

**Consolidated Financial Statements  
With Independent Accountants' Review Report  
Six Months Ended June 30, 2003 and 2004**

**PT INDONESIAN SATELLITE CORPORATION Tbk  
AND SUBSIDIARIES**

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

**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH INDEPENDENT ACCOUNTANTS' REVIEW REPORT  
SIX MONTHS ENDED JUNE 30, 2003 AND 2004**

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## **Independent Accountants' Review Report**

**Report No. RPC-2892**

**Stockholders and Boards of Commissioners and Directors  
PT Indonesian Satellite Corporation Tbk**

We have reviewed the consolidated balance sheets of PT Indonesian Satellite Corporation Tbk ("the Company") and Subsidiaries as of June 30, 2003 and 2004, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management.

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

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

As described in Note 17, based on a resolution at the Company's Stockholders' Extraordinary Meeting held on March 8, 2004, the Stockholders approved, among others, to split the nominal value of the Company's A share and B shares and to reclassify four A shares resulting from the stock split to B shares. Accordingly, all references to number of shares and per share information in Notes 2x and 28 to the consolidated financial statements have been adjusted to reflect the stock split on a retroactive basis.

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As discussed further in Note 38, the Company has been affected and may continue to be affected by the economic conditions in Indonesia.

**Prasetio, Sarwoko & Sandjaja**

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

August 10, 2004

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

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**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)**

	Notes	2003 (Unaudited) Rp	2004 (Unaudited) Rp	2004 (Unaudited) (Note 3) US\$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	2d,4,27	2,475,177	5,072,438	538,761
Short-term investments - net of allowance for decline in value of Rp28,245 in 2004	2e	187,832	101,667	10,798
Accounts receivable	2f,15			
Trade				
Related parties				
PT Telekomunikasi Indonesia Tbk ("Telkom") - net of allowance for doubtful accounts of Rp82,911 in 2003 and Rp64,770 in 2004	5,27	273,179	379,345	40,292
Others - net of allowance for doubtful accounts of Rp48,345 in 2003 and Rp62,740 in 2004	27	274,444	208,019	22,094
Third parties - net of allowance for doubtful accounts of Rp273,813 in 2003 and Rp347,652 in 2004	6	763,182	1,103,768	117,235
Others - net of allowance for doubtful accounts of Rp16,395 in 2004	27e	119,243	31,783	3,376
Inventories	2g	87,664	120,273	12,775
Advances		52,163	86,723	9,211
Prepaid taxes and expenses	2h,2r,13, 26,27	625,857	608,750	64,657
Other current assets	2d,27,30	23,103	42,331	4,497
<b>Total Current Assets</b>		<b>4,881,844</b>	<b>7,755,097</b>	<b>823,696</b>

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**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)**

	Notes	2003 (Unaudited) Rp	2004 (Unaudited) Rp	2004 (Unaudited) (Note 3) US\$
<b>NON-CURRENT ASSETS</b>				
Due from related parties - net of allowance for doubtful accounts of Rp77,905 in 2003 and Rp45,383 in 2004	2f,27	36,993	59,142	6,282
Deferred tax assets - net	2u,13	152,201	40,650	4,318
Investments in associated companies - net of allowance for decline in value of Rp82,781 in 2003 and Rp59,142 in 2004	2i,7	166,217	46,780	4,969
Other long-term investments - net of allowance for decline in value of Rp249,193 in 2003 and Rp247,817 in 2004	2i,8	260,345	102,158	10,850
Property and equipment	2j,2k,2q, 9,15			
Carrying value		19,387,680	24,225,199	2,573,043
Accumulated depreciation		(6,767,003)	(8,954,301)	(951,068)
Impairment in value		(131,209)	(99,621)	(10,581)
Net		12,489,468	15,171,277	1,611,394
Goodwill and other intangible assets - net	1d,2c, 2l,10	3,976,760	3,178,758	337,627
Long-term receivables	27e	132,893	131,233	13,939
Long-term prepaid pension - net of current portion	2r,26,27	264,367	249,012	26,448
Long-term advances	11,27	28,502	487,522	51,781
Others	2d,2h,2s, 15,27,30	288,312	482,330	51,230
Total Non-current Assets		17,796,058	19,948,862	2,118,838
<b>TOTAL ASSETS</b>		<b>22,677,902</b>	<b>27,703,959</b>	<b>2,942,534</b>

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**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)**

	<u>Notes</u>	<u>2003</u> <u>(Unaudited)</u> <u>Rp</u>	<u>2004</u> <u>(Unaudited)</u> <u>Rp</u>	<u>2004</u> <u>(Unaudited)</u> <u>(Note 3)</u> <u>US\$</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans	27	3,468	18,254	1,939
Accounts payable - trade				
Related parties	27	26,921	7,652	813
Third parties		139,032	182,434	19,377
Dividend payable	27	153,343	762,239	80,960
Procurement payable	12	685,313	1,882,923	199,992
Taxes payable	13	333,939	119,684	12,712
Accrued expenses	14,22, 26,27	545,557	1,085,342	115,278
Unearned income	2p	501,803	622,502	66,118
Deposits from customers		12,956	24,856	2,640
Swap contracts	2s,30,39b	-	38,703	4,111
Current maturities of long-term debts	2m,2w, 15,32			
Related parties	27			
Government of the Republic of Indonesia		5,241	-	-
Others		-	168,190	17,864
Third parties		570,170	189,827	20,162
Other current liabilities	30	46,023	68,755	7,302
<b>Total Current Liabilities</b>		<b>3,023,766</b>	<b>5,171,361</b>	<b>549,268</b>
<b>NON-CURRENT LIABILITIES</b>				
Due to related parties	27	21,983	15,772	1,675
Deferred tax liabilities - net	2u,13	1,313,491	329,336	34,979
Swap contracts	2s,30,39b	-	249,176	26,466
Long-term debts - net of current maturities	2m,2w, 15,32			
Related parties	27	1,951,689	841,574	89,387
Third parties		1,301,442	869,956	92,401
Bonds payable	2m,2n, 2w,16	3,861,008	7,537,626	800,597
Other non-current liabilities	27	213,003	230,683	24,502
<b>Total Non-current Liabilities</b>		<b>8,662,616</b>	<b>10,074,123</b>	<b>1,070,007</b>
<b>MINORITY INTEREST</b>	2b	<b>137,369</b>	<b>154,683</b>	<b>16,429</b>

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**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (continued)**  
**June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)**

	<u>Notes</u>	<u>2003</u> <u>(Unaudited)</u> <u>Rp</u>	<u>2004</u> <u>(Unaudited)</u> <u>Rp</u>	<u>2004</u> <u>(Unaudited)</u> <u>(Note 3)</u> <u>US\$</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock - Rp100 par value (as restated) per A share and B share Authorized - 1 A share and 19,999,999,999 B shares (as restated) Issued and fully paid - 1 A share and 5,177,499,999 B shares (as restated)	17	517,750	517,750	54,992
Premium on capital stock		673,075	673,075	71,490
Difference in value from restructuring transactions of entities under common control	2c,8	4,467,740	4,610,875	489,737
Difference in transactions of equity changes in associated companies/subsidiaries	2i	284,244	403,812	42,891
Stock options	2o,18	-	54,579	5,797
Difference in foreign currency translation		-	444	47
Retained earnings				
Appropriated		17,890	33,590	3,568
Unappropriated		4,893,452	6,009,667	638,308
Total Stockholders' Equity		<u>10,854,151</u>	<u>12,303,792</u>	<u>1,306,830</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<u><b>22,677,902</b></u>	<u><b>27,703,959</b></u>	<u><b>2,942,534</b></u>

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**PT INDONESIA SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Six Months Ended June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)**

Notes	2003 (Unaudited)	2004 (Unaudited)	2004 (Unaudited) (Note 3)
	Rp	Rp	US\$
<b>OPERATING REVENUES</b>			
Cellular	2,232,259	3,370,029	357,943
International calls	986,403	944,985	100,370
Multimedia, Data Communication, Internet ("MIDI")	615,769	725,213	77,027
Other services	47,822	33,821	3,592
<b>Total Operating Revenues</b>	<b>3,882,253</b>	<b>5,074,048</b>	<b>538,932</b>
<b>OPERATING EXPENSES</b>			
Depreciation and amortization	846,940	1,245,760	132,317
Personnel	434,817	543,971	57,777
Maintenance	148,403	240,190	25,511
Compensation to telecommunications carriers and service providers	345,342	235,515	25,015
Administration and general	207,394	178,725	18,983
Marketing	120,318	124,848	13,261
Leased circuits	87,413	86,983	9,239
Other costs of services	464,486	678,816	72,099
<b>Total Operating Expenses</b>	<b>2,655,113</b>	<b>3,334,808</b>	<b>354,202</b>
<b>OPERATING INCOME</b>	<b>1,227,140</b>	<b>1,739,240</b>	<b>184,730</b>
<b>OTHER INCOME (EXPENSES)</b>			
Gain on sale of investment in associated company	-	278,743	29,606
Interest income	87,815	114,040	12,113
Financing cost	(378,776)	(573,057)	(60,866)
Loss on fair value of derivatives	-	(287,879)	(30,577)
Amortization of goodwill	(129,759)	(113,174)	(12,021)
Gain (loss) on foreign exchange - net	229,088	(109,992)	(11,683)
Others - net	(62,731)	10,375	1,102
<b>Other Expenses - Net</b>	<b>(254,363)</b>	<b>(680,944)</b>	<b>(72,326)</b>
<b>EQUITY IN NET INCOME OF ASSOCIATED COMPANIES</b>	<b>6,049</b>	<b>61,647</b>	<b>6,548</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>978,826</b>	<b>1,119,943</b>	<b>118,952</b>

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**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (continued)**  
**Six Months Ended June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)**

	Notes	2003 (Unaudited)	2004 (Unaudited)	2004 (Unaudited) (Note 3)
		Rp	Rp	US\$
<b>INCOME TAX EXPENSE</b>	2u,13			
Current		(372,083)	(39,478)	(4,193)
Deferred		(195,907)	(350,829)	(37,263)
Total Income Tax Expense		(567,990)	(390,307)	(41,456)
<b>INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES</b>		<b>410,836</b>	<b>729,636</b>	<b>77,496</b>
<b>MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES</b>	2b	(8,728)	(11,996)	(1,274)
<b>NET INCOME</b>	29	<b>402,108</b>	<b>717,640</b>	<b>76,222</b>
<b>BASIC EARNINGS PER SHARE (as restated)</b>	2x,17,28	<b>77.66</b>	<b>138.61</b>	<b>0.01</b>
<b>DILUTED EARNINGS PER SHARE (as restated)</b>	2x,17,18,28	<b>77.66</b>	<b>137.47</b>	<b>0.01</b>
<b>BASIC EARNINGS PER ADS (50 B shares per ADS, as restated)</b>	2x,17	<b>3,883.23</b>	<b>6,930.37</b>	<b>0.74</b>
<b>DILUTED EARNINGS PER ADS (as restated)</b>	2x,17,18	<b>3,883.23</b>	<b>6,873.70</b>	<b>0.73</b>

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**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**Six Months Ended June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah)**

Description	Notes	Six Months Ended June 30, 2003 (Unaudited)						Net
		Capital Stock - Issued and Fully Paid	Premium on Capital Stock	Difference in Value from Restructuring Transactions of Entities under Common Control	Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries	Retained Earnings		
						Appropriated	Unappropriated	
Balance as of January 1, 2003		517,750	673,075	4,467,740	284,285	14,528	4,646,024	10,603,402
Increase in PT Satelit Palapa Indonesia's difference in transactions of equity changes in a subsidiary arising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp18	2i	-	-	-	(41)	-	-	(41)
Resolution during the Annual Stockholders' General Meeting on June 26, 2003								
Declaration of cash dividend	29	-	-	-	-	-	(151,318)	(151,318)
Appropriation for reserve fund	29	-	-	-	-	3,362	(3,362)	-
Net income for the period		-	-	-	-	-	402,108	402,108
<b>Balance as of June 30, 2003</b>		<b>517,750</b>	<b>673,075</b>	<b>4,467,740</b>	<b>284,244</b>	<b>17,890</b>	<b>4,893,452</b>	<b>10,854,151</b>

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**PT INDONESIA SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)**  
**Six Months Ended June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah)**

Six Months Ended June 30, 2004 (Unaudited)										
Description	Notes	Capital Stock - Issued and Fully Paid	Premium on Capital Stock	Difference in Value from Restructuring Transactions of Entities under Common Control	Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries	Stock Options	Difference in Foreign Currency Translation	Retained Earnings		Net
								Appropriated	Unappropriated	
Balance as of January 1, 2004		517,750	673,075	4,499,947	403,812	24,809	316	17,890	6,061,311	12,198,910
Gain on sale of investment in PT Pramindo Ikat Nusantara to Telkom which was accounted for under the pooling-of-interests method	2c, 8	-	-	110,928	-	-	-	-	-	110,928
Proportionate six months' compensation expense relating to Employee Stock Option Program	2o, 18	-	-	-	-	29,770	-	-	-	29,770
Increase in difference in foreign currency translation arising from the translation of the financial statements of Indosat Finance Company B.V. from European euro to rupiah - net of applicable income tax of Rp47	2b	-	-	-	-	-	110	-	-	110
Increase in difference in foreign currency translation arising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp7	2b	-	-	-	-	-	18	-	-	18
Resolution during the Annual Stockholders' General Meeting on June 22, 2004										
Declaration of cash dividend	29	-	-	-	-	-	-	-	(753,584)	(753,584)
Appropriation for reserve fund	29	-	-	-	-	-	-	15,700	(15,700)	-
Net income for the period		-	-	-	-	-	-	-	717,640	717,640
<b>Balance as of June 30, 2004</b>		<b>517,750</b>	<b>673,075</b>	<b>4,610,875</b>	<b>403,812</b>	<b>54,579</b>	<b>444</b>	<b>33,590</b>	<b>6,009,667</b>	<b>12,303,792</b>

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**PT INDONESIA SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Six Months Ended June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars)**

Notes	2003 (Unaudited)	2004 (Unaudited)	2004 (Unaudited) (Note 3)
	Rp	Rp	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from:			
Customers	3,747,958	4,646,630	493,535
Refund of taxes	-	1,044,879	110,980
Interest income	84,719	117,347	12,464
Other income - net	9,663	171,742	18,241
Cash paid for:			
Employees and suppliers	(1,564,119)	(1,969,722)	(209,211)
Financing cost	(395,283)	(564,818)	(59,991)
Taxes	(279,708)	(463,164)	(49,194)
Other operating expenses	(55,538)	(79,870)	(8,483)
<b>Net Cash Provided by Operating Activities</b>	<b>1,547,692</b>	<b>2,903,024</b>	<b>308,341</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of investment in associated companies	7	-	494,375
Proceeds from sale of short-term investment		-	408,158
Proceeds from sale of other long-term investment	8	-	200,038
Decrease in restricted cash and cash equivalents	209,341	12,395	1,317
Proceeds from sale of property and equipment	9	3,535	798
Acquisitions of property and equipment	9	(1,797,355)	(1,313,641)
Purchase of short-term investments	(122,173)	(448,888)	(47,678)
Increase in advances for purchase of property and equipment	(18,048)	(393,693)	(41,816)
<b>Net Cash Used in Investing Activities</b>	<b>(1,724,700)</b>	<b>(1,040,458)</b>	<b>(110,511)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long-term debts	350,000	31,192	3,313
Repayment of long-term debts	(329,479)	(1,075,676)	(114,251)
Margin deposit for loss on fair value of derivatives	30	-	(235,375)
Repayment of bonds payable	-	(19,777)	(2,101)
Proceeds from bonds payable	16	30,436	-
Proceeds from short-term loans	1,768	-	-
Repayment of short-term loans	(223,234)	-	-
Cash dividend paid	29	(9,066)	-
<b>Net Cash Used in Financing Activities</b>	<b>(179,575)</b>	<b>(1,299,636)</b>	<b>(138,039)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(356,583)</b>	<b>562,930</b>	<b>59,791</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>2,831,760</b>	<b>4,509,508</b>	<b>478,970</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>4</b>	<b>2,475,177</b>	<b>5,072,438</b>
<b>DETAILS OF CASH AND CASH EQUIVALENTS:</b>			
Cash on hand and in banks	484,255	286,886	30,471
Time deposits with original maturities of three months or less	1,990,922	4,785,552	508,290
<b>Cash and cash equivalents as stated in the consolidated balance sheets</b>	<b>2,475,177</b>	<b>5,072,438</b>	<b>538,761</b>

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**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
**Six Months Ended June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars)**

Notes	2003 (Unaudited)	2004 (Unaudited)	2004 (Unaudited) (Note 3)
	Rp	Rp	US\$
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>			
Transactions not affecting cash flows:			
Unpaid cash dividend declared during the Company's Annual Stockholders' General Meeting	151,318	753,584	80,041
Difference in value from restructuring transactions of entities under common control	-	110,928	11,782
Stock options	-	29,770	3,162
Difference in foreign currency translation	-	128	14
Sale of investment in bonds debited to accounts receivable - others	41,425	-	-
Difference in transactions of equity changes in associated companies/subsidiaries	(41)	-	-

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars,**  
**except share and tariff data)**

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**1. GENERAL**

**a. Company's Establishment**

Perusahaan Perseroan (Persero) PT Indonesian Satellite Corporation Tbk ("the Company") was established in the Republic of Indonesia on November 10, 1967 within the framework of the Indonesian Foreign Investment Law No. 1 of 1967 based on the notarial deed No. 55 of Mohamad Said Tadjoeidin, S.H. The deed of establishment was published in Supplement No. 24 of State Gazette No. 26 dated March 29, 1968 of the Republic of Indonesia. Based on notarial deed No. 6 dated January 8, 2003 of Rini Yulianti, S.H. (as a substitute notary of Poerbaningsih Adi Warsito, S.H.), the name of the Company was changed from Perusahaan Perseroan (Persero) PT Indonesian Satellite Corporation Tbk to become PT Indonesian Satellite Corporation Tbk. The Company's articles of association has been amended from time to time. The latest amendment is covered by notarial deed No. 7 dated March 8, 2004 of Poerbaningsih Adi Warsito, S.H. concerning, among others, the split of the nominal value of the Company's shares (Note 17).

The latest amendment of the Company's articles of association has been reported to and received by the Ministry of Justice and Human Rights of the Republic of Indonesia based on its letter No. C-05582 HT.01.04.TH.2004 dated March 8, 2004.

On February 7, 2003, the Investment Coordinating Board, in its Letter No. 14/V/PMA/2003, approved the change in the Company's status as a Foreign Capital Investment Company.

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

- Provision of networks, telecommunications services and informatics
- Planning, construction and procurement of telecommunications facilities and informatics, including supporting resources
- Operation (covering marketing of network and/or telecommunications services and informatics provided by the Company), maintenance and development of and research on telecommunications means and/or facilities and informatics, and conduct of education and training within or outside the country
- Development of networks, telecommunications services and informatics.

The Company started its commercial operations in 1969.

Currently, the Company's principal business is to provide international switching telecommunications services, including international calls, telex, telegram, packet net, and store and forward facsimile service. The Company also provides a variety of non-switched international telecommunications services, such as low-and high-speed leased lines, video link, TV link, Integrated Services Digital Network ("ISDN") services, and other services that typically involve the transmission of data or video rather than voice traffic.

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**1. GENERAL (continued)**

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

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

In 1999, the Government issued Law No. 36 on telecommunications which took effect starting in September 2000. Under the Law, telecommunications activities cover:

- Telecommunications networks
- Telecommunications services
- Special telecommunications services.

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

Law No. 36 prohibits activities that result in monopolistic practices and unhealthy competition.

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

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

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**1. GENERAL (continued)**

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

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

Based on Article IX of a Shares Purchase Agreement dated December 15, 2002 between the Government of the Republic of Indonesia and Indonesia Communications Limited ("ICL") (Note 17), the Government agreed to undertake and covenant with ICL that it shall pay on behalf of the Company any liability, amount or claim required to be paid or suffered by the Company in relation to the surrender of above exclusivity rights.

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

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

**b. Company's Public Offerings**

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

**c. Employees, Directors and Commissioners**

Based on a resolution at each of the (i) Stockholders' Extraordinary Meeting held on December 27, 2002 which is notarized under Deed No. 41 of Rini Yulianti, S.H. (as a substitute notary of Poerbaningsih Adi Warsito, S.H.) on the same date and (ii) Annual Stockholders' General Meeting held on June 22, 2004 which is notarized under Deed No. 124 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, the composition of the Company's Board of Commissioners as of June 30, 2003 and 2004 is as follows:

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**1. GENERAL (continued)**

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

	<b>2003</b>	<b>2004</b>
President Commissioner	Peter Seah Lim Huat	Peter Seah Lim Huat
Commissioner	Lee Theng Kiat	Lee Theng Kiat
Commissioner	Sio Tat Hiang	Sio Tat Hiang
Commissioner	Lim Ah Doo *	Lim Ah Doo *
Commissioner	Sum Soon Lim	Sum Soon Lim
Commissioner	Roes Aryawidjaya	Roes Aryawidjaya
Commissioner	Umar Rusdi	Umar Rusdi
Commissioner	-	Eva Riyanti Hutapea *
Commissioner	-	Mohamad Ikhsan *
Commissioner	Achmad Rivai *	-
Commissioner	Soebagijo Soemodihardjo	-

\* Independent Commissioner

Based on a resolution at each of the (i) Annual Stockholders' General Meeting held on June 26, 2003 which is notarized under Deed No. 89 of Poerbaningsih Adi Warsito, S.H. on the same date and (ii) Annual Stockholders' General Meeting held on June 22, 2004 which is notarized under Deed No. 124 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, the composition of the Company's Board of Directors as of June 30, 2003 and 2004 is as follows:

	<b>2003</b>	<b>2004</b>
President Director	Widya Purnama	Widya Purnama
Vice President Director	Ng Eng Ho	Ng Eng Ho
Business Development Director	Wityasmoro Sih Handayanto	Wityasmoro Sih Handayanto
Cellular Sales Director	Hasnul Suhaimi	Hasnul Suhaimi
Fixed Telecom and MIDI Director	Wahyu Wijayadi	Wahyu Wijayadi
Finance Director	Nicholas Tan Kok Peng	Nicholas Tan Kok Peng
Corporate Services Director	Sutrisman	Sutrisman
Operation and Quality Improvement Director	-	Raymond Tan Kim Meng

The Company and its subsidiaries (collectively referred to hereafter as "the Companies") have approximately 6,205 and 7,210 employees, including non-permanent employees, as of June 30, 2003 and 2004, respectively.

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**1. GENERAL (continued)**

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

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

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

Name of Subsidiary	Total Assets (Before Eliminations)	
	2003 (Unaudited)	2004 (Unaudited)
Indosat Finance Company B.V.	-	2,858,559
PT Satelit Palapa Indonesia*	7,698,547	-
Satelindo International Finance B.V.	1,508,573	7,249
PT Satelindo Multi Media	11,655	11,980
PT Indosat Multi Media Mobile*	3,522,529	-
PT Bimagraha Telekomindo*	1,139,722	-
PT Aplikanusa Lintasarta	621,779	717,355
PT Artajasa Pembayaran Elektronik	54,665	62,742
PT Indosat Mega Media	358,347	420,384
PT Sisindosat Lintasbuana	126,020	141,560
PT Asitelindo Data Buana	9,822	9,822

\* merged with the Company on November 20, 2003

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

IFB was incorporated in Amsterdam (The Netherlands) on October 13, 2003. IFB is a financing company that only facilitates the Company's borrowings from third parties and is not involved in any other activity. In October 2003, IFB issued guaranteed notes which are due in 2010 (Note 16).

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

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

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**1. GENERAL (continued)**

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

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

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

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

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

On July 25, 2002, the Company made a capital injection to Satelindo amounting to US\$75,000, from the proceeds of a loan obtained from PT Bank Central Asia Tbk ("BCA" - Note 15). The injection increased the Company's direct equity interest from 55% to 57.45%.

Shares of Satelindo were pledged as collateral for a long-term loan obtained by the Company from BCA (Note 15).

On October 21, 2003, the Company made a capital injection to Satelindo amounting to US\$270,000 and Rp482,000, from the proceeds of Third Indosat Bonds in Year 2003 with Fixed Rate ("Third Indosat Bond" - Note 16). The injection increased the Company's direct equity interest in Satelindo from 57.45% to 97.92%.

Satelindo used the proceeds from the Company's capital contribution to repay its debts (Notes 15 and 16).

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

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

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

SIB was incorporated in Amsterdam (The Netherlands) in 1996. SIB is a financing company that only facilitates Satelindo's borrowings from third parties and is not involved in any other activity. On May 30, 2000, SIB issued Guaranteed Floating Rate Bonds. On October 31, 2003, Satelindo repaid its borrowings from SIB by using the proceeds from the Company's capital contributions (Note 16).

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**1. GENERAL (continued)**

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

PT Satelindo Multi Media ("SMM")

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

PT Indosat Multi Media Mobile ("IM3")

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

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

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

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

PT Bimagraha Telekomindo ("Bimagraha")

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

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

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

PT Aplikanusa Lintasarta ("Lintasarta")

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

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

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**1. GENERAL (continued)**

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

PT Artajasa Pembayaran Elektronik ("APE")

APE is engaged in telecommunication and information services.

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

PT Indosat Mega Media ("IMM")

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

PT Sisindosat Lintasbuana ("Sisindosat")

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

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

PT Asitelindo Data Buana ("Asiatel")

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

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

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

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

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies adopted by the Company conform with generally accepted accounting principles in Indonesia ("Indonesian GAAP"). The significant accounting principles applied consistently in the preparation of the consolidated financial statements for the six months ended June 30, 2003 and 2004 are as follows:

**a. Basis of Consolidated Financial Statements**

The consolidated financial statements are presented using the historical cost basis of accounting, except for swap contracts which are stated at fair value and certain investments which are stated at fair value or net assets value, or accounted for under the equity method for those investments made in associated companies (representing equity interest of at least 20% but not more than 50%).

The consolidated statements of cash flows classify cash receipts and payments into operating, investing and financing activities. The cash flows from operating activities are presented using the direct method.

The reporting currency used in the consolidated financial statements is the Indonesian rupiah.

**b. Principles of Consolidation**

The consolidated financial statements include the Company's accounts and those of its Subsidiaries as follows:

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

\* merged with the Company on November 20, 2003 (Note 1e)

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

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

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

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

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

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

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

**c. Accounting for Acquired Businesses**

For acquisitions accounted for under the pooling-of-interests method, the historical carrying amounts of the net equities of the entities acquired are combined, as if they are a single entity for all periods presented, in accordance with Statement of Financial Accounting Standards ("SAK") 38, "Accounting for Restructuring Transactions of Entities under Common Control". The difference between the net consideration paid or received and book values, net of applicable income tax, is shown under Stockholders' Equity as "Difference in Value from Restructuring Transactions of Entities under Common Control".

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

**d. Cash and Cash Equivalents**

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

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

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

**e. Short-term Investments**

Short-term investments consist of:

- Investments in debt securities

Investments in debt securities which are classified as available-for-sale are recorded at fair value in accordance with SAK 50, "Accounting for Investments in Certain Securities". Any unrealized gain (loss) at balance sheet date is credited (charged) to "Unrealized Holding Gain (Loss) on Marketable Securities" which is a component of Stockholders' Equity and will be recognized as income or loss upon realization.

- Mutual funds

Mutual funds are stated at their net assets value at balance sheet date. Unrealized gains or losses from the changes in net assets value at balance sheet date are credited or charged to current operations.

**f. Allowance for Doubtful Accounts**

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

**g. Inventories**

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

**h. Prepaid Expenses**

Prepaid expenses, mainly salaries, rental and insurance, are amortized over the periods benefited using the straight-line method. The non-current portion of prepaid expenses is shown as part of "Non-current Assets - Others".

**i. Investments**

Investments consist of:

- Investments in associated companies

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

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

**i. Investments (continued)**

At the time an investee that is accounted for under the equity method sells its shares to unrelated parties at a price different from its book value, the investor's net investment in that investee is affected. The investor's net investment is also affected when the contribution to the capital stock of an investee made in foreign currency results in additional paid-in capital representing the difference between the rupiah par value and the rupiah equivalent of the contribution at the date of receipt. The Companies recognize the resulting change in their net investment in the investee by a credit or charge to "Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries", net of applicable income tax, after adjusting their equity in the investee to conform with their accounting policies.

- Investments in shares of stock in which the equity interest is less than 20%, and other long-term investments are carried at cost.
- Investments in equity shares which are classified as available-for-sale are recorded at fair value, in accordance with SAK 50.
- Investments in bonds which are classified as held-to-maturity securities are recorded at cost, adjusted for amortization of premium or accretion of discount to maturity.

When an investment is sold to an entity under common control, the gain or loss on sale of the investment is recorded as "Difference in Value from Restructuring Transactions of Entities under Common Control", which is a component of Stockholders' Equity.

**j. Property and Equipment**

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

	<b>Years</b>
Buildings	3 to 20
Submarine cables	15
Earth stations	15
Inland link	15
Switching equipment	15
Telecommunications peripherals	5
Information technology equipment	5 to 10

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

**j. Property and Equipment (continued)**

	Years
Office equipment	3 to 6
Building and leasehold improvements	5
Vehicles	5
Cellular technical equipment	
Base station subsystem	5 to 15
Network switching subsystem	5 to 10
Operating support subsystem	5
Satellite technical equipment	
Satellites	12
Master control station	15
Customer premises equipment	15
Transmission and cross-connection equipment	
Transmission equipment	5 to 24
Cross-connection equipment	8 to 10
Fixed wireless access technical equipment	
Base station subsystem	8
Network switching subsystem	8
Operating support subsystem	8

Landrights are stated at cost.

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

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

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

**k. Impairment of Assets Value**

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

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

**I. Goodwill and Other Intangible Assets**

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

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

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

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

**m. Bonds/Debt Issuance Cost**

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

**n. Treasury Bonds**

Repurchased instruments of indebtedness that are not retired are treated in the consolidated financial statements as if they were retired. The difference between the face value of the instruments of indebtedness and their fair value is credited or charged to current operations.

**o. Stock-based Compensation**

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

**p. Revenue and Expense Recognition**

International Calls

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

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

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

International Calls (continued)

Operating revenues for interconnection services under interconnection agreements based on revenue-sharing arrangement (Note 35) are reported on a net basis, after interconnection expenses and after allocations to overseas international carriers. Operating revenues for interconnections that are not made under contractual sharing agreements, i.e. based on tariff as stipulated by the Government (Note 34), are reported on a gross basis, before interconnection expenses/charges (Note 23) but net of allocations to overseas international carriers. These interconnection expenses/charges are accounted for as operating expenses in the period these are incurred.

Cellular

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

For post-paid subscribers, activation fees are recognized upon activation of new subscribers in the Company's cellular network while other fixed charges are recognized on a monthly basis.

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

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

MIDI

Satellite revenues are recognized on the straight-line method over the lease periods. Revenue from sale of software and services is recognized when the software is installed or the services are delivered to the customers. Revenue for consulting services is recognized based on the percentage-of-completion method.

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

Other Services

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

Expenses

Expenses are recognized when incurred (accrual basis).

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

**q. Personnel Costs**

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

**r. Pension Plan and Employee Benefits**

Pension costs are accounted for on a basis consistent with SAK 24, "Accounting for Pension Benefit Costs". Under the defined benefit pension plan, the pension costs are determined by periodic actuarial calculation using the projected-unit-credit method and applying the assumptions on discount rate, expected return on plan assets and annual rate of increase in compensation. The unrecognized net obligation at the date of initial application of SAK 24 is amortized over the estimated average remaining service periods of the employees. On the other hand, under the defined contribution pension plan, the contributions are made by the employees in amounts ranging from 10% - 20% of the employees' monthly basic salaries.

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

**s. Swap Contracts**

Derivative instruments are accounted for in accordance with SAK 55 (revised in 1999), "Accounting for Derivative Instruments and Hedging Activities". SAK 55 establishes the accounting and reporting standards which require that every derivative instrument (including embedded derivatives) be recorded in the balance sheets as either an asset or a liability as measured at fair value of each contract. SAK 55 requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedges allow a derivative's gains or losses to offset related results on the hedged item in the statements of income, and that an entity must formally document, designate and assess the effectiveness of transactions that meet hedge accounting. All of the Company's derivative instruments are not designated as hedging instruments for accounting purposes.

**t. Foreign Currency Transactions and Balances**

Transactions involving foreign currencies are recorded at the rates of exchange prevailing at the time the transactions are made. At balance sheet date, assets and liabilities denominated in foreign currencies are adjusted to reflect the average buying and selling rates prevailing at such date as published by Bank Indonesia and the resulting gains or losses are credited or charged to current operations, except for foreign exchange differentials that can be attributed to qualifying assets which are capitalized to assets under construction and installation.

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

**t. Foreign Currency Transactions and Balances (continued)**

For June 30, 2003 and 2004, the rates of exchange used (in full amounts) were Rp8,285 and Rp9,415 to US\$1, respectively, computed by taking the average of the last buying and selling rates of bank notes published by Bank Indonesia.

**u. Income Tax**

Current tax expense is provided based on the estimated taxable income for the period. Deferred tax assets and liabilities are recognized for temporary differences between the financial and the tax bases of assets and liabilities at each reporting date. Future tax benefits, such as the carry-forward of unused tax losses, are also recognized to the extent that realization of such benefits is probable. The tax effects for the period are allocated to current operations, except for the tax effects from transactions which are charged or credited to stockholders' equity.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

Amendment to tax obligation is recorded when an assessment is received or, if appealed against by the Companies, when the result of the appeal is determined.

**v. Segment Reporting**

The Companies follow revised SAK 5, "Segment Reporting", in the presentation of segment reporting in their financial statements. The revised SAK 5 provides more detailed guidance for identifying reportable business segments and geographical segments. The financial information which is used by management for evaluating the segment performance is presented in Note 37.

**w. Troubled Debt Restructuring**

The effect of troubled debt restructuring (Note 32) is accounted for in accordance with SAK 54, "Accounting for Troubled Debt Restructurings", which requires the interest expense on the restructured loans to be calculated using the effective interest rates.

**x. Basic Earnings per Share/ADS and Diluted Earnings per Share/ADS**

In accordance with SAK 56, "Earnings Per Share", basic earnings per share is computed by dividing net income by the weighted-average number of shares outstanding during the period. The net income amounts are Rp402,108 and Rp717,640 for the six months ended June 30, 2003 and 2004, respectively. The adjusted weighted-average number of shares is 5,177,500,000 shares in 2003 and 2004, after considering the effect of stock split (Note 17).

Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding during the period, considering the dilutive effect caused by the stock options relating to the Employee Stock Option Program (Note 18).

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

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

**y. Use of Estimates**

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

**3. TRANSLATIONS OF RUPIAH INTO UNITED STATES DOLLAR**

The consolidated financial statements are stated in rupiah. The translations of the rupiah into United States dollar (US\$) are included solely for the convenience of the readers, using the average buying and selling rate (in full amount) published by Bank Indonesia (Central Bank) on June 30, 2004 of Rp9,415 to US\$1. The convenience translations should not be construed as representations that the rupiah amounts have been, could have been, or could in the future be, converted into U.S. dollar at this or any other rate of exchange.

**4. CASH AND CASH EQUIVALENTS**

This account consists of the following:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Cash on hand		
Rupiah	1,166	1,500
U.S. dollar (US\$7 in 2003 and US\$20 in 2004)	61	185
	1,227	1,685
Cash in banks		
Related parties (Note 27)		
Rupiah		
PT Bank Mandiri (Persero) Tbk ("Mandiri")	37,655	13,317
PT Bank Negara Indonesia (Persero) Tbk ("BNI")	24,294	12,136
PT Bank Pembangunan Daerah DKI Jakarta	2,972	1,992
PT Bank Danamon Indonesia Tbk ("Danamon")	-	1,272
Others (each below Rp500)	500	1,609
U.S. dollar		
Mandiri (US\$9,930 in 2003 and US\$350 in 2004)	82,269	3,298
Others (US\$245 in 2003 and US\$128 in 2004)	2,030	1,203

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

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Third parties		
Rupiah		
PT Bank Central Asia Tbk ("BCA")	84,730	148,381
PT Bank Niaga Tbk ("Niaga")	18,469	22,416
Deutsche Bank, Jakarta Branch	55,713	20,876
Others (each below Rp5,000)	16,230	3,924
U.S. dollar		
Deutsche Bank, Jakarta Branch (US\$15,695 in 2003 and US\$2,531 in 2004)	130,030	23,832
Citibank N.A., Jakarta Branch (US\$1,401 in 2003 and US\$1,751 in 2004)	11,605	16,487
Niaga (US\$1,598 in 2003 and US\$1,173 in 2004)	13,240	11,041
Others (US\$397 in 2003 and US\$363 in 2004)	3,291	3,417
	<u>483,028</u>	<u>285,201</u>
Time deposits		
Related parties (Note 27)		
Rupiah		
Mandiri	530,434	883,745
Danamon	-	452,500
BRI	108,490	387,000
BNI	243,136	232,605
PT Bank Syari'ah Mandiri ("Mandiri Syari'ah")	-	75,500
PT Bank Tabungan Negara (Persero)	6,350	4,000
U.S. dollar		
BRI (US\$27,000)	-	254,205
Danamon (US\$20,000)	-	188,300
Mandiri Syari'ah (US\$8,000)	-	75,320
Mandiri (US\$71,609 in 2003 and US\$7,514 in 2004)	593,281	70,744
BNI (US\$3,000)	24,855	-

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

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Third parties		
Rupiah		
Deutsche Bank, Jakarta Branch	14,419	1,070,000
Bukopin	26,800	252,800
PT Bank Bumiputera	-	60,000
Niaga	58,657	56,148
PT Bank NISP Tbk ("NISP")	502	55,000
PT Bank Mega Tbk	17,250	19,750
Citibank N.A., Jakarta Branch	-	8,000
PT Bank Muamalat Indonesia ("Muamalat")	22,000	7,000
PT Bank Yuda Bhakti	11,000	-
PT Bank Victoria International	10,500	-
Others	-	6
U.S. dollar		
Bukopin (US\$31,000)	-	291,865
Deutsche Bank, Jakarta Branch (US\$17,000)	-	160,055
BCA (US\$14,876)	-	140,053
Muamalat (US\$300 in 2003 and US\$4,300 in 2004)	2,485	40,485
Niaga (US\$6,700 in 2003 and US\$50 in 2004)	55,510	471
PT Bank Finconesia (US\$25,000)	207,125	-
Danamon (US\$3,000)	24,855	-
Bumiputera (US\$2,000)	16,570	-
NISP (US\$2,000)	16,570	-
Mees Pierson N.V., The Netherlands (US\$16)	133	-
	<u>1,990,922</u>	<u>4,785,552</u>
<b>Total</b>	<b><u>2,475,177</u></b>	<b><u>5,072,438</u></b>

Time deposits denominated in rupiah earned interest at annual rates ranging from 7.00% to 15.35% in 2003 and from 4.00% to 7.25% in 2004, while those denominated in U.S. dollar earned interest at annual rates ranging from 0.75% to 3.53% in 2003 and from 0.55% to 1.12% in 2004.

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

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**5. ACCOUNTS RECEIVABLE - TRADE - TELKOM**

This account represents receivables for uncollected international calls, telex and telegram charges to subscribers which were billed by Telkom, and receivables from cellular interconnection revenue net of interconnection charges payable to Telkom for these services and for leased circuits, and other charges (Note 27).

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	2003 (Unaudited)		2004 (Unaudited)	
	Amount	Percentage (%)	Amount	Percentage (%)
0 - 3 months	279,198	78.41	367,950	82.85
4 - 6 months	19,417	5.45	31,273	7.04
over 6 months	57,475	16.14	44,892	10.11
<b>Total</b>	<b>356,090</b>	<b>100.00</b>	<b>444,115</b>	<b>100.00</b>

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

	2003 (Unaudited)	2004 (Unaudited)
Balance at beginning of period	111,306	90,872
Provision (reversal)	-	(19,918)
Write-off	(28,395)	(6,184)
<b>Balance at end of period</b>	<b>82,911</b>	<b>64,770</b>

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

**6. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES**

This account consists of the following:

	2003 (Unaudited)	2004 (Unaudited)
Overseas international carriers		
AT&T, U.S.A. (US\$2,800 in 2003 and US\$9,206 in 2004)	23,195	86,673
AT&T Global Network, Singapore (US\$6,587)	-	62,016
Saudi Telecom Company, Saudi Arabia (SDR4,533,072 in 2003 and US\$5,778 in 2004)	63,551	54,401
Telekom Malaysia Berhad, Malaysia (US\$9,568 in 2003 and US\$4,393 in 2004)	79,275	41,355
Maxis International Sdn Bhd, Malaysia (US\$2,974 in 2003 and US\$3,742 in 2004)	24,637	35,230
Cableview Services Sdn Bhd ("Mega TV"), Malaysia (US\$3,289 in 2003 and 2004)	27,252	30,969
DDI Corporation, Japan (US\$710 and SDR750,617 in 2003 and US\$3,241 in 2004)	14,476	30,516
Chunghwa Telecom Co. Ltd., Taiwan (US\$1,208 and SDR164,085 in 2003 and US\$3,071 in 2004)	11,918	28,917
UAE-Etisalat, United Arab Emirates (US\$2,353 in 2003 and US\$3,051 in 2004)	19,496	28,724
Equant Network Services Pte Ltd., England (US\$4,032 in 2003 and US\$2,509 in 2004)	33,412	23,705

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Overseas international carriers (continued)		
Mega Media Broadcasting Network Co. Ltd., Taiwan (US\$2,202 in 2003 and US\$2,203 in 2004)	18,252	20,742
Korea International Telecommunication, Korea (US\$3,167 in 2003 and US\$2,171 in 2004)	26,235	20,440
People's Television Network, Canada (US\$1,270 in 2003 and 2004)	10,521	11,956
MobileOne (Asia) Pte. Ltd., Singapore (US\$1,295 in 2003 and US\$1,171 in 2004)	10,726	11,027
KPN, Royal Dutch Telecommunication, the Netherlands (US\$1,452 in 2003 and US\$927 in 2004)	12,032	8,723
Others (each below Rp10,000, including US\$4,956 and SDR4,499,530 in 2003 and US\$45,063 in 2004)	271,242	424,501
	<u>646,220</u>	<u>919,895</u>
Local companies		
PT Cakrawala Andalas Televisi (US\$1,426 in 2003 and US\$1,481 in 2004)	11,815	13,945
PT Ratelindo	4,211	13,566
PT Primacom Interbuana (US\$353 in 2003 and US\$727 in 2004)	2,923	6,841
PT Global Mega Wisata Mandiri International (US\$550 in 2003 and 2004)	4,557	5,178
PT Excelcomindo Pratama	15,951	-
Others (each below Rp5,000, including US\$3,289 in 2003 and US\$11,294 in 2004)	198,610	266,371
	<u>238,067</u>	<u>305,901</u>
Cellular post-paid subscribers	<u>152,708</u>	<u>225,624</u>
Total	1,036,995	1,451,420
Less allowance for doubtful accounts	<u>273,813</u>	<u>347,652</u>
<b>Net</b>	<b><u>763,182</u></b>	<b><u>1,103,768</u></b>

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	<b>2003</b> <b>(Unaudited)</b>		<b>2004</b> <b>(Unaudited)</b>	
	Amount	Percentage (%)	Amount	Percentage (%)
0 - 6 months	650,756	62.75	917,382	63.21
7 - 12 months	178,218	17.19	244,151	16.82
13 - 24 months	92,708	8.94	101,655	7.00
over 24 months	115,313	11.12	188,232	12.97
<b>Total</b>	<b><u>1,036,995</u></b>	<b><u>100.00</u></b>	<b><u>1,451,420</u></b>	<b><u>100.00</u></b>

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

As of June 30, 2004, approximately 3.40% of accounts receivable - trade are pledged as collateral for long-term bank loans obtained by Lintasarta (Note 15) and for short-term loans obtained by Sisindosat.

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

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Balance at beginning of period	238,020	353,221
Provision (reversal), including effect of foreign exchange adjustment	35,793	(3,052)
Write-off	-	(2,517)
<b>Balance at end of period</b>	<b>273,813</b>	<b>347,652</b>

The effect of foreign exchange adjustment was due to the weakening of the rupiah vis-à-vis the U.S. dollar in relation to U.S. dollar accounts previously provided with allowance and was charged to "Loss on Foreign Exchange - Net".

There are no significant concentrations of credit risk, except for the trade accounts receivable from Telkom (Note 5).

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

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**7. INVESTMENTS IN ASSOCIATED COMPANIES**

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

2003 (Unaudited)				
	Equity Interest (%)	Cost	Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies/Sale of Investments	Carrying Value
<b>Investments in:</b>				
PT Mitra Global Telekomunikasi Indonesia	30.55	168,747	(37,987)	130,760
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
PT Electronic Datainterchange Indonesia	49.00	12,250	18,712	30,962
PT Graha Lintas Properti	37.84	16,800	(2,354)	14,446
Others (carrying value below Rp10,000 each)	20.00 - 49.00	50,031	(33,501)	16,530 (a)
<b>Total</b>		<b>304,340</b>	<b>(55,342)</b>	<b>248,998</b>
Less allowance for decline in value		82,781	-	82,781
<b>Net</b>		<b>221,559</b>	<b>(55,342)</b>	<b>166,217</b>

(a) net of investment in PT Menara Jakarta sold in 2003

2004 (Unaudited)				
	Equity Interest (%)	Cost	Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies/Sale of Investments	Carrying Value
<b>Investments in:</b>				
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
PT Electronic Datainterchange Indonesia	49.00	12,250	15,662 (b)	27,912
Others (carrying value below Rp10,000 each) (c)	20.00 - 49.00	25,031	(3,321)	21,710
<b>Total</b>		<b>93,793</b>	<b>12,129</b>	<b>105,922</b>
Less allowance for decline in value (c)		59,142	-	59,142
<b>Net</b>		<b>34,651</b>	<b>12,129</b>	<b>46,780</b>

(b) net of cash dividend amounting to Rp1,652 in 2004

(c) net of investments in PT Yasawirya Tama Cipta and PT Graha Lintas Properti sold in 2004

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

The changes in the carrying value of the investments in associated companies for the six months ended June 30, 2003 and 2004 are as follows:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Equity in net income of associated companies	6,049	61,647
Reversal of allowance for decline in value investment due to sale of investment	8,000	24,348
Sale of investments	(8,000)	(229,179)
Cash dividend received from an associated company	-	(1,652)
<b>Net</b>	<b>6,049</b>	<b>(144,836)</b>

The economic difficulties faced by Indonesia (Note 38) have substantially affected the Companies' long-term investments in associated companies. Due to the decline in the value of their investments, the Companies have provided allowance for decline in value of their investments in associated companies amounting to Rp82,781 and Rp59,142 as of June 30, 2003 and 2004, respectively, which management believes is adequate to cover expected losses on those investments.

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

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

*PT Electronic Datainterchange Indonesia ("EDI")*

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

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

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

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

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

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

On September 24, 2003, the Company and the other MGTI stockholders entered into a Sale and Purchase Agreement ("SPA"), wherein all the MGTI stockholders agreed to sell and transfer all of their shares to PT Alberta Telecommunication ("Alberta") for a total consideration amounting to US\$240,000. This consideration includes the amount that should be paid by MGTI stockholders to settle MGTI's liabilities to its vendors and creditors, but excludes any post-closing consideration that should be paid by MGTI to its stockholders. On January 20, 2004, Alberta and the stockholders of MGTI closed the share purchase transaction. As of January 21, 2004, the Company has received in cash its portion of 30.55% of the sales price amounting to US\$57,262. This consideration is net of the settlement of liabilities to MGTI's vendors and creditors. The Company recognized the gain on sale of this investment amounting to approximately Rp278,743 in 2004. As of August 10, 2004, the Company has not yet received the post-closing consideration from MGTI.

*PT Graha Lintas Properti ("GLP")*

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

The economic difficulties faced by Indonesia (Note 38) have affected the development of GLP's construction project, which has been discontinued since December 1998.

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

**8. OTHER LONG-TERM INVESTMENTS**

This account consists of the following:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Investments in:		
Shares of stock accounted for under the cost method - net	218,820	102,058
Garuda debt	41,425	-
Convertible bonds - net	-	-
Equity securities which are available-for-sale	100	100
<b>Total</b>	<b>260,345</b>	<b>102,158</b>

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

	<b>2003 (Unaudited)</b>	
	<b>Equity</b> <b>Interest (%)</b>	<b>Cost/</b> <b>Carrying Value</b>
PT Pramindo Ikat Nusantara	9.10	113,415
The International Telecommunications Satellite Organization	0.34	97,427
PT Datakom Asia	5.00	50,000

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

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

	<b>2003 (Unaudited)</b>	
	<b>Equity Interest (%)</b>	<b>Cost/ Carrying Value</b>
ICO Global Communications (Holdings) Limited	0.87	49,977
AlphaNet Telecom, Inc.	-	32,149
U.S.A. Global Link, Inc.	19.05	26,249
Others (cost/carrying value below Rp4,000 each) <sup>1)</sup>	0.40 - 17.60	9,355
<b>Total</b>		<b>378,572</b>
Less allowance for decline in value		159,752
<b>Net</b>		<b>218,820</b>

<sup>1)</sup> net of investment in PT Multimedia Nusantara sold in February 2003

	<b>2004 (Unaudited)</b>	
	<b>Equity Interest (%)</b>	<b>Cost/ Carrying Value</b>
The International Telecommunications Satellite Organization	0.34	97,427
PT Broadband Multimedia Tbk	5.00	50,000
ICO Global Communications (Holdings) Limited	0.87	49,977
AlphaNet Telecom, Inc.	-	32,149
U.S.A. Global Link, Inc.	19.05	26,249
Others (cost/carrying value below Rp4,000 each)	10.00 - 17.60	4,632
<b>Total</b>		<b>260,434</b>
Less allowance for decline in value		158,376
<b>Net</b>		<b>102,058</b>

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

b. Investments in convertible bonds

As of June 30, 2003 and 2004, this account consists of:

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

c. Equity securities which are available-for-sale

As of June 30, 2003 and 2004, this account consists of:

BNI	90
Telkom	10
<b>Total</b>	<b>100</b>

The economic difficulties faced by Indonesia (Note 38) have substantially affected the Companies' other long-term investments. Consequently, the Companies provided an allowance for decline in value of their investments in shares of stock accounted for under the cost method and in convertible bonds amounting to Rp249,193 and Rp247,817 as of June 30, 2003 and 2004, respectively, which management believes is adequate to cover expected losses on the investments.

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

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

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

*PT Broadband Multimedia Tbk ("BM")*

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

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

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

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

*AlphaNet Telecom, Inc. ("ATI")*

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

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

As a result of ATI's liquidation process, the Company received on March 9, 2001 the amount of Rp12,923 (CAD2,028,670) from the sale of ATI's assets. The liquidation process of ATI is expected to be completed in 2004.

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

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

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

*PT Pramindo Ikat Nusantara ("PIN")*

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

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

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

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

*PT Pramindo Ikat Nusantara ("PIN") (continued)*

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

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

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

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

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

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

The gain on sale of investment in PIN amounting to Rp 109,185, Rp 32,207 and Rp110,928, from the first, second and third share-purchase transactions was recorded as part of "Difference in Value from Restructuring Transactions of Entities under Common Control", which is a component of Stockholders' Equity.

*PT Datakom Asia ("DA")*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**9. PROPERTY AND EQUIPMENT**

The details of property and equipment are as follows:

	2003 (Unaudited)				Balance at End of Period
	Balance at Beginning of Period	Transactions during the Period			
		Additions	Deductions	Reclassifications	
<u>Carrying Value</u>					
Landrights	252,076	928	-	-	253,004
Buildings	292,726	10,526	474	30,162	332,940
Submarine cables	724,170	-	1,767	933	723,336
Earth stations	108,484	334	-	-	108,818
Inland link	166,137	4,617	-	26,424	197,178
Switching equipment	278,428	-	-	9,667	288,095
Telecommunications peripherals	984,011	99,734	4,278	22,851	1,102,318
Information technology equipment	506,874	22,227	-	48,134	577,235
Office equipment	899,258	47,222	7,034	21,131	960,577
Building and leasehold improvements	224,712	6,698	651	57,723	288,482
Vehicles	28,180	881	155	-	28,906
Cellular technical equipment					
Base station subsystem	6,558,179	247,331	-	576,517	7,382,027
Network switching subsystem	2,436,000	123,485	-	318,407	2,877,892
Operating support subsystem	444,984	24,742	-	11,851	481,577
Satellite technical equipment					
Satellites	979,473	7,203	-	-	986,676
Master control station	153,077	-	-	-	153,077
Customer premises equipment	96,377	-	-	5,979	102,356
Transmission and cross- connection equipment					
Transmission equipment	406,191	-	-	4,866	411,057
Cross-connection equipment	27,590	-	-	1,038	28,628
Properties under construction and installation	2,272,471	1,001,480	34,767	(1,135,683)	2,103,501
<b>Total</b>	<b>17,839,398</b>	<b>1,597,408</b>	<b>49,126</b>	<b>-</b>	<b>19,387,680</b>
<u>Accumulated Depreciation</u>					
Buildings	130,054	9,340	-	-	139,394
Submarine cables	205,312	24,348	1,201	-	228,459
Earth stations	67,608	2,738	-	-	70,346
Inland link	28,729	5,684	-	-	34,413
Switching equipment	125,670	10,158	-	-	135,828
Telecommunications peripherals	531,776	78,855	4,278	-	606,353
Information technology equipment	303,285	43,180	-	-	346,465
Office equipment	353,543	55,911	4,535	-	404,919
Building and leasehold improvements	148,076	16,877	146	-	164,807
Vehicles	11,811	2,503	155	-	14,159
Cellular technical equipment					
Base station subsystem	2,269,942	366,887	-	-	2,636,829
Network switching subsystem	1,080,531	144,728	-	-	1,225,259
Operating support subsystem	99,986	28,353	-	-	128,339
Satellite technical equipment					
Satellites	395,658	25,526	36	-	421,148
Master control station	53,518	2,773	-	-	56,291
Customer premises equipment	17,828	3,108	-	-	20,936

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

	2003 (Unaudited)				Balance at End of Period
	Balance at Beginning of Period	Transactions during the Period			
		Additions	Deductions	Reclassifications	
<u>Accumulated Depreciation</u> <u>(continued)</u>					
Transmission and cross - connection equipment					
Transmission equipment	113,393	6,923	-	-	120,316
Cross-connection equipment	12,213	529	-	-	12,742
<b>Total</b>	<b>5,948,933</b>	<b>828,421</b>	<b>10,351</b>	<b>-</b>	<b>6,767,003</b>
Less impairment in value	131,209	-	-	-	131,209
<b>Net Book Value</b>	<b>11,759,256</b>				<b>12,489,468</b>
<b>2004 (Unaudited)</b>					
	Balance at Beginning of Period	Transactions during the Period			Balance at End of Period
		Additions	Deductions	Reclassifications	
<u>Carrying Value</u>					
Landrights	259,743	6,159	-	-	265,902
Buildings	358,385	2,385	-	(11,825)	348,945
Submarine cables	717,258	-	502	244,552	961,308
Earth stations	108,484	-	-	22,465	130,949
Inland link	197,856	-	-	7,137	204,993
Switching equipment	308,773	-	-	27,582	336,355
Telecommunications peripherals	1,258,238	79,799	-	(8,049)	1,329,988
Information technology equipment	643,335	6,347	1,446	413,474	1,061,710
Office equipment	1,053,154	35,742	2,409	(468,357)	618,130
Building and leasehold improvements	439,535	2,978	-	175,606	618,119
Vehicles	15,655	1,827	1,939	-	15,543
Cellular technical equipment					
Base station subsystem	8,240,699	-	-	1,610,015	9,850,714
Network switching subsystem	3,224,112	-	-	943,363	4,167,475
Operating support subsystem	539,705	-	-	(308,461)	231,244
Satellite technical equipment					
Satellites	994,369	4,194	-	76,641	1,075,204
Master control station	155,743	-	-	(51,472)	104,271
Customer premises equipment	104,351	-	-	(23,811)	80,540
Transmission and cross- connection equipment					
Transmission equipment	436,233	-	-	(267,584)	168,649
Cross-connection equipment	28,774	-	-	2,420	31,194
Fixed wireless access technical equipment					
Base station subsystem	-	-	-	87,539	87,539
Network switching subsystem	-	-	-	-	-
Operating support subsystem	-	-	-	-	-
Properties under construction and installation	2,886,426	2,133,469	119	(2,483,349)	2,536,427
<b>Total</b>	<b>21,970,828</b>	<b>2,272,900</b>	<b>6,415</b>	<b>(12,114)</b>	<b>24,225,199</b>

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

	2004 (Unaudited)				Balance at End of Period
	Balance at Beginning of Period	Transactions during the Period			
		Additions	Deductions	Reclassifications	
<u>Accumulated Depreciation</u>					
Buildings	153,546	11,826	-	(17,018)	148,354
Submarine cables	248,003	29,665	307	70,499	347,860
Earth stations	72,973	3,399	-	12,619	88,991
Inland link	40,599	7,233	-	3,683	51,515
Switching equipment	146,400	13,670	-	(3,266)	156,804
Telecommunications peripherals	684,125	86,658	-	(10,094)	760,689
Information technology equipment	391,229	73,058	1,445	167,466	630,308
Office equipment	483,099	41,489	1,927	(226,704)	295,957
Building and leasehold improvements	192,576	40,174	-	45,297	278,047
Vehicles	9,809	1,224	739	-	10,294
Cellular technical equipment					
Base station subsystem	3,122,814	555,667	-	21,939	3,700,420
Network switching subsystem	1,352,243	234,935	-	43,620	1,630,798
Operating support subsystem	162,522	15,253	-	(46,718)	131,057
Satellite technical equipment					
Satellites	480,387	64,368	-	8,693	553,448
Master control station	64,504	2,966	-	(4,838)	62,632
Customer premises equipment	25,253	2,588	-	(3,854)	23,987
Transmission and cross - connection equipment					
Transmission equipment	133,494	4,335	-	(73,513)	64,316
Cross-connection equipment	14,504	2,492	-	75	17,071
Fixed wireless access technical equipment					
Base station subsystem	-	1,753	-	-	1,753
Network switching subsystem	-	-	-	-	-
Operating support subsystem	-	-	-	-	-
<b>Total</b>	<b>7,778,080</b>	<b>1,192,753</b>	<b>4,418</b>	<b>(12,114)</b>	<b>8,954,301</b>
Less impairment in value	99,621	-	-	-	99,621
<b>Net Book Value</b>	<b>14,093,127</b>				<b>15,171,277</b>

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

For the six months ended June 30, 2003 and 2004, sales of certain property and equipment were made as follows:

	2003 (Unaudited)	2004 (Unaudited)
Proceeds from sale	3,535	798
Net book value	(4,008)	(1,997)
<b>Loss</b>	<b>473</b>	<b>1,199</b>

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

Depreciation charged to operations amounted to Rp828,421 and Rp1,192,753 in 2003 and 2004, respectively.

In 1999, Satelindo assessed its property and equipment in connection with indications of asset impairment. Based on the assessment, Satelindo provided an impairment reserve amounting to Rp131,209 for certain property and equipment whose carrying value exceeded their recoverable amount. In November 2003, Satelindo disposed the property and equipment which previously have been provided with an impairment reserve amounting to Rp32,598. Management believes that there is no further impairment in assets value or recovery of the impairment reserve as contemplated in SAK 48 except as already recognized by Satelindo.

As of June 30, 2004, the Companies carry insurance on their respective property and equipment (except submarine cables and landrights) for US\$1,587,373 and Rp3,477,213, including insurance on the Company's satellite amounting to US\$70,000 which is pledged as collateral for its long-term debts (Notes 15 and 16). In management's opinion, the sum insured is sufficient to cover possible losses arising from fire, explosion, lightning and aircraft damage and other natural disasters.

As of June 30, 2004, approximately 18% of property and equipment are pledged as collateral to long-term debts and letter of credit facilities obtained by the Company and Lintasarta (Note 15).

The details of the Companies' properties under construction and installation as of June 30, 2003 and 2004 are as follows:

<b>2003 (Unaudited)</b>	<b>Percentage of Completion</b>	<b>Cost</b>	<b>Estimated Date of Completion</b>
Cellular technical equipment	25 - 95	1,327,393	September 2003
Telecommunications peripherals	15 - 95	460,927	July - December 2003
Submarine cables	97	154,886	December 2003
Building and leasehold improvements	30 - 90	22,009	August - October 2003
Switching equipment	90 - 95	20,047	September 2003
Inland link	47 - 95	17,733	August - November 2003
Satellite technical equipment	30 - 40	13,356	August 2003
Building	20 - 90	7,281	July - December 2003
Transmission and cross-connection equipment	60 - 70	5,836	August 2003
Information technology equipment	50 - 70	2,374	August - December 2003
Others	30 - 95	71,659	July 2003 - June 2004
<b>Total</b>		<b>2,103,501</b>	
<b>2004 (Unaudited)</b>			
Cellular technical equipment	60 - 80	1,888,260	July 2004
Inland link	70 - 80	171,241	September 2004
Submarine cables	99	147,738	September 2004
Fixed wireless access technical equipment	95	98,155	July 2004
Building and leasehold improvements	25 - 70	84,827	August 2004
Telecommunications peripherals	15 - 25	30,157	September 2004
Information technology equipment	15 - 25	23,336	September 2004
Switching equipment	50 - 60	12,638	September 2004
Satellite technical equipment	60 - 80	7,276	August 2004
Others	15 - 95	72,799	August - December 2004
<b>Total</b>		<b>2,536,427</b>	

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

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Interest expense	48,737	40,718
Net foreign exchange loss	237	-

**10. GOODWILL AND OTHER INTANGIBLE ASSETS**

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

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

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

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

<b>Period</b>	<b>Amount</b>
Six months ended June 30, 2004	286,160
Six months ending December 31, 2004	286,160
Year ending December 31, 2005	572,319
Year ending December 31, 2006	271,798
Year ending December 31, 2007	(84,603)

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Balance at beginning of period	4,125,038	3,344,939
Amortization of goodwill	(129,759)	(113,174)
Amortization of other intangible assets	(18,519)	(53,007)
<b>Balance at end of period</b>	<b>3,976,760</b>	<b>3,178,758</b>

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**11. LONG-TERM ADVANCES**

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

**12. PROCUREMENT PAYABLE**

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Siemens Aktiengesellschaft, Germany (including US\$12,064 in 2003 and US\$49,593 in 2004)	100,118	467,545
PT Ericsson Indonesia (including US\$23,967 in 2003 and US\$22,397 in 2004)	277,268	310,197
Alcatel CIT, France (including US\$2,994 in 2003 and US\$13,691 in 2004)	25,622	129,424
Sumitomo Corporation, Japan (including US\$8,607 in 2004)	787	83,936
PT Nokia Network (including US\$8,115 in 2004)	-	78,831
ZTE Corporation, China (including US\$2,710 in 2004)	-	34,833
Ericsson AB, Sweden (including US\$3,659 in 2004)	-	34,448
PT Mostniaga Semesta (including US\$3,323 in 2004)	-	31,389
PT Westindo Esa Perkasa (including US\$2,658 in 2004)	-	26,801
PT Industri Telekomunikasi Indonesia (including US\$2,718 in 2004)	-	26,625
PT Alcatel Indonesia (including US\$26 in 2003 and US\$2,213 in 2004)	1,596	20,834
Alcatel Italia, S.P.A (including US\$2,012 in 2004)	-	18,944
PT Ekaprasarana Primatel (including US\$1,898 in 2004)	-	18,148
PT Prima Mitratama Sejati (including US\$29 in 2003 and US\$1,540 in 2004)	7,167	14,945
PT Alita Praya Mitra	-	11,382
PT Kopnatel Jaya	4,101	10,965
PT Siemens Indonesia (including US\$39 in 2003 and US\$740 in 2004)	1,543	9,641
PT Logica Indonesia (including US\$338 in 2003 and US\$864 in 2004)	15,148	8,136
PT Duta Sembilan Kartika (including US\$5 in 2004)	1,422	7,324
PT Atma Sugih Abadi	449	7,070
PT Rekapranata Ciptatangguh	-	6,793
PT Asiakomnet Multimedia (including US\$714 in 2004)	-	6,721
PT Enerfra Septadaya Prima	4,688	6,589
PT Telkom Cisc Jakarta	-	5,024
Others (including US\$22,398 in 2003 and US\$29,465 in 2004, each below Rp5,000)	245,404	506,378
<b>Total</b>	<b>685,313</b>	<b>1,882,923</b>

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**13. TAXES PAYABLE**

The taxes payable as of June 30, 2003 and 2004 are as follows:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Estimated corporate income tax payable, less tax prepayments of Rp170,147 in 2003 and Rp22,288 in 2004	201,936	17,190
Income taxes:		
Article 21	11,602	6,129
Article 22	135	3,409
Article 23	29,512	64,029
Article 25	27,113	1,493
Article 26	6,023	8,847
Article 29	243	243
Value Added Tax ("VAT")	55,993	11,119
Others	1,382	7,225
<b>Total</b>	<b>333,939</b>	<b>119,684</b>

The reconciliation between income before income tax and estimated taxable income, including tax losses carry-over, of the Company for the six months ended June 30, 2003 and 2004 is as follows:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Income before income tax per consolidated statements of income	978,826	1,119,943
Subsidiaries' income before income tax and effect of inter-company consolidation eliminations	(393,735)	(63,545)
Income before income tax of the Company	585,091	1,056,398
Positive adjustments		
Gain on sale of investment in associated company and other long-term investment (Notes 7 and 8)	-	147,013
Compensation expense for ESOP (Note 18)	-	29,770
Accrual of postretirement benefits	-	13,414
Donation	960	11,905
Representation and entertainment	1,468	9,073
Net periodic pension cost	-	8,768
Accrual of remuneration and other employee benefits	-	4,569
Assessments for income taxes and related penalties	-	2,612
Interest expense on loans used to finance shares acquisition (Note 15)	124,867	-
Employee benefits	57,191	-
Provision for termination, gratuity and compensation benefits of employees	4,696	-
Provision for doubtful accounts	3,407	-
Others	-	3,310
Negative adjustments		
Depreciation - net	(5,079)	(252,239)
Equity in net income of investees	(239,112)	(105,757)
Interest income already subjected to final tax	(37,227)	(64,654)
Amortization of goodwill and other intangible assets	(273,566)	(37,209)
Sale of investment in associated company (Note 7)	-	(25,000)
Reversal of allowance for doubtful accounts	-	(18,273)
Provision for termination, gratuity and compensation benefits of employees	-	(6,403)
Write-off of accounts receivable	(24,095)	(6,184)
Net periodic pension cost	(2,395)	-
Others	-	(3,275)
Estimated taxable income of the Company	196,206	767,838

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**13. TAXES PAYABLE (continued)**

	2003 (Unaudited)	2004 (Unaudited)
Tax losses carryover at beginning of period	-	(934,637)
<b>Estimated taxable income (tax losses carry-over at end of period) of the Company</b>	<b>196,206</b>	<b>(166,799)</b>

The computation of the income tax expense - net for the six months ended June 30, 2003 and 2004 is as follows:

	2003 (Unaudited)	2004 (Unaudited)
Estimated taxable income of the Company - net of tax losses carry-over	196,206	-
Income tax expense - current (at statutory tax rates)		
Company	58,853	-
Subsidiaries	313,230	39,478
Total income tax expense - current	372,083	39,478
Income tax expense (benefit) - deferred		
Effect of temporary differences at enacted maximum tax rate (30%)		
Company		
Tax loss carry-over applied	-	230,351
Depreciation - net	1,523	75,672
Equity in net income of investees	71,734	31,727
Amortization of goodwill and other intangible assets	82,070	11,163
Reversal of allowance for doubtful accounts	-	5,482
Write-off of accounts receivable	7,229	1,855
Provision for termination, gratuity and compensation benefits of employees	-	1,426
Compensation expense for ESOP	-	(8,931)
Accrual of postretirement benefits	-	(4,024)
Sale of investment in associated companies and other long-term investment (Notes 7 and 8)	-	(3,325)
Net periodic pension cost	718	(2,630)
Accrual of remuneration and other employee benefits	-	(1,371)
Interest expense on loans used to finance shares acquisition (Note 15)	(37,460)	-
Provision for doubtful accounts	(1,022)	-
Others	(662)	983
	124,130	338,378
Subsidiaries		
Reversal of allowance for doubtful accounts	-	9,077
Reversal of allowance for decline in value of other long-term investments	-	8,094
Write-off of accounts receivable	-	755
Equity in net income of investees	88,850	742
Depreciation - net	54,411	(5,320)
Tax loss	(67,123)	(953)
Others	(4,361)	56
	71,777	12,451
Income tax expense - deferred	195,907	350,829
<b>Total income tax expense</b>	<b>567,990</b>	<b>390,307</b>

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**13. TAXES PAYABLE (continued)**

The computation of the total estimated income tax payable and total claims for tax refund for the six months ended June 30, 2003 and 2004 is as follows:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Income tax expense - current		
Company	58,853	-
Subsidiaries	313,230	39,478
Total income tax expense - current	372,083	39,478
Less prepayments of income tax of the Company		
Article 22	-	20,224
Article 23	10,584	49,423
Article 25	30,867	93,187
Total prepayments of income tax of the Company	41,451	162,834
Less prepayments of income tax of Subsidiaries		
Article 22	26,592	728
Article 23	28,804	14,595
Article 25	89,925	8,508
Total prepayments of income tax of Subsidiaries	145,321	23,831
Total prepayments of income tax	186,772	186,665
Estimated income tax payable		
Company	17,402	-
Subsidiaries	184,534	17,190
<b>Total estimated income tax payable</b>	<b>201,936</b>	<b>17,190</b>
Claims for tax refund (presented as part of "Prepaid Taxes and Expenses")		
Company	-	(162,834)
Subsidiaries	(16,625)	(1,543)
<b>Total claims for tax refund</b>	<b>(16,625)</b>	<b>(164,377)</b>

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**13. TAXES PAYABLE (continued)**

The reconciliation between the income tax expense calculated by applying the applicable tax rate of 30% to the combined income, net of loss, before income tax of the Company and Subsidiaries, and the income tax expense - net as shown in the consolidated statements of income for the six months ended June 30, 2003 and 2004 is as follows:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Income before income tax per consolidated statements of income	978,826	1,119,943
Company's equity in Subsidiaries' income before income tax and reversal of inter-company consolidation eliminations	840,160	45,510
<b>Combined income, net of loss, before income tax of the Company and Subsidiaries</b>	<b>1,818,986</b>	<b>1,165,453</b>
Income tax expense at the applicable tax rate of 30%	545,696	349,636
Tax effect on permanent differences		
Gain on sale of other long-term investment	-	33,279
Donation	3,236	3,571
Tax expense	-	3,195
Representation and entertainment	971	3,132
Employee benefits	21,631	1,156
Interest income already subjected to final tax	(24,498)	(21,194)
Interest expense	14,996	-
Others	2,668	7,743
Unrealized tax loss	-	9,028
Valuation allowance adjustment	-	814
Adjustment due to tax audit and others	3,290	(53)
<b>Income tax expense - net per consolidated statements of income</b>	<b>567,990</b>	<b>390,307</b>

The tax effects of significant temporary differences between financial and tax reporting which are outstanding as of June 30, 2003 and 2004 are as follows:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Company		
Deferred tax assets		
Investments in subsidiaries/associated companies	-	383,666
Allowance for doubtful accounts - net	29,530	138,027
Allowance for decline in value of investments in associated companies and other long-term investments	81,344	81,560
Tax losses carry-over	-	50,041
Accrual of postretirement benefits	-	18,976
Accrual of remuneration and other employee benefits	-	16,511
Compensation expense for ESOP	-	16,374
Allowance for decline in value of short-term investment	-	7,618
Estimated liability for termination, gratuity and compensation benefits of employees	-	3,051
Interest expense on loans used to finance shares acquisition	87,843	-
Others	5,566	-
<b>Total</b>	<b>204,283</b>	<b>715,824</b>

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**13. TAXES PAYABLE (continued)**

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Deferred tax liabilities		
Property and equipment	130,985	594,109
Goodwill and other intangible assets	354,878	436,864
Unamortized debt and bonds issuance cost	-	6,664
Pension cost	3,494	3,041
Difference in transactions of equity changes in associated companies/subsidiaries	121,837	1,807
Excess of fair value over book value	399,777	-
Investment in subsidiaries/ associated companies	36,991	-
Others	1,494	925
<b>Total</b>	<b>1,049,456</b>	<b>1,043,410</b>
Deferred tax liabilities - net	<b>845,173</b>	<b>327,586</b>
Subsidiaries (Bimagraha and Satelindo in 2003, APE and Asiatel in 2004)		
Deferred tax assets		
Tax loss carry-over	3,368	6,149
Allowance for doubtful accounts - net	73,878	490
Allowance for decline in value of investments in associated companies	3,600	-
Others	2,994	41
	<b>83,840</b>	<b>6,680</b>
Valuation allowance	<b>(3,500)</b>	<b>(6,232)</b>
Net	<b>80,340</b>	<b>448</b>
Deferred tax liabilities		
Property and equipment	224,745	1,804
Investments in subsidiaries/associated companies	323,913	-
Others	-	394
<b>Total</b>	<b>548,658</b>	<b>2,198</b>
Deferred tax liabilities - net	<b>468,318</b>	<b>1,750</b>
<b>Total deferred tax liabilities</b>	<b>1,313,491</b>	<b>329,336</b>
Subsidiaries (IM3 in 2003, Sisindosat, Lintasarta and IMM in 2003 and 2004)		
Deferred tax assets		
Property and equipment	-	21,989
Allowance for doubtful accounts - net	34,258	15,178
Allowance for decline in value of investments in associated companies and other long-term investments	9,403	13,934
Investments in subsidiaries/associated companies	12,442	-
Tax loss carry-over	213,665	-
Others	6,055	6,761
<b>Total</b>	<b>275,823</b>	<b>57,862</b>
Valuation allowance	<b>(15,747)</b>	<b>(15,747)</b>
Net	<b>260,076</b>	<b>42,115</b>

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**13. TAXES PAYABLE (continued)**

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Deferred tax liabilities		
Property and equipment	106,165	-
Others	1,710	1,465
Total	<u>107,875</u>	<u>1,465</u>
<b>Deferred tax assets - net</b>	<b><u>152,201</u></b>	<b><u>40,650</u></b>

The breakdown by entity of the foregoing deferred tax assets and liabilities outstanding as of June 30, 2003 and 2004 is as follows:

	<b>2003</b> <b>(Unaudited)</b>		<b>2004</b> <b>(Unaudited)</b>	
	<b>Deferred Tax</b> <b>Assets</b>	<b>Deferred Tax</b> <b>Liabilities</b>	<b>Deferred Tax</b> <b>Assets</b>	<b>Deferred Tax</b> <b>Liabilities</b>
Company	-	845,173	-	327,586
Subsidiaries				
Bimagraha	-	323,913	-	-
Satelindo	-	144,405	-	-
Asiatel	-	-	-	691
IM3	101,448	-	-	-
Sisindosat	29,116	-	11,248	-
Lintasarta	15,532	-	26,062	-
IMM	6,105	-	3,340	-
APE	-	-	-	1,059
<b>Total</b>	<b><u>152,201</u></b>	<b><u>1,313,491</u></b>	<b><u>40,650</u></b>	<b><u>329,336</u></b>

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

A valuation allowance has been established for certain deferred tax assets. This valuation allowance reduces tax assets to an amount which is probable to be realized. The reduction in valuation allowance mainly relates to the reversal of the valuation allowance provided on tax loss carry-over of Subsidiaries. Management believes that the existing tax loss carry-over can be realized in the future.

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**13. TAXES PAYABLE (continued)**

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

No income tax was provided for Sisindosat, Asiatel, IM3, Bimagraha, IMM and APE for the six months ended June 30, 2003 and for Sisindosat, Asiatel and SMM for the six months ended June 30, 2004 because they were in a tax loss position during those periods.

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

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

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

**14. ACCRUED EXPENSES**

This account consists of the following:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Employee benefits	172,932	259,652
Radio frequency license	131,198	198,878
Interest	87,984	166,211
Network repairs and maintenance	13,141	104,195
Concession fee	56,415	84,528
Postretirement benefits	-	63,255
Consultancy fees	-	37,467
Rental	10,108	13,849
Others	73,779	157,307
<b>Total</b>	<b>545,557</b>	<b>1,085,342</b>

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**15. LONG-TERM DEBTS**

This account consists of the following:

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Related parties		
Syndicated loan facility 2		
BNI - net of unamortized debt issuance cost of Rp12,459	-	812,541
Mandiri - net of unamortized debt issuance cost of Rp2,941	-	197,059
Syndicated loan facility 1		
Mandiri	1,000,000	-
BNI	230,000	-
Mandiri Syari'ah	50,000	-
BRI	50,000	-
BNI (US\$75,000)	621,375	-
Government of the Republic of Indonesia	5,241	-
Others	314	164
Third parties - net of unamortized debt issuance cost of Rp14,711	1,871,612	1,059,783
<b>Total long-term debts</b>	<b>3,828,542</b>	<b>2,069,547</b>
Less current maturities		
Related parties		
BNI	-	123,750
Mandiri	-	44,440
Government of the Republic of Indonesia	5,241	-
Third parties	570,170	189,827
<b>Total current maturities</b>	<b>575,411</b>	<b>358,017</b>
<b>Long-term portion</b>	<b>3,253,131</b>	<b>1,711,530</b>

The loans from related parties consist of the following:

a. Syndicated Loan Facility 2

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

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

\* related parties

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**15. LONG-TERM DEBTS (continued)**

a. Syndicated Loan Facility 2 (continued)

The facility is divided into 3 tranches:

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

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

Based on the loan agreement, the Company should use the proceeds of the loans to repay IM3's debts and Satelindo's debts based on the MRA (Note 32), and/or for capital expenditure financing, and/or other corporate general needs if IM3's debts are repaid using other facility.

The interest rates ranged from 11.00% to 12.92% per annum for the six months ended June 30, 2004. The loans are payable semi-annually.

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

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

As of June 30, 2004, the outstanding balances of the loans are as follows:

<b>Bank</b>	<b>Amount (Unaudited)</b>
BCA	975,000
BNI *	825,000
Mandiri *	200,000
Balance	2,000,000
Unamortized debt issuance cost	(30,111)
<b>Net</b>	<b>1,969,889</b>

\* related parties

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**15. LONG-TERM DEBTS (continued)**

a. Syndicated Loan Facility 2 (continued)

The amortization of debt issuance cost charged to 2004 operations amounted to Rp4,608.

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

b. Mandiri

1) Sisindosat

Sisindosat's investment loan facility with Mandiri has a maximum amount of Rp478 and is available for three years starting from June 14, 2002 with annual interest rate of 19.5%. The outstanding balances of this loan as of June 30, 2003 and 2004 are Rp314 and Rp164, respectively.

2) The Company

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

In August and November 2002, the loan was refinanced by a loan obtained from BNI (see point d. below) and the proceeds of the Second Indosat Bonds in Year 2002 with Fixed and Floating Rates (Note 16).

c. Syndicated Loan Facility 1

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

<b>Bank</b>	<b>Amount</b>
Mandiri *	1,000,000
BNI *	230,000**
BCA	100,000
Mandiri Syari'ah *	50,000
Danamon	50,000
BRI *	50,000
Bukopin	20,000
<b>Total</b>	<b>1,500,000</b>

\* related parties

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

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**15. LONG-TERM DEBTS (continued)**

c. Syndicated Loan Facility 1 (continued)

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

The loans bore interest in accordance with the prime rate of the syndicated banks. The annual interest rates ranged from 18.00% to 20.00% for the six months ended June 30, 2003. The loans were scheduled to be payable semi-annually, with the first to fourth installments of 15% each of the principal amounts being payable from February 2005 to August 2006, and the fifth and sixth installments of 20% of the principal amounts being payable until the maturity date of August 2007.

As of June 30, 2003, the outstanding balances of the loans were as follows:

<b>Bank</b>	<b>Amount (Unaudited)</b>
Mandiri *	1,000,000
BNI *	230,000**
BCA	100,000
Mandiri Syari'ah *	50,000
Danamon	50,000
BRI *	50,000
Bukopin	20,000
<b>Total</b>	<b>1,500,000</b>

\* related parties

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

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

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

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

On December 23, 2003, the Company paid Rp1,420,000 out of the Rp1,500,000 outstanding loans. The Company repaid the remainder of the loans of Rp50,000 to Mandiri Syari'ah on January 30, 2004 and Rp30,000 to BNI (Syari'ah Business Division) on February 20, 2004.

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**15. LONG-TERM DEBTS (continued)**

d. BNI

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

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

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

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

On January 16, 2004, this loan was repaid.

e. Government of the Republic of Indonesia

The proceeds of the Company's loan from the Government of the Republic of Indonesia were used for the construction of the South East Asia - Middle East - Western Europe 2 submarine cables. The loan bore interest at the annual rates of 13.79% and 8.36% for the six months ended June 30, 2003 and 2004, respectively. These rates represented the lower between:

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

The loan had been paid in installments up to January 30, 2004. It was obtained by the Government from a foreign bank and then lent out to the Company ("two-step loan"). This is payable by the Government to the foreign bank in French franc. The Company made withdrawals from the credit facility in the billing currencies of the related equipment suppliers. The withdrawal is converted into rupiah based on the exchange rate at the date of withdrawal. The Company's obligation to the Government is based on the rupiah equivalent at the date of withdrawal.

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**15. LONG-TERM DEBTS (continued)**

The loans from third parties consist of the following:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Syndicated Loan Facility 2 (refer to previous section on loans from related parties)		
BCA - net of unamortized debt issuance cost of Rp14,711	-	960,289
Import Sight Letter of Credit ("L/C") Facility and Investment Credit Facility 1 from Niaga	93,699	54,699
Investment Credit Facility 3 from Niaga	-	28,772
Import Sight Letter of Credit ("L/C") Facility and Investment Credit Facility 2 from Niaga	-	15,000
GECA Credit		
Tranche 1 (US\$92,205)	778,087	-
Tranche 2 (US\$5,680)	47,937	-
BCA (US\$40,000)	331,400	-
Debt Facility with Alcatel CIT and PT Alcatel Enkomindo (US\$34,800)	293,665	-
Syndicated Loan Facility 1 (refer to previous section on loans from related parties)		
BCA	100,000	-
Danamon	50,000	-
Bukopin	20,000	-
Ex - Indonesian Bank Restructuring Agency ("IBRA") Term Loan (US\$11,373)	95,976	-
Term Loan with IntesaBci S.p.A/Deutsche Bank AG, London (US\$7,067)	59,642	-
Others	1,206	1,023
<b>Total</b>	<b>1,871,612</b>	<b>1,059,783</b>
Less current maturities (including US\$64,089 in 2003)	570,170	189,827
<b>Net</b>	<b>1,301,442</b>	<b>869,956</b>

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

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

- Import Sight L/C facility for the purchase of telecommunication equipment, computer and other supporting facilities amounting to Rp130,000 wherein 10% of the facility would be financed by Lintasarta itself and 90% of the facility or Rp117,000 would be financed through investment credit facility. The facility also included local L/C (*Surat Kredit Berdokumen Dalam Negeri*) with a maximum amount of Rp26,000. This facility expired on December 31, 2002.
- Investment credit facility amounting to Rp117,000 for financing the above facility. In 2002, Lintasarta drew Rp113,199 from the facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.25% (subsequently changed to 2.75% on April 8, 2002). The repayment of the principal started on January 16, 2003, with installments amounting to Rp9,750 payable quarterly up to October 16, 2005. As of June 30, 2003 and 2004, this loan had outstanding balances of Rp93,699 and Rp54,699, respectively.

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**15. LONG-TERM DEBTS (continued)**

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

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

- The combined ownership of the Company and Yayasan Kesejahteraan Karyawan Bank Indonesia in Lintasarta shall become less than 51% during the facility period.
- Lintasarta will obtain new debts (Note 16).
- Lintasarta will invest in other than Lintasarta's current business.

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

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

- Import Sight/Usance/UPAS L/C facility amounting to US\$5,000 for the importation of electronic and telecommunication equipment and amounting to US\$100 for the payment to Lintasarta's supplier. On August 6, 2003, the facility was rolled over until August 6, 2004 but the facility amount has been reduced to US\$1,000. As of June 30, 2004, Lintasarta has not used this facility.
- Bank guarantee facility amounting to US\$3,000. On August 4, 2003, this facility was rolled over until August 6, 2004 but the facility amount has been reduced to US\$500. No drawings have been made from the reduced facility as of June 30, 2004.

b. Investment Credit Facility 3 from Niaga

On June 29, 2004, Lintasarta obtained a loan from a new credit facility from Bank Niaga for the purchase of telecommunication equipment, computer and other supporting facilities amounting to Rp98,000. The loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.5%. The loan has a grace period in the repayment of principal up to the quarter ending June 29, 2005. The quarterly repayment of the principal will start on September 29, 2005, at Rp9,800 each quarter up to December 29, 2007. As of June 30, 2004, the outstanding balance of the loan amounted to Rp28,772.

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

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

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**15. LONG-TERM DEBTS (continued)**

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

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

- Import Sight L/C facility for the purchase of telecommunication equipment, computer and other supporting facilities amounting to US\$10,000 wherein Rp15,000 of the facility would be financed through investment credit facility and the remainder would be financed by Lintasarta itself. This facility will expire on August 14, 2004. As of June 30, 2004, Lintasarta has already used US\$3,527 from the facility.
- Investment credit facility amounting to Rp15,000 for financing the above facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 2.75% (subsequently changed to 3% on October 1, 2003). The loan has a grace period until August 14, 2004 to start paying the interest on the loan. The repayment of the principal will start on November 14, 2004, with installments amounting to Rp1,500 payable quarterly up to February 14, 2007. As of June 30, 2004, Lintasarta has fully drawn this facility.

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

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

d. GECA Credit

In 1997, Satelindo entered into a loan agreement with a consortium of banks led by Commerzbank Aktiengesellschaft, Frankfurt am Main ("Commerzbank AG"), as well as with three other banks as lenders, which provided a loan amounting to US\$114,988 to finance Satelindo's importation of GSM equipment from Siemens AG, Germany.

The loan was made available on the basis of an export credit cover provided by the Federal Republic of Germany, represented by HERMES Kreditversicherungs AG ("Hermes"), Hamburg.

In October 1999, Siemens AG repaid the amount of US\$3,028 to Commerzbank AG due to Satelindo's return of certain GSM equipment to Siemens AG. Subsequently, in December 1999, Satelindo, Siemens AG, Commerzbank AG and Hermes agreed to divide the outstanding balance of the loan into two tranches in addendum No. 1 to the loan agreement:

- Loan Tranche 1 which represented a portion of the loan amounting to US\$99,652 for which deliveries and services had already been made and rendered. Interest was paid at 2.5% over the six-month LIBOR, subject to adjustment on a semi-annual basis.
- Loan Tranche 2 which represented a portion of the loan amounting to US\$12,308 for deliveries and services in connection with a Y2K compliance package and a Hot Billing System. Interest was paid at 0.5% over the six-month LIBOR, subject to adjustment on a semi-annual basis.

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**15. LONG-TERM DEBTS (continued)**

d. GECA Credit (continued)

The GECA credit agreement, through Amendment Agreement No. 2, superseded the above Tranche 1 of the export credit facility as a result of the debts restructuring on May 30, 2000 (Note 32a).

The credit facility under the GECA credit agreement was collateralized by satellite lease revenues and in-orbit insurance proceeds from Satelindo's satellite.

This loan was repaid on October 31, 2003 (see discussion after "h" below).

e. BCA

1). On July 23, 2002, the Company entered into a loan agreement with a total facility of US\$75,000 with BCA. This time loan facility was used by the Company to finance the capital injection in Satelindo (Note 1d). Interest was paid quarterly at the annual fixed interest rate of 8.6%. The loan was covered by a promissory note issued by the Company to BCA, which note was transferable by BCA to other banks in Indonesia with prior notification to the Company. In December 2002, the Company partially settled the loan amounting to US\$50,000 of which US\$10,000 was financed by a part of the proceeds from the Second Indosat Bonds in Year 2002 with Fixed and Floating Rates (Note 16) and US\$40,000 was financed through a new loan facility from BCA (see below). The balance of US\$25,000 was repaid in January 2003.

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

f. Debt Facility with Alcatel CIT and PT Alcatel Enkomindo

Satelindo entered into a debt facility deed ("debt facility") with Alcatel CIT and PT Alcatel Enkomindo ("Enkomindo") in March 2000 for a total credit facility of US\$116,000. The debt facility replaced a settlement agreement in 1999 regarding cellular equipment and related services that were previously purchased under various job orders.

The debt facility was set to mature on September 30, 2004. Interest was paid on a semi-annual basis commencing January 1, 2000, at the annual LIBOR plus the applicable margin during the interest period (Note 32b).

This debt facility was collateralized by all equipment units delivered to Satelindo by Alcatel CIT and Enkomindo, satellite lease revenues and in-orbit insurance proceeds from Satelindo's satellite.

This loan was repaid on October 31, 2003 (see discussion after "h" below).

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**15. LONG-TERM DEBTS (continued)**

g. Ex - IBRA Term Loan

This was an investment credit facility amounting to US\$70,000 obtained by Satelindo in 1996 from PT Bank Ekspor Impor Indonesia, which was then merged into Mandiri. The credit facility was collateralized by radio base station equipment located in Jakarta.

Due to the restructuring of Mandiri in 1999, the credit facility was handed over to IBRA (Note 32a).

In August 2000, IBRA sold all of its rights, title and benefits related to the credit facility to Salomon Brothers Holding Company Inc., USA ("Salomon"). The principal outstanding at that time was US\$65,402.

Interest was paid on a semi-annual basis commencing January 1, 2000, at LIBOR plus applicable margin during each interest period (Note 32a) over the six-month LIBOR, which was adjusted on a semi-annual basis.

Subsequently, the rights, title and benefits related to the credit facility were sold to several other creditors. As of June 30, 2003, the outstanding principal was payable to the following creditors:

	<b>Amount (Unaudited)</b>
BCA (US\$3,314)	27,964
Deutsche Bank AG, London (US\$2,421)	20,429
Farallon Capital Management, LLC, USA (US\$2,198)	18,547
Ta Chong Bank OBU, Singapore (US\$2,028)	17,119
PT Bank CIC International Tbk (US\$807)	6,810
Asia Debt Recovery Company Limited, Hong Kong (US\$605)	5,107
<b>Total</b>	<b>95,976</b>

The credit facility under this term loan agreement was collateralized by radio base station equipment located in Jakarta, satellite lease revenues and in-orbit insurance proceeds from Satelindo's satellite.

This loan was repaid on October 31, 2003 (see discussion after "h" below).

h. Term Loan with IntesaBci S.p.A/Deutsche Bank AG

This term loan agreement superseded an L/C Agreement in 1997 and a term loan facility in 1998 with PT Bank Paribas - BBD.

Pursuant to the Master Restructuring Agreement ("MRA") dated May 30, 2000 (Note 32a), the L/C Agreement was converted into a Term Loan Agreement with IntesaBci S.p.A (formerly Banca Commerciale Italiana), Singapore Branch, acting as the facility agent for a consortium of lenders. On July 26, 2002, the position of IntesaBci S.p.A as Satelindo's facility agent for this loan was taken over by Deutsche Bank AG, London.

The term loan was set to mature on December 31, 2003. Interest was paid on a semi-annual basis commencing on January 1, 2000 at LIBOR plus the applicable margin during the interest period.

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**15. LONG-TERM DEBTS (continued)**

h. Term Loan with IntesaBci S.p.A/Deutsche Bank AG (continued)

The term loan was collateralized by Satelindo's cellular equipment units which were acquired using the L/C facility in 1998 and 1999, satellite lease revenues and in-orbit insurance proceeds from Satelindo's satellite.

This loan was repaid on October 31, 2003 (see below).

In accordance with Schedule 3 - Prepayment Schedule (Appendix A subpart 2.03) and Appendix A subpart 2.02(b)(i), "Mandatory Prepayment - Equity Issue" of the MRA (Note 32a) dated May 30, 2000, the capital injection made by Indosat on July 25, 2002 (Note 1d) qualified to be applied to the extent of 75% of such aggregate capital injection towards the prepayment of the aggregate principal of and accrued interest on the long-term debts of Satelindo. Therefore, on July 28, 2002, Satelindo made prepayments totalling US\$56,250 to the following creditors using the allocation factors stipulated in the MRA:

<u>Creditors</u>	<u>Amount</u>
Guaranteed Floating Rate Bondholders (Note 16)	US\$ 33,840
Commerzbank AG - Tranche 1	17,010
Ex - IBRA	3,246
IntesaBci S.p.A/Deutsche Bank AG	2,154
<b>Total</b>	<b>US\$ 56,250</b>

The aggregate principal included in the above-mentioned prepayments would be compensated with the latest schedule of the repayment of the debts (Note 32a). In addition, based on the MRA, the above-mentioned capital injection met the criteria of a Qualified Offering. Therefore, after completing a Qualified Offering, some covenants would be automatically waived by the creditors such as those relating to the limitation in the amount of annual capital expenditures, restrictions on payments of dividends and permitted investments, and the obligation to make a mandatory prepayment from the excess cash calculated at each year-end. However, the obligation to make mandatory prepayments still applied when Satelindo either: (i) received certain amounts of net proceeds from another equity offering, or (ii) received certain amounts from the sale of its assets in a fiscal year.

In connection with the capital injection made by the Company on October 22, 2003 (Note 1d), Satelindo decided to make full prepayments totaling US\$139,527 of the outstanding balances of the long-term debts on October 31, 2003 to all of its creditors as follows:

<u>Creditors</u>	<u>Amount</u>
Commerzbank	
Tranche 1	US\$ 92,205
Tranche 2	5,681
Alcatel CIT and PT Alcatel Enkomindo	23,200
Ex - IBRA	11,373
PT Bank Paribas - BBD	7,068
<b>Total</b>	<b>US\$ 139,527</b>

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**15. LONG-TERM DEBTS (continued)**

As all of the outstanding balances of the restructured long-term debts were prepaid by Satelindo, the balance of the deferred result of debts restructuring was credited to "Other Expenses - Financing Cost" in October 2003.

The scheduled principal payments from 2004 to 2008 of all the long-term debts as of June 30, 2004 are as follows:

	2004	2005	2006	2007	2008	Total
<i>In rupiah</i>						
Syndicated Loan Facility 2						
BCA	146,250	146,250	243,750	292,500	146,250	975,000
BNI	123,750	123,750	206,250	247,500	123,750	825,000
Mandiri	44,440	44,440	44,440	44,440	22,240	200,000
Niaga	43,500	41,299	13,672	-	-	98,471
Mandiri	-	164	-	-	-	164
Others	77	946	-	-	-	1,023
<b>Total</b>	<b>358,017</b>	<b>356,849</b>	<b>508,112</b>	<b>584,440</b>	<b>292,240</b>	<b>2,099,658</b>

**16. BONDS PAYABLE**

As of June 30, 2003 and 2004, this account consists of:

	2003 (Unaudited)	2004 (Unaudited)
Guaranteed Notes Due 2010 (US\$300,000) - net of unamortized notes issuance cost of Rp26,260	-	2,798,240
Third Indosat Bonds in Year 2003 with Fixed Rate - net of unamortized bonds issuance cost of Rp27,380*	-	2,452,844
Second Indosat Bonds in Year 2002 with Fixed and Floating Rates	1,075,000	1,075,000
First Indosat Bonds in Year 2001 with Fixed and Floating Rates	1,000,000	1,000,000
Indosat Syari'ah Mudharabah Bonds in Year 2002	175,000	175,000
Limited bonds issued by Lintasarta**	30,436	30,436
Convertible bonds issued by Lintasarta***	6,106	6,106
Guaranteed Floating Rate Bonds (US\$181,280)	1,574,466	-
<b>Total</b>	<b>3,861,008</b>	<b>7,537,626</b>

\* after elimination of bonds held by IMM amounting to Rp19,777 which are considered as treasury bonds (Note 2n)

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

\*\*\* after elimination of convertible bonds issued to the Company amounting to Rp13,893

Guaranteed Notes Due 2010

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

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**16. BONDS PAYABLE (continued)**

Guaranteed Notes Due 2010 (continued)

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

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

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

The amortization of notes issuance cost charged to 2004 operations amounted to Rp1,568.

Third Indosat Bonds in Year 2003 with Fixed Rate

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

- Series A bonds amounting to Rp1,860,000 which bear interest at the fixed rate of 12.5% per annum for 5 years starting October 22, 2003
- Series B bonds amounting to Rp640,000 which bear interest at the fixed rate of 12.875% per annum for 7 years starting October 22, 2003

The bonds mature if the Company exercises the following options:

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

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**16. BONDS PAYABLE (continued)**

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

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

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

The proceeds of the bonds were used as capital injection to Satelindo which, in turn, used the proceeds to repay its debts (Note 15 and "Guaranteed Floating Rate Bonds" below).

The bonds are neither collateralized nor guaranteed by other parties.

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

The amortization of bonds issuance cost charged to 2004 operations amounted to Rp2,063.

Second Indosat Bonds in Year 2002 with Fixed and Floating Rates

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

- Series A bonds amounting to Rp775,000 which bear interest at the fixed rate of 15.75% per annum for 5 years starting February 6, 2003
- Series B bonds amounting to Rp200,000, which bear interest at the fixed rate of 16% per annum for 30 years starting February 6, 2003. The bonds mature if the Company or the bondholder exercises the following options:
  - *Buy Option* : the Company has the right to make early payment for all the Series B bonds on the 5<sup>th</sup>, 10<sup>th</sup>, 15<sup>th</sup>, 20<sup>th</sup> and 25<sup>th</sup> anniversaries of the bonds at 101% of the bonds' nominal value.
  - *Sell Option* : the bondholder has the right to ask for early settlement from the Company at 100% of the bonds' nominal value: 1) at any time, if the rating of the bonds decreases to *id*AA- or lower (Special Sell Option) or 2) on the 15<sup>th</sup>, 20<sup>th</sup> and 25<sup>th</sup> anniversaries of the bonds (Regular Sell Option).
- Series C bonds amounting to Rp100,000 which bear interest at the fixed rate of 15.625% per annum for the first year starting February 6, 2003 and floating rates for the succeeding years until November 6, 2007. The floating rates are determined using the last interest rate for three-month period of Certificates of Bank Indonesia, plus 1.625% margin. The floating rates should have a maximum limit of 18.5% and a minimum limit of 15% per annum.

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

Series A and C : Starting on February 6, 2003 and every quarter thereafter up to November 6, 2007

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**16. BONDS PAYABLE (continued)**

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

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

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

The proceeds of the bonds were used to repay the working capital loan from Mandiri and time loan facility from BCA (Note 15).

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

First Indosat Bonds in Year 2001 with Fixed and Floating Rates

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

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

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

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

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

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

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

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**16. BONDS PAYABLE (continued)**

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

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

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

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

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

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

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

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

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

Limited Bonds Issued by Lintasarta

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

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**16. BONDS PAYABLE (continued)**

Limited Bonds Issued by Lintasarta (continued)

On September 26, 2003, Lintasarta obtained approval from Niaga on the issuance of the limited bonds (Note 15).

Convertible Bonds Issued by Lintasarta

At Lintasarta's Stockholders' Annual General Meeting held on March 21, 2002, the stockholders approved, among others, the declaration of cash dividend amounting to Rp25,300 or 37.5% of Lintasarta's net income in 2001. Cash dividend paid on June 3, 2002 amounted to Rp4,149 (net of tax). The remaining dividend is distributed in the form of unsecured convertible bonds, which bear interest at the annual fixed rate of 19% and payable on a quarterly basis. The bonds will be converted into Lintasarta's common stock at par value of Rp1,000,000 per share on the bonds' maturity date on June 30, 2007 (Note 39a).

On May 23, 2003, Lintasarta obtained approval from Niaga on the issuance of the convertible bonds (Note 15).

Guaranteed Floating Rate Bonds

The Guaranteed Floating Rate Bonds represent bonds originally totalling US\$214,890 issued on May 30, 2000 to third parties by Satelindo through SIB, with The Bank of New York as trustee. In accordance with the provisions of an MRA (Note 32a) and further agreements mentioned in the MRA, the bonds replaced the promissory notes issued by Satelindo, through SIB, in 1998 that became overdue and in default in 1999. As defined in the bonds indenture, the bonds were issued in three series, which were known and designated as the Guaranteed Floating Rate Bonds due 2004 ("2004 Bonds"), the Guaranteed Floating Rate Bonds due 2005 ("2005 Bonds") and the Guaranteed Floating Rate Bonds due 2006 ("2006 Bonds").

The terms of the indenture governing the bonds limited, among other things, the issuance of additional indebtedness by Satelindo, sale and purchase of assets, liens and pari-passu indebtedness, and capital expenditures and required the maintenance of certain financial ratios and insurance coverage.

The bonds were collateralized by satellite lease revenues and in-orbit insurance proceeds from Satelindo's satellite.

Interest on the bonds was payable on a semi-annual basis commencing January 1, 2000, at LIBOR plus the applicable margin during each period (Note 32a).

Satelindo had unconditionally guaranteed the payment of the obligations of SIB in respect of the bonds. The guarantee was on a pari-passu basis with other existing and future senior indebtedness of Satelindo.

Satelindo made full prepayments totaling US\$181,280 of the outstanding bonds payable on October 31, 2003 using the fund from the Company's capital injection (Note 1d). As a result, the balance of the deferred result of debts restructuring was charged to "Other Expenses - Financing Cost".

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**16. BONDS PAYABLE (continued)**

The scheduled principal payments of all the bonds payable outstanding as of June 30, 2004 are as follows:

	2004	2005	2006	2007	2008	Total
<i>In U.S. dollar</i>						
<b>Guaranteed Notes</b>						
<b>Due 2010</b>						
<b>In U.S. dollar *</b>	-	-	-	-	-	-
<b>In equivalent rupiah</b>	-	-	-	-	-	-
<i>In rupiah</i>						
<b>Third Indosat Bonds</b>						
Series A***	-	-	-	-	1,860,000	1,860,000
<b>Second Indosat Bonds</b>						
Series A and C **	-	-	-	875,000	-	875,000
<b>First Indosat Bonds</b>						
Syari'ah Bonds	-	-	1,000,000	-	-	1,000,000
<b>Limited Bonds</b>						
of Lintasarta	-	-	30,436	-	-	30,436
<b>Convertible Bonds</b>						
of Lintasarta	-	-	-	6,106	-	6,106
<b>Total</b>	-	-	<b>1,030,436</b>	<b>1,056,106</b>	<b>1,860,000</b>	<b>3,946,542</b>

\* these notes do not have specific maturity date due to the early redemption option

\*\* excluding Series B bonds which do not have specific maturity date due to the buy and sell option

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

**17. CAPITAL STOCK**

The Company's capital stock ownership as of June 30, 2003 (as restated) and 2004 (unaudited) is as follows:

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

The "A" share is a special share held by the Government of the Republic of Indonesia and has special voting rights. The material rights and restrictions which are applicable to the "B" shares are also applicable to the "A" share, except that the Government may not transfer the "A" share, and it has a veto right with respect to (i) election and removal of executive directors; (ii) election and removal of commissioners; and (iii) amendments to the articles of association.

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**17. CAPITAL STOCK (continued)**

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

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

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

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

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

Based on a resolution at the Company's Stockholders' Extraordinary Meeting held on March 8, 2004 (Note 1a), the Stockholders approved, among others, to:

- Split the nominal value of the Company's A share and B shares from Rp500 to Rp100 per share, resulting in an increase in the number of authorized shares from 4,000,000,000 to 20,000,000,000 shares and in the number of issued and fully paid shares from 1,035,500,000 to 5,177,500,000 shares
- Reclassify four A shares resulting from the stock split to B shares
- Change the exercise price of ESOP Phase 1 (Note 18) from Rp7,837.2 to Rp1,567.4 and increase the number of options by 5 times.

**18. STOCK OPTIONS**

At the Company's Annual Stockholders' General Meeting held on June 26, 2003, the stockholders resolved to, among others, issue 258,875,000 Company B shares (as restated, Note 17) in reserve which are equal to 5% of the Company's issued and fully paid capital with nominal value of Rp100 per share (as restated) by implementing BAPEPAM Regulation No. IX.D.4, "Capital Increases Without Pre-emptive Rights", which will be allocated to the employees through an Employee Stock Option Program ("ESOP"). The exercise price for ESOP Phase I is 90% of the average

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**18. STOCK OPTIONS (continued)**

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

At the Company's Annual Stockholders' General Meeting held on June 22, 2004, the stockholders resolved, among others, that the closing price for ESOP Phase II is 90% of the average closing price of the Company's shares within 25 consecutive exchange days in the regular market prior to the announcement for the 2004 Annual Stockholders' General Meeting [i.e. Rp3,703 (in full amount)].

The ESOP will be distributed in two phases:

- a. Phase I: 50% of the ESOP shares or 129,437,500 share options (as restated) will be distributed to the Company's and its subsidiaries' permanent employees and Boards of Directors and Commissioners from August 1, 2003 with one year vesting period. The exercise period for the options is one year commencing August 1, 2004 (Note 39c).
- b. Phase II: 50% of the ESOP shares or 129,437,500 share options will be distributed to the Company's and its subsidiaries' permanent employees and Boards of Directors and Commissioners from August 1, 2004 with one year vesting period. The exercise period for the options is one year commencing August 1, 2005.

The fair value of the stock options provided under ESOP Phase I amounted to Rp59,541, computed by adopting the Black-Scholes option pricing model and applying the following assumptions:

Risk-free interest rate	10.00%
Expected dividend yield	4.36%
Expected volatility	36.50%
Expected option period	2 years

The Company recognized the proportionate six months' compensation expense relating to ESOP Phase I in 2004 amounting to Rp29,770 as part of "Operating Expenses - Personnel".

**19. OPERATING REVENUES - CELLULAR**

This account consists of:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Usage charges	1,402,495	1,935,378
Features	479,804	959,751
Interconnection income	243,914	347,870
Connection fee	34,458	70,083
Monthly subscription charges	58,672	56,254
Others	12,916	693
<b>Total</b>	<b>2,232,259</b>	<b>3,370,029</b>

The above interconnection income includes interconnection income from related parties amounting to Rp234,254 and Rp271,274 in 2003 and 2004, respectively (Note 27).

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**20. OPERATING REVENUES - INTERNATIONAL CALLS**

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Incoming calls	533,826	575,559
Outgoing calls	452,577	369,426
<b>Total</b>	<b>986,403</b>	<b>944,985</b>

Net settlements from other foreign telecommunications carriers of international telephone services amounted to Rp298,243 and Rp386,875 in 2003 and 2004, respectively.

Operating revenues - international calls from related parties amounted to Rp519,831 and Rp423,090 in 2003 and 2004, respectively. These amounts represent 52.70% and 44.77% of total operating revenues - international calls in 2003 and 2004, respectively (Note 27).

**21. OPERATING REVENUES - MIDI**

This account consists of:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
<u>Related parties</u>		
Frame net	41,501	54,914
World link and direct link	19,681	28,801
Application services	18,828	16,343
Satellite lease	13,577	13,015
Packet net	7,352	12,220
Digital data network	3,749	7,526
Internet	4,597	6,723
Leased line	18,180	6,589
Others	2,230	5,705
	<u>129,695</u>	<u>151,836</u>
<u>Third parties</u>		
Frame net	104,852	141,427
Internet	90,122	119,859
World link and direct link	122,766	92,946
Satellite lease	63,436	62,525
Digital data network	65,310	58,834
Leased line	12,375	32,371
Application services	5,247	16,821

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
TV link	5,563	5,126
Packet net	6,356	4,270
Others	10,047	39,198
	<u>486,074</u>	<u>573,377</u>
<b>Total</b>	<b><u>615,769</u></b>	<b><u>725,213</u></b>

Operating revenues from satellite lease are pledged as collateral for long-term debts obtained and bonds issued by Satelindo (Notes 15 and 16).

**22. OPERATING EXPENSES - PERSONNEL**

Total personnel costs for 2003 and 2004 amounted to Rp440,360 and Rp543,971, respectively, and include costs capitalized as part of properties under construction and installation and amounts classified as part of maintenance and repairs totalling Rp5,543 in 2003. The total personnel costs also include accrued bonuses for the boards of directors and commissioners amounting to Rp3,667 and Rp36,645 in 2003 and 2004, respectively, and ESOP compensation expense amounting to Rp29,770 in 2004 (Note 18).

On April 28, 2003, the Company's Board of Directors issued Decree No. 28/DIREKSI/2003, "Program for Unconditional Voluntary Resignation due to Change in the Company's Status and the Company's Ownership Structure". Under this decree, employees were offered early retirement option by receiving separation, appreciation, compensation and other benefits. At the end of the program on June 25, 2003, there were 104 employees who took the option at a total cost of Rp48,844 (charged to Operating Expenses - Personnel).

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

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Telkom	299,345	220,140
Other telecommunications carriers and service providers	45,997	15,375
<b>Total</b>	<b><u>345,342</u></b>	<b><u>235,515</u></b>

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

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

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

Other expenses charged by Telkom relate to the billings for the use of circuit, infrastructure rental and billing processing services provided by Telkom (Note 27). Other expenses charged by other telecommunications carriers mainly consist of billings for the use of their circuits.

The Company, Satelindo and IM3 have interconnection arrangements with domestic and overseas operators (Notes 27 and 34). The operating revenues from interconnection services are presented on a net basis, except for those which are based on tariff as stipulated by the Government (Note 2p). The details of interconnection revenues which are presented on a net basis and shown as part of Operating Revenues, are as follows:

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<u>Domestic</u>		
Interconnection revenues	667,705	410,377
Interconnection charges	(353,190)	(283,483)
<b>Net</b>	<b>314,515</b>	<b>126,894</b>
<u>Overseas</u>		
Revenues from international carriers	533,826	575,559
Charges from international carriers	(235,583)	(188,684)
<b>Net</b>	<b>298,243</b>	<b>386,875</b>

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

This account consists of:

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Rent	33,646	39,909
Professional fees	7,262	35,629
Travel	29,062	25,544
Insurance	2,260	16,855
Training, education and research	13,518	13,771
Catering	10,718	12,501
Utilities	19,703	12,120
Office supplies and stationery	9,943	7,088
Public relations	2,774	5,296
Provision (reversal of allowance) for doubtful accounts	53,854	(26,597)
Others	24,654	36,609
<b>Total</b>	<b>207,394</b>	<b>178,725</b>

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

This account consists of:

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Radio frequency license	103,537	153,612
Cost of SIM cards and pulse reload vouchers	117,047	145,927
Rent	61,020	83,998
Utilities	26,783	48,893
Concession fee	34,907	46,920
Content provider	2,059	45,510
Universal Service Obligation ("USO")	2,772	33,124
Cost of software sold	32,447	31,724
Communications network	2,884	11,447
Insurance	30,446	9,778
Others	50,584	67,883
<b>Total</b>	<b>464,486</b>	<b>678,816</b>

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

**26. PENSION PLAN**

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

Defined Benefit Pension Plan

The Company, Satelindo and Lintasarta provide defined benefit pension plans to their respective employees under which pension benefits to be paid upon retirement are based on the employees' most recent basic salary and number of years of service. PT Asuransi Jiwasraya ("Jiwasraya"), a state-owned life insurance company, manages the plans. Pension contributions are determined by periodic actuarial calculations performed by Jiwasraya. The employees contribute 3% - 3.5% of their basic salary to the plans and the above companies contribute any remaining amount required to fund their respective plans. These companies recognize the prior service cost of pension benefit over the estimated average remaining service periods of the employees based on actuarial computations, in accordance with SAK 24.

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

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**26. PENSION PLAN (continued)**

Defined Benefit Pension Plan (continued)

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

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

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

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

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

The total contributions of the Company, Satelindo and Lintasarta to Jiwasraya amounted to Rp2,623 and Rp2,778 for the six months ended June 30, 2003 and 2004, respectively.

The composition of the net periodic pension cost for the six months ended June 30, 2003 and 2004 is as follows:

	<b>2003</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Service cost	12,651	17,329
Interest cost	22,227	24,596
Net amortization and deferral	6,067	8,934
Return on plan assets	(25,031)	(19,712)
<b>Net periodic pension cost</b>	<b>15,914</b>	<b>31,147</b>

The net periodic pension cost for the pension plans for the six months ended June 30, 2003 and 2004 was calculated based on the actuarial valuations as of May 31, 2003 and December 31, 2003, respectively.

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**26. PENSION PLAN (continued)**

Defined Benefit Pension Plan (continued)

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Annual discount rate	10%	10%
Expected return on plan assets	10-11%	7.5%
Annual rate of increase in compensation	6-9%	6-9%

The funded status of the plans as of June 30, 2003 and 2004 is as follows:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
<b>Vested benefits</b>	<b>191,431</b>	<b>218,738</b>
<b>Accumulated benefit obligation</b>	<b>238,710</b>	<b>269,068</b>
Projected benefit obligation	440,600	534,697
Plan assets at fair value	433,368	538,154
Excess of plan assets over projected benefit obligation	(7,232)	3,457
Unrecognized net loss	265,251	250,704
Unrecognized net obligation at the date of initial application of SAK 24	25,434	15,876
Unrecognized prior service cost	(7,457)	28,900
<b>Prepaid pension cost</b>	<b>275,996</b>	<b>298,937</b>
Estimated average remaining service period of active employees (in years)	12.91-19.68	12.61-17.71

Prepaid pension cost - net consists of:

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Prepaid pension cost of:		
The Company		
Current portion (presented as part of "Prepaid Expenses")	19,837	55,940
Long-term portion	264,367	249,012

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**26. PENSION PLAN (continued)**

Defined Benefit Pension Plan (continued)

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Accrued pension cost of:		
Lintasarta	(2,623)	(6,015)
Satelindo	(5,585)	-
	<b>275,996</b>	<b>298,937</b>
<b>Net</b>	<b>275,996</b>	<b>298,937</b>

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

Defined Contribution Pension Plan

In May 2001 and January 2003, the Company and Satelindo assisted their employees in establishing their respective employees' defined contribution pension plans, in addition to the defined benefit pension plan as mentioned above. Starting June 2004, the Company also assisted ex-IM3's employees in establishing their defined contribution pension plan. Under the defined contribution pension plan, the employees contribute 10% - 20% of their basic salaries while the Company does not contribute to the plans. Total contributions of the employees for the six months ended June 30, 2003 and 2004 amounted to Rp4,660 and Rp8,535, respectively. The plan assets are being administered and managed by seven financial institutions appointed by the Company and Satelindo, based on the choice of the employees.

On June 20, 2000, the Ministry of Manpower issued Decree No. KEP-150/Men/2000 ("KEP-150") regarding the settlement of work dismissal and determination of separation, appreciation and compensation benefits by companies. Subsequently, KEP-150 was revoked by Labor Law No.13/2003 dated March 25, 2003. The Companies' employees will receive the benefits under this new law at the minimum. As of June 30, 2003 and 2004, the accruals provided by the Companies in accordance with this law amounted to Rp26,173 and Rp10,542, respectively. The accruals provided as of June 30, 2003 and 2004 were determined on the basis of actuarial computations. Such benefits provided are included in Personnel Expenses in the consolidated statements of income.

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**27. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES**

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

	Amount		Percentage to Total Assets/Liabilities (%)	
	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)
<b>Cash and cash equivalents</b>				
State-owned banks (Note 4)	1,656,266	2,658,746	7.30	9.60
<b>Accounts receivable - trade</b>				
Telkom	356,090	444,115	1.57	1.60
Telkomsel	163,478	88,087	0.72	0.32
PT Televisi Republik Indonesia (Persero) ("TVRI")	36,408	38,888	0.16	0.14
Singapore Telecommunications Ltd ("SingTel"), Singapore	35,304	30,945	0.16	0.11
State-owned banks	27,811	22,318	0.12	0.08
StarHub Pte. Ltd., Singapore	13,851	21,375	0.06	0.08
Belgacom S.A.	139	12,086	-	0.04
PT Pos Indonesia	7,731	9,516	0.03	0.04
PT Infokom Elektrindo (formerly "PT Elektrindo Nusantara")	11,833	8,698	0.05	0.03
PT Citra Sari Makmur ("CSM")	3,883	5,939	0.02	0.02
Others	22,351	32,907	0.10	0.12
Total	678,879	714,874	2.99	2.58
Less allowance for doubtful accounts	131,256	127,510	0.58	0.46
<b>Net</b>	<b>547,623</b>	<b>587,364</b>	<b>2.41</b>	<b>2.12</b>
<b>Prepaid expenses</b>				
Jiwasraya	19,837	55,940	0.09	0.20
Telkom	1,432	1,801	0.01	0.01
Pemda DKI Jakarta	1,867	-	0.01	-
Others	5,414	1,019	0.02	-
<b>Total</b>	<b>28,550</b>	<b>58,760</b>	<b>0.13</b>	<b>0.21</b>
<b>Other current assets</b>				
State-owned banks	4,177	1,760	0.02	0.01
Others	521	545	-	-
<b>Total</b>	<b>4,698</b>	<b>2,305</b>	<b>0.02</b>	<b>0.01</b>
<b>Due from related parties</b>				
PT Yasawirya Tama Cipta ("YTC")	23,412	23,412	0.10	0.08
Telkomsel	-	16,363	-	0.06
Key management personnel				
Boards of Directors and				
Commissioners	12,467	10,547	0.05	0.04
Others	17,499	20,509	0.08	0.07
PT Yasawirya Indah Mega Media ("YIMM")	10,413	10,413	0.04	0.04
PT Kalimaya Perkasa Finance ("Kalimaya")	10,401	10,401	0.04	0.03
Kopindosat	799	2,239	0.01	0.01
GLP	33,424	-	0.15	-

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

	Amount		Percentage to Total Assets/Liabilities (%)	
	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)
Others	6,483	10,641	0.03	0.04
Total	114,898	104,525	0.50	0.37
Less allowance for doubtful accounts	77,905	45,383	0.34	0.16
<b>Net</b>	<b>36,993</b>	<b>59,142</b>	<b>0.16</b>	<b>0.21</b>
<b>Long-term prepaid pension</b>				
<b>Jiwasraya</b>	<b>264,367</b>	<b>249,012</b>	<b>1.17</b>	<b>0.90</b>
<b>Long-term advances</b>				
Kopindosat	-	27,744	-	0.10
Others	-	1,724	-	0.01
<b>Total</b>	<b>-</b>	<b>29,468</b>	<b>-</b>	<b>0.11</b>
<b>Non-current assets - others</b>				
Telkom	28,284	28,182	0.12	0.10
State-owned banks	21,078	15,748	0.09	0.06
Others	3,358	3,648	0.02	0.01
<b>Total</b>	<b>52,720</b>	<b>47,578</b>	<b>0.23</b>	<b>0.17</b>
<b>Short-term loan</b>				
<b>Mandiri</b>	<b>1,700</b>	<b>3,524</b>	<b>0.01</b>	<b>0.02</b>
<b>Accounts payable - trade</b>				
Telkom	318	2,453	-	0.02
Others	26,603	5,199	0.23	0.03
<b>Total</b>	<b>26,921</b>	<b>7,652</b>	<b>0.23</b>	<b>0.05</b>
<b>Dividend payable</b>				
ICL	64,312	316,902	0.54	2.05
Government of the Republic of Indonesia	23,002	113,341	0.20	0.74
<b>Total</b>	<b>87,314</b>	<b>430,243</b>	<b>0.74</b>	<b>2.79</b>
<b>Accrued expenses</b>				
Ministry of Communications	182,128	284,033	1.54	1.85
Boards of Directors and Commissioners	3,667	36,645	0.03	0.24
Senior Vice Presidents of the Company	-	31,509	-	0.20
State-owned bank	-	8,795	-	0.06
Jiwasraya	8,208	6,015	0.07	0.04
Telkom	4,643	2,399	0.04	0.01
Others	727	1,388	0.01	0.01
<b>Total</b>	<b>199,373</b>	<b>370,784</b>	<b>1.69</b>	<b>2.41</b>

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

	Amount		Percentage to Total Assets/Liabilities (%)	
	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)
<b>Due to related parties</b>				
Kopindosat	821	5,397	0.01	0.04
SingTel	1,092	2,720	0.01	0.02
TVRI	2,262	2,262	0.02	0.01
Telkom	4,176	201	0.03	-
Others	13,632	5,192	0.12	0.03
<b>Total</b>	<b>21,983</b>	<b>15,772</b>	<b>0.19</b>	<b>0.10</b>
<b>Long-term debts (including current maturities)</b>				
State-owned banks	1,951,689	1,009,764	16.51	6.56
Government of the Republic of Indonesia	5,241	-	0.04	-
<b>Total</b>	<b>1,956,930</b>	<b>1,009,764</b>	<b>16.55</b>	<b>6.56</b>
<b>Other non-current liabilities</b>				
Ministry of Communications	127,609	145,991	1.08	0.95
Telkom	19,070	1,635	0.17	0.01
<b>Total</b>	<b>146,679</b>	<b>147,626</b>	<b>1.25</b>	<b>0.96</b>

	Amount		Percentage to Respective Income or Expenses (%)	
	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)
<b>Operating revenues</b>				
Telkom	497,289	446,401	12.81	8.80
Telkomsel	147,455	140,511	3.80	2.77
SingTel	86,685	87,633	2.23	1.73
State-owned banks	54,054	85,165	1.39	1.68
StarHub Pte. Ltd., Singapore	24,273	17,660	0.63	0.35
Belgacom S.A.	-	17,513	-	0.34
Lembaga Kantor Berita Negara Antara	1,138	8,639	0.03	0.17
PT Infokom Elektrindo	8,118	8,116	0.21	0.16
Cable & Wireless Optus	7,726	5,907	0.20	0.12
CSM	3,398	3,267	0.09	0.06
PSN	1,900	2,863	0.05	0.06
PT Angkasa Pura	1,394	2,517	0.03	0.05
PT Garuda Indonesia	475	1,871	0.01	0.04
PT Sistelindo Mitralintas ("Sistelindo")	6,713	1,176	0.17	0.02
Others	60,987	44,373	1.57	0.87
<b>Total</b>	<b>901,605</b>	<b>873,612</b>	<b>23.22</b>	<b>17.22</b>

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

	Amount		Percentage to Respective Income or Expenses (%)	
	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)
<b>Operating expenses</b>				
<b>Personnel</b>				
Boards of Directors and Commissioners	15,514	36,645	0.58	1.10
Jiwasraya	15,914	31,147	0.60	0.93
Others	21,113	36,195	0.80	1.09
<b>Total</b>	<b>52,541</b>	<b>103,987</b>	<b>1.98</b>	<b>3.12</b>
<b>Compensation to telecommunications carriers and service providers</b>				
Telkom	299,345	220,140	11.27	6.60
SingTel	13,946	-	0.53	-
Telkomsel	4,593	-	0.17	-
Others	5,162	794	0.20	0.02
<b>Total</b>	<b>323,046</b>	<b>220,934</b>	<b>12.17</b>	<b>6.62</b>
<b>Administration and general</b>				
Kopindosat	12,569	2,968	0.47	0.09
PT Usaha Gedung Bank Dagang Negara ("UGBDN")	3,112	2,248	0.12	0.07
Kantor Pos dan Giro Besar I	4,008	175	0.15	-
Others	1,494	-	0.06	-
<b>Total</b>	<b>21,183</b>	<b>5,391</b>	<b>0.80</b>	<b>0.16</b>
<b>Leased circuits</b>				
Telkom	-	9,028	-	0.27
SingTel	-	7,226	-	0.22
PT Indonesia Comnet Plus ("Comnet")	5,166	6,679	0.19	0.20
StarHub Pte. Ltd., Singapore	-	919	-	0.03
<b>Total</b>	<b>5,166</b>	<b>23,852</b>	<b>0.19</b>	<b>0.72</b>
<b>Other costs of services</b>				
Ministry of Communications	141,216	233,656	5.32	7.01
Telkom	15,998	1,111	0.60	0.03
Pemda DKI Jakarta	906	1,012	0.03	0.03
Others	1,026	4,551	0.04	0.14
<b>Total</b>	<b>159,146</b>	<b>240,330</b>	<b>5.99</b>	<b>7.21</b>
<b>Other income</b>				
<b>Interest income</b>				
State-owned banks	26,873	30,494	10.56	4.48

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

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

a. State-owned banks

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

The Company and Sisindosat also obtained loans from Mandiri and BNI (Note 15).

b. Telkom

(1) a. International telecommunications services

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

- Telkom provides the local network for customers to make or receive international calls. The Company and Satelindo provide the international network for the customers. The international telecommunications services include international calls, telex, telegram, packet net, TV link, frame net, etc.
- The Company, Satelindo and Telkom are responsible for their respective telecommunications facilities.
- Telkom handles customer billing and collection, except for leased circuits and public phones located at the international gateways. The Company and Satelindo have to pay Telkom 1% of the collections made by Telkom, plus the billing process expenses which are fixed at Rp41 per record of outgoing call up to December 31, 2001 and Rp82 per record of outgoing call starting January 1, 2002, as compensation for billing processing (Note 23).
- The compensation arrangement for the services provided is based on interconnection tariffs (Note 34) determined by the Ministry of Communications.

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

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

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

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

*b. Telkom (continued)*

*b. Cellular Services*

Satelindo and IM3 also have an agreement with Telkom for the interconnection of Satelindo's and IM3's GSM mobile cellular telecommunications network with Telkom's Public Switched Telephone Network ("PSTN"), enabling Satelindo's and IM3's customers to make outgoing calls to or receive incoming calls from Telkom's customers. The interconnection tariffs are determined by the Ministry of Communications (Note 34).

- (2) In 1994, Satelindo entered into a Land Transfer Agreement with Telkom for the transfer of Telkom's rights to use 134,925 square meters of land located at Daan Mogot, West Jakarta, where Satelindo's earth control station is currently situated. The Land Transfer Agreement enables Satelindo to use the land for a period of 30 years from the date of the agreement, for a price equivalent to US\$40,000 less Rp43,220, and could be extended based on mutual agreement. This agreement was subsequently superseded by Land Rental Agreement dated December 6, 2001, under the same terms as those of the Land Transfer Agreement, except for a provision fixing the exchange rate in the conversion of the outstanding balance of the price which was paid in 2001.
- (3) In 1999, Lintasarta entered into an agreement with Telkom, whereby Telkom agreed to lease one transponder to Lintasarta for US\$1,800 a year. Based on the first amendment agreement dated May 9, 2000, Telkom agreed to lease additional one-fourth of a transponder. Lintasarta paid US\$2,250 a year from May 1, 2000 up to September 30, 2002. Based on the second amendment agreement dated December 2, 2002, the lease period has been extended to September 30, 2005. Lintasarta has to pay Rp4,781 for the transponder leased from October 1 up to December 31, 2002 and US\$2,250 a year from January 1, 2003 up to September 30, 2005. However, based on the third amendment agreement dated March 15, 2004, the rental rate has been changed to Rp13,000 a year from April 1, 2004 up to September 30, 2007. Transponder lease expense charged to operations amounted to Rp9,609 in 2003 and Rp8,016 in 2004 and is presented as part of "Operating Expenses - Compensation to Telecommunications Carriers and Service Providers".

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

	Amount		Percentage to Respective Income or Expenses (%)	
	2003 (Unaudited)	2004 (Unaudited)	2003 (Unaudited)	2004 (Unaudited)
Net operating revenues (net of allocation to overseas international carriers)	497,289	446,401	12.81	8.80
Operating expenses	299,345	220,140	11.27	6.60

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

c. Telkomsel

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

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

Interconnection revenues earned from Telkomsel for the six months ended June 30, 2003 and 2004 amounted to Rp300,525 and Rp350,507, respectively, which are net of interconnection charges amounting to Rp159,940 and Rp126,894, respectively.

d. Jiwasraya

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

e. YTC

IMM provided long-term loans to YTC relating to the construction of YTC's office building and the purchase of its land and studio equipment. The loans are collateralized by a part of the property and equipment and shares of YTC. Considering YTC's financial position, IMM has provided an allowance to cover possible losses from uncollectible loans amounting to Rp23,412 as of June 30, 2003 and 2004.

f. Key Management Personnel

The amounts due from key management personnel represent portions of housing and transportation allowances which were given in advance by the Company to its employees and transformation incentive (incentive given to employees to encourage them to adapt to the transformation of the business of the Company from fixed line international provider to cellular operator) which is amortized over the average remaining service period of the employees. The prepaid/unamortized portions of housing and transportation advances and transformation incentives which were given to key management personnel in 2003 and 2004 amounted to Rp29,966 and Rp31,056, respectively, and are presented as part of "Due from Related Parties", while those given to non-key management personnel amounting to Rp16,842 and Rp2,362 as of June 30, 2003 and 2004 are presented as part of "Accounts Receivable - Others" for the current portion, and Rp125,913 and Rp121,948 as of June 30, 2003 and 2004, respectively, as "Long-term Receivables" for the long-term portion.

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

*g. Kopindosat*

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

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

As of June 30, 2003 and 2004, Kopindosat has investments in the following entities:

	<b>Equity Interest (%)</b>	
	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
PT Puri Perkasa Farmindo	95.00	95.00
PT Duta Sukses Utama	90.00	90.00
PT Mutiara Data Caraka Lintas	15.00	15.00
Lintasarta	0.66	0.66
Sisindosat	1.75	0.53
IMM	0.50	0.50
PT Graha Informatika Nusantara	19.39	-
PT Bangtelindo	1.60	-
IM3	0.06	-

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

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

*h. PSN*

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

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

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

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

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

<b>No.</b>	<b>Related Parties</b>	<b>Relationship</b>	<b>Nature of Account Balances/Transactions</b>
1.	TVRI	Affiliate	Operating revenues - MIDI and marketing expenses (advertising)
2.	SingTel	Affiliate	Operating revenues - cellular and international calls
3.	StarHub Pte. Ltd., Singapore	Affiliate	Operating revenues - international calls
4.	Belgacom S.A.	Affiliate	Operating revenues - cellular and international calls
5.	PT Pos Indonesia	Affiliate	Operating revenues - MIDI
6.	PT Infokom Elektrindo	Affiliate	Operating revenues - cellular, international calls and MIDI
7.	CSM	Affiliate	Operating revenues - MIDI
8.	Pemda DKI Jakarta	Government agency	Compensation for telecommunication towers operations
9.	YIMM	Associated company	Interest-bearing loan
10.	Kalimaya	Associated company	Interest-bearing loan
11.	GLP	Associated company	Interest-bearing loan
12.	ICL	Stockholders	Dividend payable
13.	Government of the Republic of Indonesia	Stockholder	Dividend payable and interest-bearing loan
14.	Ministry of Communications	Government agency	Operating revenues - MIDI and concession fee

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

No.	Related Parties	Relationship	Nature of Account Balances/Transactions
15.	Lembaga Kantor Berita Negara Antara	Affiliate	Operating revenues - MIDI
16.	Cable & Wireless Optus	Affiliate	Operating revenues - cellular and international calls
17.	PT Angkasa Pura	Affiliate	Operating revenues - MIDI
18.	PT Garuda Indonesia	Affiliate	Operating revenues - MIDI
19.	Sistelindo	Associated company	Operating revenues - MIDI
20.	UGBDN	Affiliate	Rent expense
21.	Kantor Pos dan Giro Besar I	Affiliate	Mailing expense
22.	Comnet	Affiliate	Other cost of services - rent of transmission channel

**28. EARNINGS PER SHARE**

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

	2003 (Unaudited)	2004 (Unaudited)
Numerator for basic and diluted earnings per share	402,108	717,640
Denominator		
Denominator for basic earnings per share:		
Weighted-average number of shares outstanding during the period	1,035,500,000	5,177,500,000
Effect of stock split (Note 17)	4,142,000,000	-
Denominator for basic earnings per share - adjusted weighted-average number of shares after effect of stock split (as restated)	5,177,500,000	5,177,500,000
Effect of dilutive ESOP (Note 18)	-	42,688,386
<b>Denominator for diluted earnings per share (as restated)</b>	<b>5,177,500,000</b>	<b>5,220,188,386</b>
<b>Basic earnings per share (as restated)</b>	<b>77.66</b>	<b>138.61</b>
<b>Diluted earnings per share (as restated)</b>	<b>77.66</b>	<b>137.47</b>

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**29. DISTRIBUTION OF INCOME AND APPROPRIATION OF RETAINED EARNINGS**

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

- a. Approve the utilization of 2002 net income as follows:
  - 54% for reinvestment and working capital
  - 1% for reserve fund
  - 45% for dividend or Rp29.23 per share (as restated, Note 17)
- b. Pay the dividend on August 1, 2003

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

- a. Approve the utilization of 2003 net income as follows:
  - 51% for reinvestment and working capital
  - 1% for reserve fund
  - 48% for dividend or Rp145.55 per share
- b. Pay the dividend on July 29, 2004

**30. SWAP CONTRACTS**

During the period January to May 2004, the Company entered into several swap contracts. Listed below are the outstanding contracts of the Company as of June 30, 2004 (unaudited):

**Cross Currency Swap:**

<b>Counter Party</b>	<b>Notional Amount</b>		<b>Net Fair Value</b>	
a. Goldman Sachs Capital Market, L.P., New York ("GSCM")	US\$	50,000	Rp	96,431
b. GSCM		25,000		44,476
c. GSCM		25,000		82,874
d. Standard Chartered Bank, Jakarta Branch		25,000		4,394
<b>Total cross currency swap (liabilities)</b>	<b>US\$</b>	<b>125,000</b>	<b>Rp</b>	<b>228,175</b>

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**30. SWAP CONTRACTS (continued)**

**Interest Rate Swap:**

<b>Counter Party</b>		<b>Notional Amount</b>		<b>Net Fair Value</b>
e. Barclays Capital, London ("Barclays")	US\$	50,000	Rp	36,071
f. GSCM		25,000		8,306
g. The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch ("HSBC")		25,000		1,017
h. ABN AMRO Bank, N.V., London Branch ("ABN")		25,000		697
i. ABN		25,000		13,613
<b>Total interest rate swap (liabilities)</b>	<b>US\$</b>	<b>150,000</b>	<b>Rp</b>	<b>59,704</b>

The fair value of the swap contracts totalling Rp287,879 in 2004 is presented as "Loss on Fair Value of Derivatives" under Other Income (Expenses) in the 2004 consolidated statement of income, with a credit to "Swap Contracts" which is presented under current liabilities and non-current liabilities.

The following are the details of the swap contracts:

Cross Currency Swap Contracts

- a. On January 20, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company will swap, at the final exchange date (termination date) on October 30, 2010, a total of Rp419,400 for US\$50,000 minus Contingent Notional Amount. The Contingent Notional Amount will be computed based on 12-month LIBOR rate. The contract provides for the Company to make semi-annual payments, every April 30 and October 30 up to the termination date, at 12-month U.S. dollar LIBOR plus 2.125% (subject to a maximum of 3.64%) per annum if the 12-month U.S. dollar LIBOR is equal to or less than 5.90%. Otherwise, the semi-annual payments will be at 12-month U.S. dollar LIBOR plus 2.125% per annum. Total swap cost in 2004 amounting to Rp11,216 is presented as part of "Financing Cost" under Other Income (Expenses). The accrued swap cost amounting to Rp2,903 as of June 30, 2004 is presented as part of "Other Current Liabilities" account.

Based on the contract, as of June 30, 2004, the Company has transferred margin deposit to GSCM's account amounting to US\$10,250 which amount was charged to restricted cash, a component of "Other Non-current Assets" account.

- b. On February 20, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company will swap, at the final exchange date (termination date) on October 30, 2010, a total of Rp210,000 for US\$25,000 minus Contingent Notional Amount. The Contingent Notional Amount will be computed based on 12-month LIBOR rate. The contract provides for the Company to make semi-annual payments, every April 30 and October 30 up to the termination date, at 12-month U.S. dollar LIBOR plus 1.75% (subject to a maximum of 3.65%) per annum if the 12-month U.S. dollar LIBOR is equal to or less than 6.20%. Otherwise, the semi-annual payments will be at 12-month U.S. dollar LIBOR plus 1.75% per annum. Total swap cost in 2004 amounting to Rp5,452 is presented as part of "Financing Cost" under Other Income

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**30. SWAP CONTRACTS (continued)**

Cross Currency Swap Contracts (continued)

(Expenses). The accrued swap cost amounting to Rp1,456 as of June 30, 2004 is presented as part of "Other Current Liabilities" account.

Based on the contract, as of June 30, 2004, the Company has transferred margin deposit to GSCM's account amounting to US\$4,750 which amount was charged to restricted cash, a component of "Other Non-current Assets" account.

- c. On March 31, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company will swap, at the final exchange date (termination date) on October 30, 2010, a total of Rp211,250 for US\$25,000 minus Contingent Notional Amount. The Contingent Notional Amount will be computed based on 12-month LIBOR rate. The contract provides for the Company to make semi-annual payments, every April 30 and October 30 up to the termination date, at 12-month U.S. dollar LIBOR plus 0.95% per annum. Total swap cost in 2004 amounting to Rp4,537 is presented as part of "Financing Cost" under Other Income (Expenses). The accrued swap cost amounting to Rp1,454 as of June 30, 2004 is presented as part of "Other Current Liabilities" account.

Based on the contract, as of June 30, 2004, the Company has transferred margin deposit to GSCM's account amounting to US\$9,000 which amount was charged to restricted cash, a component of "Other Non-current Assets" account.

- d. On April 23, 2004, the Company entered into a cross currency swap contract with Standard Chartered Bank, Jakarta Branch. Based on the contract, the Company will swap at the final exchange date (termination date) on November 5, 2008, a total of Rp214,625 for US\$ 25,000. The contract provides for the Company to make semi-annual payments, every May 5 and November 5 up to the termination date, at 6-month U.S. dollar LIBOR plus 2.60% per annum. Total swap cost in 2004 amounting to Rp1,947 is presented as part of "Financing Cost" under Other Income (Expenses). The accrued swap cost amounting to Rp1,457 as of June 30, 2004 is presented as part of "Other Current Liabilities" account.

Interest Rate Swap Contracts

- e. On February 10, 2004, the Company and Barclays entered into an interest swap contract with a notional amount of US\$50,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every May 5 and November 5, up to the termination date on November 5, 2010, 6-month U.S. dollar LIBOR plus 0.45%, in exchange for 7.75% per annum, times the actual number of days in which the 6-month U.S. dollar LIBOR is located in the pre-determined annual range. The range has been predetermined annually up to 2010 and takes effect on May 5 of each year. The swap income arising from this transaction amounting to Rp10,512 in 2004 is presented as part of "Interest Income" under Other Income (Expenses). The accrued swap income amounting to Rp4,335 as of June 30, 2004 is presented as part of "Other Current Assets" account.

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

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**30. SWAP CONTRACTS (continued)**

Interest Rate Swap Contracts (continued)

- f. On April 26, 2004, the Company and GSCM entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every April 30 and October 30, up to the termination date on October 30, 2010, 6-month U.S. dollar LIBOR minus 0.25% (subject to a maximum of 7.64%) plus a Contingent Spread, in exchange for 7.75% per annum. The Contingent Spread has been pre-determined semi-annually up to 2010 and takes effect on April 30 and October 30 of each semester. The swap income arising from this transaction amounting to Rp2,263 in 2004 is presented as part of "Interest Income" under Other Income (Expenses). The accrued swap income amounting to Rp2,263 as of June 30, 2004 is presented as part of "Other Current Assets" account.

Based on the contract, as of June 30, 2004, the Company has transferred margin deposit to GSCM's account amounting to US\$1,000 which amount was charged to restricted cash, a component of "Other Non-current Assets" account.

The contract provides early termination option for GSCM, every April 30 and October 30, commencing on October 30, 2004 up to October 30, 2008.

- g. On May 7, 2004, the Company and HSBC entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in annual intervals, every November 5, up to the termination date on November 5, 2006, 12-month U.S. dollar LIBOR plus 3.50% in exchange for 7.75% per annum. The swap income arising from this transaction amounting to Rp515 in 2004 is presented as part of "Interest Income" under Other Income (Expenses). The accrued swap income amounting to Rp515 as of June 30, 2004 is presented as part of "Other Current Assets" account.
- h. On May 6, 2004, the Company and ABN entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in annual intervals, every November 5, up to termination date on November 5, 2006, 12-month U.S. dollar LIBOR plus 3.50% in exchange for 7.75% per annum. The swap income arising from this transaction amounting to Rp464 in 2004 is presented as part of "Interest Income" under Other Income (Expenses). The accrued swap income amounting to Rp464 as of June 30, 2004 is presented as part of "Other Current Assets" account.
- i. On April 19, 2004, the Company and ABN entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every May 5 and November 5, up to termination date on November 5, 2008, 6-month U.S. dollar LIBOR plus 0.25%, in exchange for 7.75% per annum times the actual number of days on which the 6-month U.S. dollar LIBOR is less than the upper limit. The upper limit has been pre-determined semi-annually up to 2008 and takes effect on May 5 and November 5 of each semester. The swap income arising from this transaction amounting to Rp2,241 in 2004 is presented as part of "Interest Income" under Other Income (Expenses). The accrued swap income amounting to Rp2,241 as of June 30, 2004 is presented as part of "Other Current Assets" account.

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

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**31. COMMITMENTS AND CONTINGENCY**

- a. As of June 30, 2004 (unaudited), commitments on capital expenditures which are contractual agreements not yet realized relate to the procurement, installation and maintenance of property and equipment, and procurement of SIM cards and pulse reload vouchers stock amounting to US\$211,375, EUR1,155,707 (in full amount) and Rp348,522 (Note 39d).

The significant commitments on capital expenditures are as follows:

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

As of June 30, 2004, the Company has issued several Purchase Orders ("POs") which relate to the purchase commitment under this agreement. The POs that have not been served amount to US\$72,003 and Rp30,126 as of June 30, 2004.

- On November 5, 2003, IM3 entered into an agreement with Nokia for the latter to enhance the former's radio network in East Java for contract amounts of Rp61,761 and US\$43,074.

As of June 30, 2004, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amount to US\$22,182 and Rp53,932 as of June 30, 2004.

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

As of June 30, 2004, Satelindo has issued several POs which relate to the purchase commitment under this agreement and its amendments. The POs that have not been served amount to US\$23,508 as of June 30, 2004.

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**31. COMMITMENTS AND CONTINGENCY (continued)**

- On January 15, 2004, the Company and ZTE Corporation entered into a Supply and Construction of CDMA 2000-1X Network Infrastructure Agreement and a Supply and Installation of Microwave Radio of CDMA 2000-1X Network Project for Jabotabek and East Java Agreement to construct CDMA 2000-1X network in Jabotabek and East Java Area in order to fulfill the Company's operational requirement in providing local basic telecommunications services for contract amounts of US\$45,414 and Rp37,388.

As of June 30, 2004, the Company has issued several POs which relate to the purchase commitment under these agreements. The POs that have not been served amount to US\$11,119 and Rp18,268 as of June 30, 2004.

- On May 16, 2002, Satelindo entered into a Frame Agreement on GSM Equipment with Alcatel CIT and PT Alcatel Indonesia ("Alcatel") whereby the Satelindo shall purchase from Alcatel new operating capability in the 1800 MHz frequency band to expand its customer services to encompass GPRS technology.

This agreement has been amended from time to time, the latest amendment of which is Addendum No. 2 dated June 6, 2003 covering GSM Network Expansion Rollout 2003 Phase IIA Program and Network Modernization Phase IIB Program. The total contract price under this agreement and its related addenda amounts to US\$133,505.

As of June 30, 2004, Satelindo has issued several POs which relate to the purchase commitment under this agreement and its amendments. The POs that have not been served amount to US\$18,098 and Rp17,508 as of June 30, 2004.

- b. As of June 30, 2004, commitments made by the Company under operating lease agreements amounted to US\$487 and SGD54,929 (in full amount), which have less than one year maturities (Note 39d).
- c. In 1994 and 1998, the Company was appointed as a Financial Administrator ("FA") and Central Billing Party ("CBP"), respectively, by a consortium which was established to build and sell/lease Asia Pacific Cable Network ("APCN") submarine cable in countries in the Asia-Pacific Region. As an FA, the Company collects and distributes funds from the sale of APCN's IRU and Defined Underwritten Capacity ("DUC") and Occasional Commercial Use ("OCU") service, while as a CBP, the Company manages funds from the members of the consortium for upgrading the APCN cable. The funds received from the sale of IRU and DUC, OCU services and funds received for upgrading the APCN cable do not belong to the Company and, therefore, are not recorded in the Company's books. However, the Company manages these funds in separate accounts. As of June 30, 2004, the balance of the funds (including interest earned) amounted to US\$33,230. Besides the funds from the sale of IRU, the members of the consortium also receive their share of the interest earned by the above funds.

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**31. COMMITMENTS AND CONTINGENCY (continued)**

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

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

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

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

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

As of June 30, 2003 and 2004, the Company has not accrued any penalties on the dividends because, in the opinion of the Company's legal counsels, the MOF had no strong basis to impose the penalties.

**32. TROUBLED DEBTS RESTRUCTURING**

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

The significant terms and conditions of Satelindo's debts pursuant to the provisions of the MRA were as follows (Note 15):

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**32. TROUBLED DEBTS RESTRUCTURING (continued)**

1. Ex - IBRA Term Loan

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

2. Term Loan with IntesaBci S.p.A (refer to Note 15h)

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

3. GECA Credit

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

4. Guaranteed Floating Rate Bonds

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

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

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

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**32. TROUBLED DEBTS RESTRUCTURING (continued)**

The MRA included provisions for mandatory prepayment (under certain conditions) and voluntary prepayments. On July 28, 2002, Satelindo made mandatory prepayments amounting to US\$56,250, which included accrued interest. On October 31, 2003, Satelindo repaid all the loans under the MRA (Note 15).

b. Debt Facility with Alcatel CIT and Enkomindo

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

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

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

	<u>Amount</u>
March 31, 2000	11,600
September 30, 2000	11,600
March 31, 2001	11,600
September 30, 2001	11,600
March 31, 2002	11,600
September 30, 2002	11,600
March 31, 2003	11,600
September 30, 2003	11,600
March 31, 2004	11,600
September 30, 2004	11,600
<b>Total</b>	<b>116,000</b>

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

**33. TARIFF SYSTEM**

a. International telecommunications services

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

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

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**33. TARIFF SYSTEM (continued)**

a. International telecommunications services (continued)

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

b. Cellular services

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

- Connection fee
- Monthly charges
- Usage charges

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

1. Airtime

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

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

2. Usage

- a. Usage tariff charged to a cellular subscriber who makes a call to another subscriber using PSTN network is similar to the usage tariff of PSTN, which is applied on a time differentiation basis. For the use of local PSTN network, the tariff is computed at 50% of the prevailing local PSTN tariff.
- b. Long-distance usage tariff between two different service areas without using PSTN network is similar to the prevailing tariff on domestic long-distance call ("SLJJ") for a PSTN subscriber.

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

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

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### 34. INTERCONNECTION TARIFFS

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

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

1. Structure of Interconnection Tariff

a. Between international and domestic PSTN

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

	<u>Tariff</u>	<u>Basis</u>
Access charge	Rp850 per call	Number of successful outgoing and incoming calls
Usage charge	Rp550 per paid minute	Duration of successful outgoing and incoming calls
USO	Rp750 per call	Number of successful outgoing and incoming calls

For a ten-year period effective January 1, 1995, the Company is exempted from the obligation to pay USO to Telkom.

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

b. Between cellular telecommunications network and domestic PSTN

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

(1) Local Calls

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

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**34. INTERCONNECTION TARIFFS (continued)**

1. Structure of Interconnection Tariff (continued)

b. Between cellular telecommunications network and domestic PSTN (continued)

(2) SLJJ

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

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

c. Between cellular telecommunications network and another cellular telecommunications network

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

(1) Local Calls

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

(2) SLJJ

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

d. Between international PSTN and cellular telecommunications network

Starting from 1998, the interconnection tariff for international cellular call traffic to/from overseas from/to domestic cellular subscribers, regardless of whether the traffic is made through domestic PSTN or not, is based on the same tariff applied to traffic made through domestic PSTN as mentioned in "a" above. However, up to June 30, 2004, as agreed mutually with the cellular telecommunications operators, the Company (including Satelindo until it was merged - see Note 1d) still applied the original contractual sharing agreements regarding the interconnection tariffs (Note 35).

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**34. INTERCONNECTION TARIFFS (continued)**

1. Structure of Interconnection Tariff (continued)

e. Between international gateway exchanges

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

2. Revenue Sharing

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

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

The Company, Satelindo and IM3 have interconnection agreements with each of PT Excelcomindo Pratama or "Excelcom" and PT Komunikasi Selular Indonesia or "Konselindo" (for the interconnection agreement with Telkomsel, Note 27). The principal matters covered by the agreements are as follows:

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

As of June 30, 2004, there have been neither extensions nor terminations upon the expiration of the agreements. The Company (including Satelindo and IM3 until they were merged - see Note 1d) and the above operators still continue their business under the agreements by applying the original compensation formula.

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

	<b>2003</b> <b>(Unaudited)</b>	<b>2004</b> <b>(Unaudited)</b>
Excelcom	1,827	(8,421)
Konselindo	336	616
<b>Net</b>	<b>2,163</b>	<b>(7,805)</b>

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

The Companies' monetary assets and liabilities denominated in various foreign currencies as of June 30, 2004 (unaudited) (converted to equivalent U.S. dollar if currency is other than U.S. dollar) are as follows:

	<b>Amount in U.S. Dollar</b>	<b>Equivalent Rupiah *</b>
<i>Assets:</i>		
Cash and cash equivalents	136,056	1,280,961
Short-term investments	4,500	42,368
Accounts receivable	129,567	1,219,877
Other current assets	1,175	11,061
Non-current assets - others	29,677	279,412
<b>Total assets</b>	<b>300,975</b>	<b>2,833,679</b>
<i>Liabilities:</i>		
Short-term loan	1,140	10,730
Accounts payable - trade	13,400	126,164
Procurement payable	156,922	1,477,422
Accrued expenses	29,311	275,964
Swap contracts	30,577	287,879
Other current liabilities	2,638	24,838
Bonds payable	300,000	2,824,500
Other non-current liabilities	2,044	19,244
<b>Total liabilities</b>	<b>536,032</b>	<b>5,046,741</b>
<b>Net liabilities position</b>	<b>235,057</b>	<b>2,213,062</b>

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

**37. SEGMENT INFORMATION**

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

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

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**37. SEGMENT INFORMATION (continued)**

Consolidated information by industry segment follows:

	Major Segments				Segment Total
	Cellular	International Calls	MIDI	Other Services	
<b>2003 (Unaudited)</b>					
<u>Revenues</u>					
Revenues from external customers	2,232,259	986,403	615,769	47,822	3,882,253
Inter-segment revenues	28,555	8,538	57,951	3,654	98,698
Total revenues	2,260,814	994,941	673,720	51,476	3,980,951
Inter-segment revenues elimination	(28,555)	(8,538)	(57,951)	(3,654)	(98,698)
<b>Revenues - net</b>	<b>2,232,259</b>	<b>986,403</b>	<b>615,769</b>	<b>47,822</b>	<b>3,882,253</b>
<u>Income</u>					
Operating income (loss)	787,917	349,541	97,862	(8,180)	1,227,140
Gain on foreign exchange - net					229,088
Interest income					87,815
Equity in net income of associated companies					6,049
Income tax expense					(567,990)
Financing cost					(378,776)
Amortization of goodwill					(129,759)
Others - net					(62,731)
<b>Income before minority interest in net income of Subsidiaries</b>					<b>410,836</b>
<u>Other Information</u>					
Segment assets	14,152,816	2,116,009	3,072,995	144,221	19,486,041
Unallocated assets					15,272,520
Inter-segment assets elimination					(12,080,659)
<b>Assets - net</b>					<b>22,677,902</b>
Segment liabilities	4,953,703	800,215	638,876	60,708	6,453,502
Unallocated liabilities					5,567,192
Inter-segment liabilities elimination					(196,943)
<b>Liabilities - net</b>					<b>11,823,751</b>
Capital expenditure	1,468,861	15,535	240,111	851	1,725,358
Depreciation and amortization	621,144	69,772	154,488	1,536	846,940

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**37. SEGMENT INFORMATION (continued)**

	<u>Major Segments</u>				Segment Total
	Cellular	International Calls	MIDI	Other Services	
<b>2004 (Unaudited)</b>					
<u>Revenues</u>					
Revenues from external customers	3,370,029	944,985	725,213	33,821	5,074,048
Inter-segment revenues	(45,904)	45,904	58,878	12,654	71,532
Total revenues	3,324,125	990,889	784,091	46,475	5,145,580
Inter-segment revenues elimination	45,904	(45,904)	(58,878)	(12,654)	(71,532)
<b>Revenues - net</b>	<b>3,370,029</b>	<b>944,985</b>	<b>725,213</b>	<b>33,821</b>	<b>5,074,048</b>
<u>Income</u>					
Operating income (loss)	1,163,326	433,249	169,770	(27,105)	1,739,240
Gain on sale of investment in associated company					278,743
Interest income					114,040
Equity in net income of associated companies					61,647
Financing cost					(573,057)
Income tax expense					(390,307)
Loss on fair value of derivatives					(287,879)
Amortization of goodwill					(113,174)
Loss on foreign exchange - net					(109,992)
Others - net					10,375
<b>Income before minority interest in net income of Subsidiaries</b>					<b>729,636</b>
<u>Other Information</u>					
Segment assets	19,279,737	1,699,195	2,978,000	142,853	24,099,785
Unallocated assets					7,313,674
Inter-segment assets elimination					(3,709,500)
<b>Assets - net</b>					<b>27,703,959</b>
Segment liabilities	14,119,144	1,039,857	953,622	59,957	16,172,580
Unallocated liabilities					2,124,161
Inter-segment liabilities elimination					(2,896,574)
<b>Liabilities - net</b>					<b>15,400,167</b>
Capital expenditure	1,751,433	184,891	334,714	1,862	2,272,900
Depreciation and amortization	955,275	77,525	210,882	2,078	1,245,760

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**38. ECONOMIC CONDITIONS**

The operations of the Company have been affected and may continue to be affected for the foreseeable future by the economic conditions in Indonesia that may contribute to volatility in currency values and negatively impact economic growth. Economic improvements and sustained recovery are dependent upon several factors such as fiscal and monetary action being undertaken by the Government and others, actions that are beyond the control of the Company.

**39. SUBSEQUENT EVENTS**

- a. Based on the first amendment dated July 12, 2004 of the Convertible Bond Agreement, the fixed interest rate of the convertible bonds issued by Lintasarta has been changed to become a floating rate. The floating rate is determined using the average rate for 6-month rupiah time deposits with Mandiri, BNI and BTN, plus a fixed premium of 3%. The floating rate should have a maximum limit of 19% and a minimum limit of 11%. The first amendment is effective on July 1, 2004 (Note 16).
- b. On August 9, 2004, the Company entered into a cross currency swap contract with GSCM to unwind its existing 3 cross currency swap contracts with GSCM (Note 30). Based on the contract, to unwind its existing contracts with GSCM, the Company shall pay US\$7,500 to GSCM on August 11, 2004 and receive the same amount from GSCM on the same date and enter into a new transaction to swap, at termination date on November 5, 2010, a total of Rp840,650 for US\$100,000. All payments shall be at net cash-settled in U.S. dollar, based on the spot price of the rupiah to the U.S. dollar as determined by a designated Calculation Agent on the second business day prior to the termination date. The contract provides for the Company to make semi-annual payments, every May 5 and November 5, up to termination date, at 6-month U.S. dollar LIBOR plus 2.62%.
- c. As of August 10, 2004, 32,951,000 share options from ESOP Phase I have been exercised by the employees (Note 18).
- d. As of August 10, 2004, the average buying and selling rate of bank notes published by Bank Indonesia is Rp9,205 to US\$1, while as of June 30, 2004, the average buying and selling rate was Rp9,415 to US\$1. On the basis of the rate as of August 10, 2004, the Companies earned foreign exchange gain amounting to approximately Rp49,362 on the foreign currency liabilities, net of foreign currency assets, as of June 30, 2004 (Note 36).

The commitments for the capital expenditures and operating leases denominated in foreign currencies as of June 30, 2004 as disclosed in Note 31 would approximate Rp1,958,769 and Rp4,784, respectively, if translated at the rates as of August 10, 2004.

**PT INDONESIAN SATELLITE CORPORATION Tbk AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2003 and 2004 (Unaudited)**  
**(Expressed in millions of rupiah and thousands of U.S. dollars,**  
**except share and tariff data)**

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#### 40. RECLASSIFICATION OF ACCOUNTS

Following are the accounts in the 2003 consolidated financial statements which have been reclassified to conform with the presentation of accounts in the 2004 consolidated financial statements and Decision Letter No. KEP-06/PM/2000, dated March 13, 2000 of BAPEPAM in connection with the amendment of regulation No. VIII.G.7 regarding the guidelines on the presentation of financial statements and Circular Letter No. SE-02/PM/2002, dated December 27, 2002 of the BAPEPAM Chairman regarding the guidelines on the presentation and disclosure of registrant's or public company's financial statements:

<u>As Previously Reported</u>	<u>As Reclassified</u>	<u>Amount</u>
Accounts receivable - others	Due from related parties	776
Other current liabilities	Deposits from customers	12,956
Operating expenses - administration and general	Operating expenses - personnel	15,970
	Other income (expenses) - financing cost	995
Other income (expenses) - amortization of goodwill	Operating expenses - depreciation and amortization	18,519

#### 41. COMPLETION OF THE FINANCIAL STATEMENTS

The management of the Company is responsible for the preparation of the accompanying consolidated financial statements that were completed on August 10, 2004.