	3,455,225
Huawei Tech Investment Co. Ltd	33,100,161	47,496,206	90,711,062
PT Siemens Indonesia	22,064,658	17,077,643	18,932,015
Siemens Mobile Communications SpA	4,507,881	-	-
NSW Sub Marine Cable Systems Sdn Bhd	-	-	54,144,012
Others	<u>1,197,850,043</u>	<u>785,849,480</u>	<u>214,553,624</u>
	<u>1,947,054,257</u>	<u>1,263,289,886</u>	<u>609,943,831</u>

Trade payables based on currency are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Rupiah	669,638,116	541,641,743	160,543,626
Foreign currencies	<u>1,277,416,141</u>	<u>721,648,143</u>	<u>449,400,205</u>
	1,947,054,257	1,263,289,886	609,943,831
Less: Current portion	<u>(1,664,883,959)</u>	<u>(1,210,931,390)</u>	<u>(609,943,831)</u>
Non-current portion	<u>282,170,298</u>	<u>52,358,496</u>	<u>-</u>

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**10. OTHER PAYABLES AND ACCRUALS - THIRD PARTIES**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Interest payable	191,068,535	130,537,755	157,660,127
Customer deposits	138,138,423	35,795,792	11,898,773
Accrued telecommunication services	61,928,485	56,595,618	33,274,949
Others	<u>62,624,250</u>	<u>12,743,410</u>	<u>1,591,375</u>
	<u>453,759,693</u>	<u>235,672,575</u>	<u>204,425,224</u>

In October 2005, the Company reversed accrual for Universal Service Obligation (USO) for 2004 amounting to Rp 19,744,435 based on a Decree of the Minister of Communication and Informatics No. 15/PER/M.KOMINFO/9/2005 and a letter from the Directorate General of Post and Telecommunication No. 1778/DJPT.1/KOMINFO/X/2005, which stated that the USO was applicable starting January 2005.

In 2004, the Company reversed accrual for 2003 radio frequency spectrum usage rights amounting to Rp 15,633,835 because the actual charge was lower than the original estimation made. The reversal was credited to the 2004 consolidated operating income.

**11. DERIVATIVES PAYABLE**

On 7 and 11 December 2006, the Company entered into four forward foreign currency contracts to hedge the USD Bond payment, which will be mature in 2009 and 2013.

The details of forward foreign currency contracts are as follow:

	<b>Bank</b>	<b>Notional amount</b>	<b>Fair value (Rp)</b>	<b>Strike rate (full amount)</b>	<b>Period</b>	<b>Premium per annum</b>
a	JPMorgan Securities (S.E.A.) Limited	USD 25,000,000	15,375,736	1 USD = Rp 9,000	7 December 2006 - 16 January 2013	3.49%
b	Standard Chartered Bank	USD 25,000,000	14,614,231	1 USD = Rp 9,000	7 December 2006 - 16 January 2013	3.49%
c	JPMorgan Securities (S.E.A.) Limited	USD 25,000,000	6,804,246	1 USD = Rp 9,000	11 December 2006 - 23 January 2009	3.90%
d	Standard Chartered Bank	USD 25,000,000	5,360,595	1 USD = Rp 9,000	11 December 2006 - 23 January 2009	3.90%
	<b>Total</b>	<b>USD 100,000,000</b>	<b>42,154,808</b>			

The premium on the forward foreign currency contracts will be paid semiannually.

The fair value of forward foreign currency contracts have been calculated using rates quoted by the Company's bankers to terminate the contracts at the balance sheet date.

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**12. SHORT TERM LENDERS LOAN**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Floating Rate Notes (FRN)	-	<u>688,100,000</u>	-

**a. Issuance of Senior Unsecured Floating Rate Notes (FRN)**

On 18 July 2005, the Company issued Floating Rate Notes ("FRN") for USD 70,000,000 due within six months. The FRN was arranged by Commerce International Merchant Bankers Berhad, Kuala Lumpur Branch (CIMB) and UBS Limited (UBS), and bears an interest rate of one-month-LIBOR plus 2.25% margin per annum. On 21 July 2005, the Company used the FRN proceeds to settle the Excelcom Bond - IDR buyback.

On 18 January 2006, the Company settled all FRN loans.

**b. Loan facilities from Bank of Tokyo - Mitsubishi, Ltd. ("BoTM")**

On 19 April 2005, the Company entered into a credit agreement with the Bank of Tokyo - Mitsubishi, Ltd. ("BoTM") - Jakarta branch for a total amount of USD 15,000,000. The facility is a revolving facility and will be available from 19 April 2005 to 31 December 2005. The loan bears interest rates of the bank's cost of fund plus 0.5% margin per annum.

On 15 July 2005 and 18 July 2005, the Company withdrew all of the facilities amounting to Rp 45 billion (full amount) and USD 10,000,000. The final repayment date of the facility is on 31 December 2005. This loan was not pledged with special collateral and ranks similarly (*pari passu*) with other creditors.

The Company is required to comply with several conditions, the main requirement being the ownership of Telekom Malaysia Berhad shall reach more than 50% by the end of October 2005. The fund from BoTM amounting to Rp 45 billion (full amount) and USD 10,000,000 was utilised for working capital purposes. On 17 and 19 October 2005, the Company settled all loans with the BoTM.

**c. Loan facilities from ABN Amro Bank N.V**

On 19 April 2005, the Company entered into an uncommitted banking facilities agreement with ABN Amro Bank N.V Jakarta branch for a total amount of USD 35,000,000. The facility is a revolving facility. The loan bears interest at LIBOR plus 0.95% per annum for USD drawings and at bank cost of fund plus 0.95% per annum for IDR drawings. On 15 July 2005, the Company withdrew all of the facilities amounting to USD 35,000,000.

This loan was not pledged with special collateral, therefore ranks similarly with other creditors. The Company is required to comply with several conditions, such as the ownership of Telekom Malaysia Berhad being a minimum of 23.1% when there was outstanding loan, and certain restrictions on the sale/transfer of assets.

The loan is due to be repaid within one year from the agreement date and can be extended by agreement between the parties. The fund from ABN Amro Bank N.V amounting to USD 35,000,000 was used to finance the Excelcom Bond - IDR buyback by the Company. On 28 September 2005, the Company settled all loans to the ABN Amro Bank N.V.

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**12. SHORT TERM LENDERS LOAN (continued)**

**d. Committed banking facility from JPMorgan Chase Bank, N.A.**

On 18 July 2005, the Company entered into a committed banking facility with JPMorgan Chase Bank, N.A., Jakarta Branch, for a total amount of USD 30,000,000. The facility can be drawdown in two phases, starting from 19 July 2005 to 18 September 2005. The facility will mature six months after the date of the facility letter. On 19 July 2005 the Company made its first drawdown of USD 15,000,000.

The second drawdown for the remaining loan of USD 15,000,000 was made on 15 August 2005. The facility bears an interest rate of 6.09%. However if the shareholders of the Company pass a new resolution approving a floating interest rate, the interest rate of the facility will be LIBOR plus 2.25% per annum. There is a commitment fee of 0.3% per annum on the daily undrawn facility.

Based on the Resolution of an Extraordinary General Shareholders Meeting held on 19 July 2005, the shareholders approved the usage of floating interest rate for JPMorgan Chase Bank N.A. facility, thus starting from 19 August 2005, this facility will bear an interest rate of one-month-LIBOR plus 2.25% margin.

This loan was not pledged with special collateral and therefore ranks similarly (*pari passu*) with other creditors. The Company required to comply with several conditions, such as the minimum ownership of Telekom Malaysia Berhad must be not less than 23.1% and certain restrictions on the sale/transfer of assets. On 28 September 2005, the Company settled all loans to JPMorgan Chase Bank, N.A.

**13. LONG TERM BONDS**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Excelcom Notes - USD	5,412,000,000	3,440,500,000	3,251,500,000
Excelcom Bond - IDR	-	-	1,250,000,000
	5,412,000,000	3,440,500,000	4,501,500,000
Unamortised discount	<u>(66,815,124)</u>	<u>(39,215,452)</u>	<u>(70,980,212)</u>
Long term portion	<u>5,345,184,876</u>	<u>3,401,284,548</u>	<u>4,430,519,788</u>

**a. IDR Bond**

On 23 October 2003, the Company issued a bond known as Obligasi Excelcom I Year 2003 (the "Excelcom Bond") with a nominal value of Rp 1.25 trillion (full amount). The Excelcom Bond is divided into series A bonds with a fixed interest rate of 14.25% p.a and series B bonds with a fixed interest rate of 14.25% p.a for the first and second year and with a floating interest rate for the third until the fifth year, which is calculated based on SBI (*Sertifikat Bank Indonesia*) interest rate for a period of 3 months and includes a fixed premium of 5% each year, provided that such floating interest rate shall not be lower than 11% nor higher than 17% p.a.

The interest is payable on a quarterly basis commencing on 21 January 2004, and the Company is obliged to make payment of interest 45 days in advance of the last day of each interest period. The Excelcom Bond is unsecured and ranks *pari passu* with the Company's other unsecured creditors. The Excelcom Bond is listed on the Surabaya Stock Exchange and matures on 21 October 2008. The Company is required to comply with all covenants or restrictions including maintaining consolidated financial ratios as follows:

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#### 13. LONG TERM BONDS (continued)

##### a. IDR Bond (continued)

1. EBITDA to net interest ratio should be at least 4 times for 2003 - 2005 and 5 times for 2006 - 2008.
2. Debt to EBITDA ratio should not exceed 3.75 times for 2003, 3.5 times for 2004 - 2005 and 3 times for 2006 - 2008.

Following the repayment of the entire balance of the long term lenders loan in January 2004, PT Pefindo upgraded the credit rating of the Excelcom Bond to idA+ on 18 February 2004.

PT Bank Permata Tbk is the trustee for the Excelcom Bond issuance in accordance with the conditions set in the Trustee Agreement between the Company and PT Bank Permata Tbk.

On 4 July 2005, the Company held a Bondholders General Meeting (*RUPO*) which was attended by 87.58% of the Excelcom Bondholders or their legal representative. The purpose of the *RUPO* was to obtain the bondholders' approval to amend certain articles on the Excelcom Bond Trustee Agreement, in relation with the Company's plan to issue a new bond.

Up to 98.45% of the presented/represented bondholders approved the amendment plan of the Trustee Agreement from the Company. In return the Company was requested by the Excelcom Bondholders to buyback the Excelcom Bond at a price of 105% of the nominal value, or equivalent to Rp 1.3125 trillion (full amount). The buyback was completed on 21 July 2005.

##### b. USD Bond

On 27 January 2004, the Company's wholly-owned subsidiary domiciled in Amsterdam, Excelcomindo Finance Company B.V., issued a bond amounting to USD 350 million with an offering price of 99.495% and a coupon of 8% valid for 5 year notes (the "Notes"). The Notes are listed on the Singapore Exchange Securities Trading, Ltd. The difference between the nominal principal and the issuance price was deferred as a bond discount and is being amortised over 5 years.

Interest is payable semi-annually in arrears on 27 January and 27 July of each year, commencing on 27 July 2004. The Notes will mature on 27 January 2009.

The Notes are unsecured senior obligations and guaranteed by the Company on a senior unsecured basis. The trustee for the Notes is the Bank of New York. On 1 December 2005 and 19 May 2006, the notes are rated BB- and Ba3 by Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively.

The Company is required to comply with certain conditions, such as limitations on assets sale and/or leaseback transactions, and the Consolidated Leverage Ratio does not exceed 3.5 to 1.0 on or prior to 27 January 2005, and 3.0 to 1.0 thereafter.

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**13. LONG TERM BONDS (continued)**

**b. USD Bond (continued)**

On 5 August 2005, the Company and Excelcomindo Finance Company B.V. declared the amendment of USD Bond requirements as follows:

- (a) Before the Company becomes a subsidiary of Telekom Malaysia Berhad, the Consolidated Leverage Ratio does not exceed 3.5 to 1.0 on or prior to 27 January 2006, and 3.0 to 1.0 thereafter; and
- (b) After the Company becomes a subsidiary of Telekom Malaysia Berhad, the Consolidated Leverage Ratio does not exceed 5.0 to 1.0 on or prior to 27 January 2007, and 4.5 to 1.0 thereafter, but before 27 January 2008 and 4.0 to 1.0 thereafter.

For the amendment of this USD Bond requirements, the Company paid a consent fee to the bondholders amounting to USD 3,136,770 or Rp 30,800 million (full amount) which was recorded as other expenses in 2005.

On 18 January 2006, the Company's owned subsidiary, Excelcomindo Finance Company B.V., issued the second bond amounting to USD 250 million with an offering price of 99.323% and a coupon of 7.125% valid for 7 year notes (the "Notes"). The Notes are listed on the Singapore Exchange Securities Trading, Ltd. The difference between the nominal principal and the issuance price was deferred as a bond discount and is being amortised over seven years.

Interest is payable semi-annually in arrears on 18 January and 18 July of each year, commencing on 18 July 2006. The Notes will mature on 18 January 2013. The Notes are unsecured senior obligations and guaranteed by the Company on a senior unsecured basis. The trustee for the Notes is the Bank of New York.

Since 19 May 2006, the notes are rated BB- and Ba3 by Standard and Poor's Ratings Services and Moody's Investors Service, Inc., respectively.

The Company is required to comply with certain conditions, such as limitations on assets sale and/or leaseback transactions, and the Consolidated Leverage Ratio does not exceed 5.0 to 1.0 on or prior to 27 January 2007, and 4.5 to 1.0 thereafter.

As of 31 December 2006, the Company was in compliance with the covenants of USD bond.

**14. PROVISION FOR EMPLOYEE BENEFITS AND EMPLOYEE COSTS**

**a. Provision for employee benefits**

The movement of the provision for employee benefits recognized in the consolidated balance sheets are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Beginning balance	30,542,601	27,154,276	23,069,792
Provision made during the year	9,499,243	6,173,199	4,425,902
Amounts paid during the year	<u>(1,530,482)</u>	<u>(2,784,874)</u>	<u>(341,418)</u>
Ending balance	<u>38,511,362</u>	<u>30,542,601</u>	<u>27,154,276</u>

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**14. PROVISION FOR EMPLOYEE BENEFITS AND EMPLOYEE COSTS (continued)**

**a. Provision for employee benefits (continued)**

The provision for employee benefits recognized in the consolidated balance sheets are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Present value of obligations	47,945,945	32,638,829	21,032,438
Unrecognized actuarial losses	(16,009,191)	(9,251,118)	(1,613,335)
Unrecognized past service costs	<u>6,574,608</u>	<u>7,154,890</u>	<u>7,735,173</u>
Liability in the balance sheet	<u><u>38,511,362</u></u>	<u><u>30,542,601</u></u>	<u><u>27,154,276</u></u>

Estimation of actuarial obligations as of 31 December 2006, 2005 and 2004 was based on the latest actuarial valuation prepared by PT Watson Wyatt Purbajaga, an independent actuary, per 31 December 2006 as stated in its report dated 26 January 2007.

The provision for employee benefits expense charged in the consolidated statements of income is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current service costs	5,799,395	4,195,515	3,319,980
Interest expense	3,845,328	2,397,116	1,686,205
Amortisation of unrecognized actuarial loss	434,803	160,851	-
Amortisation of unrecognized past service costs	<u>(580,283)</u>	<u>(580,283)</u>	<u>(580,283)</u>
Provision for employee benefits expense	<u><u>9,499,243</u></u>	<u><u>6,173,199</u></u>	<u><u>4,425,902</u></u>

As of 31 December 2006, 2005 and 2004, the pension benefit obligation was determined based on actuarial valuation by PT Watson Wyatt Purbajaga using the "Projected Unit Credit" method with the following assumptions:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Discount rate (per annum)	10.5%	12%	10%
Salary increment rate (per annum)	9%	10%	8%
Rate of mortality	Indonesian Mortality Table 1999 (TMI'99)	Commissioner's Standard Ordinary 1980 (CSO '80)	Commissioner's Standard Ordinary 1980 (CSO '80)
Rate of disability	10% of TMI '99	10% of CSO '80	10% of CSO '80
Rate of resignation	10% per annum up to age 25 years old and reducing linearly up to 1% per annum at age 46 years old; 1% per annum for 46 - 55 years old	10% per annum up to age 25 years old and reducing linearly up to 1% per annum at age 46 years old; 1% per annum for 46 - 55 years old	10% per annum up to age 25 years old and reducing linearly up to 1% per annum at age 46 years old; 1% per annum for 46 - 55 years old
Retirement rate	100% at normal retirement age of 56 years	100% at normal retirement age of 56 years	100% at normal retirement age of 56 years

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**14. PROVISION FOR EMPLOYEE BENEFITS AND EMPLOYEE COSTS (continued)**

**b. Employee numbers and costs**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Number of employees	2,061	1,867	1,543
Total employee costs:			
- Salaries and allowances	411,976,252	297,465,625	214,373,234
- Payment to defined contribution pension plan	11,883,471	8,291,648	6,676,455
- Provision for employee benefits	<u>9,499,243</u>	<u>6,173,199</u>	<u>4,425,902</u>
Total employee costs	433,358,966	311,930,472	225,475,591
Internal labour cost capitalised as part of the fixed assets costs	<u>(35,769,512)</u>	<u>(32,662,795)</u>	<u>(15,016,921)</u>
Salaries and employee benefits	<u>397,589,454</u>	<u>279,267,677</u>	<u>210,458,670</u>

**15. SHARE CAPITAL AND CAPITAL SURPLUS**

**Share Capital**

Authorised share capital as of 31 December 2006 and 2005 are 22,650,000,000 shares, with par value Rp 100 (full amount) per share. Issued and fully paid share capital are 7,090,000,000 shares.

The Company's shareholders composition as of 31 December 2006 based on records maintained by PT Datindo Entrycom, the shares administrator of the Company is as follows:

	<u>Number of shares</u>	<u>Amount</u>	<u>%</u>
Indocel Holding Sdn. Bhd. (formerly Nynex Indocel Holding Sdn.)	4,227,901,400	422,790,140	59.63
Khazanah Nasional Berhad	1,191,553,500	119,155,350	16.81
PT Rajawali Corpora (formerly PT Telekomindo Primabhakti)	1,132,497,500	113,249,750	15.97
AIF (Indonesia) Ltd.	523,532,100	52,353,210	7.38
Public	<u>14,515,500</u>	<u>1,451,550</u>	<u>0.21</u>
	<u>7,090,000,000</u>	<u>709,000,000</u>	<u>100.00</u>

The Company's shareholders composition as of 31 December 2005 based on records maintained by PT Datindo Entrycom, the shares administrator of the Company is as follows:



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**15. SHARE CAPITAL AND CAPITAL SURPLUS (continued)**

**Share Capital (continued)**

	<u>Number of shares</u>	<u>Amount</u>	<u>%</u>
Indocel Holding Sdn. Bhd. (formerly Nynex Indocel Holding Sdn.)	4,035,803,000	403,580,300	56.92
Khazanah Nasional Berhad	1,191,553,500	119,155,350	16.81
PT Rajawali Corpora (formerly PT Telekomindo Primabhakti)	1,132,497,500	113,249,750	15.97
AIF (Indonesia) Ltd.	719,137,500	71,913,750	10.14
Public	<u>11,008,500</u>	<u>1,100,850</u>	<u>0.16</u>
	<u>7,090,000,000</u>	<u>709,000,000</u>	<u>100.00</u>

Authorised, issued and fully paid share capital as of 31 December 2004 is 2,265,000 shares, with a par value of Rp 250,000 (full amount) per share.

The Company's shareholders composition as of 31 December 2004 is as follows:

	<u>Number of shares</u>	<u>Amount</u>	<u>%</u>
PT Rajawali Corpora (formerly PT Telekomindo Primabhakti)	1,359,000	339,750,000	60.00
Nynex Indocel Holding Sdn.	523,215	130,803,750	23.10
AIF (Indonesia) Ltd.	287,655	71,913,750	12.70
Mitsui & Co., Ltd.	<u>95,130</u>	<u>23,782,500</u>	<u>4.20</u>
	<u>2,265,000</u>	<u>566,250,000</u>	<u>100.00</u>

The chronology of changes in the Company's shareholders since 1 January 2004 to 31 December 2006 is as follows:

- a. On 11 January 2005, TM International (L) Limited acquired Nynex Indocel Holding Sdn. paid up capital. Following the acquisition, Nynex Indocel Holding Sdn. changed its name to Indocel Holding Sdn. Bhd.
- b. Based on a Deed of Transfer dated 1 April 2005, Mitsui & Co., Ltd. sold its entire portion in the Company shares of 95,130 ordinary shares (representing 4.2% equity interest) of the Company to Rogan Partners Inc.

The transfer of shares has been approved by the Company's shareholders based on Deed No. 155, dated 28 March 2005, prepared before Aulia Taufani, SH, substitute for Sutjipto, SH, Notary in Jakarta, and has obtained approval from BKPM No. 295/III/PM/2005, dated 1 April 2005, for approval of the Company's share capital changes.

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**15. SHARE CAPITAL AND CAPITAL SURPLUS (continued)**

**Share Capital (continued)**

- c. Based on a Deed of Transfer dated 15 June 2005, Rogan Partners Inc. has sold its entire portion in the Company's shares to Indocel Holding Sdn. Bhd.

The transfer of shares has been approved by the Company's shareholders based on Deed No. 81, dated 16 June 2005, prepared before Aulia Taufani, SH, substitute for Sutjipto, SH, Notary in Jakarta, and has obtained approval from BKPM based on letter No. 652/III/PMA/2005, dated 15 June 2005, for approval of the Company's share capital changes.

- d. Based on the Resolution of Shareholders dated 19 July 2005, in relation to initial stock public offering, all of the Company's Articles of Association were amended by Deed No. 8, dated 2 August 2005, prepared before Aulia Taufani, SH, substitute for Sutjipto, SH, Notary in Jakarta, which increase authorised shares capital to 22,650,000,000 shares with a par value of Rp 100 (full amount) on each share or amounting to Rp 2,265,000,000,000 (full amount).

This amendment has been accepted and approved by the Minister of Law and Human Rights of the Republic of Indonesia in the letter No. C-21651.HT.01.04.TH.2005, dated 4 August 2005 and C-21974.HT.01.04.TH.2005, dated 8 August 2005 and registered in the Company Registrar under registration No. 947/RUB.09.03/VIII/2005 dated 16 August 2005.

In relation to the initial stock public offering, the issued and fully-paid shares of the Company become 7,090,000,000 shares with a par value of Rp 100 (full amount) or amounting to Rp 709,000,000,000 (full amount), as stated in Deed No. 47, dated 6 October 2005, prepared before Sutjipto, SH, Notary in Jakarta. This amendment has been accepted and approved by the Minister of Law and Human Rights of the Republic of Indonesia No. C-28115.HT.01.04.TH.2005, dated 12 October 2005, and has been registered by the Company Registrar of the District of South Jakarta No. 7337/RUB.09.03/X/2005, dated 28 October 2005. The Company also obtained an approval from BKPM for increasing authorised, issued and fully-paid shares by letter No. 853/II/PMA/2005, dated 28 July 2005, regarding the Approval of Changes in the Company's Name and Capital Structure.

- e. During the initial stock public offering process, Khazanah Nasional Berhad acquired 1,191,553,500 shares (representing 16.8% equity interest) in the Company.
- f. In October 2005, there was a significant change in the Company's shareholding whereby PT Rajawali Corpora (formerly PT Telekomindo Primabhakti) sold its 2,265,002,500 shares (56.92%) to Indocel Holding Sdn. Bhd. (formerly Nynex Indocel Holding Sdn.) Accordingly, the Company's majority shareholder is Indocel Holding Sdn. Bhd., which is a subsidiary of TM International (L) Limited.
- g. In June 2006, there was a change in the Company's shareholding whereby AIF (Indonesia) Ltd. sold its 195,605,400 shares to Indocel Holding Sdn. Bhd. Accordingly, Indocel Holding Sdn. Bhd. ownership become 59.67% as at 30 June 2006.
- h. Indocel Holding Sdn. Bhd. has committed to increase the Company's liquidity in the Jakarta Stock Exchange by steadily releasing its shares to the public whilst as at 31 December 2006 Indocel Holding Sdn. Bhd. ownership is 59.63%.

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**15. SHARE CAPITAL AND CAPITAL SURPLUS (continued)**

**Capital Surplus**

Capital surplus as of 31 December 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Additional paid in capital	2,712,250,000	2,712,250,000	-
Share issuance costs	(44,815,247)	(44,815,247)	-
Exchange rate difference due to paid-in capital	<u>24,249,591</u>	<u>24,249,591</u>	<u>11,730,000</u>
	<u>2,691,684,344</u>	<u>2,691,684,344</u>	<u>11,730,000</u>

Through the initial stock offering in September 2005, the Company had received USD 278,213,143.70 and Rp 18,617,000,000 (full amount) for the offering of 1,427,500,000 shares with a nominal value amounting to Rp 100 (full amount) per share. As stated in the prospectus, the price value of the share was converted to Rupiah by using the exchange rate USD 1.00 = Rp 10,195 (full amount).

The remaining Capital Surplus balance amounting to Rp 24,249,591 was the difference between the exchange rate of Rupiah/USD on the date on which payment was received for the shares purchase and the exchange rate stated in shareholders' agreement and prospectus.

**16. EARNING/(LOSS) PER SHARE**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net income/(loss) attributable to the shareholders	<u>651,883,453</u>	<u>(224,092,093)</u>	<u>(45,302,622)</u>
Weighted average number of ordinary shares outstanding	<u>7,090,000,000</u>	<u>6,030,130,137</u>	<u>5,662,500,000</u>
Basic earning/(loss) per share (full amount)	<u>92</u>	<u>(37)</u>	<u>(8)</u>
Diluted earning/(loss) per share (full amount)	<u>92</u>	<u>(37)</u>	<u>(8)</u>

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**16. EARNING/(LOSS) PER SHARE (continued)**

Based on a Shareholders' Resolution dated 19 July 2005, as stated in the Deed No. 127, dated 19 July 2005, prepared before Aulia Taufani, SH, substitute of Sutjipto, SH, Notary in Jakarta, approval was given for the change in the nominal value of the Company's shares, from Rp 250,000 (full amount) per share to Rp 100 (full amount) per share through stock split, which resulted in an increase in the number of shares from 2,265,000 shares to 5,662,500,000 shares.

Basic and diluted earning/(loss) per share for the years ended 31 December 2005 and 2004 have been calculated based on the number of shares outstanding as if the stock split which occurred in 19 July 2005 was performed at the beginning of 2004.

**17. REVENUE**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>GSM Telecommunication service</b>			
Voice	2,747,182,913	1,922,397,451	1,536,617,042
Non voice	2,239,392,072	1,340,418,463	926,592,099
Monthly service charge	<u>920,793</u>	<u>730,820</u>	<u>20,415,076</u>
	<u>4,987,495,778</u>	<u>3,263,546,734</u>	<u>2,483,624,217</u>
<b>GSM Interconnection service</b>			
Domestic interconnection	866,259,714	671,577,222	609,945,189
International roaming	306,911,935	242,337,807	158,637,811
SMS interconnection	23,711,962	7,644,902	323,837
Others	<u>4,902,500</u>	<u>910,000</u>	<u>-</u>
	<u>1,201,786,111</u>	<u>922,469,931</u>	<u>768,906,837</u>
Gross GSM revenue	6,189,281,889	4,186,016,665	3,252,531,054
Discount	<u>(688,087,513)</u>	<u>(510,917,464)</u>	<u>(189,536,771)</u>
Gross GSM revenue net of discount	5,501,194,376	3,675,099,201	3,062,994,283
Interconnection charges	(852,843,143)	(546,683,807)	(359,825,616)
Other GSM telecommunication charges	<u>(211,184,240)</u>	<u>(172,031,350)</u>	<u>(174,684,585)</u>
GSM revenue net of interconnection charges and other GSM telecommunication charges	<u>4,437,166,993</u>	<u>2,956,384,044</u>	<u>2,528,484,082</u>
<b>Other telecommunication services revenue</b>			
Leased lines	238,687,686	93,025,228	56,610,673
Internet service provider	28,747,188	19,916,982	13,955,397
Others	<u>9,340,178</u>	<u>2,533,706</u>	<u>182,736</u>
Gross revenue from other telecommunication services	276,775,052	115,475,916	70,748,806
Discount	<u>(312,734)</u>	<u>(560,554)</u>	<u>(603,886)</u>

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<b>17. REVENUE (continued)</b>			
	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Gross revenue from other telecommunication services net of discount	276,462,318	114,915,362	70,144,920
Other telecommunication services cost	<u>(31,954,791)</u>	<u>(12,172,219)</u>	<u>(7,925,349)</u>
Revenue from other telecommunication services net of other telecommunication services cost	<u>244,507,527</u>	<u>102,743,143</u>	<u>62,219,571</u>
Net revenue	<u><u>4,681,674,520</u></u>	<u><u>3,059,127,187</u></u>	<u><u>2,590,703,653</u></u>
 <b>18. SELLING EXPENSES</b>			
	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Advertising and promotion	332,283,493	218,644,803	178,963,713
Sales commission	<u>321,423,824</u>	<u>139,622,580</u>	<u>101,797,456</u>
	<u><u>653,707,317</u></u>	<u><u>358,267,383</u></u>	<u><u>280,761,169</u></u>
 <b>19. TAXATION</b>			
<b>a. Prepaid taxes</b>			
	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Value Added Tax - net	39,270,960	67,734,635	21,107,684
Income taxes			
- Article 22	41,432,405	28,667,038	12,323,337
- Article 23/26	100,604,811	52,041,808	26,547,899
- Article 25	<u>4,227,041</u>	<u>32,739,662</u>	<u>28,991,934</u>
	<u><u>185,535,217</u></u>	<u><u>181,183,143</u></u>	<u><u>88,970,854</u></u>
 <b>b. Taxes payable</b>			
	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Corporate income tax payable			
- The Subsidiaries	3,656,607	2,859,603	1,023,970
Employee income tax (article 21)	3,609,383	5,792,434	4,718,740
Withholding tax on rent and other services (article 23/26)	<u>38,954,262</u>	<u>21,921,051</u>	<u>16,344,876</u>
	<u><u>46,220,252</u></u>	<u><u>30,573,088</u></u>	<u><u>22,087,586</u></u>

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**19. TAXATION (continued)**

**c. Corporate income tax (expense)/benefit**

	<u>2006</u>	<u>2005</u>	<u>2004<sup>*)</sup></u>
Current - The Subsidiaries	(2,030,963)	(2,243,855)	(1,244,399)
Deferred - The Company	<u>(348,507,882)</u>	<u>91,378,900</u>	<u>2,522,521</u>
	<u>(350,538,845)</u>	<u>89,135,045</u>	<u>1,278,122</u>

The reconciliation between the Company's income tax (expense)/benefit and the theoretical tax amount on the Company's income/(loss) before income tax for the years ended 31 December 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004<sup>*)</sup></u>
Consolidated income/(loss) before income tax	1,002,422,298	(313,227,138)	(46,580,744)
Less: net income before tax - subsidiaries	<u>(5,512,580)</u>	<u>(7,927,957)</u>	<u>(4,236,099)</u>
Income/(loss) before income tax - the Company	<u>996,909,718</u>	<u>(321,155,095)</u>	<u>(50,816,843)</u>
Tax calculated at progressive rates	(299,072,915)	96,346,528	15,245,053
Income subject to final tax	14,361,377	6,038,260	7,813,827
Non deductible expenses	(42,164,081)	(13,923,659)	(20,536,359)
Prior year tax adjustment	<u>(21,632,263)</u>	<u>2,917,771</u>	<u>-</u>
Income tax (expense)/benefit - The Company	(348,507,882)	91,378,900	2,522,521
- The Subsidiaries	<u>(2,030,963)</u>	<u>(2,243,855)</u>	<u>(1,244,399)</u>
	<u>(350,538,845)</u>	<u>89,135,045</u>	<u>1,278,122</u>

The reconciliation between the Company's income/(loss) before income tax as shown in the consolidated financial statements and the estimated taxable loss for the years ended 31 December 2006, 2005 and 2004 is as follows:

	<u>2006</u>	<u>2005</u>	<u>2004<sup>*)</sup></u>
Income/(loss) before income tax	<u>996,909,718</u>	<u>(321,155,095)</u>	<u>(50,816,843)</u>
Temporary differences:			
- Difference between commercial and fiscal depreciation and amortisation	(514,608,084)	(299,043,523)	(205,663,906)
- Difference between commercial and fiscal (loss)/gain on disposal of assets and assets write off	(44,534,454)	277,490	(11,064,073)
- Provision for employee benefits	7,968,761	3,388,325	4,084,484
- Allowance for bad debt expense	66,918,053	8,171,581	-
- Employee stock allocation	-	10,000,000	-
	<u>(484,255,724)</u>	<u>(277,206,127)</u>	<u>(212,643,495)</u>

<sup>\*)</sup> As restated - refer to Note 3

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**19. TAXATION (continued)**

**c. Corporate income tax (expense)/benefit (continued)**

	<u>2006</u>	<u>2005</u>	<u>2004<sup>*)</sup></u>
Permanent differences:			
- Non-deductible expenses	140,546,937	46,412,197	68,454,539
- Interest income subject to final tax	<u>(47,871,255)</u>	<u>(20,127,534)</u>	<u>(26,046,085)</u>
	<u>92,675,682</u>	<u>26,284,663</u>	<u>42,408,454</u>
Taxable income/(loss)	<u>605,329,676</u>	<u>(572,076,559)</u>	<u>(221,051,884)</u>
Accumulated tax losses:			
2004	(221,051,884)	-	-
2005	<u>(572,076,559)</u>	-	-
	<u>(793,128,443)</u>	-	-
Tax loss adjustment 2004	32,219,621	-	-
Tax loss adjustment 2005	<u>28,262,671</u>	-	-
Tax losses	<u>(127,316,475)</u>	<u>(572,076,559)</u>	<u>(221,051,884)</u>

The Corporate Income Tax Return for fiscal year 2006 will be reported on 31 March 2007 based on the prevailing regulation.

**d. Deferred tax (liabilities)/assets**

	<u>2005</u>	<u>Charged to consolidated statement of income</u>	<u>Prior year adjustment charged to consolidated statement of income</u>	<u>2006</u>
Difference between commercial and fiscal depreciation and amortisation	(254,115,614)	(167,742,761)	(487,576)	(422,345,951)
Employee stock allocation	3,000,000	-	(3,000,000)	-
Allowance for bad debt expense	5,369,245	20,075,416	-	25,444,661
Provision for employee benefits	9,162,780	2,390,628	-	11,553,408
Tax losses carried-forward	<u>237,938,532</u>	<u>(181,598,903)</u>	<u>(18,144,687)</u>	<u>38,194,942</u>
	<u>1,354,943</u>	<u>(326,875,620)</u>	<u>(21,632,263)</u>	<u>(347,152,940)</u>
	<u>2004</u>	<u>Charged to consolidated statement of income</u>	<u>Prior year adjustment charged to consolidated statement of income</u>	<u>2005</u>
Difference between commercial and fiscal depreciation and amortisation	(164,485,804)	(89,629,810)	-	(254,115,614)
Employee stock allocation	-	3,000,000	-	3,000,000
Allowance for bad debt expense	-	2,451,474	2,917,771	5,369,245
Provision for employee benefits	8,146,282	1,016,498	-	9,162,780
Tax losses carried-forward	<u>66,315,565</u>	<u>171,622,967</u>	-	<u>237,938,532</u>
	<u>(90,023,957)</u>	<u>88,461,129</u>	<u>2,917,771</u>	<u>1,354,943</u>

\*) As restated - refer to Note 3

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**19. TAXATION (continued)**

**d. Deferred tax (liabilities)/assets (continued)**

	<u>2003</u>	<u>Charged to consolidated statement of income</u>	<u>2004</u>
Difference between commercial and fiscal depreciation and amortisation	(99,467,415)	(65,018,389)	(164,485,804)
Provision for employee benefits	6,920,937	1,225,345	8,146,282
Tax losses	-	66,315,565	66,315,565
	<u>(92,546,478)</u>	<u>2,522,521</u>	<u>(90,023,957)</u>

As at 31 December 2006, the Company recognized the deferred tax assets derived from 2005 tax losses carry forward amounting to Rp 38,194,942 on the basis that the deferred tax assets will be offset by sufficient taxable profits in the foreseeable future. Under the taxation laws of Indonesia, the accumulated tax losses are available to be carried forward and offset against future years' taxable profits for a period of up to five years.

The basis supporting recognition of the deferred tax assets will be reviewed regularly by management.

**e. Tax assessments**

**2001 fiscal year**

a. On 26 May 2003, the Directorate General of Taxation (DGT) issued tax assessments for withholding income tax articles 21, 23/26, and final income tax article 4(2) which resulted in underpayments totalling Rp 24,803,577. The Company paid Rp 9,775,794 of these underpayments on 25 June 2003 and 22 July 2003. The remaining balance was offset with the 2002 withholding tax payments. Included in this tax assessment letter was an assessment for withholding tax article 23/26 on international roaming which the Company believes should not be subjected to Income Tax Article 26 amounting to Rp 855,360. On 12 August 2003, the Company submitted an objection letter to the DGT concerning this matter which was rejected by the tax office on 21 April 2004.

On 20 July 2004, the Company submitted an appeal letter to the Tax Court, which was granted by the Tax Court by decision letter No. Put.05969/PP/M.VII/13/2005 dated 22 July 2005, and recorded to the 2005 consolidated statement of income under "other income/(expense)".

On 16 November 2005, the DGT submitted a reconsideration to the Supreme Court in respect to the Tax Court's decision letter No. Put.05969/PP/M.VII/13/2005 through a Reconsideration Memorandum No. S-407/PJ-4/2005. Up to the date of this report, the Company has not received the response from the Supreme Court with regard to the reconsideration submitted by DGT.



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#### 19. TAXATION (continued)

##### e. Tax assessments (continued)

###### 2001 fiscal year (continued)

- b. On 26 January 2004, the Company submitted an objection letter to the DGT to reconsider several tax assessment letters of VAT for the fiscal period January to December 2001 totalling Rp 4,575,511, which have been rejected by DGT. On 27 December 2004, 30 December 2004 and 17 January 2005, the Company submitted appeal letters to the Tax Court and has been granted by the Tax Court through its decree No. 07165-07169/PP/M.VII/16/2005 and 07200-07204/PP/M.VII/16/2005, dated 21 and 23 December 2005, respectively. The amount was recorded to the 2005 consolidated statement of income under "other income/(expense)".

On 8 June 2006, the DGT through the Tax Court submitted a reconsideration to the Supreme Court in respect of the Tax Court's decision letter No. Put.07166R/PP/M.VII/16/2006 and Put.07200R/PP/M.VII/16/2006 regarding the VAT appeal decision for October and April 2001 fiscal years through a Reconsideration Memorandum No. S-332/PJ-54/2006 and S-333/PJ-54/2006. Up to the date of this report, the Company has not received the response from the Supreme Court with regard to the reconsideration submitted by DGT.

- c. On 21 April 2004, the DGT approved the Company's application to reduce the interest penalties in the assessment for withholding income tax article 26 amounting to Rp 1,559,961. This reduction was used to offset the May 2004 withholding tax article 21 payable of Rp 1,556,098 and the remaining balance was compensated against late payment penalties for several fiscal years' withholding tax article 21, article 23 and VAT.

###### 2002 fiscal year

On 31 May 2005, the DGT issued tax assessment letters for corporate income tax, VAT, Income Tax Article 21, Income Tax Articles 23/26, Final Income Tax Article 4(2) and a tax underpayment letter for VAT which resulted in underpayments totalling Rp 8,767,761. The Company paid these underpayments on 28 June 2005. On 30 August 2005, the Company submitted objection letters for tax assessment of VAT and income tax article 26 amounting to Rp 2,429,186 and Rp 1,045,192, respectively. Subsequently on 2 February 2006, DGT issued a decision letter to reject the objection letters for tax assessment of VAT and income tax article 26 which was submitted by the Company.

On 1 May 2006, the Company submitted appeal letters to the Tax Court for tax assessment of VAT and income tax article 26, which was granted by the Tax Court by decision letter No. Put.09329/PP/M.VII/16/2006, dated 8 November 2006, and No. Put.09608/PP/M.VII/13/2006, dated 20 December 2006, and recorded the compensated amount to the 2006 consolidated statement of income under "other income/(expense)".

###### 2003 fiscal year

For 2003 fiscal year, the tax audit has not been performed.

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#### 19. TAXATION (continued)

##### e. Tax assessments (continued)

###### 2004 fiscal year

On 26 June 2006, the DGT issued a tax assessment letter resulting in overpayment of corporate income tax and underpayment of Income Tax Article 21, Income Tax Articles 23/26, Final Income Tax Article 4(2), and VAT. DGT also issued a tax underpayment letter for VAT, Final Income Tax Article 4(2) and Income Tax Article 26. Based on the tax assessment and tax underpayment letters the Company received overpayment of corporate income tax amounting to Rp 30,915,691, after compensating with withholding tax payable which was recorded as prepaid Income Tax article 23/26.

On 30 September 2006, the Company submitted the objection letter on tax assessment letter of Income Tax Article 26 and VAT. Up to the date of this report, the Company has not received the result from the DGT with regard to the objection (refer to Note 20).

###### 2005 fiscal year

For the 2005 fiscal year, the tax audit is still being performed for all type of taxes. Up to the date of this report, the DGT has not been issued any tax assessment letters.

Under the taxation laws of Indonesia, the Company submits tax returns on a self-assessment basis. The tax authorities may assess or amend tax obligations within ten years after the tax is due.

#### 20. CONTINGENT LIABILITIES

Based on 2004 tax audit result (refer to Note 19e), the Company submitted an objection letter on tax assessment letter of Income Tax Article 26 for an interest payment transaction to Subsidiary domiciled in Netherland amounting to Rp 34,251 million (full amount). Up to the date of this report, the Company has not received the result from the DGT with regard to the objection. There is a possibility that the DGT will issue a similar tax assessment letter of Income Tax Article 26 for the 2005 and 2006 fiscal years for an estimated amount of Rp 64,669 million (full amount) and Rp 128,364 million (full amount), respectively.

#### 21. RELATED PARTY INFORMATION

##### a. Nature of transaction and relationship with related parties

Nature of transaction and relationships with related parties are as follows:

<u>Related parties</u>	<u>Nature of the relationship with related parties</u>	<u>Nature of transaction</u>
Telekom Malaysia Bhd.	Affiliates of Indocel Holding Sdn. Bhd.	<i>ITKP/VoIP</i> revenue, leased line revenue, interconnection charges, other telecommunication services cost and reimbursement of expenses
Telekom Malaysia - Hongkong	Affiliates of Indocel Holding Sdn. Bhd.	<i>ITKP/VoIP</i> and lease line revenue
Telekom Malaysia (S) Pte., Ltd.	Affiliates of Indocel Holding Sdn. Bhd.	<i>ITKP/VoIP</i> revenue, interconnection charges and other telecommunication services cost

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**21. RELATED PARTY INFORMATION (continued)**

**a. Nature of transaction and relationship with related parties (continued)**

<u>Related parties</u>	<u>Nature of the relationship with related parties</u>	<u>Nature of transaction</u>
Celcom (Malaysia) Berhad	Affiliates of Indocel Holding Sdn. Bhd.	<i>ITKP/VoIP</i> and International roaming revenue, interconnection charges and reimbursement of expenses
Dialog Telekom Limited (formerly MTN Networks (Pvt.) Limited)	Affiliates of Indocel Holding Sdn. Bhd.	International roaming revenue and interconnection charges
Telekom Malaysia International (Cambodia) Co. Ltd (formerly Cambodia Smart Communications Co. Ltd.)	Affiliates of Indocel Holding Sdn. Bhd.	International roaming revenue and interconnection charges
TM International (Bangladesh) Limited	Affiliates of Indocel Holding Sdn. Bhd.	International roaming revenue and interconnection charges
PT Nynex Indonesia	Affiliates of Indocel Holding Sdn. Bhd.	Technical service fee
PT Rajawali Corpora (formerly PT Telekomindo Primabhakti)	Shareholder	Reimbursement of expenses and building rental

**b. Trade receivables**

	<u>2006</u>	<u>2005</u>
Celcom (Malaysia) Berhad	9,162,183	592,120
Telekom Malaysia Bhd.	7,315,293	100,007
Telekom Malaysia - Hongkong	378,620	518,897
Dialog Telekom Limited (formerly MTN Networks (Pvt.) Limited)	45,923	59,013
Telekom Malaysia (S) Pte., Ltd	-	243,173
	<u>16,902,019</u>	<u>1,513,210</u>
(As a percentage of total trade receivables - net)	<u>8.27%</u>	<u>1.03%</u>

There are no transactions with the above related parties prior to 2005.

**c. Other receivables**

	<u>2006</u>
Celcom (Malaysia) Berhad	<u>6,446</u>
(As a percentage of total other receivables)	<u>0.17%</u>

There are no transactions with the above related parties prior to 2006.

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**21. RELATED PARTY INFORMATION (continued)**

**d. Trade payables**

	<u>2006</u>	<u>2005</u>
Telekom Malaysia Bhd.	6,541,529	-
Telekom Malaysia (S) Pte., Ltd.	67,626	-
Telekom Malaysia International (Cambodia) Co. Ltd. (formerly Cambodia Samart Communications Co. Ltd.)	8,019	4,210
TM International (Bangladesh) Limited	<u>4,068</u>	<u>1,365</u>
	<u>6,621,242</u>	<u>5,575</u>
(As a percentage of total trade payables)	<u>0.34%</u>	<u>0.00%</u>

There are no transactions with the above related parties prior to 2005.

**e. Other payables and accruals**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
PT Rajawali Corpora (formerly PT Telekomindo Primabhakti)	-	591,796	-
PT Nynex Indonesia	<u>-</u>	<u>-</u>	<u>198,661</u>
	<u>-</u>	<u>591,796</u>	<u>198,661</u>
(As a percentage of total other payables and accruals)	<u>0%</u>	<u>0.25%</u>	<u>0.10%</u>

**f. Revenue**

	<u>2006</u>	<u>2005</u>
Celcom (Malaysia) Berhad	22,411,418	3,675,088
Telekom Malaysia Bhd.	13,204,623	83,048
Telekom Malaysia - Hongkong	4,988,270	527,860
Telekom Malaysia (S) Pte., Ltd.	964,914	425,708
Dialog Telekom Limited (formerly MTN Networks (Pvt.) Limited)	124,039	188,885
TM International (Bangladesh) Limited	12,810	3
Telekom Malaysia International (Cambodia) Co. Ltd. (formerly Cambodia Samart Communications Co. Ltd.)	<u>4,200</u>	<u>5,507</u>
	<u>41,710,274</u>	<u>4,906,099</u>
(As a percentage of net revenue)	<u>0.89%</u>	<u>0.16%</u>

There are no transactions with the above related parties prior to 2005.

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**21. RELATED PARTY INFORMATION (continued)**

**g. Interconnection charges**

	<u>2006</u>	<u>2005</u>
Telekom Malaysia Bhd.	7,137,132	-
Celcom (Malaysia) Berhad	1,694,525	1,144,722
Telekom Malaysia (S) Pte., Ltd.	1,294,697	37,169
Telekom Malaysia International (Cambodia) Co. Ltd. (formerly Cambodia Smart Communications Co. Ltd.)	39,170	28,143
Dialog Telekom Limited (formerly MTN Networks (Pvt.) Limited)	25,605	52,957
TM International (Bangladesh) Limited	<u>20,936</u>	<u>1,310</u>
	<u>10,212,065</u>	<u>1,264,301</u>
(As a percentage of interconnection charges)	<u>1.20%</u>	<u>0.23%</u>

There are no transactions with the above related parties prior to 2005.

**h. Other telecommunication services cost**

	<u>2006</u>
Telekom Malaysia Bhd.	527,904
Telekom Malaysia (S) Pte., Ltd.	<u>33,901</u>
	<u>561,805</u>
(As a percentage of other telecommunication service cost)	<u>1.76%</u>

There are no transactions with the above related parties prior to 2006.

**i. Rental expense**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
PT Rajawali Corpora (formerly PT Telekomindo Primabhakti)	<u>5,929,899</u>	<u>6,173,297</u>	<u>5,324,966</u>
(As a percentage of operating expenses)	<u>0.16%</u>	<u>0.25%</u>	<u>0.28%</u>

On 15 December 2006, the Company made rental prepayment for the period 1 November 2006 to 30 June 2012. As at 31 December 2006, balance of rental prepayment amounting to Rp 25,401,422 consists of Rp 4,618,460 current portion and Rp 20,782,962 non current portion (2005 and 2004 nil).

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**21. RELATED PARTY INFORMATION (continued)**

**j. Technical service fee**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
PT Nynex Indonesia	-	811,900	1,914,492
(As a percentage of operating expenses)	<u>0%</u>	<u>0.03%</u>	<u>0.10%</u>

Based on a technical service agreement, PT Nynex Indonesia provides the Company with technical services regarding the development, construction, operation and maintenance of the Company's network equipment and also provides related technical consulting services.

**k. Salaries and allowances for Board of Directors and Commissioners**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Salaries and allowances for Board of Directors and Commissioners	<u>28,774,778</u>	<u>33,098,621</u>	<u>14,949,508</u>
(As a percentage of employee costs)	<u>6.64%</u>	<u>10.61%</u>	<u>6.63%</u>

The transactions with related parties are made under terms and conditions as if the transactions were made on an arms length basis with third parties.

**22. COMMITMENTS**

**a. Capital commitments**

The Company make various purchase commitments related to the expansion of the network against which the Company has made down payments, as follows:

	<u>2006</u>	
	<u>(In million USD)</u>	<u>(Equivalent billion Rp)</u>
Purchase commitments	194	1,756
Down payments	<u>(9)</u>	<u>(85)</u>
	<u>185</u>	<u>1,671</u>

**b. Operating lease commitments**

In 1999 the Company entered into an office rental agreement denominated in Rupiah with PT Caraka Citra Sekar Lestari (third party) for a term of 10 years, with a total commitment as follows:

	<u>2006</u>
Payable within one year	10,560,000
Payable within one and two years	21,120,000
Payable within two and five years	<u>8,800,000</u>
	<u>40,480,000</u>

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#### 22. COMMITMENTS (continued)

##### c. 3G annual fees commitments

The Company has committed to pay annual fees within 10 years, as long as the Company holds the 3G license. The amount of annual payment is based on the scheme of payment set out in the Regulation from the Minister of Communication and Information No. 07/PER/M.KOMINFO/2/2006 (refer to Note 1d). No penalty will be imposed in the event of the Company returning the license.

#### 23. TARIFF SYSTEM

The service rates for cellular providers are set on the basis of the Decree of Minister of Tourism, Post and Telecommunication (amended into "Minister of Transportation") No. KM27/PR.301/MPPT-98 dated 23 February 1998. Under this regulation, the cellular tariff consists of the following:

- Activation fee
- Monthly charges
- Usage charges

The maximum tariff for the activation fee is Rp 200,000 (full amount) per new subscriber number. The maximum tariff for the monthly charge is Rp 65,000 (full amount). Usage charges consist of the following:

##### a. Airtime

The basic airtime tariff charged to the originating cellular subscriber is Rp 325/minute (full amount). The details of the tariff system are as follows:

Cellular to cellular	2 times airtime rate
Cellular to Public Switched Telephone Network ("PSTN")	1 times airtime rate

##### b. Usage tariff

1. Usage tariff charged to a cellular subscriber who makes a call to another subscriber using the PSTN network is similar to the usage tariff for PSTN subscribers. For the use of the local PSTN network, the tariff is computed at 50% of the prevailing local PSTN tariff.
2. The long-distance usage tariff between two different service areas is similar to the prevailing tariff for a domestic long-distance call (*SLJJ*) for a PSTN subscriber.

Based on the decree No. KM 79 of 1998 of the Ministry of Communications, the tariff charged for prepaid customers, at the maximum of 140% higher than the peak time tariffs for postpaid subscribers, is part of airtime.

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#### 23. TARIFF SYSTEM (continued)

##### b. Usage tariff (continued)

On 28 February 2006, the Minister of Communication and Information Technology issued Regulation No. 12/Per/M.KOMINFO/02/2006 on Terms and Conditions for Rate Determination of The Changes of Basic Cellular Mobile Network Telecommunication Service which revoke the Decree of Minister of Tourism, Post and Telecommunication No. KM27/PR.301/MPPT-98, dated 23 February 1998, and the Decree of Minister of Transportation No. KM 79/1998. As of 31 December 2006 the regulation is not yet effective due to the imminent implementation of Minister of Communication and Information Technology Regulation No.08/Per/M.KOMINFO/02/2006 on Interconnection. Therefore, the Company has not implemented KM No. 12/Per/M.KOMINFO/02/2006 in its operation.

#### INTERCONNECTION TARIFF

The Company entered into several bilateral agreements with other domestic telecommunication operators regarding interconnection tariff sharing for each call sent from or terminated on the Company's network. These agreements are in accordance with the prevailing regulation.

Based on a decree of the Minister of Communication and Information Technology No. 8/Per/M.KOMINFO/02/2006 dated 8 February 2006, the interconnection tariff will be charged based on cost, which is offered in the Documents of Interconnection Offer from each operator and effective from the date the decree was signed. All operators have to apply a cost allocation principal in calculating the interconnection cost as soon as approved by the government. During the transition period, bilateral interconnection agreements are technically still valid as long as approved by both parties and aligned with this decree.

Since 1 January 2007, the Regulation is applied for all operators.

#### 24. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES

The Company entered into several significant contract agreements with third parties as follow:

##### a. General purchase agreement with Ericsson AB

On 19 April 2002, the Company signed a general purchase agreement with Ericsson AB for the supply of network equipment and various network related services. This agreement is valid until 31 December 2007, unless terminated earlier by both parties. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Ericsson AB from time to time by issuance of one or more purchase orders by the Company. If payment of any sum payable is delayed, Ericsson AB shall be entitled to charge a default interest of 15% per annum.

On 9 May 2006, the Company signed a general purchase agreement with Ericsson AB for supply of network equipment 3G & MSS. This agreement is valid until 9 May 2011, unless terminated earlier by both parties. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Ericsson AB from time to time by issuance of one or more purchase orders by the Company for 3G & MSS.



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**24. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES (continued)**

**b. General purchase agreement and maintenance agreement with Siemens Network Gmbhn Co. KG. (formerly Siemens AG)**

On 28 October 1998, the Company signed a general purchase agreement and a maintenance agreement with Siemens Network Gmbhn Co. KG. for the supply of network equipment and various network-related services. This agreement was valid until 31 December 2004 and was extended until 30 June 2005. This agreement was further extended until 30 June 2007. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Siemens Network Gmbhn Co. KG. from time to time, by issuance of one or more purchase orders by the Company. If payment of any sum payable is delayed, Siemens Network Gmbhn Co. KG. shall be entitled to receive interest at the rate of LIBOR +3% on the amount unpaid during the period of delay.

**c. General purchase agreement, supply agreement, and maintenance agreement with PT Ericsson Indonesia**

On 14 June 2001, the Company signed a general purchase agreement with PT Ericsson Indonesia for the procurement and installation of products and/or services to provide and support a nationwide GSM mobile telecommunications system. The agreement was valid from 14 June 2001 to 31 March 2007, unless terminated earlier by the parties.

On 7 May 2004, the Company signed a supply agreement with PT Ericsson Indonesia for the supply of towers and all supporting equipment to provide and support a nationwide GSM mobile telecommunications system. The agreement was valid from 7 May 2004 until the end of the warranty period which is 12 months from the date of goods arrival certificate, unless terminated earlier by either party due to breach of material obligation.

On 14 October 2002, the Company signed a maintenance agreement with PT Ericsson Indonesia for the supply of maintenance services of the Company's telecommunications network. The agreement was valid until 31 December 2004 and has been extended until 31 December 2007. For this system support services, the Company will be charged based on the number of Transmission Receiver Units (TRU) in the network. If payment of any sum payable is delayed, PT Ericsson Indonesia shall be entitled to receive interest at a rate of 15% per annum on the overdue amount, and limited to maximum 10% from the total amount of payment delayed.

**d. System implementation and integration agreement with AMDOCS**

On 1 July 2002, the Company signed a system implementation and integration agreement with AMDOCS for the supply, implementation, installation, and integration of a convergent billing platform that supports prepaid and postpaid subscribers. The agreement commences with effect from the agreement signing date and, unless extended, ends on the later of 60 days after final acceptance and the date on which all material defects are corrected or when terminated earlier by either party in accordance with the agreement.

On 1 July 2005, the Company signed Professional Services Agreement with AMDOCS for services related to AMDOCS system. This agreement commences with effect from the agreement signing date, and unless extended, ends on 31 December 2010 or terminated earlier by either party in accordance with the agreement.

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**24. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES (continued)**

**e. Equipment supply agreement, equipment installation agreement and equipment maintenance agreement with Huawei Tech. Investment Co., Ltd. (“Huawei”)**

On 12 June 2003, the Company signed an equipment supply agreement, equipment installation agreement and equipment maintenance agreement with Huawei for the supply of network equipment and various network-related services. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Huawei from time to time, by issuance of one or more purchase orders by the Company. The agreement is valid from 12 June 2003 for a five-year period and will be automatically extended for a further one-year period unless terminated by one of the parties.

**f. Supply and installation agreement with PT Huawei Tech Investment (“HTI”)**

On 14 May 2004, the Company signed a supply and installation agreement with HTI for the supply and installation of a Knock Down Shelter, not including shelter foundation for its Base Transceiver Station to provide and support a mobile telecommunications system throughout Indonesia. The agreement is valid from 14 May 2004 until the end of the warranty period which is 12 months from the date of final acceptance certificate, unless terminated earlier by either party.

On 8 June 2006, the Company signed a supply and installation agreement with HTI for the supply and installation of 3G, to provide and support a mobile telecommunications system throughout Indonesia. The agreement is valid from 8 June 2006 to 8 June 2011, unless terminated earlier by either party.

**g. Cable installation agreement with Norddeutsche Seekabelwerke Gmbh & Co. KG. (“NS”)**

On 21 February 2003, the Company signed a cable installation agreement with NS for developing a submarine fibre optic cable system, to support the existing network capacity. Based on this agreement, the Company will own the whole system infrastructure at the end of the project. This agreement is valid from 21 February 2003 until the end of the warranty period which is five years after the date of final acceptance of the system. The contract price amounts to USD 9,396,207. If the Company neglects to make the payment on the invoice due date, NS reserves the right to impose late payment interest at the LIBOR rate plus 1.5% calculated on the overdue amount on a daily basis for each day of the delays.

**h. Cable installation agreement with NSW Submarine Cable System Sdn. Bhd. (“NSW Malaysia”)**

On 12 April 2004, the Company signed a cable installation agreement with NSW Malaysia to establish a submarine fibre optic cable system, to provide services between Lombok (Senggigi) and Bali (Sanur); Bali (Jimbaran) and East Java (Puger); and West Java (Ancol) and Belitung (Tanjung Kiras); and by a variation of the order from the Company, an additional link between Belitung (Tanjung Kiras) and Bangka (Tempilang). This agreement is valid from 12 April 2004 until the end of the warranty period which is five years after the date of final acceptance of the system, unless terminated earlier by either party.

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**24. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES (continued)**

**i. Cable installation agreement and repair and maintenance agreement with PT Nusa Sakti Waskita ("NSW")**

On 21 February 2005, the Company signed a cable installation agreement with NSW to establish a submarine fibre optic cable system to provide service between Bangka Island (Sungai Liat) and Sumatra Island (Kuala Tungkal). This agreement is valid from 21 February 2005 until the end of the warranty period or until terminated earlier by either party. The warranty period started on the date of provisional acceptance and ended five years after the date of final acceptance of the system.

On 12 November 2004, the Company signed a repair and maintenance agreement with NSW for the repair and maintenance of a fibre optic cable system, known as the Excelcomindo Optical Fibre Submarine Cable System, which will be used to provide service between Kalimantan, Sulawesi, Sumbawa, Lombok, Bali, Java, Belitung and Bangka. The agreement is valid from 12 November 2004 for three years or until terminated earlier by either party in accordance with the agreement. The parties may renew the contract for additional maintenance periods by a mutual written agreement. If the Company neglects to pay on the due date, NSW shall reserve the right to claim late payment interest at the LIBOR plus 1% calculated on daily basis.

**j. Equipment supply, maintenance and installation agreement with PT Alita Praya Mitra ("APM")**

On 24 July 2003, the Company signed equipment supply agreement and equipment installation agreement with APM for:

1. procurement of products to provide and support a mobile telecommunications system throughout Indonesia. This agreement is valid from 24 July 2003 and continues until the earlier of the first date on which the purchase period has ended and the warranty period for all products delivered under the agreement has expired, or the date on which the agreement is terminated by notice by either party in accordance with the terms of the agreement. On 16 September 2005 the Company agreed to change the period of the agreement, which is valid from 24 July 2003 to 31 December 2007, unless terminated earlier by either party in accordance with the terms of the agreement.
2. supply of mobile telecommunications equipment installation services. This agreement commences with effect from 24 July 2003 and continues until the end of the warranty period for the last service item delivered under this agreement, or until this agreement is terminated earlier by either party in accordance with the terms of the agreement.

APM may terminate this agreement if the Company neglects to make any payment in excess of USD 250,000 which is overdue.

**k. Cable installation agreement with Global Marine System Limited ("GMSL")**

On 6 November 2006, the Company signed a cable installation agreement with GMSL to establish a submarine fibre optic cable system, to provide services between Batam (Indonesia) and Sungai Rengit (Malaysia). This agreement is valid from 17 November 2006 until the end of the warranty period which is one year after the date of final acceptance of the system, unless terminated earlier by either party.

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#### 24. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES (continued)

##### **i. Fibre optic cable installation along the railroad in Java island agreement with PT Kereta Api (Persero) ("PTKA")**

On 20 December 1996, the Company signed an agreement with PTKA to install a fibre optic cable along the railroad in Java island, in agreement No. Perumka 342/HK/TEK/96, or No. Excelcomindo PKS.18/XL/XII/96. This agreement is effective from 20 December 1996 with a one-year grace period for the project's development stage, and ends on 19 December 2017 at which time payment of rent is executed into two phases. This agreement can be extended with both parties' approval. To ensure the validity of such an extension of the Agreement, the Company should submit a written proposal at the latest three months prior to the expiry date of the agreement. If the Company fails to pay rent on the due date, PTKA shall reserve the right to claim a late payment charge at 1‰ (one per mille) per day from the due amount, and such late payment charge shall be capped to a maximum of 5% (five percent).

On 15 September 2006, the Company signed contract amendment related to the second phase payment (according to Agreement No. Perumka 342/HK/TEK/96, or No. Excelcomindo PKS.18/XL/XII/96) and further to agree on a rental extension period which, according to Agreement No. Perumka 342/HK/TEK/96, or No. Excelcomindo PKS.18/XL/XII/96, was to be expired on 19 December 2017, and thereafter the rental period is to be extended until 19 December 2022.

##### **m. Interconnection agreements**

Interconnection agreements concern the sharing of facilities with PT Telekomunikasi Indonesia Tbk ("Telkom"), PT Telekomunikasi Selular ("Telkomsel"), and PT Indosat Tbk and others. These agreements outline tariffs, rights and obligation of the parties, settlements, reconciliation of billing, and penalties.

##### **n. International roaming agreements**

There exist International roaming agreements with several international roaming partners (approximately 327 partners as of 31 December 2006). These agreements outline charges and tariffs, billing and accounting, services provided for roaming subscribers, liability of the parties and settlement procedures. International roaming revenue calculation is based on GSM International Roaming Agreements (AA14).

##### **o. Leased line agreements**

Leased line agreements exist with PT Mora Telematika Indonesia, PT Indosat Tbk, PT Nettocyber Indonesia, PT Aplikanusa Lintasarta and Telekom Malaysia Berhad. These agreements outline lease costs and terms of payment, rights and obligation of the parties, penalties, restitution and termination procedures.

##### **p. Co-Operation Agreement with Vodafone Marketing Sarl ("VMS")**

On 25 January 2006 the Company entered into Co-Operation Agreement with VMS in which VMS will make available to the Company and that the Company will implement, use, market, promote, sell and offer to sell Vodafone Global Products and Services.

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**24. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES (continued)**

**p. Co-Operation Agreement with Vodafone Marketing Sarl (“VMS”) (continued)**

The Company should pay initial investment and annual fee which is based on certain percentage of annual revenue. This agreement valid for 3 years from the effective date, and shall be extended by 2 years if no written notice is served by a party on the other party at least 6 months prior to the expiry date of this Agreement.

**q. License Agreement (Segmented Dual Branding) with Vodafone Ireland Marketing Limited (“VIML”)**

On 25 January 2006, the Company entered into Licence Agreement (Segmented Dual Branding) with VIML in whereby VIML granted the Company a license to use the Vodafone Marks, including as part of the Dual Brand Logo (Vodafone Marks and Company marks), for the purposes of the Co-operation Agreement. The Company agrees to grant VIML and Vodafone Group a license to use the Company Marks, including as part of the Dual Brand Logo.

The Company will pay to VIML a recurring annual fee which is based on certain percentage of annual revenue, for any period of time following the second anniversary of the Agreement.

The agreement will terminate automatically on the termination or expiry (for whatever reason) of the Co-operation Agreement.

**25. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

	2006		2005		2004	
	Foreign currencies (full amount)	Equivalent to million Rupiah	Foreign currencies (full amount)	Equivalent to million Rupiah	Foreign currencies (full amount)	Equivalent to million Rupiah
<b>Assets</b>						
Cash and cash equivalents	USD 24,201,314	218,295	USD 66,851,594	657,151	USD 15,826,467	147,028
Trade receivables	USD 6,378,078	57,530	USD 3,470,977	34,120	USD 3,288,934	30,554
<b>Total Assets</b>		<u>275,825</u>		<u>691,271</u>		<u>177,582</u>
<b>Liabilities</b>						
Trade payables	USD 132,421,494	1,194,442	USD 68,617,390	674,509	USD 37,316,560	346,671
	EUR 7,494,784	88,874	EUR 3,979,250	46,397	EUR 8,067,648	102,072
	SGD 112,563	662	SGD 122,326	723	SGD 115,558	657
	CHF 8,062	59	MYR 9,500	25		
Other payables	USD 21,182,764	191,069	USD 13,279,527	130,538	USD 13,242,703	123,025
Short term lenders loan	USD -	-	USD 70,000,000	688,100	USD -	-
Long term bond - principal	USD 600,000,000	5,412,000	USD 350,000,000	3,440,500	USD 350,000,000	3,251,500
<b>Total Liabilities</b>		<u>6,887,106</u>		<u>4,980,792</u>		<u>3,823,925</u>
<b>Net Liabilities</b>		<u>6,611,281</u>		<u>4,289,521</u>		<u>3,646,343</u>

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#### **25. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES** (continued)

Since the Company's revenues are mainly denominated in Rupiah and the Company's liabilities are mainly denominated in US Dollars, the Company is exposed to fluctuations in foreign exchange rates resulting mainly from its debt denominated in US Dollars. Most of the liabilities denominated in US Dollars are long-term and management is continually evaluating feasible long term hedging structures.

The Company did, in 2002, enter into an "interest rate cap" contract to reduce exposures to interest rate movements affecting existing foreign currency denominated borrowings. The Company purchased an interest rate cap that is indexed to USD-LIBOR-BBA with a USD 223 million notional amount for the first period declining gradually to USD 88 million by the end of the contract, the cost of which was expensed in December 2002. This contract was terminated on 8 April 2005.

On 25 August 2005, the Company entered into a foreign currency option contract with JPMorgan Securities (S.E.A.) Limited for the period 29 August 2005 to 25 July 2006 (can be extended to 27 January 2009) amounting to USD 50,000,000. The contract is used to hedge the value of USD Bond in USD. The forward rate in this contract ranges from Rp 10,000 to Rp 13,075 per USD.

On 29 August 2005, the Company entered into a foreign currency option contract with JPMorgan Securities (S.E.A.) Limited for the period 31 August 2005 to 25 July 2006 (can be extended to 27 January 2009) amounting to USD 50,000,000. The contract is used to hedge the value of USD Bond in USD. The forward rate in this contract ranges from Rp 10,000 to Rp 13,000 per USD.

On 25 August 2005, the Company entered into a foreign currency option contract with Goldman Sachs International for the period 25 July 2005 to 25 July 2006 (can be extended to 27 January 2009) amounting to USD 50,000,000. The contract is used to hedge the value of USD Bond in USD. The forward rate in this contract ranges from Rp 10,000 to Rp 12,550 per USD.

The fair value of foreign currency option contracts has been calculated using rates quoted by the Company's bankers to terminate the contracts at the balance sheet date.

As of 31 December 2005, based on confirmations from the Company's bankers, the fair value of the foreign currency option contracts was nil and the market rates were favourable compared to the contract rates. Consequently, the Company recorded nil in the consolidated balance sheet.

After termination in July 2006, the Company did not extend these option contract.

#### **26. SEGMENT INFORMATION**

The Group operates and manages the business under one segment which provides GSM mobile and telecommunication network services to its customers. Management allocates resources and assesses performance at the Group level.

**PT EXCELCOMINDO PRATAMA Tbk AND SUBSIDIARIES**

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**27. RECLASSIFICATION OF ACCOUNTS**

Some accounts in the consolidated financial statements as at 31 December 2005 and 2004 have been reclassified to conform with the presentation in the consolidated financial statements as at 31 December 2006. The details are as follows:

- a. GSM telecommunication service revenue and GSM interconnection service revenue year 2004 were reclassified to other telecommunication services revenue amounting to Rp 599,690.
- b. Trade payables as at 31 December 2005 amounting to Rp 52,358,496 were reclassified to non current trade payable.

**28. SUBSEQUENT EVENTS**

- a. The Company's monetary assets and liabilities on 31 December 2006 were reported in Rupiah using rate 1 USD = Rp 9,020, 1 EUR = Rp 11,858.15, and 1 SGD = Rp 5,878.73. Since 31 December 2006, those rates have been changed to 1 USD = Rp 9,067, 1 EUR = Rp 11,919.03, and 1 SGD = Rp 5,911.09 on 22 February 2007. If the Company reports monetary assets and liabilities in foreign currency from 31 December 2006 using these rates, unrealised foreign exchange gain will decrease in the amount of Rp 34,441,729. In the future, the rates might fluctuated, and Rupiah might be depreciated or appreciated significantly compared to other currencies.
- b. On 3 to 5 January 2007, the Company entered into several forward foreign currency contracts used to hedge the USD Bond payment, which will be mature in 2009 and 2013.

The details of forward foreign currency contracts are as follow:

	<b>Counter parties</b>	<b>Notional Amount</b>	<b>Strike Rate (full amount)</b>	<b>Period</b>	<b>Premium per annum</b>
a	Standard Chartered Bank	USD 25,000,000	1 USD = Rp 9,000	3 January 2007 - 16 January 2013	2.65%
b	Standard Chartered Bank	USD 25,000,000	1 USD = Rp 9,000	4 January 2007 - 16 January 2013	2.50%
c	JPMorgan Securities (S.E.A.) Limited	USD 25,000,000	1 USD = Rp 9,000	3 January 2007 - 23 January 2009	3.15%
d	Standard Chartered Bank	USD 25,000,000	1 USD = Rp 9,000	4 January 2007 - 23 January 2009	2.555%
e	JPMorgan Securities (S.E.A.) Limited	USD 25,000,000	1 USD = Rp 9,000	5 January 2007 - 23 January 2009	2.43%
	<b>Total</b>	<b>USD 125,000,000</b>			

The premium on the forward foreign currency contract will be paid semiannually.

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#### 28. SUBSEQUENT EVENTS (continued)

- c. On 8 January 2007, the Company entered into a credit agreement with the Standard Chartered Bank amounting to USD 50,000,000. The facility will be available for drawdown commencing on 8 January 2007 up to the termination date on 30 May 2007. Based on the contract, the Company agreed to pay a floating rate of interest at quarterly intervals of LIBOR plus 1.05% margin per annum. The loan will be mature in 36 months from the first drawdown date.
- d. On 15 January 2007, the Company entered into a credit agreement with the Bank Mizuho Indonesia amounting to USD 50,000,000. The facility will be available for drawdown commencing on 30 January 2007 up to 30 April 2007. Based on the contract, the Company agreed to pay a floating rate of interest at quarterly intervals of LIBOR plus 0.95% margin per annum. The loan will be matured on 29 January 2010. On 30 January 2007, the Company made its first drawdown of USD 25,000,000.
- e. Based on the Extraordinary General Meeting of Shareholders on 22 December 2006, the shareholders approved the Company's plan to obtain new borrowings in the aggregate amount not exceeding USD 430,000,000 through one or a number of transactions in the form of bilateral credit facility, syndicated credit facility, and/or through issuances of bonds and/or other debts instruments, denominated in foreign currencies and/or Rupiah for fiscal year 2007. Currently, the Company is still in the process of issuing an IDR Bond amounting to Rp 1.5 trillion (full amount).
- f. On 2 February 2007, numbers of the Company's BTS in Jakarta area were damaged due to flood. While the Company is assessing the loss, the management believe that current insurance policy would be adequately covered the loss.
- g. On 11 January 2007, the Company received a notification letter from the Yogyakarta District Court regarding the execution of North Jakarta District Court Decision related to individual claimed of the ownership of the Company's land located in Yogyakarta purchased in 2002. On 15 January 2007, the Company lodged a request to the Yogyakarta District Court to postpone the execution and was approved on 18 January 2007 until further notice. The Company has engaged a legal council to determine its legal position.