

**Consolidated Financial Statements
Nine Months Ended September 30, 2004 and 2005
(Unaudited)**

**PT INDOSAT Tbk
AND SUBSIDIARIES**

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2005
(UNAUDITED)**

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

	Notes	2004	2005	2005
		(As Restated - Note 4)		(Note 3)
		Rp	Rp	US\$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	2d,5,30	4,200,167	5,794,523	562,029
Short-term investments - net of allowance for decline in value of Rp28,245 in 2004 and Rp37,760 in 2005	2e	80,848	36,944	3,583
Accounts receivable				
Trade	2f,17			
Related parties				
PT Telekomunikasi Indonesia Tbk ("Telkom") - net of allowance for doubtful accounts of Rp73,509 in 2004 and Rp84,579 in 2005	6,30	313,421	116,746	11,324
Others - net of allowance for doubtful accounts of Rp66,459 in 2004 and Rp69,969 in 2005	30	163,847	130,146	12,624
Third parties - net of allowance for doubtful accounts of Rp337,861 in 2004 and Rp507,531 in 2005	7	1,109,664	1,063,891	103,190
Others - net of allowance for doubtful accounts of Rp26,607 in 2004 and Rp43,039 in 2005	2f,30e	32,772	16,869	1,636
Inventories	2g	169,919	158,034	15,328
Derivative assets	2s,33	11,591	97,801	9,486
Advances		121,752	51,526	4,998
Prepaid taxes	8,15	465,364	814,324	78,984
Prepaid expenses	2h,2r,29,30	116,404	367,525	35,648
Other current assets	2d,30	73,083	7,128	691
Total Current Assets		6,858,832	8,655,457	839,521

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

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

	Notes	2004	2005	2005
		(As Restated - Note 4)		(Note 3)
		Rp	Rp	US\$
NON-CURRENT ASSETS				
Due from related parties - net of allowance for doubtful accounts of Rp11,716 in 2004 and Rp12,629 in 2005	2f,30	46,863	36,945	3,583
Deferred tax assets - net	2u,15	50,278	41,485	4,024
Investments in associated companies - net of allowance for decline in value of Rp59,142 in 2004 and Rp72,444 in 2005	2i,9	47,348	505	49
Other long-term investments - net of allowance for decline in value of Rp247,816 in 2004 and Rp221,567 in 2005	2i,10	102,157	2,730	265
Property and equipment	2j,2k,2q, 11,17,24			
Carrying value		25,657,787	32,283,974	3,131,326
Accumulated depreciation		(9,603,223)	(12,577,348)	(1,219,917)
Impairment in value		(99,621)	(99,621)	(9,663)
Net		15,954,943	19,607,005	1,901,746
Goodwill and other intangible as sets - net	2c,2l,12	3,095,668	2,763,307	268,022
Long-term receivables	30e	130,730	124,192	12,046
Long-term prepaid pension - net of current portion	2r,29,30	188,120	233,596	22,657
Long-term advances	13,30	392,324	421,835	40,915
Others	2d,2h,17, 30	338,046	265,378	25,740
Total Non-current Assets		20,346,477	23,496,978	2,279,047
TOTAL ASSETS		27,205,309	32,152,435	3,118,568

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

	Notes	2004	2005	
		(As Restated - Note 4)	Rp	US\$
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans	30	7,192	-	-
Accounts payable - trade				
Related parties	30	16,934	10,760	1,044
Third parties		171,812	189,427	18,373
Dividend payable	30	5,323	6,568	637
Procurement payable	14,30	1,358,189	2,441,702	236,828
Taxes payable	2u,15	122,869	132,888	12,889
Accrued expenses	16,24, 29,30	1,379,719	1,432,317	138,925
Unearned income	2p	565,357	436,099	42,299
Deposits from customers		51,208	27,467	2,664
Derivative liabilities	2s,33	80,329	19,650	1,906
Current maturities of:				
Loans payable	2m,17			
Related parties	30	168,190	-	-
Third parties		189,809	51,149	4,961
Bonds payable	2m,2n,18	-	981,936	95,241
Other current liabilities		69,535	12,976	1,259
Total Current Liabilities		4,186,466	5,742,939	557,026
NON-CURRENT LIABILITIES				
Due to related parties	30	36,114	13,643	1,323
Deferred tax liabilities - net	2u,15	377,411	674,180	65,391
Loans payable - net of current maturities	2m,17			
Related parties	30	842,796	628,985	61,007
Third parties		924,423	666,083	64,606
Bonds payable - net of current maturities	2m,2n,18	7,466,186	10,431,666	1,011,801
Other non-current liabilities	30	211,502	213,789	20,736
Total Non-current Liabilities		9,858,432	12,628,346	1,224,864
MINORITY INTEREST	2b	156,823	185,500	17,992

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

	Notes	2004	2005	2005
		(As Restated - Note 4)		(Note 3)
		Rp	Rp	US\$
STOCKHOLDERS' EQUITY				
Capital stock - Rp100 par value per A share and B share Authorized - 1 A share and 19,999,999,999 B shares Issued and fully paid - 1 A share and 5,269,295,499 B shares in 2004, and 1 A share and 5,325,205,499 B shares in 2005	19	526,930	532,521	51,651
Premium on capital stock	19	850,005	1,031,586	100,057
Difference in value from restructuring transactions of entities under common control	2c,10	-	-	-
Difference in transactions of equity changes in associated companies/subsidiaries	2i	403,812	403,812	39,167
Stock options	2o,20	39,632	125,882	12,210
Difference in foreign currency translation	2b	433	269	26
Retained earnings Appropriated Unappropriated		33,590	49,922	4,842
		11,149,186	11,451,658	1,110,733
Total Stockholders' Equity		13,003,588	13,595,650	1,318,686
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		27,205,309	32,152,435	3,118,568

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

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

	Notes	2004	2005	2005
		(As Restated - Note 4)		(Note 3)
		Rp	Rp	US\$
OPERATING REVENUES				
	2p,30			
Cellular	21,35,36,37	5,342,636	6,690,488	648,932
Fixed Telecommunication	22,35,36,37	1,277,284	978,202	94,879
Multimedia, Data Communication, Internet ("MIDI")	17,23	1,113,117	1,239,957	120,267
Other services		70,424	-	-
Total Operating Revenues		7,803,461	8,908,647	864,078
OPERATING EXPENSES				
	2p			
Depreciation and amortization	2j,11,12	1,923,028	2,219,034	215,231
Personnel	2o,2q,2r,20,24,29,30	880,146	944,877	91,647
Administration and general	25,30	275,397	501,347	48,627
Maintenance	2j,2q	366,240	468,639	45,455
Compensation to telecommunications carriers and service providers	26,30,35	370,918	332,340	32,235
Marketing		210,408	238,021	23,086
Leased circuits	30	86,847	105,266	10,210
Other costs of services	27,30	1,012,913	1,239,449	120,218
Total Operating Expenses		5,125,897	6,048,973	586,709
OPERATING INCOME		2,677,564	2,859,674	277,369
OTHER INCOME (EXPENSES)				
	2p			
Interest income	30	145,996	138,584	13,442
Gain (loss) on change in fair value of derivatives - net	2s,33	(63,045)		35,628
3,456				
Gain on sale of investment in associated company	9	283,355	1,223	118
Gain on sale of other long-term investments	10	110,929	1,204	117
Financing cost	2m,17,18,28,30	(817,688)	(966,257)	(93,720)
Loss on foreign exchange - net	2t	(61,995)	(357,584)	(34,683)
Amortization of goodwill	2l,12	(169,761)	(169,761)	(16,466)
Others - net		44,011	(27,957)	(2,712)
Other Expenses - Net		(528,198)		(1,344,920)
(130,448)				
EQUITY IN NET INCOME OF ASSOCIATED COMPANIES	2i,9	62,259	67	7
INCOME BEFORE INCOME TAX		2,211,625	1,514,821	146,928
INCOME TAX EXPENSE				
	2u,15			
Current		216,045	292,523	28,373
Deferred		461,971	177,584	17,224
Total Income Tax Expense		678,016	470,107	45,597

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (continued)
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars, except share data)

	Notes	2004 (As Restated - Note 4)	2005	2005 (Note 3)
		Rp	Rp	US\$
INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		1,533,609	1,044,714	101,331
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	2b	(17,369)	(26,287)	(2,550)
NET INCOME		<u>1,516,240</u>	<u>1,018,427</u>	<u>98,781</u>
BASIC EARNINGS PER SHARE	2w,19,31	<u>287.75</u>	<u>194.31</u>	<u>0.02</u>
DILUTED EARNINGS PER SHARE	2w,19,20,31	<u>287.71</u>	<u>194.31</u>	<u>0.02</u>
BASIC EARNINGS PER ADS (50 B shares per ADS)	2w,19,31	<u>14,387.51</u>	<u>9,715.28</u>	<u>0.94</u>
DILUTED EARNINGS PER ADS	2w,19,20,31	<u>14,385.30</u>	<u>9,715.28</u>	<u>0.94</u>

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of rupiah)

Nine Months Ended September 30, 2004 (As Restated - Note 4)										
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, as previously reported		517,750	673,075	4,499,947	403,812	24,809	316	17,890	6,061,311	12,198,910
• Adjustment arising from early adoption of SAK 24 (Revised 2004) - net of applicable income tax of Rp68,156	4	-	-	-	-	-	-	-	(159,028)	(159,028)
• Adjustment arising from early adoption of SAK 38 (Revised 2004)	4	-	-	(4,499,947)	-	-	-	-	4,499,947	-
Balance as of January 1, 2004, as restated		517,750	673,075	-	403,812	24,809	316	17,890	10,402,230	12,039,882
ESOP:										
• Issuance of capital stock resulting from the exercise of ESOP Phase I	20,19, 20	9,180	176,930	-	-	(42,226)	-	-	-	143,884
• Proportionate seven months' compensation expense relating to ESOP Phase I and two months' compensation expense relating to ESOP Phase II	20,20	-	-	-	-	57,049	-	-	-	57,049
Increase in difference in foreign currency translation arising from the translation of the financial statements of Satelindo International Finance B.V. from U.S. dollars and Indosat Finance Company B.V. from European euro to rupiah - net of applicable income taxes of Rp9 and Rp41, respectively	2b	-	-	-	-	-	117	-	-	117
Resolution during the Annual Stockholders' General Meeting on June 22, 2004										
Declaration of cash dividend	32	-	-	-	-	-	-	-	(753,584)	(753,584)
Appropriation for reserve fund	32	-	-	-	-	-	-	15,700	(15,700)	-
Net income for the period, as previously reported		-	-	-	-	-	-	-	1,378,624	1,378,624
• Adjustment arising from early adoption of SAK 24 (Revised 2004) and SAK 38 (Revised 2004) - net of applicable income tax benefit of Rp23,644	4,10	-	-	-	-	-	-	-	137,616	137,616
Net income for the period, as restated		-	-	-	-	-	-	-	1,516,240	1,516,240
Balance as of September 30, 2004, as restated		526,930	850,005	-	403,812	39,632	433	33,590	11,149,186	13,003,588

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of rupiah)

Nine Months Ended September 30, 2005										
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, 2005		528,531	880,869	-	403,812	71,207	429	33,590	11,266,154	13,184,592
ESOP:										
• Issuance of capital stock resulting from the exercise of ESOP Phase I and Phase II	2o,19, 20	3,990	150,717	-	-	(36,064)	-	-	-	118,643
• Proportionate seven months' compensation expense relating to ESOP Phase II	2o,20	-	-	-	-	90,739	-	-	-	90,739
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, Indosat Finance Company B.V. and Indosat International Finance B.V. from European euro to rupiah - net of applicable income tax benefit (expense) of (Rp64), (Rp7) and Rp3, respectively	2b	-	-	-	-	-	(160)	-	-	(160)
Resolution during the Annual Stockholders' General Meeting on June 8, 2005										
Declaration of cash dividend	32	-	-	-	-	-	-	-	(816,591)	(816,591)
Appropriation for reserve fund	32	-	-	-	-	-	-	16,332	(16,332)	-
Net income for the period		-	-	-	-	-	-	-	1,018,427	1,018,427
Balance as of September 30, 2005		532,521	1,031,586	-	403,812	125,882	269	49,922	11,451,658	13,595,650

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars)

	Notes	2004	2005	2005 (Note 3)
		Rp	Rp	US\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from:				
Customers		7,448,555	8,546,107	828,914
Refund of taxes	8	1,044,853	168,381	16,332
Interest income		148,935	143,562	13,924
Other income - net		144,612	144,688	14,034
Cash paid for:				
Employees and suppliers		(2,730,623)	(3,196,558)	(310,044)
Financing cost		(772,488)	(765,439)	(74,242)
Taxes		(659,663)	(696,457)	(67,552)
Other operating expenses		(195,804)	(437,113)	(42,397)
Net Cash Provided by Operating Activities		4,428,377	3,907,171	378,969
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of other long-term investment	10	200,038		101,854
		9,879		
Decrease (increase) in restricted cash and cash equivalents		(59,605)	81,288	7,884
Proceeds from sale of investment in associated companies	9	494,375	32,891	3,190
Interest income from interest rate swap contract	33k - p	31,623	9,174	890
Proceeds from sale of short-term investments		33,095		1,885
		183		
Proceeds from sale of property and equipment	11	798	319	31
Acquisitions of property and equipment	11	(3,449,003)	(4,006,852)	(388,637)
Payment for termination of derivatives contracts	33e,33k,33o,33p		-	(184,190)
		(17,865)		
Increase in advances for purchase of property and equipment		(298,495)	(131,034)	(12,709)
Purchase of short-term investments		(45,291)	(49,153)	(4,768)
Swap cost from cross currency swap contracts	33a - j	(25,930)	(40,824)	(3,961)
Net Cash Used in Investing Activities		(3,118,395)	(4,184,642)	(405,883)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from bonds payable	18	-	3,484,994	338,021
Proceeds from exercise of ESOP Phase I and Phase II	20	123,890	118,642	11,508
Proceeds from loans payable		84,489	13,039	1,265
Decrease in restricted cash and cash equivalents		32,357		571
		55		
Payment of dividend		(753,584)	(816,591)	(79,204)
Repayment of loans payable		(1,075,735)	(636,330)	(61,720)
Repayment of bonds payable		(19,777)	(48,500)	(4,704)
Payment of short-term loans		(10,963)	-	-
Net Cash Provided by (Used in) Financing Activities		(1,619,323)	2,115,825	205,221
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(309,341)	1,838,354	178,307
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		4,509,508	3,993,585	387,351
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF A DIVESTED SUBSIDIARY	1d	-	(37,416)	(3,629)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5	4,200,167	5,794,523	562,029
DETAILS OF CASH AND CASH EQUIVALENTS:				
Cash on hand and in banks		220,432	341,978	33,169
Time deposits with original maturities of three months or less		3,979,735	5,452,545	528,860

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Cash and cash equivalents as stated in the consolidated balance sheets	4,200,167	5,794,523	562,029
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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars)

<u>Notes</u>	<u>2004</u>	<u>2005</u>	<u>2005</u> <u>(Note 3)</u>
	<u>Rp</u>	<u>Rp</u>	<u>US\$</u>
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Transactions not affecting cash flows:			
Acquisitions of property and equipment on account credited to procurement payable	258,613	478,051	46,368
Stock options	57,049	90,739	8,801

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

PT INDOSAT Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars,
except share and tariff data)

1. GENERAL

a. Company's Establishment

PT Indosat Tbk ("the Company", formerly PT Indonesian Satellite Corporation Tbk), was established in the Republic of Indonesia on November 10, 1967 within the framework of the Indonesian Foreign Investment Law No. 1 of 1967 based on the notarial deed No. 55 of Mohamad Said Tadjoedin. The deed of establishment was published in Supplement No. 24 of State Gazette No. 26 dated March 29, 1968 of the Republic of Indonesia. In 1980, the Company was sold to the Government of the Republic of Indonesia and became a State-Owned Company (*Persero*).

On February 7, 2003, the Company received the approval from the Investment Coordinating Board (BKPM) in its Letter No. 14/V/PMA/2003 for the change of its legal status from a State-Owned Company (*Persero*) into a Foreign Capital Investment Company. Subsequently, on March 21, 2003, the Company received the approval from the Ministry of Justice and Human Rights of the Republic of Indonesia on the amendment of its Articles of Association to reflect the change of its legal status.

The Company's Articles of Association has been amended from time to time. The latest amendment was covered by notarial deed No. 157 dated July 22, 2005 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) concerning the change in the number of the Company's issued and fully paid capital stock. The latest amendment of the Company's Articles of Association has been reported to and accepted by the Ministry of Justice and Human Rights of the Republic of Indonesia based on its letter No.C -21968 HT.01.04.TH 2005 dated August 8, 2005.

According to article 3 of its Articles of Association, the Company shall engage in providing telecommunications networks and/or services as well as informatics business by conducting the following activities:

- Provision of telecommunications networks and/or services and informatics business
- Planning of services, construction of infrastructure and provision of telecommunications and informatics business facilities, including supporting resources
- Carrying out operational services (comprising the marketing and sale of telecommunications networks and/or services and informatics business provided by the Company), maintenance, research and development of telecommunications and informatics business infrastructure and/or facilities, and providing education and training (both locally and overseas)
- Engaging in services which are relevant to the development of telecommunications networks and/or services and informatics business.

The Company started its commercial operations in 1969.

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

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

- Telecommunications networks
- Telecommunications services
- Special telecommunications services.

PT INDOSAT Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2004 and 2005 (Unaudited)
(Expressed in millions of Rupiah and thousands of U.S. Dollars,
except share and tariff data)

1. GENERAL (continued)

a. Company's Establishment (continued)

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

The Telecommunications Law prohibits activities that result in monopolistic practices and unhealthy competition, and expects to pave the way for market liberalization.

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

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

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

Based on Announcement No. PM.2 Year 2004 dated March 30, 2004 of the Ministry of Communications regarding the Commencement of Restructuring of the Telecommunications Sector, the Company should pay to the Government the amount of Rp178,000 after tax as a result of the early termination of its exclusivity rights. In turn, the payment of any liability of the Company as a result of the early termination will be settled by the Government which is coordinated by the Ministry of State-owned Enterprises. This is in line with Article IX of a Shares Purchase Agreement dated December 15, 2002 between the Government of the Republic of Indonesia and Indonesia Communications Limited ("ICL") (Note 19), whereby the Government agreed to undertake and covenant with ICL that it shall pay on behalf of the Company any liability, amount or claim required to be paid or suffered by the Company in relation to the surrender of above exclusivity rights.

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

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1. GENERAL (continued)

a. Company's Establishment (continued)

On March 15, 2004, the Government of the Republic of Indonesia, through the Ministry of Communications, granted the Company an operating license for nationwide closed fixed communications network (e.g. VSAT, frame relay, etc.) and GSM cellular mobile network (including its basic telephony services). Subsequently, on May 21, 2004, the Government, through the Ministry of Communications, also granted the Company an operating license for fixed network and basic telephony services which covers the provision of local, national long-distance, and international long-distance telephony services. The licenses granted are subject to certain minimum development and operating performance requirements. These aforementioned licenses replaced the various licenses and rights previously granted to the Company by the Government.

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

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

b. Company's Public Offerings

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

c. Employees, Directors and Commissioners

Based on a resolution at each of the (i) Annual Stockholders' General Meeting held on June 22, 2004 which is notarized under Deed No. 124 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date and (ii) Annual Stockholders' General Meeting held on June 8, 2005 which is notarized under Deed No. 40 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, the composition of the Company's Board of Commissioners as of September 30, 2004 and 2005 is as follows:

	<u>2004</u>	<u>2005</u>
President Commissioner	Peter Seah Lim Huat	Peter Seah Lim Huat
Commissioner	Lee Theng Kiat	Lee Theng Kiat
Commissioner	Sio Tat Hiang	Sio Tat Hiang
Commissioner	Sum Soon Lim	Sum Soon Lim
Commissioner	Roes Aryawijaya	Roes Aryawijaya
Commissioner	Umar Rusdi	Setyanto P. Santosa
Commissioner	Lim Ah Doo *	Lim Ah Doo *
Commissioner	Eva Riyanti Hutapea *	Eva Riyanti Hutapea *
Commissioner	Mohamad Ikhsan *	Soeprapto S.IP *

* Independent Commissioner

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1. GENERAL (continued)

c. Employees, Directors and Commissioners (continued)

Based on a resolution at each of the (i) Extraordinary Stockholders' General Meeting held on September 30, 2004 which is notarized under Deed No. 144 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date and (ii) Annual Stockholders' General Meeting held on June 8, 2005 which is notarized under Deed No. 40 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date, the composition of the Company's Board of Directors as of September 30, 2004 and 2005 is as follows:

	2004	2005
President Director	- *	Hasnul Suhaimi
Deputy President Director	Ng Eng Ho	Ng Eng Ho
Planning and Project Development Director	-	Wityasmoro Sih Handayanto
Consumer Market Director	-	Johnny Swandi Sjam
Corporate Market Director	-	Wahyu Wijayadi
Finance Director	Wong Heang Tuck	Wong Heang Tuck
Corporate Services Director	Sutrisman	S. Wimbo S. Hardjito
Network Operation and Quality Management Director	-	Raymond Tan Kim Meng
Information Technology Director	Joseph Chan Lam Seng	Joseph Chan Lam Seng
Business Development Director	Wityasmoro Sih Handayanto	-
Cellular Marketing Director	Hasnul Suhaimi	-
Fixed Telecom and MIDI Director	Wahyu Wijayadi	-
Operation and Quality Improvement Director	Raymond Tan Kim Meng	-

* During the position of President Director is unoccupied, the tasks of President Director were carried out by Deputy President Director

The Company and its subsidiaries (collectively referred to hereafter as "the Companies") have approximately 7,596 and 8,107 employees, including non-permanent employees, as of September 30, 2004 and 2005, respectively.

d. Structure of the Company's Subsidiaries

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

Name of Subsidiary	Location	Principal Activity	Start of Commercial Operations	Percentage of Ownership (%)	
				2004	2005
Satelindo International Finance B.V.	Amsterdam	Finance	1996	100.00	100.00
Indosat Finance Company B.V.	Amsterdam	Finance	2003	100.00	100.00
Indosat International Finance Company B.V.	Amsterdam	Finance	2005	100.00	-
PT Indosat Mega Media	Jakarta	Multimedia	2001	99.85	99.85
PT Satelindo Multi Media	Jakarta	Multimedia	1999	99.60	99.60
PT Aplikanusa Lintasarta	Jakarta	Data Communication	1989	69.46	69.46
PT Artajasa Pembayaran Elektronis	Jakarta	Telecommunication	2000	45.15	38.20
PT Sisindosat Lintasbuana *	Jakarta	Information Technology	1990	96.87	-
PT Asitelindo Data Buana *	Jakarta	Multimedia	1997	49.40	-

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1. GENERAL (continued)

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

<u>Name of Subsidiary</u>	Total Assets (Before Eliminations)	
	2004	2005
Satelindo International Finance B.V.	7,148	8,526
Indosat Finance Company B.V.	2,837,526	3,190,501
Indosat International Finance Company B.V.	-	2,627,944
PT Indosat Mega Media	450,770	560,392
PT Satelindo Multi Media	11,452	10,947
PT Aplikanusa Lintasarta	768,177	879,232
PT Artajasa Pembayaran Elektronis	68,009	76,047
PT Sisindosat Lintasbuana *	129,852	-
PT Asitelindo Data Buana *	9,822	-

* Sold in January 2005

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

SIB was incorporated in Amsterdam (The Netherlands) in 1996. SIB is a financing company that only facilitates borrowings of PT Satelit Palapa Indonesia ("Satelindo" - see Note 1e) from third parties and is not involved in any other activity. On May 30, 2000, SIB issued Guaranteed Floating Rate Bonds. On October 31, 2003, Satelindo repaid its borrowings from SIB by using the proceeds from the Company's capital contributions. Following such repayment of all borrowings, this company is now in the process of voluntary liquidation. Based on the Resolution of Shareholder on May 3, 2005, the liquidation process is effective starting June 1, 2005. As of September 30, 2005, such liquidation has not yet been finalized.

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

IFB was incorporated in Amsterdam (The Netherlands) on October 13, 2003. IFB is a financing company 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 18).

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

IIFB was incorporated in Amsterdam (The Netherlands) on April 27, 2005. IIFB is a financing company that only facilitates the Company's borrowings from third parties and is not involved in any other activity. In June 2005, IIFB issued guaranteed notes which are due in 2012 (Note 18).

PT Indosat Mega Media ("IMM")

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

PT Satelindo Multi Media ("SMM")

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

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1. GENERAL (continued)

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

PT Aplikanusa Lintasarta ("Lintasarta")

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

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

PT Artajasa Pembayaran Elektronis ("APE")

APE is engaged in telecommunication and information services.

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

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

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

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

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

On December 17, 2004, the Company entered into a Conditional Sale and Purchase Agreement ("CSPA"), whereby the Company agreed to sell its 96.87% equity interest in Sisindosat to PT Aneka Spring Telekomindo ("Astel") for Rp40,000. On January 7, 2005, the Company and Astel closed the transaction on the sale and purchase.

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

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1. GENERAL (continued)

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

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

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

PT Asitelindo Data Buana ("Asiatel")

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies adopted by the Company conform with generally accepted accounting principles in Indonesia. The significant accounting principles applied consistently in the preparation of the consolidated financial statements for the nine months ended September 30, 2004 and 2005 are as follows:

a. Basis of Consolidated Financial Statements

The consolidated financial statements are presented using the historical cost basis of accounting, except for swap contracts which are stated at fair value and certain investments which are stated at fair value or net assets value.

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of Consolidation

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

	Equity Interest (%)	
	2004	2005
SIB	100.00	100.00
IFB	100.00	100.00
IIFB	-	100.00
IMM	99.85	99.85
SMM	99.60	99.60
Lintasarta	69.46	69.46
Sisindosat	96.87	-*

* sold in January 2005

The consolidated financial statements also include the accounts of APE (Lintasarta's 65%-owned subsidiary in 2004 or 55% -owned subsidiary in 2005) and Asiatel (Sisindosat's 51% -owned subsidiary) in 2004. The accounts of APE in 2004 and 2005 and of Asiatel in 2004 were consolidated because their financial and operating policies are controlled by Lintasarta and Sisindosat, respectively.

The accounts of SIB, IFB and IIFB were translated into rupiah amounts at the middle rate of exchange prevailing at balance sheet date for balance sheet accounts and the average rate during the period for profit and loss accounts. The resulting differences arising from the translations of the financial statements of SIB, IFB and IIFB 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

Prior to 2004, for acquisitions accounted for under the pooling-of-interests method, the historical carrying amounts of the net equities of the entities acquired were combined, as if they were 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". This account should not change as a result of subsequent transfer of assets, liabilities, shares or other instruments of ownership to another entity not under common control.

In 2004, the Company early adopted SAK 38 (Revised 2004) which is effective starting January 1, 2005 but encourages early adoption. Based on SAK 38 (Revised 2004), the balance of "Difference in Value from Restructuring Transactions of Entities under Common Control" can be realized to gain or loss from the time the common control no longer exists between the entities that entered into the transaction (Note 4).

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Accounting for Acquired Businesses (continued)

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

d. Cash and Cash Equivalents

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

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

e. Short-term Investments

Short-term investments consist of:

- Investment in debt securities

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

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

- Mutual funds

Mutual funds which are classified as trading security under SAK 50 are stated at their net assets value at balance sheet date. Unrealized gains or losses from the changes in net assets value at balance sheet date are credited or charged to current operations.

- Time deposits with original maturities of more than three months at the time of placement or purchase.

The time deposits are recorded at historical value.

f. Allowance for Doubtful Accounts

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

g. Inventories

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Prepaid Expenses

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

i. Investments

Investments consist of:

- Investments in associated companies

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

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

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

j. Property and Equipment

Property and equipment are stated at cost (which includes capitalization of certain borrowing cost incurred during the construction phase), less accumulated depreciation and impairment in value. Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the assets.

Based on its review and assessment, starting January 1, 2005, the Company changed the estimated useful lives of certain of its property and equipment. The changes were made to reflect the useful lives of the assets acquired by the Company in recent years and also in consideration of the effect of technological advancement. Below are the estimated useful lives (in years) prior to and starting January 1, 2005:

	Prior to January 1, 2005	Starting January 1, 2005
Buildings	3 to 20	15 - 20
Submarine cables	15	12
Earth stations	15	10

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Property and Equipment (continued)

	<u>Prior to January 1, 2005</u>	<u>Starting January 1, 2005</u>
Inland link	15	15
Switching equipment	15	10
Telecommunications peripherals	5	5
Information technology equipment	5 to 10	3 to 5
Office equipment	3 to 6	5
Building and leasehold improvements	5	5
Vehicles	5	5
Cellular technical equipment	5 to 15	10 to 15
Satellite technical equipment	12 to 15	12
Transmission and cross-connection equipment	5 to 24	12
Fixed Wireless Access ("FWA") technical equipment	8	10

Landrights are stated at cost.

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

Properties under construction and installation are stated at cost and consist mainly of cellular technical equipment, inland link, FWA technical equipment, telecommunications peripherals, building and leasehold improvements, information technology equipment, building, switching equipment, satellite technical equipment, and submarine cables.

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

k. Impairment of Assets Value

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

l. Goodwill and Other Intangible Assets

At the time the Company acquires a subsidiary which is not an entity under common control, any excess of the acquisition cost over the Company's interest in the fair value of the subsidiary's identifiable assets, net of liabilities, as of acquisition date is recognized as goodwill. Goodwill is amortized using the straight-line method over fifteen years.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Goodwill and Other Intangible Assets (continued)

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

	Years
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

Fixed Telecommunication - International Calls

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

Operating revenues for interconnection services under interconnection agreements based on revenue-sharing arrangement (Note 37) are reported on a net basis, after interconnection expenses and after allocations to overseas international carriers. Operating revenues for interconnections that are not made under contractual sharing agreements, i.e., based on tariff as stipulated by the Government (Note 36), are reported on a gross basis, before interconnection expenses/charges (Note 26) but net of allocations to overseas international carriers. These interconnection expenses/charges are accounted for as operating expenses in the 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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Revenue and Expense Recognition (continued)

Cellular (continued)

For post-paid subscribers, activation fees are recognized upon activation of new subscribers in the Company's cellular network while monthly service fees are recognized as the service is provided.

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

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

MIDI

Satellite Lease

Revenues are recognized on a straightline basis over the lease term.

Frame Net, World Link and Direct Link

Revenues arising from installation service are recognized upon the completion of the installation of equipment used for network connection purposes in the customers' premises. Revenues from monthly service fees are recognized as the services are provided.

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).

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.

r. Pension Plan and Employee Benefits

Pension costs under the Companies' defined benefit pension plans are determined by periodic actuarial calculation using the projected-unit-credit method and applying the assumptions on discount rate, expected return on plan assets and annual rate of increase in compensation. Prior service cost is recognized over the estimated average remaining service periods of the employees.

Prior to 2004, pension costs were accounted for on a basis consistent with SAK 24, "Accounting for Pension Benefit Costs".

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Pension Plan and Employee Benefits (continued)

In July 2004, the Indonesian Institute of Accountants issued SAK 24 (Revised 2004), "Employee Benefits", which regulates the accounting and disclosure for Employee Benefits and covers not only retirement benefits but also short-term (e.g. paid annual leave, paid sick leave) and other long-term benefits (e.g. long-service leave, post-employment medical benefits). SAK 24 (Revised 2004) replaced SAK 24 issued in 1994 which covered only retirement benefit cost. The initial implementation of this accounting pronouncement should be applied retroactively which requires restatement against the beginning balance of retained earnings of the earliest comparative period presented. In 2004, the Company and Subsidiaries early adopted SAK 24 (Revised 2004) which is effective for financial statements covering the periods beginning on or after July 1, 2004 but encourages early adoption (Note 4).

s. Derivatives

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

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

For September 30, 2004 and 2005, the rates of exchange used (in full amounts) were Rp9,170 and Rp10,310 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 such benefits are more likely than not to be realized. The tax effects for the period are allocated to current operations, except for the tax effects from transactions which are directly charged or credited to stockholders' equity.

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Income Tax (continued)

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

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 39.

w. 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 after considering the effect of exercise of ESOP Phase I (Note 31).

Diluted earnings per share is computed by dividing net income by the weighted-average number of shares outstanding during the period, after considering the dilutive effect caused by the stock options relating to the ESOP (Note 20).

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.

x. Use of Estimates

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

3. TRANSLATIONS OF RUPIAH INTO UNITED STATES DOLLAR

The consolidated financial statements are stated in rupiah. The translations of the rupiah into United States dollar (US\$) are included solely for the convenience of the readers, using the average buying and selling rate published by Bank Indonesia (Central Bank) on September 30, 2005 of Rp10,310 to US\$1 (in full amounts). The convenience translations should not be construed as representations that the rupiah amounts have been, could have been, or could in the future be, converted into U.S. dollar at this or any other rate of exchange.

4. RESTATEMENT OF 2004 CONSOLIDATED FINANCIAL STATEMENTS

SAK 38

Following the regulatory reform of the Indonesian telecommunication sector through the Telecommunications Law No. 36/1999 and the Blueprint of the Indonesian Government's Policy on Telecommunications dated September 17, 1999, in April 2001, the Company entered into cross-ownership transactions with Telkom to:

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4. RESTATEMENT OF 2004 CONSOLIDATED FINANCIAL STATEMENTS (continued)

SAK 38 (continued)

- Sell the Company's 35% equity interest in PT Telekomunikasi Selular
- Acquire Telkom's 22.5% equity interest in Satelindo
- Acquire Telkom's 37.21% equity interest in Lintasarta.

At the time of the transactions, both the Company and Telkom were entities under common control by the Government of the Republic of Indonesia, the major stockholder of both companies.

The above transactions with Telkom were accounted for under the pooling-of-interests method. The net difference amounting to Rp4,359,259 between the net consideration paid or received and the net assets of the investees acquired or sold was credited to "Difference in Value from Restructuring Transactions of Entities under Common Control".

In 2002 and 2003, as a result of its transactions with Telkom to sell its equity interest in PT Pramindo Ikat Nusantara ("PIN") (Note 10), the Company also recorded the gain on sale of its investment in PIN amounting to Rp109,184 and Rp32,207 in 2002 and 2003, respectively, as "Difference in Value from Restructuring Transactions of Entities under Common Control".

On December 15, 2002, the Government of the Republic of Indonesia (Government) entered into a Share Purchase Agreement with ICL for the sale of the Government's 41.94% equity interest in the Company to ICL (Note 19), which triggered the change in the status of the Company from a state-owned entity (Persero) to a foreign capital investment company which was approved by the Ministry of Justice and Human Rights on March 21, 2003 (Note 1a). This resulted in the transfer of the control of the Company to the private sector, hence the loss of the common control status between the Company and Telkom, as the Government no longer had control over the Company.

In 2004, the Company early adopted SAK 38 (Revised 2004) (Note 2c) resulting in the realization of the gain previously credited to "Difference in Value from Restructuring Transactions of Entities under Common Control" from the transactions with Telkom. The September 30, 2004 consolidated financial statements have been restated for the retrospective recognition of the realized gain due to the above-mentioned privatization conducted by the Government resulting in the loss of the common control between the Company and Telkom.

SAK 24

The Company also early adopted SAK 24 (Revised 2004) (Note 2r). As a result, the Company recalculated its liability relating to the employee benefits to conform with the treatment in SAK 24 (Revised 2004) which requires retrospective application (i.e., the shortfall of the liability for the benefits as of the beginning of the earliest comparative period presented in the consolidated financial statements should be charged to beginning retained earnings of that period).

A summary of the changes in the September 30, 2004 consolidated financial statements as a result of the retrospective application of SAK 38 (Revised 2004) and SAK 24 (Revised 2004) is as follows:

	As Previously Reported	As Restated
Consolidated Balance Sheet		
Total Assets	27,347,801	27,205,309
Total Liabilities	14,211,874	14,201,721
Total Stockholders' Equity	13,135,927	13,003,588

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4. RESTATEMENT OF 2004 CONSOLIDATED FINANCIAL STATEMENTS (continued)

	As Previously Reported	As Restated
Consolidated Statement of Income		
Operating Expenses	5,128,941	5,125,897
Other Expenses - Net	639,126	528,198
Net Income	1,378,624	1,516,240
Consolidated Statement of Changes in Stockholders' Equity		
Difference in Value from Restructuring Transactions of Entities under Common Control	4,610,875	-
Retained Earnings - Unappropriated		
Beginning of the period	6,061,311	10,402,230
End of period	6,670,650	11,149,186

5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	2004	2005
Cash on hand		
Rupiah	1,707	1,107
U.S. dollar (US\$12 in 2004 and US\$27 in 2005)	109	282
	<u>1,816</u>	<u>1,389</u>
Cash in banks		
Related parties (Note 30)		
Rupiah		
PT Bank Mandiri (Persero) Tbk ("Mandiri")	17,440	22,648
PT Bank Pembangunan Daerah DKI Jakarta	4,303	3,365
PT Bank Danamon Indonesia Tbk ("Danamon")	1,688	1,768
PT Bank Syari'ah Mandiri ("Mandiri Syari'ah")	-	1,404
PT Bank Negara Indonesia (Persero) Tbk ("BNI")	8,835	1,356
PT Bank Rakyat Indonesia (Persero) Tbk ("BRI")	-	1,080
PT Bank International Indonesia Tbk ("BII")	-	676
PT Bank Tabungan Negara	-	624
Others (each below Rp500)	3,081	915
U.S. dollar		
Mandiri (US\$987 in 2004 and US\$375 in 2005)	9,099	3,866
Others (US\$123 in 2004 and US\$72 in 2005)	1,126	738

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5. CASH AND CASH EQUIVALENTS (continued)

	2004	2005
Third parties		
Rupiah		
Deutsche Bank A.G., Jakarta Branch	20,421	24,429
PT Bank Central Asia Tbk ("BCA")	105,692	9,543
PT Bank Niaga Tbk ("Niaga")	1,562	4,492
Citibank N.A., Jakarta Branch	-	3,458
PT Bank Umum Koperasi Indonesia ("Bukopin")	-	3,430
PT Bank Permata Tbk (formerly "PT Bank Bali Tbk")	-	1,192
PT Bank Artha Graha	-	500
Others (each below Rp500)	5,922	2,114
U.S. dollar		
Deutsche Bank A.G., Jakarta Branch (US\$3,383 in 2004 and US\$23,735 in 2005)	31,022	244,718
Citibank N.A., Jakarta Branch (US\$796 in 2004 and US\$707 in 2005)	7,235	7,287
Niaga (US\$71)	653	-
Others (US\$57 in 2004 and US\$96 in 2005)	537	986
	<u>218,616</u>	<u>340,589</u>
Time deposits		
Related parties (Note 30)		
Rupiah		
Mandiri	658,571	624,923
BRI	387,000	200,000
Danamon	267,900	200,000
Mandiri Syari'ah	145,500	185,000
BNI	234,315	125,715
PT Bank Tabungan Negara (Persero)	5,000	7,000
PT Bank Pembangunan Daerah Sulawesi Utara	-	3,500
Lain-lain	16,250	-
U.S. dollar		
Mandiri (US\$8,520 in 2004 and US\$68,527 in 2005)	78,128	706,513
Danamon (US\$20,000 in 2004 and US\$40,000 in 2005)	183,400	412,400
BRI (US\$27,000 in 2004 and US\$35,000 in 2005)	247,590	360,850
Mandiri Syari'ah (US\$10,000 in 2004 and US\$15,000 in 2005)	91,700	154,650
Third parties		
Rupiah		
Deutsche Bank A.G., Jakarta Branch	476,000	830,000
PT Bank Muamalat Indonesia Tbk ("Muamalat")	-	180,000
Bukopin	247,800	162,500
Niaga	75,100	101,500
Standard Chartered	-	100,000
Mega	20,500	10,905
BCA	-	3,000
PT Bank Bumiputera Indonesia Tbk	60,000	-
Others	50,007	6

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5. CASH AND CASH EQUIVALENTS (continued)

	2004	2005
U.S. dollar		
Bukopin (US\$25,000 in 2004 and US\$42,498 in 2005)	229,250	438,150
Deutsche Bank A.G., Jakarta Branch (US\$36,000 in 2004 and US\$40,000 in 2005)	330,120	412,400
Niaga (US\$4,274 in 2004 and US\$17,651 in 2005)	39,195	181,983
Bank Muamalat (US\$5,000)	-	51,550
BCA (US\$14,876)	136,409	-
	3,979,735	5,452,545
Total	4,200,167	5,794,523

Time deposits denominated in rupiah earned interest at annual rates ranging from 4.00% to 7.25% in 2004 and from 4.00% to 11.00% in 2005, while those denominated in U.S. dollar earned interest at annual rates ranging from 0.55% to 1.12% in 2004 and from 0.60% to 4.25% in 2005.

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

6. ACCOUNTS RECEIVABLE - TRADE - TELKOM

This account represents receivables for uncollected international calls, telex and telegram charges to subscribers which were billed by Telkom, and receivables from cellular interconnection revenue net of interconnection charges payable to Telkom for these services and for leased circuits, and other charges (Note 30).

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	2004		2005	
	Amount(%)	Percentage Amount	(%)	Percentage
0 - 3 months	240,305	62.11	109,817	54.55
4 - 6 months	90,749	23.45	56,815	28.22
over 6 months	55,876	14.44	34,693	17.23
Total	386,930	100.00	201,325	100.00

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

	2004	2005
Balance at beginning of period	90,872	86,884
Reversal	(11,242)	(363)
)		
Deduction due to sale of Sisindosat	-	(2,250)
)		
Write-off	(6,184)	-
Effect of foreign exchange adjustment	63	308
Balance at end of period	73,509	84,579

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6. ACCOUNTS RECEIVABLE - TRADE - TELKOM (continued)

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

7. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES

This account consists of the following:

	<u>2004</u>	<u>2005</u>
Overseas international carriers		
Digi Telecommunication Sdn.Bhd (US\$4,506 in 2004 and US\$10,582 in 2005)	41,316	109,096
Saudi Telecom Company, Saudi Arabia (US\$7,576 in 2004 and US\$6,588 in 2005)	69,473	67,927
Telekom Malaysia Berhad, Malaysia (US\$572 in 2004 and US\$6,244 in 2005)	5,247	64,374
Cellular Communication Network (US\$5,462 in 2004 and US\$4,041 in 2005)	50,086	41,663
MCI Worldcom, U.S.A. (US\$2,929 in 2004 and US\$4,012 in 2005)	26,872	41,381
Maxis International Sdn Bhd, Malaysia (US\$3,880 in 2004 and US\$3,795 in 2005)	35,580	39,124
Cableview Services Sdn Bhd ("Mega TV"), Malaysia (US\$3,289 in 2004 and 2005)	30,163	33,913
UAE-Etisalat, United Arab Emirates (US\$2,129 in 2004 and US\$2,907 in 2005)	19,571	30,016
Jabatan Telekom Brunei, Brunei Darussalam (US\$3,705 in 2004 and US\$2,766 in 2005)	33,976	28,512
Mega Media Broadcasting Network Co. Ltd., Taiwan (US\$2,203 in 2004 and 2005)	20,202	22,714
Equant Network Services Pte. Ltd., United Kingdom (US\$3,334 in 2004 and US\$1,830 in 2005)	30,675	18,871
DDI Corporation, Japan (US\$4,415 in 2004 and US\$1,794 in 2005)	40,489	18,505
NTT Communications Corporation, Japan (US\$1,081 in 2004 and US\$1,750 in 2005)	9,923	18,043
T-System International GmbH, Germany (US\$2,217 in 2004 and US\$1,671 in 2005)	20,333	17,225
TT dotCom Sdn Bhd, Malaysia (US\$2,868 in 2004 and US\$1,440 in 2005)	26,301	14,851
People's Television Network, Canada (US\$1,270 in 2004 and 2005)	11,645	13,093
Korea International Telecommunication, Korea (US \$2,849 in 2004 and US\$1,204 in 2005)	26,122	12,412
Reach Hongkong, HongKong (US\$2,920 in 2004 and US\$1,171 in 2005)	26,780	12,078
Citic Telecom, Hongkong (US\$1,006 in 2004 and US\$699 in 2005)	9,225	6,172
Chunghwa Telecom Co. Ltd., Taiwan (US\$3,476 in 2004 and US\$489 in 2005)	31,871	5,039
Dacom Corporation, Korea (US\$1,511 in 2004 and US\$476 in 2005)	13,857	4,907
MobileOne (Asia) Pte. Ltd., Singapore (US\$1,105 in 2004 and US\$412 in 2005)	10,135	4,247
AT&T, U.S.A. (US\$6,855 in 2004 and US\$214 in 2005)	62,856	2,204
Mercury, United Kingdom (US\$1,479)	13,559	-
Others (each below Rp2,000 including US\$23,177 in 2004 and US\$19,212 in 2005)	212,489	199,111
	<u>878,746</u>	<u>825,478</u>

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

	<u>2004</u>	<u>2005</u>
Local companies		
PT Cipta Televisi Pendidikan Indonesia (US\$797 in 2004 and US\$3,062 in 2005)	7,373	31,624
PT Cyberindo Aditama (US\$595 in 2004 and US\$1,083 in 2005)	5,461	11,163
PT Sakomido (US\$749 in 2004 and US\$875 in 2005)	6,865	9,018
PT Cakrawala Andalas Televisi (US\$1,308 in 2004 and US\$871 in 2005)	11,996	8,984
PT Ratelindo	12,911	5,845
PT Primacom Interbuana (US\$692 in 2004)	6,341	5,816
Other (each below Rp5,000, including US\$25,533 in 2004 and US\$9,107 in 2005)	238,281	246,723
	<u>289,228</u>	<u>319,173</u>
Post-paid subscribers from:		
Cellular	278,990	414,594
Others (FWA)	561	12,177
	<u>279,551</u>	<u>426,771</u>
Total	1,447,525	1,571,422
Less allowance for doubtful accounts	337,861	507,531
Net	<u>1,109,664</u>	<u>1,063,891</u>

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	<u>2004</u>		<u>2005</u>	
	Amount	Percentage (%)	Amount	Percentage (%)
0 - 6 months	870,378	60.13	805,583	51.26
7 - 12 months	302,183	20.88	294,286	18.73
13 - 24 months	100,064	6.91	268,621	17.09
over 24 months	174,900	12.08	202,932	12.92
Total	<u>1,447,525</u>	<u>100.00</u>	<u>1,571,422</u>	<u>100.00</u>

As of September 30, 2005, approximately 4.16% of accounts receivable - trade are pledged as collateral for long-term bank loans obtained by Lintasarta (Note 17).

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

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

	2004	2005
Balance at beginning of period	353,221	375,001
Provision (reversal)	(35,923)	123,581
Write-off	(2,517)	-
Deduction due to sale of Sisindosat)	-	(4,260)
Effect of foreign exchange adjustment	23,080	13,209
Balance at end of period	337,861	507,531

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

There are no significant concentrations of credit risk, except for the trade accounts receivable from Telkom (Note 6).

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

8. PREPAID TAXES

This account consists of the following:

	2004	2005
Claims for tax refund	220,306	356,866
Value Added Tax ("VAT")	206,499	346,497
Others	38,559	110,961
Total	465,364	814,324

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8. PREPAID TAXES (continued)

Claims for tax refund in 2004 and 2005 mainly consist of the Company's claims for tax refund from the excess prepayments of the Company's income tax articles 22, 23 and 25 over the Company's current income tax expense.

In April 2004, the Company received the payment of its claims for tax refund from the Tax Office amounting to Rp1,044,853 consisting of tax refund for prepaid VAT from the transfer of IM3's and Satelindo's inventories and properties and equipment to the Company due to the merger in 2003 and refund for the Company's excess prepayment of its 2002 current income tax.

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

In September 2005, the Company received the payment of its claims for tax refund from the Tax Office amounting to Rp119,195 consisting of the excess prepayment of the Company's income tax articles 22, 23 and 25 over its current income tax expense for fiscal year 2003, net of payment for underpayment of income tax articles 4(2), 22, 23, 26 and VAT.

9. INVESTMENTS IN ASSOCIATED COMPANIES

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

	2004			
	Equity Interest (%)	Cost	Company's Portion of Accumulated Equity in Undistributed Net Income (Loss) of Associated Companies/Sale of Investments	Carrying Value
Investments in:				
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
PT Electronic Datainterchange Indonesia	49.00	12,250	15,662 ^(a)	27,912
Cambodian Indosat Telecommunications S.A	49.00	14,697	(14,697)	-
Others (carrying value below Rp10,000 each) ^(b)	20.00 - 46.00	10,334	11,944	22,278
Total			93,793	12,697
106,490				
Less allowance for decline in value ^(b)			59,142	-
59,142				
Net		34,651	12,697	47,348

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

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

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9. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

	2005			
	Equity Interest (%)	Cost	Company's Portion of Accumulated Equity in Undistributed Net Loss of Associated Companies/Sale of Investments	Carrying Value
Investments in:				
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
Cambodian Indosat Telecommunications S.A	49.00	14,697	(149)	14,548
Others (carrying value below Rp10,000 each) (c)	20.00 - 35.00	5,100	(2,999)	2,101
Total		76,309		(3,360)
72,949				
Less allowance for decline in value (c)		72,444		-
72,444				
Net		3,865	(3,360)	505

(c) net of investments in associated companies of Sisindosat, PT Electronic Datainterchange Indonesia, PT Sistelindo Mitralintas and which were no longer included due to the sale of Sisindosat in January 2005 (Note 1d)

PT Kalimaya Perkasa Finance,

The changes in the carrying value of the investments in associated companies for the nine months ended September 30, 2004 and 2005 are as follows:

	2004	2005
Equity in net income of associated companies	62,259	67
Deduction in the carrying value of the investment due to sale of investment in Sisindosat	-	(32,696)
)		
Reversal of allowance for decline in value investment due to sale of investment	24,348	-
Sale of investment	(229,179)	-
Cash dividend received from an associated company	(1,652)	-
Net Change	(144,224)	(32,629)
)		

The economic difficulties faced by Indonesia (Note 40) 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 Rp59,142 and Rp72,444 as of September 30, 2004 and 2005, respectively, which the Companies believe is adequate to cover probable losses on those investments.

PT Multi Media Asia Indonesia ("M2A")

M2A, established in 1997, is engaged in providing satellite-based telecommunications services. Based on a subscription agreement in 1997 among the Company, PT 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 new shares of M2A with an aggregate nominal value of US\$20,000, representing 26.67% equity interest in M2A. The Parties also agreed that the Company's investment in M2A would not be less than 20% of the fully paid capital if M2A issued its new shares to Telkom and allocated not more than 5% of the fully paid capital to the Government of the Republic of Indonesia.

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9. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

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

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

On August 11, 2005, the Company entered into a share sale and purchase agreement to sell its 6,590,500 shares in Camintel to a third party for US\$1,500. As of September 30, 2005, such sale has not yet been finalized.

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.

Since the Company sold its investment in Sisindosat on January 7, 2005, the Company no longer has indirect investment in EDI.

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 40) 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.

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).

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. On January 21, 2004, the Company received in cash its portion of 30.55% of the sales price amounting to US\$57,262 (equivalent to Rp483,575). This consideration is net of the settlement of liabilities to MGTI's vendors and creditors. In addition, on September 7, 2004, the Company received the post-closing consideration from MGTI amounting to US\$497 (equivalent to Rp4,065).

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10. OTHER LONG-TERM INVESTMENTS

This account consists of the following:

	2004	2005
Investments in:		
Shares of stock accounted for under the cost method - net	102,058	2,631
Convertible bonds - net	-	-
Equity securities which are available-for-sale	99	99
Total	102,157	2,730

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

	2004	
	Equity Interest (%)	Cost/ Carrying Value
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	4,631
Total		260,433
Less allowance for decline in value		158,375
Net		102,058

	2005	
	Equity Interest (%)	Cost/ Carrying Value
PT Broadband Multimedia Tbk	5.00	50,000
ICO Global Communications (Holdings) Limited	0.87	49,977
AlphaNet Telecom Inc.	-	32,149
Others (cost/carrying value below Rp4,000 each) *	10.00 - 16.67	2,631
Total		134,757
Less allowance for decline in value *		132,126
Net		2,631

* net of investment in PT Patrakomindo sold in August 2005

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10. OTHER LONG-TERM INVESTMENTS (continued)

b. Investments in convertible bonds

As of September 30, 2004 and 2005, this account consists of:

AlphaNet Telecom Inc.	71,441
PT Yasawirya Indah Mega Media	18,000
	89,441
Total	89,441
Less allowance for decline in value	89,441
	-
Net	-

c. Equity securities which are available-for-sale

As of September 30, 2004 and 2005, this account consists of:

BNI	89
Telkom	10
	99
Total	99

The economic difficulties faced by Indonesia (Note 40) 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 Rp247,816 and Rp221,567 as of September 30, 2004 and 2005, respectively, which management believes is adequate to cover probable losses on the investments.

PT Broadband Multimedia Tbk ("BM")

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

ICO Global Communications (Holdings) Limited ("ICO")

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

AlphaNet Telecom Inc. ("ATI")

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

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10. OTHER LONG-TERM INVESTMENTS (continued)

AlphaNet Telecom Inc. ("ATI") (continued)

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

As a result of ATI's liquidation process, the Company received on March 9, 2001 the amount of Rp12,923 (CAD2,028,670) from the sale of ATI's assets. On September 23, 2004, the Company received the last liquidation payment amounting to Rp8,557 (CAD1,208,272) from ATI's trustee. As the liquidation process has been completed, the Company is currently in the process of formalizing the write-off of the investment.

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.

On January 28, 2005, the Company sold its investment in Intelsat for US\$10,539 (equivalent to Rp96,381) resulting in loss on sale of investment amounting to Rp1,046. On April 7, 2005, the Company received the proceeds from the sale.

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.

In December 2004, based on U.S. counsel's opinion, Sisindosat wrote off its investment in Global Link.

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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10. OTHER LONG-TERM INVESTMENTS (continued)

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 (Sumatra) 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 was expected to occur not later than December 31, 2004.

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 (including interest) 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 (including interest).

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 interest and US\$2,560 which was already received on December 15, 2003, see above).

The gain on sale of investment in PIN from the first and second share-purchase transactions amounting to Rp109,184 in 2002 and Rp32,207 in 2003, respectively, was previously recorded as part of "Difference in Value from Restructuring Transactions of Entities under Common Control", which is a component of Stockholders' Equity. Due to early adoption of SAK 38 (Revised 2004) by the Company, its September 30, 2004 consolidated financial statements were restated to adjust such gain (Note 4).

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10. OTHER LONG-TERM INVESTMENTS (continued)

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

The gain on sale of investment in PIN from the third share-purchase transaction amounting to Rp110,929 was credited to operations in 2004.

11. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

	2004				Balance at End of Period
	Balance at Beginning of Period	Additions	Deductions	Reclassifications	
<u>Carrying Value</u>					
Landrights	259,743		10,666	-	1,501
271,910					
Buidings	358,385	2,449	-	(4,168)	356,666
Submarine cables	717,258	-	2,201	244,552	959,609
Earth stations	108,484	-	-	30,114	138,598
Inland link	197,856	-	-	7,502	205,358
Switching equipment	308,773	-	-	27,918	336,691
Telecommunications peripherals	1,258,238	106,993	-	6,418	1,371,649
Information technology equipment	643,335	10,435	1,218	455,579	1,108,131
Office equipment	1,053,154	50,254	2,652	(446,194)	654,562
Building and leasehold improvements	439,535	18,820	464	245,473	703,364
Vehicles	15,655	2,488	1,794	-	16,349
Cellular technical equipment	12,004,516	-	-	3,211,621	15,216,137
Satellite technical equipment	1,254,463	-	-	(15,823)	
1,238,640					
Transmission and cross- connection equipment	465,007	-	-	(265,165)	199,842
FWA technical equipment	-	-	-	296,169	296,169
Properties under construction and installation	2,886,426	3,505,512	215	(3,807,611)	2,584,112
Total	21,970,828	3,707,617	8,544	(12,114)	25,657,787
<u>Accumulated Depreciation</u>					
Buildings	153,546	19,125	-	(15,169)	157,502
Submarine cables	237,718	44,466	1,619	70,499	351,064
Earth stations	72,973	5,500	-	12,619	91,092
Inland link	40,599	10,851	-	3,684	55,134
Switching equipment	146,400	20,236	-	(3,266)	163,370
Telecommunications peripherals	684,125	117,925	-	(10,093)	791,957
Information technology equipment	391,229	110,725	1,217	167,466	668,203
Office equipment	493,384	58,117	2,172	(228,583)	320,746
Building and leasehold improvements	192,576	80,797	464		43,451
316,360					
Vehicles	9,809	1,550	789	-	10,570
Cellular technical equipment	4,637,579	1,241,154	-	18,841	5,897,574

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11. PROPERTY AND EQUIPMENT (continued)

	2004				Balance at End of Period
	Balance at Beginning of Period	Transactions during the Period			
		Additions	Deductions	Reclassifications	
Satellite technical equipment	570,144	100,526	-	(8,409)	662,261
Transmission and cross - connection equipment	147,998	19,917	-	(63,154)	104,761
FWA technical equipment	-	12,629	-	-	12,629
Total	7,778,080	1,843,518	6,261	(12,114)	9,603,223
Less impairment in value	99,621	-	-	-	99,621
Net Book Value	14,093,127				15,954,943

	2005					Balance at End of Period
	Balance at Beginning of Period	Transactions during the Period				
		Additions	Deductions	Reclassifications	Divestment in a Subsidiary	
<u>Carrying Value</u>						
Landrights 316,784	283,598	-	-	-	38,436	(5,250)
Buildings	376,075	-	-	27,742	(6,546)	397,271
Submarine cables	862,818	-	-	22	-	862,840
Earth stations	116,213	-	-	-	-	116,213
Inland link	399,382	-	-	95,878	-	495,260
Switching equipment	325,287	-	-	11,289	-	336,576
Telecommunications peripherals	1,546,503	154,746	-	61,741	(10,562)	1,752,428
Information technology equipment	871,979	4,411	946	78,820	-	954,264
Office equipment	1,131,141	68,713	319	90,704	(17,687)	1,272,552
Building and leasehold improvements	918,483	674	-	142,215	-	1,061,372
Vehicles	15,361	2,543	1,125	-	(1,425)	15,354
Cellular technical equipment	17,131,651	-	-	1,992,770	-	19,124,421
Satellite technical equipment	1,243,969	-	-	23,191	-	1,267,160
Transmission and cross-connection equipment 472,255	471,476	-	-	-	779	-
FWA technical equipment	317,499	-	-	14,408	-	331,907
Properties under construction and installation	1,810,075	4,275,237	-	(2,577,995)	-	3,507,317
Total	27,821,510	4,506,324	2,390	-	(41,470)	32,283,974
<u>Accumulated Depreciation</u>						
Buildings	177,433	16,215	-	-	(1,994)	191,654
Submarine cables	309,390	83,368	-	-	-	392,758
Earth stations	80,365	27,735	-	-	-	108,100
Inland link	61,782	23,923	-	-	-	85,705
Switching equipment	173,407	40,023	-	-	-	213,430
Telecommunications peripherals	858,291	204,639	-	-	(3,805)	1,059,125
Information technology equipment	528,608	163,035	946	-	-	690,697
Office equipment	587,135	96,668	304	-	(13,803)	669,696
Building and leasehold improvements 419,111	289,774	129,337	-	-	-	-
Vehicles	11,390	1,465	1,111	-	(1,289)	10,455

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11. PROPERTY AND EQUIPMENT (continued)

	2005					Balance at End of Period
	Balance at Beginning of Period	Transactions during the Period			Divestment in a Subsidiary	
		Additions	Deductions	Reclassifications		
Cellular technical equipment	6,491,206	1,207,168	-	-	-	7,698,374
Satellite technical equipment	695,875	107,966	-	-	-	803,841
Transmission and cross - connection equipment - 188,510		174,288	14,222	-	-	-
FWA technical equipment	22,132	23,760	-	-	-	45,892
Total	10,461,076	2,139,524	2,361	-	(20,891)	12,577,348
Less impairment in value 99,621		117,258	-	17,637	-	-
Net Book Value	17,243,176					19,607,005

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.

During the nine months ended September 30, 2004 and 2005, sales of certain property and equipment were made as follows:

	2004	2005
Proceeds from sale	798	319
Net book value	(2,283)	(29)
)		
Gain (loss)	(1,485)	290

Depreciation charged to operations amounted to Rp1,843,518 and Rp2,139,524 in 2004 and 2005, respectively.

In 2004, the Company recognized impairment loss on Sisindosat property and equipment amounting to Rp17,637 due to the impairment of its investment in Sisindosat as indicated by the sales price of Sisindosat being below the amount of the Company's investment. Following the sale of the Company's investment in Sisindosat in January 2005 (Note 1d), such impairment loss was reversed.

Management believes that there is no further impairment in assets value or recovery of the impairment reserve as contemplated in SAK 48.

As of September 30, 2005, approximately 0.86% of property and equipment are pledged as collateral to letter of credit facilities obtained by Lintasarta (Note 17).

As of September 30, 2005, the Companies carry insurance on their respective property and equipment (except submarine cables and landrights) for US\$133,847 and Rp23,605,937, including insurance on the Company's satellite amounting to US\$50,000. In management's opinion, the sum insured is sufficient to cover possible losses arising from fire, explosion, lightning and aircraft damage and other natural disasters.

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11. PROPERTY AND EQUIPMENT (continued)

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

<u>Period</u>	<u>Amount</u>
Nine months ended September 30, 2005	196,009
Three months ending December 31, 2005	77,335
Year ending December 31, 2006	229,343
Year ending December 31, 2007	223,998
Year ending December 31, 2008	179,771
Year ending December 31, 2009	161,843
Year ending December 31, 2010	107,061

The details of the Companies' properties under construction and installation as of September 30, 2004 and 2005 are as follows:

<u>2004</u>	<u>Percentage of Completion</u>	<u>Cost</u>	<u>Estimated Date of Completion</u>
Cellular technical equipment	37 - 46	1,904,184	October 2004 - March 2005
Inland link	60 - 65	173,051	October - December 2004
Building and leasehold improvements	55 - 65		170,527
October 2004 - January 2005			2005
Submarine cables	99	147,761	November 2004
Office equipment	30	51,769	October - November 2004
Telecommunications peripherals	50 - 62	39,126	October - December 2004
Information technology equipment	40 - 50	35,103	October 2004 - February 2005
Building	75 - 82	18,353	October - December 2004
Switching equipment	65 - 77	15,124	October 2004
Fixed wireless access technical equipment	5 - 15	13,099	October - December 2004
Others	5 - 12	16,015	October - December 2004
Total		2,584,112	
<u>2005</u>			
Cellular technical equipment	70 - 80	3,068,699	October - December 2005
FWA technical equipment	70 - 80	109,685	October - November 2005
Building and leasehold improvements	70 - 85		96,128 October -
November 2005			
Inland link	80 - 95	94,428	October - November 2005
Telecommunications peripherals	90 - 95	93,153	October - December 2005
Building	51 - 90	15,145	October 2005
Information technology equipment	60 - 85	11,506	October 2005
Office equipment	90 - 95	7,953	October 2005
Switching equipment	95	1,867	October 2005
Others	95 - 97	8,753	October 2005
Total		3,507,317	

Borrowing costs (interest expense) capitalized to properties under construction and installation for the nine months ended September 30, 2004 and 2005 amounted Rp71,245 and Rp6,555, respectively.

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12. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arose from acquisition of equity interest in Bimagraha and Satelindo in 2001 and 2002, respectively (Note 1e).

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

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

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 in income before income tax as follows:

Period		Amount
Nine months ended September 30, 2005		429,240
Three months ending December 31, 2005	143,079	
Year ending December 31, 2006		271,798

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

	2004	2005
Balance at beginning of period	3,344,939	3,012,578
Amortization of goodwill	(169,761)	(169,761)
)		
Amortization of other intangible assets	(79,510)	(79,510)
Balance at end of period	3,095,668	2,763,307

13. 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.

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14. PROCUREMENT PAYABLE

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

	<u>2004</u>	<u>2005</u>
Ericsson AB, Sweden (US\$11,302 in 2004 and US\$74,650 in 2005)	103,640	769,643
Siemens Aktiengesellschaft, Germany (including US\$32,288 in 2004 and US\$26,558 in 2005)	297,502	273,817
Alcatel CIT, France (including US\$11,443 in 2004 and US\$16,848 in 2005)	105,455	174,029
PT Ericsson Indonesia (including US\$381 in 2004 and US\$8,979 in 2005)	8,867	169,942
PT Alcatel Indonesia (including US\$1,721 in 2004 and US\$6,308 in 2005)	22,074	96,766
PT Nexwave (including US\$6,197)	-	70,216
Siemens Mobile Communications S.p.A, Italy (US\$1,582 in 2004 and US\$6,446 in 2005)	14,506	66,457
PT Alvarid Mas (including US\$3,756)	-	43,319
Nokia Corporation, Finland (US\$4,152)	-	42,805
ZTE Corporation, China (including US\$3,924)	-	40,868
ZTE Indonesia (including US\$3,653)	-	39,830
PT Sumacom Mitra (including US\$2,968 in 2004 and US\$3,539 in 2005)	27,307	36,484
PT Siemens Indonesia (including US\$104 in 2004 and US\$1,365 in 2005)	1,499	23,251
Kopindosat	8,182	19,837
PT Karya Mitra Nugraha	569	18,002
NT System Company Limited, HongKong (US\$1,533)	-	15,810
PT Nokia Network (including US\$5,948 in 2004 and US\$1,037 in 2005)	64,688	14,417
PT Dawamiba Engineering	8,969	11,968
PT Asiakomnet Multimedia (including US\$800 in 2004 and US\$1,040 in 2005)	7,338	11,409
Alcatel Italia S.p.A, Italy (including US\$1,061)	-	10,941
PT Sisindokom Lintasbuana (including US\$127 in 2004 and US\$770 in 2005)	2,164	9,834
PT NEC Indonesia (including US\$1,438 in 2004 and US\$729 in 2005)	13,259	9,222
PT Ciptakomunindo Pradipta	2,095	8,798
Mega Pratama Semesta (including US\$425 in 2004 and US\$778 in 2005)	4,108	8,608
M-Com Asia Pte Ltd, Singapore (US\$793)	-	8,171
PT Ekaprasarana Primatel (including US\$1,691 in 2004 and US\$709 in 2005)	15,819	7,836
PT Lintas Teknologi Indonesia (including US\$63 in 2004 and US\$574 in 2005)	2,351	7,641
PT Tricipta Persada Nusantara (including US\$590 in 2004 and US\$655 in 2005)	5,818	7,427
PT Menara Bina Diesel	176	7,222
PT Marsh Indonesia (US\$670)	-	6,908
PT Askomindo Dinamika (including US\$33 in 2004 and US\$667 in 2005)	333	6,879
CV Jasa Utama	1,104	6,714
Mitra Teleinformatika Perkasa (including US\$502)	-	5,688
PT Rekapranata Ciptatanggung	3,564	5,594
PT Bukit Jaya Abadi	5,319	5,527
PT Brainstorm Communications	13	5,437

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14. PROCUREMENT PAYABLE (continued)

	2004	2005
PT Senopati Sellularindo	5,945	5,380
PT Mitra Buana Sentosa (including US\$764 in 2004 and US\$511 in 2005)	7,010	5,263
PT Hariff Daya Tunggal Engineering (including US\$1,111 in 2004 and US\$30 in 2005)	10,285	2,867
PT Transistel Nusantara	-	2,359
PT Duta Sembilan Kartika	5,785	2,298
PT Industri Telekomunikasi Indonesia (including US\$268 in 2004)	8,528	1,679
PT Rama Perwira	5,272	1,676
Others (including US\$35,139 in 2004 and US\$8,674 in 2005, each below Rp1,500)	588,645	352,863
Total	1,358,189	2,441,702

15. TAXES PAYABLE

The taxes payable as of September 30, 2004 and 2005 are as follows:

	2004	2005
Estimated corporate income tax payable, less tax prepayments of Rp193,873 in 2004 and Rp276,374 in 2005	22,172	16,149
Income taxes:		
Article 21	14,059	15,886
Article 22	2,646	4,403
Article 23	50,574	41,049
Article 25	673	20,049
Article 26	9,804	10,298
Article 29	-	108
VAT	17,278	3,441
Others	5,663	21,505
Total	122,869	132,888

The reconciliation between income before income tax and estimated taxable income (tax losses carry-over) of the Company for the nine months ended September 30, 2004 and 2005 is as follows:

	2004 (As Restated - Note 4)	2005
Income before income tax per consolidated statements of income	2,211,625	1,514,821
Subsidiaries' income before income tax and effect of inter-company consolidation eliminations	(76,964)	(81,283)
)		
Income before income tax of the Company	2,134,661	1,433,538

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15. TAXES PAYABLE (continued)

	2004 (As Restated - Note 4)	2005
Positive adjustments		
Provision for doubtful doubtful accounts	-	145,250
Assessment for income taxes and related penalties	784	72,412
Accrual of postretirement benefits	36,100	65,917
Compensation expense for ESOP	57,049	54,675
Donation	20,670	11,499
Representation and entertainment	5,254	8,189
Provision for termination, gratuity and compensation benefits of employee	6,542	7,196
Gain on sale of investment in associated companies and other long-term investment	36,084	-
Others	4,041	1,648
Negative adjustments		
Depreciation - net	(455,965)	(611,267)
) Interest income already subjected to final tax	(103,565)	(126,504)
) Sale of investment in associated company and other long-term investment	(25,000)	(109,691)
) Equity in net income of investees	(133,495)	(98,446)
) Amortization of goodwill and other intangible assets	(61,768)	(33,835)
Capitalization of interest expense and personnel expense to fixed assets	-	(29,085)
Accrual of remuneration and other employee benefits	(11,032)	(16,555)
Net periodic pension cost	(8,863)	(12,047)
) Reversal of allowance for doubtful accounts	(12,670)	-
Write-off of accounts receivable	(6,184)	-
) Others	(3,179)	(3,363)
Estimated taxable income of the Company before tax losses carry-over	1,479,464	759,531
Tax losses carry-over at beginning of period	(934,637)	-
Estimated taxable income (tax losses carry-over) at end of period of the Company	544,827	759,531

The computation of the total income tax expense for the nine months ended September 30, 2004 and 2005 is as follows:

	2004 (As Restated - Note 4)	2005
Estimated taxable income of the Company	544,827	759,531
Income tax expense - current (at statutory tax rates)		
Company	163,430	227,842
Subsidiaries	52,615	64,681
Total income tax expense - current	216,045	292,523

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15. TAXES PAYABLE (continued)

	2004 (As Restated - Note 4)	2005
Income tax expense (benefit) - deferred		
Effect of temporary differences at enacted maximum tax rate (30%)		
Company		
Depreciation - net	136,790	183,380
Sale of investment in associated company and other long-term investment	(3,325)	32,907
Equity in net income of investees	40,048	29,534
Amortization of goodwill and other intangible assets	18,530	10,151
Capitalization of interest expense and personnel expense to fixed assets	-	8,726
Accrual of remuneration and other employee benefits	-	4,967
Net periodic pension cost	2,660	3,614
Provision for doubtful accounts	-	(43,575)
Accrual of postretirement benefits	(7,520)	(19,775)
Compensation expense for ESOP	(17,115)	(16,403)
Provision for termination, gratuity and compensation benefits of employees	(2,457)	(2,159)
Tax loss carry-over applied	280,391	-
Reversal of allowance for doubtful accounts	3,801	-
Write-off of accounts receivable	1,855	-
Others	954	(4,098)
	<u>454,612</u>	<u>187,269</u>
Subsidiaries		
Valuation allowance - net	-	945
Depreciation - net	(6,767)	(4,891)
Allowance for decline in value of other long-term investments	8,137	(3,282)
Allowance for doubtful accounts	10,027	(1,241)
Tax loss	-	(694)
Write-off of accounts receivable	755	(31)
Equity in net income of investees	742	-
Provision for doubtful accounts	(1,663)	-
Others	(3,872)	(491)
	<u>7,359</u>	<u>(9,685)</u>
Income tax expense - deferred	<u>461,971</u>	<u>177,584</u>
Total income tax expense	<u>678,016</u>	<u>470,107</u>

The computation of the estimated income tax payable and claim for tax refund for the nine months ended September 30, 2004 and 2005 is as follows:

	2004	2005
Income tax expense - current		
Company	163,430	227,842
Subsidiaries	52,615	64,681
	<u>216,045</u>	<u>292,523</u>
Total income tax expense - current	<u>216,045</u>	<u>292,523</u>

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15. TAXES PAYABLE (continued)

	2004	2005
Less prepayments of income tax of the Company		
Article	40,461	59,142
Article	47,992	56,474
Article	149,099	163,193
	<u>237,552</u>	<u>278,809</u>
Total prepayments of income tax of the Company		
Less prepayments of income tax of Subsidiaries		
Article 22	1,102	2,696
Article 23	19,285	28,316
Article 25	10,977	17,520
	<u>31,364</u>	<u>48,532</u>
Total prepayments of income tax of Subsidiaries		
Total prepayments of income tax	<u>268,916</u>	<u>327,341</u>
Estimated income tax payable		
Company	-	-
Subsidiaries	22,172	16,149
	<u>22,172</u>	<u>16,149</u>
Total estimated income tax payable	<u>22,172</u>	<u>16,149</u>
Claims for tax refund (presented as part of "Prepaid Taxes")		
Company	(74,122)	(50,967)
)		
Subsidiaries	(921)	-
	<u>(75,043)</u>	<u>(50,967)</u>
Total claims for tax refund	<u>(75,043)</u>	<u>(50,967)</u>
)		

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 as shown in the consolidated statements of income is as follows:

	2004 (As Restated - Note 4)	2005
Income before income tax per consolidated statements of income	2,211,625	1,514,821
Company's equity in Subsidiaries' income before income tax and reversal of inter-company consolidation eliminations	72,520	98,543
	<u>2,284,145</u>	<u>1,613,364</u>
Combined income, net of loss, before income tax of the Company and Subsidiaries	<u>2,284,145</u>	<u>1,613,364</u>

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15. TAXES PAYABLE (continued)

	2004 (As Restated - Note 4)	2005
Income tax expense at the applicable tax rate of 30%	685,243	484,009
Tax effect on permanent differences		
Tax expense	2,605	21,770
Donation	6,247	3,460
Representation and entertainment	1,673	2,457
Employee benefits	1,444	866
Interest income already subjected to final tax	(36,017)	(41,927)
)		
Others	4,207	(1,402)
)		
Valuation allowance adjustment	-	945
Adjustment due to tax audit and others	672	(53)
)		
Unrealized tax loss	11,942	(18)
)		
Income tax expense - net per consolidated statements of income	678,016	470,107

The tax effects of significant temporary differences between financial and tax reporting which are outstanding as of September 30, 2004 and 2005 are as follows:

	2004 (As Restated - Note 4)	2005
Company		
Deferred tax assets		
Allowance for doubtful accounts - net	139,708	200,317
Accrual of employee benefits - net	60,448	85,970
Allowance for decline in value of investments in associated companies and other long-term investments	81,560	82,325
Compensation expense for ESOP	24,557	37,765
Pension cost	41,655	35,910
Allowance for short-term investment	7,618	7,618
Total	355,546	449,905
Deferred tax liabilities		
Property and equipment	655,227	968,894
Investment in subsidiaries/associated companies, net of goodwill and other intangible assets	66,618	143,694
Deferred bonds and loans issuance costs and discount	6,635	7,579
Difference in transactions of equity changes in associated companies/subsidiaries	1,752	1,801
Others	975	856
Total	731,207	1,122,824
Deferred tax liabilities - net	375,661	672,919

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15. TAXES PAYABLE (continued)

	2004 (As Restated - Note 4)	2005
Subsidiaries (APE in 2004 and 2005, Asiatel in 2004)		
Deferred tax assets		
Tax loss carry-over	1,631	5,595
Allowance for doubtful accounts - net	135	514
Others	41	21
	<u>1,807</u>	<u>6,130</u>
Valuation allowance	(1,631)	(5,442)
Net	<u>176</u>	<u>688</u>
Deferred tax liabilities		
Property and equipment	1,533	1,423
Others	393	526
	<u>1,926</u>	<u>1,949</u>
Deferred tax liabilities - net	<u>1,750</u>	<u>1,261</u>
Total deferred tax liabilities - net	<u>377,411</u>	<u>674,180</u>
Subsidiaries (Lintasarta and IMM in 2004 and 2005, Sisindosat in 2004)		
Deferred tax assets		
Property and equipment	22,716	26,406
Allowance for decline in value of investments in associated companies and other long-term investments	4,428	14,382
Allowance for doubtful accounts - net	14,112	9,936
Others	26,797	12,066
	<u>68,053</u>	<u>62,790</u>
Valuation allowance	(15,747)	(15,747)
Net	<u>52,306</u>	<u>47,043</u>
Deferred tax liabilities		
Investments in associated companies	1,728	4,142
Others	300	1,416
	<u>2,028</u>	<u>5,558</u>
Total deferred tax assets - net	<u>50,278</u>	<u>41,485</u>

The breakdown by entity of the foregoing deferred tax assets and liabilities outstanding as of September 30, 2004 and 2005 is as follows:

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15. TAXES PAYABLE (continued)

	2004 (As Restated - Note 4)		2005	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Company	-	375,661	-	672,919
Subsidiaries				
Sisindosat	11,883	-	-	-
Asiatel	-	691	-	-
Lintasarta	31,465	-	40,324	-
IMM	6,930	-	1,161	-
APE	-	1,059	-	1,261
Total	50,278	377,411	41,485	674,180

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 losses carryover are utilized, and the accrued employee benefits are paid. The deferred tax liabilities relate to the differences in the book and tax bases of property and equipment, goodwill and other intangible assets, and investments in associated companies/subsidiaries.

A valuation allowance has been established for certain deferred tax assets. This valuation allowance reduces tax assets to an amount which is more likely than not to be realized.

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

On January 19, 2005, the Company received assessment letters on tax underpayment ("SKPKB"/"STP") from the Directorate General of Taxation for 2003 VAT of Satelindo amounting to Rp9,677 (including penalties and interest). The assessments have been fully settled by the Company as of September 30, 2005.

On August 9, 2005, the Company received assessment letters on tax underpayment ("SKPKB"/"STP") from the Directorate General of Taxation for the 2003 Company's VAT amounting to Rp1,734 (including penalties and interest) and income tax articles 4(2), 22, 23, and 26 totalling Rp937 (including penalties and interest). The assessments have been fully settled by the Company as of September 30, 2005.

No current income tax was provided for Sisindosat and Asiatel in 2004, for SMM and SIB in 2004 and 2005 because they were in tax loss position during those periods.

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15. TAXES PAYABLE (continued)

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

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

The tax losses carryover of SMM as of September 30, 2005 can be carried forward through 2010 based on the following schedule:

Year of Expiration	Amount
2006	10,226
2008	356
2009	2,035
2010	989
Total	13,606

16. ACCRUED EXPENSES

This account consists of the following:

	2004 (As Restated - Note 4)	2005
Interest	221,113	284,949
Network repairs and maintenance	144,647	261,770
Other employee benefits	225,465	204,569
Postretirement benefits	101,952	177,500
Concession fee	108,761	110,128
Universal Service Obligation ("USO")	45,695	68,991
Labor Law No. 13 benefits (Note 29)	39,762	46,357
Postemployment benefit of salary continuation before retirement	-	35,741
Consultancy fees	15,999	25,071
Link	23,396	21,400
Rental	19,651	15,668
Pension cost (Note 29)	19,444	14,924
Radio frequency fee and licences	205,390	11,843
Utilities	3,770	5,086
Annual leave	40,543	-
Others	164,131	148,320
Total	1,379,719	1,432,317

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17. LOANS PAYABLE

This account consists of the following:

	<u>2004</u>	<u>2005</u>
Related parties		
Syndicated loan facility 2		
BNI - net of unamortized debt issuance cost of Rp11,473 in 2004 and Rp7,564 in 2005	813,527	510,082
Mandiri - net of unamortized debt issuance cost of Rp2,664 in 2004 and Rp1,689 in 2005	197,336	118,903
Others	123	-
Third parties - net of unamortized debt issuance cost of Rp13,541 in 2004 and Rp8,918 in 2005	<u>1,114,232</u>	<u>717,232</u>
Total loans payable	<u>2,125,218</u>	<u>1,346,217</u>
Less current maturities		
Related parties		
BNI	123,750	-
Mandiri	44,440	-
Third parties	189,809	51,149
Total current maturities	<u>357,999</u>	<u>51,149</u>
Long-term portion	<u>1,767,219</u>	<u>1,295,068</u>

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

Syndicated Loan Facility 2

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

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

* related parties

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17. LOANS PAYABLE (continued)

Syndicated Loan Facility 2 (continued)

The facility is divided into 3 tranches:

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

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

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

The annual interest rates ranged from 11.00% to 12.92% and from 9.30% to 11.92% for the nine months ended September 30, 2004 and 2005, respectively.

On December 7, 2004, the Company paid the first semi-annual installments amounting to Rp73,125, Rp61,875 and Rp22,220 to BCA, BNI and Mandiri, respectively.

On March 31, 2005, the Company made early payments of the loans amounting to Rp290,112, Rp245,480 and Rp57,188 to BCA, BNI and Mandiri, respectively.

On the same date, the Company also entered into agreements amending the loan agreement with BCA, BNI and Mandiri. The amendments covered, among others, the following:

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

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17. LOANS PAYABLE (continued)

Syndicated Loan Facility 2 (continued)

As of September 30, 2004 and 2005, the outstanding balances of the loans are as follows:

Bank	2004	2005
BCA	975,000	611,763
BNI*	825,000	517,645
Mandiri*	200,000	120,592
Balance	2,000,000	1,250,000
Unamortized debt issuance cost)	(27,678)	(18,171)
Net	1,972,322	1,231,829

* related parties

The amortization of debt issuance cost charged to operations amounted to Rp7,040 in 2004 and Rp7,091 in 2005.

The loans from third parties consist of the following:

	2004	2005
Syndicated Loan Facility 2 (refer to previous section on loans from related parties)		
BCA - net of unamortized debt issuance cost of Rp13,541 in 2004 and Rp8,918 in 2005	961,459	602,844
Investment Credit Facility 3 from Niaga	91,819	88,139
Investment Credit Facility 4 from Niaga	-	11,300
Import Sight Letter of Credit ("L/C") Facility and Investment Credit Facility 2 from Niaga	15,000	9,000
Investment Credit Facility 1 from Niaga	44,949	5,949
Others	1,005	-
Total	1,114,232	717,232
Less current maturities	189,809	51,149
Long-term portion	924,423	666,083

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17. LOANS PAYABLE (continued)

a. 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 3.50%. The loan has a grace period in the repayment of principal up to the quarter ended June 29, 2005. The quarterly repayment of the principal will start on September 29, 2005, at Rp9,800 each quarter up to December 29, 2007. As of September 30, 2004 and 2005, the outstanding balances of the loan amounted to Rp91,819 and Rp88,139, respectively, (of which Rp13,018 or the equivalent of US\$1,574 was used to finance Import Sight L/C facility - see point c below).

The loan is collateralized by all equipment purchased from the proceeds of the credit facility, receivables from frame relay (Note 7) 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.

b. Investment Credit Facility 4 from Niaga

On August 29, 2005, Lintasarta obtained a loan from a new credit facility from Bank Niaga for the purchase of telecommunication equipment amounting to Rp45,000. The loan bears interest at prevailing rate of Certificate of Bank Indonesia plus 3.00%. The loan has a grace period in the repayment of principal for 14 months from the date of loan agreement. The quarterly repayment of the principal will start on November 29, 2006 at Rp4,500 each quarter up to February 28, 2009. As of September 30, 2005, the outstanding balance of the loan amounted to Rp11,300.

The loan is collateralized by all equipment (purchased from the proceeds of the credit facilities) and receivables from frame relay (Note 7).

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

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

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

- Import Sight L/C facility for the purchase of telecommunication equipment, computer and other supporting facilities amounting to US\$10,000 wherein Rp15,000 of the facility would be financed through investment credit facility 2 and the remainder would be financed by Lintasarta itself. The expiry date of the facility was extended from August 14, 2004 to December 31, 2004. As of December 31, 2004, Lintasarta has already used this facility to the extent of US\$5,101. The facility used was financed by investment credit facility 2 amounting to US\$1,827 or equivalent to Rp15,000 (see below) and the remaining balance of US\$3,274 was financed by Lintasarta itself amounting to US\$1,700 and by investment credit facility 3 amounting to US\$1,574 (see point "a" above). This facility expired on December 31, 2004.
- Investment credit facility 2 amounting to Rp15,000 to finance the above facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 2.75% (subsequently changed to 3.00% on October 1, 2003). Lintasarta has a grace period until August 14, 2004 to start paying the interest on the loan. The repayment of the principal started on November 14, 2004, with installments amounting to Rp1,500 payable quarterly up to February 14, 2007. As of September 30, 2005, Lintasarta has fully drawn this facility.

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17. LOANS PAYABLE (continued)

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

The loan is collateralized by all equipment (purchased from the proceeds of the credit facilities) and receivables from frame relay (Note 7).

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

d. Investment Credit Facility 1 from Niaga

On October 16, 2001, Lintasarta obtained investment credit facility amounting to Rp117,000 from Niaga. In 2002, Lintasarta drew Rp113,199 from the facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.25% (subsequently changed to 2.75% on April 8, 2002). The repayment of the principal started on January 6, 2003, with installments amounting to Rp9,750 payable quarterly up to October 6, 2005. As of September 30, 2004 and 2005, this loan had outstanding balances of Rp44,949 and Rp5,949, respectively.

Up to September 30, 2004 and 2005, total payments of these loans amounted to Rp68,250 and Rp107,250, respectively.

The loan is collateralized by all equipment purchased from the proceeds of the credit facilities, receivables from frame relay (Note 7) 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 YKKBI in Lintasarta shall become less than 51% during the facility period.
- Lintasarta will obtain new debts (Note 18).
- 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 period's net income.

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

- Standby L/C facility amounting to US\$5,000 for the importation of electronic and telecommunication equipment and amounting to US\$100 for the payment to Lintasarta's supplier. On August 6, 2003, the facility was rolled over until August 6, 2004 but the facility amount was reduced to US\$1,000. On June 29, 2004, the facility was rolled over until August 6, 2005. As of September 30, 2005, 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 was reduced to US\$500. On June 29, 2004, the facility was rolled over until August 6, 2005. No drawdowns have been made from the reduced facility as of September 30, 2005.

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17. LOANS PAYABLE (continued)

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

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

- Overdraft facility with a maximum amount of US\$2,000 (including overdraft facility denominated in rupiah with a maximum amount of Rp16,000). Interest will be charged on daily balances at 6.00% per annum and 3.75% per annum below the Bank's Best Lending Rate for the loan denominated in rupiah and US dollar, respectively. Interest is payable on a monthly basis to the debit of the Company's current account. As of September 30, 2005, the Company has not used this facility.
- Revolving loan with a maximum amount of US\$5,000 (including revolving loan denominated in rupiah with a maximum amount of Rp40,000). The loan matures maximumly in six months and can be withdrawn into some tranches with minimum amount of US\$500. Interest will be charged on daily balances at 6.30% per annum and 3.00% per annum below the Bank's Term Lending Rate for the loan denominated in rupiah and US dollar, respectively. Interest is payable on a monthly basis to the debit of the Company's current account. As of September 30, 2005, the Company has not made any drawdown from this loan.

The facilities will be expired on February 28, 2006.

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

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

On August 25, 2005, the Company obtained facilities from Deutsche Bank AG, Jakarta Branch to finance the Company's general working capital. The facilities consist of the following:

- Loan facility with maximum amount of Rp25,000, which can be withdrawn into some advances with minimum amount of Rp100 for each advance. Each advance matures maximumly in six months and will bear interest as follows:
 - The interest on each advance with maturities of three months or less shall be payable at 1.70% per annum over Certificates of Bank Indonesia
 - The interest on each advance with maturities over three months but less than six months shall be payable at 2.50% per annum over three-month Certificates of Bank IndonesiaAs of September 30, 2005, the Company has not made any drawdown from this loan.
- Bank guarantee with a maximum amount of US\$2,000, which matures maximumly in one year. As of September 30, 2005, the Company has not used this facility.

The facilities will be expired on November 30, 2005 and shall be automatically extended for another 12 months, unless early notification in writing.

The loan is collateralized by cash deposit / current account placed in Deutsche Bank AG, Jakarta Branch.

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

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17. LOANS PAYABLE (continued)

The scheduled principal payments from 2006 to 2008 of all the loans payable as of September 30, 2005 are as follows:

	Twelve months ended September 30,			Total
	2006	2007	2008	
<u>In rupiah</u>				
Syndicated Loan Facility 2*				
BCA	-	-	611,763	611,763
BNI	-	-	517,645	517,645
Mandiri	-	-	120,592	120,592
Niaga	51,149	42,200	21,039	114,388
Total	51,149	42,200	1,271,039	1,364,388
Less unamortized debts issuance cost				18,171
Net				1,346,217

* please refer to previous discussion on early repayment option

18. BONDS PAYABLE

As of September 30, 2004 and 2005, this account consists of:

	2004	2005
Guaranteed Notes Due 2010 (US\$300,000) - net of unamortized notes issuance cost of Rp25,454 in 2004 and Rp22,063 in 2005	2,725,546	3,070,937
Guaranteed Notes Due 2012 (US\$250,000) - net of unamortized notes discount of Rp15,763 and unamortized notes issuance cost of Rp23,974	-	2,537,763
Third Indosat Bonds in Year 2003 with Fixed Rate - net of unamortized bonds issuance cost of Rp26,125 in 2004 and Rp21,613 in 2005	2,454,098 *	2,478,387
Second Indosat Bonds in Year 2002 with Fixed and Floating Rates	1,075,000	1,075,000
First Indosat Bonds in Year 2001 with Fixed and Floating Rates	1,000,000	951,500
Fourth Indosat Bonds in Year 2005 with Fixed Rate - net of unamortized bonds issuance cost of Rp8,509	-	806,491
Indosat Syari'ah Ijarah Bonds in Year 2005- net of unamortized bonds issuance cost of Rp3,018	-	281,982
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
Total bonds payable	7,466,186	11,413,602
Less current maturities	-	981,936
Long-term portion	7,466,186	10,431,666

* after elimination of bonds held by IMM in 2004 amounting to Rp19,777 which were considered as treasury bonds (Note 2n)

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

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

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18. BONDS PAYABLE (continued)

Guaranteed Notes Due 2010

In October 2003, the Company, through IFB, issued Guaranteed Notes Due 2010 with fixed rate. The notes have a total face value of US\$300,000. The notes bear fixed interest rate at 7.75% per annum payable in semi-annual installments on May 5 and November 5 of each year, commencing May 5, 2004. The notes will mature on November 5, 2010.

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

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

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

The amortization of notes issuance cost charged to operations amounted to Rp2,374 in 2004 and Rp2,566 in 2005.

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

Guaranteed Notes Due 2012

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

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18. BONDS PAYABLE (continued)

Guaranteed Notes Due 2012 (continued)

The notes will be redeemable at the option of IIFB, in whole or in part at any time on or after June 22, 2010 at prices equal to 103.5625%, 101.7813% and 100.0000% of the principal amount during the 12-month period commencing on June 22, 2010, 2011 and 2012, respectively, plus accrued and unpaid interest and additional amounts, if any. In addition, prior to June 22, 2008, IIFB may redeem up to a maximum of 35% of the original aggregate principal amount, with the proceeds of one or more public equity offerings of the Company, at a price equal to 107.125% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any. The notes are also redeemable at the option of IIFB, in whole but not in part, at any time, at a price equal to 103.5625% of the principal amount thereof, plus any accrued and unpaid interest and additional amounts to the date of redemption, in the event of certain changes affecting withholding taxes in Indonesia and The Netherlands that would require IIFB or the Company to pay an additional amount in respect of any note in excess of certain amounts. Upon a change in control of IIFB (including sale, transfer, assignment, lease, conveyance or other disposition of all or substantially all of IIFB's assets), the holder of the notes has the right to require IIFB to repurchase all or any part of such holder's notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional amounts, if any, to the purchase date.

The Company received the proceeds of the notes on June 23, 2005.

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

The amortization of notes discount and issuance cost charged to operations amounted to Rp493 and Rp750, respectively, in 2005.

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

Third Indosat Bonds in Year 2003 with Fixed Rate

On October 15, 2003, the Company issued at face value its Third Indosat Bonds in Year 2003 with Fixed Rate ("Third Indosat Bond"), with BRI as the trustee. The bonds have a total face value of Rp2,500,000 in Rp50 denomination. The bonds consist of two series:

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

The bonds will mature if the Company exercises the following options:

- *Early Settlement Option* : the Company has the right to make early payment for all the Series A bonds on the 4th anniversary of the bonds at 100% of the bonds' nominal value. The Company has also the right to make early payment for all the Series B bonds on the 4th and 6th anniversaries of the bonds at 100% of the bonds' nominal value.

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18. BONDS PAYABLE (continued)

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

- *Buy-back Option* : after the 1st anniversary of the bonds, the Company has the right to buy back part or all of the bonds at market price temporarily or as an early settlement.

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

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

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

The bonds are neither collateralized nor guaranteed by other parties.

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

The amortization of bonds issuance cost charged to operations amounted to Rp3,317 in 2004 and Rp3,217 in 2005.

Based on the latest rating report released in September 2005, the bonds currently have *AA+* (stable outlook) rating from PT Pemeringkat Efek Indonesia ("Pefindo").

Second Indosat Bonds in Year 2002 with Fixed and Floating Rates

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

- Series A bonds amounting to Rp775,000 which bear interest at the fixed rate of 15.75% per annum for 5 years starting February 6, 2003
- Series B bonds amounting to Rp200,000 which bear interest at the fixed rate of 16% per annum for 30 years starting February 6, 2003. The bonds mature if the Company or the bondholder exercises the following options:

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18. BONDS PAYABLE (continued)

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

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

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

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

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

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

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

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

First Indosat Bonds in Year 2001 with Fixed and Floating Rates

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

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18. BONDS PAYABLE (continued)

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

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.

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

On September 12 and 13, 2005, the Company repurchased a portion of the Series A bonds totalling Rp48,500 at the price which equals to 101.175% of the principal amount repurchased, plus accrued and unpaid interest.

Fourth Indosat Bonds in Year 2005 with Fixed Rate

On June 21, 2005, the Company issued its Fourth Indosat Bonds in Year 2005 with Fixed Rate ("Fourth Indosat Bond"), with BRI as the trustee. The bonds have a total face value of Rp815,000 in Rp50 denomination. The bonds bear interest at the fixed rate of 12.00% per annum, payable on a quarterly basis. The bonds will mature on June 21, 2011.

The bonds will mature if the Company exercises the following options:

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

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

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

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18. BONDS PAYABLE (continued)

Fourth Indosat Bonds in Year 2005 with Fixed Rate (continued)

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

The amortization of bonds issuance cost charged to operations amounted to Rp280 in 2005.

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

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

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

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

The bonds will mature if the Company exercises the following options:

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

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

The bonds are not collateralized by any specific Company assets nor guaranteed by other parties.

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

The amortization of bonds issuance cost charged to operations amounted to Rp99 in 2005.

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

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

On November 6, 2002, the Company issued its Syari'ah Bonds, with BRI as the trustee. The bonds have a total face value of Rp175,000 in Rp50 denomination and will mature on November 6, 2007.

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

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

KSEI, acting as payment agent, 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.

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

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18. BONDS PAYABLE (continued)

Limited Bonds Issued by Lintasarta

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

On September 26, 2003, Lintasarta obtained approval from Niaga on the issuance of the limited bonds (Note 17).

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.

On May 23, 2003, Lintasarta obtained approval from Niaga on the issuance of the convertible bonds (Note 17).

Based on the first amendment dated July 12, 2004 of the Convertible Bonds Agreement, the fixed interest rate of the convertible bonds issued by Lintasarta has been changed to become a floating rate. The floating rate is determined using the average rate for 6-month rupiah time deposits with Mandiri, BNI and BTN, plus a fixed premium of 3%. The floating rate should have a maximum limit of 19% and a minimum limit of 11%. The first amendment is effective starting July 1, 2004.

The scheduled principal payments of all the bonds payable outstanding as of September 30, 2005 are as follows:

	Twelve months ended September 30,					
	2006	2008	2009	2011	2012 and thereafter	Total
In U.S. dollar						
Guaranteed Notes *						
Due 2010						
(US\$300,000)	-	-	-	3,093,000	-	3,093,000
Due 2012						
(US\$250,000)	-	-	-	-	2,577,500	2,577,500
Sub-total	-	-	-	3,093,000	2,577,500	5,670,500

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18. BONDS PAYABLE (continued)

Twelve months ended September 30,

	2006	2008	2009	2011	2012 and thereafter	Total
In rupiah						
Third Indosat Bonds *	-	-	1,860,000	640,000	-	2,500,000
Second Indosat Bonds *	-	875,000	-	-	200,000	1,075,000
First Indosat Bonds	951,500	-	-	-	-	951,500
Fourth Indosat Bonds *	-	-	-	815,000	-	815,000
Syari'ah Ijarah Bonds *	-	-	-	285,000	-	285,000
Syari'ah Bonds	-	175,000	-	-	-	175,000
Limited Bonds of Lintasarta	30,436	-	-	-	-	30,436
Sub-total	981,936	1,050,000	1,860,000	1,740,000	200,000	5,831,936

Convertible Bonds of Lintasarta which will be converted into Lintasarta's shares of common stock 6,106

Total	11,508,542
Less:	
- unamortized notes issuance cost	(46,037)
- unamortized bonds issuance cost	(33,140)
- unamortized notes discount	(15,763)
Net	11,413,602

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

19. CAPITAL STOCK

The Company's capital stock ownership as of September 30, 2004 and 2005 is as follows:

2004

Stockholders	Number of Shares Issued and Fully Paid	Amount	Percentage of Ownership (%)
A Share			
Government of the Republic of Indonesia	1	-	-
B Shares			
Indonesia Communications Limited, Mauritius	2,171,250,000	217,125	41.21
Government of the Republic of Indonesia	776,624,999	77,662	14.74
Directors:			
Hasnul Suhaimi	352,500	35	0.01
Wahyu Wijayadi	27,500	3	-
Sutrisman	17,500	2	-
Others (each holding below 5%)	2,321,023,000	232,103	44.04
Total	5,269,295,500	526,930	100.00

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19. CAPITAL STOCK (continued)

2005

Stockholders	Number of Shares Issued and Fully Paid	Amount	Percentage of Ownership (%)
A Share			
Government of the Republic of Indonesia	1	-	-
B Shares			
Indonesia Communications Limited, Mauritius	2,171,250,000	217,125	40.77
Government of the Republic of Indonesia	776,624,999	77,662	14.58
Commissioner:			
Roes Aryawijaya	135,000	14	-
Directors:			
Wahyu Wijayadi	252,500	25	0.01
Hasnul Suhaimi	240,000	24	0.01
Wityasmoro Sih Handayanto	200,000	20	0.01
Ng Eng Ho	169,000	17	-
Joseph Chan Lam Seng	90,000	9	-
Johnny Swandi Sjam	30,000	3	-
Raymond Tan Kim Meng	22,500	2	-
S. Wimbo S. Hardjito	2,500	-	-
Others (each holding below 5%)	2,376,189,000	237,620	44.62
Total	5,325,205,500	532,521	100.00

The "A" share is a special share held by the Government of the Republic of Indonesia and has special voting rights. The material rights and restrictions which are applicable to the "B" shares are also applicable to the "A" share, except that the Government may not transfer the "A" share, and it has a veto right with respect to (i) amendment to the objective and purposes of the Company; (ii) increase of capital without pre-emptive rights; (iii) merger, consolidation and acquisition; (iv) amendment to the provisions regarding the rights of "A" share as stipulated in the Articles of Association; and (v) dissolution and liquidation of the Company.

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 had 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 41.21% ownership interest in 2004 or 40.77% ownership interest in 2005) 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:

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19. CAPITAL STOCK (continued)

- 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 one director and one commissioner of the Company and to have the veto right with respect to the amendment to the provisions regarding the rights of "A" share as stipulated in the Articles of Association.

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, 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 I (Note 20) from Rp7,837.2 to Rp1,567.4 (in full amounts) and increase the number of options by 5 times.

In connection with the exercise of ESOP Phase I and Phase II commencing from August 1, 2004 and August 1, 2005, respectively, 147,705,500 B shares have been issued as of September 30, 2005 (Note 20) at a total premium of Rp358,511.

20. STOCK OPTIONS

At the Company's Annual Stockholders' General Meeting held on June 26, 2003, the stockholders resolved to, among others, issue 258,875,000 Company B shares (as restated, Note 19) 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 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)].

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20. STOCK OPTIONS (continued)

The ESOP will be distributed in two phases:

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

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

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

The total fair values of stock options under ESOP Phase I and Phase II are Rp55,932 and Rp155,681, respectively.

The fair values of stock options under ESOP Phase I and Phase II were computed by adopting the Black-Scholes option pricing model and applying the following assumptions:

	<u>Phase I</u>	<u>Phase II</u>
Risk-free interest rate	10.00%	8.90%
Expected dividend yield	4.36%	3.50%
Expected volatility	36.50%	37.00%
Expected option period	2 years	2 years

In 2004, the Company recognized the remaining proportionate seven months' compensation expense relating to ESOP Phase I and the proportionate two months' compensation expense relating to ESOP Phase II amounting to Rp31,088 and Rp25,961, respectively, while in 2005, the Company recognized the remaining proportionate seven months' compensation expense relating to ESOP Phase II amounting to Rp90,739 as part of "Operating Expenses- Personnel" (Note 24).

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

As of September 30, 2005, the number of stock options under ESOP Phase I and Phase II exercised by the employees is 121,428,000 and 26,277,500 shares, respectively (Note 19).

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21. OPERATING REVENUES - CELLULAR

This account consists of:

	2004	2005
Usage charges	3,077,361	3,707,654
Features	1,504,924	2,161,323
Interconnection income	544,125	598,802
Connection fee	99,348	124,833
Monthly subscription charges	83,257	22,148
Others	33,621	75,728
Total	5,342,636	6,690,488

The above interconnection income includes interconnection income from related parties amounting to Rp419,830 and Rp 387,153 in 2004 and 2005, respectively (Note 30).

22. OPERATING REVENUES - FIXED TELECOMMUNICATION

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

	2004	2005
International calls		
Incoming calls	734,327	503,993
Outgoing calls	477,450	334,084
Others	65,507	140,125
Total	1,277,284	978,202

Net settlements from other foreign telecommunications carriers of international telephone services amounted to Rp531,108 and Rp543,077 in 2004 and 2005, respectively.

Operating revenues - fixed telecommunication from related parties amounted to Rp502,260 and Rp227,905 in 2004 and 2005, respectively. These amounts represent 39.32% and 23.30% of total operating revenues - fixed telecommunication in 2004 and 2005, respectively (Note 30).

23. OPERATING REVENUES - MIDI

This account consists of:

	2004	2005
<u>Related parties</u>		
Frame net	80,862	72,696
Internet	38,555	55,572
World link and direct link	47,791	51,927
Satellite lease	20,161	23,874
Application services	9,642	22,035
IPVPN	20,302	18,277
Leased line	7,938	15,560

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23. OPERATING REVENUES - MIDI (continued)

	2004	2005
Digital data network	11,999	12,427
Packet net	17,466	9,126
Others	3,094	640
	257,810	282,134
<u>Third parties</u>		
Frame net	204,807	216,767
Internet	177,996	211,507
World link and direct link	168,518	136,818
Digital data network	81,990	91,451
Satellite lease	95,270	89,315
Leased line	55,874	86,832
IPVPN	3,443	76,125
Application services	11,402	23,402
TV link	7,788	13,450
Packet net	4,985	5,011
VoIP	23,006	-
Others	20,228	7,145
	855,307	957,823
Total	1,113,117	1,239,957

24. OPERATING EXPENSES - PERSONNEL

This account consists of:

	2004 (As Restated - Note 4)	2005
Salaries	194,919	187,146
Employee income tax	114,018	133,682
Bonuses	182,275	128,300
Incentives and other employee benefits	126,706	115,929
Outsourcing	61,035	91,384
ESOP compensation expense (Note 20)	57,049	90,739
Postretirement healthcare benefit	36,100	66,965
Postemployment benefit of salary continuation before retirement	-	35,741
Medical expense	29,075	34,591
Pension (Note 29)	25,336	21,204
Separation, appreciation and compensation expense under Labor Law No. 13/2003 (Note 29)	9,183	8,274
Others	44,450	30,922
Total	880,146	944,877

The personnel expenses capitalized to properties under construction and installation amounted to nil in 2004 and Rp22,530 in 2005.

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25. OPERATING EXPENSES - ADMINISTRATION AND GENERAL

This account consists of:

		2004	2005
Provision (reversal of allowance) for doubtful accounts	(31,338)	121,257	
Rent		69,752	78,810
Travel		38,920	59,733
Training, education and research		25,021	48,269
Professional fees		25,074	31,176
Communication		24,740	26,729
Catering		21,861	25,534
Insurance		21,346	24,865
Utilities		19,403	23,941
Office supplies and stationery		13,194	13,693
Public relations		9,592	10,220
Others		37,832	37,120
Total		275,397	501,347

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

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

		2004	2005
Telkom		352,647	318,243
Other telecommunications carriers and service providers		18,271	14,097
Total		370,918	332,340

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

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

Other expenses charged by Telkom relate to the billings for the use of circuit, infrastructure rental and billing processing services provided by Telkom (Note 30). Other expenses charged by other telecommunications carriers mainly consist of billings for the use of their circuits.

The Company, Satelindo and IM3 have interconnection arrangements with domestic and overseas operators (Notes 30, 36 and 37). 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:

	2004	2005
<u>Domestic</u>		
Interconnection revenues	582,148	874,234
Interconnection charges	(439,098)	(591,731)
)		
Net	143,050	282,503

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

	2004	2005
<u>Overseas</u>		
Revenues from international carriers	823,100	696,075
Charges from international carriers	(291,992)	(152,998)
Net	531,108	543,077

27. OPERATING EXPENSES - OTHER COSTS OF SERVICES

This account consists of:

	2004	2005
Cost of SIM cards and pulse reload vouchers	219,580	292,302
Radio frequency fee and licenses	270,547	265,028
Content provider	50,011	141,357
Rent	104,329	115,643
Utilities	68,563	104,465
Concession fee	76,665	90,126
USO (Note 36)	45,695	54,901
Billing and collection	20,278	45,275
Delivery and transportation	26,015	35,346
Communication network	11,885	13,566
Insurance	14,406	10,012
Wartel ("Phone Kiosk") commission	1,930	9,939
Installation	6,782	9,416
Cost of software sold	62,682	-
Others	33,545	52,073
Total	1,012,913	1,239,449

28. OTHER EXPENSES - FINANCING COST

This account consists of:

	2004	2005
Interest on loans	803,867	949,782
Amortization of debts/bonds issuance cost (Notes 17 and 18)	12,731	14,003
Bank charges	1,090	1,979
Amortization of bonds discount (Note 18)	-	493
Total	817,688	966,257

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29. PENSION PLAN

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

Defined Benefit Pension Plan

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

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

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

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

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

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.

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

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

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

- An increase in basic salary pension by 3% compounded annually starting April 1, 2003.
- An increase in periodic payment of retirement benefit at 5% compounded annually starting one year after receiving periodic retirement benefit for the first time.
- Profit sharing provided by Jiwasraya to Lintasarta 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.

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

The composition of the net periodic pension cost for the nine months ended September 30, 2004 and 2005 is as follows:

	2004 (As Restated - Note 4)	2005
Interest cost	36,832	42,150
Service cost	25,928	30,607
Net amortization and deferral	3,619	640
Return on plan assets)	(41,043)	(52,193)
Net periodic pension cost	25,336	21,204

The net periodic pension cost for the pension plans for the nine months ended September 30, 2004 (as restated) and 2005 was calculated based on the actuarial valuation as of December 31, 2004.

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

Annual discount rate	10%
Expected return on plan assets	10%
Annual rate of increase in compensation	9%

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

The funded status of the plans as of September 30, 2004 and 2005 is as follows:

	2004 (As Restated - Note 4)	2005
Projected benefit obligation	(556,704)	(643,857
)		
Plan assets at fair value	626,247	798,008
Excess of plan assets over projected benefit obligation	69,543	154,151
Unrecognized actuarial gain	123,454	81,535
Prepaid pension cost	192,997	235,686

Prepaid pension cost - net consists of:

	2004 (As Restated - Note 4)	2005
Prepaid pension cost of the Company:		
Current portion (presented as part of "Prepaid Expenses")	24,321	17,014
Long-term portion	188,120	233,596
Accrued pension cost of		
Lintasarta	(19,444)	(14,924
)		
Net	192,997	235,686

Plan assets as of September 30, 2004 and 2005 principally consisted of time deposits, debt securities, long-term investment in shares of stock and property.

Defined Contribution Pension Plan

In May 2001 and January 2003, the Company and Satelindo assisted their employees in establishing their respective employees' defined contribution pension plans, in addition to the defined benefit pension plan as mentioned above. Starting June 2004, the Company also assisted ex-IM3's employees in establishing their defined contribution pension plan. Under the defined contribution pension plan, the employees contribute 10% - 20% of their basic salaries while the Company does not contribute to the plans. Total contributions of the employees for the nine months ended September 30, 2004 and 2005 amounted to Rp14,771 and Rp12,918, 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.

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29. PENSION PLAN (continued)

Defined Contribution Pension Plan (continued)

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. For the nine months ended September 30, 2004 and 2005, the benefits provided by the Companies in accordance with this law amounted to Rp39,762 (as restated) and Rp46,357, respectively. The accruals provided in 2004 and 2005 were determined on the basis of actuarial computations. Such benefits provided are included in Personnel Expenses in the consolidated statements of income.

30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES

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

	Amount		Percentage to Total Assets/Liabilities (%)	
	2004	2005	2004	2005
Cash and cash equivalents				
State-owned banks (Note 5)	2,360,926	3,018,992	8.63	9.39
Accounts receivable - trade				
Telkom	386,930	201,325	1.41	0.63
PT Televisi Republik Indonesia (Persero) ("TVR I")	37,870	45,251	0.14	0.14
Telkomsel	56,407	28,055	0.21	0.09
Singapore Telecommunications Ltd. ("SingTel"), Singapore	38,492	25,991	0.14	0.08
StarHub Pte. Ltd. ("StarHub"), Singapore	29,358	25,196	0.11	0.08
State-owned banks	-	18,365	-	0.06
PT Pos Indonesia	9,140	10,224	0.03	0.03
PT Infokom Elektrindo	8,068	10,096	0.03	0.03
Belgacom S.A.	-	4,679	-	0.01
PT Citra Sari Makmur ("CSM")	4,868	4,444	0.02	0.01
Cable & Wireless Optus ("Optus"), Australia	1,245	4,388	0.00	0.01
PSN	3,724	3,378	0.01	0.01
PT Telekomindo Selular Raya ("Telekomindo")	1,732	2,351	0.01	0.01
Others	39,402	17,697	0.15	0.06
Total	617,236	401,440	2.26	1.25
Less allowance for doubtful accounts	139,968	154,548	0.51	0.48
Net	477,268	246,892	1.75	0.77
Prepaid expenses (as restated)				
Jiwasraya	24,321	17,014	0.09	0.05
Kopindosat	2,267	9,564	0.01	0.03
Others	1,412	3,503	0.00	0.01
Total	28,000	30,081	0.10	0.09

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities (%)	
	2004	2005	2004	2005
Other current assets				
State-owned banks	1,761	3,819	0.01	0.01
Others	339	-	0.00	-
Total	2,100	3,819	0.01	0.01
Due from related parties - net				
Key management personnel	18,069	18,671	0.07	
0.06				
Telkomsel	17,302	12,484	0.06	0.04
YIMM	10,413	10,413	0.04	0.03
Kopindosat	2,230	6,197	0.01	0.02
BNI	4,023		-	0.01
-				
Others	6,542		1,809	0.03
0.00				
Total	58,579	49,574	0.22	0.15
Less allowance for doubtful accounts	11,716	12,629	0.04	0.04
Net	46,863	36,945	0.18	0.11
Long-term prepaid pension (as restated)				
Jiwasraya	188,120	233,596	0.69	0.73
Long-term advances				
Kopindosat	20,857	16,227	0.08	0.05
Others	5,600	3,428	0.02	0.01
Total	26,457	19,655	0.10	0.06
Non-current assets - others				
State-owned banks	3,531	10,816	0.01	0.03
Pelayaran Nasional Indonesia	6,044	-	0.02	-
Total	9,575	10,816	0.03	0.03
Short-term loans				
Mandiri	3,524	-	0.02	-
Accounts payable - trade				
Telkom	-	7,705	-	0.04
Kopindosat	-	1,798	-	0.01
Others	16,934	1,257	0.12	0.01
Total	16,934	10,760	0.12	0.06
Procurement payable				
Kopindosat	8,182	19,837	0.06	0.11
PT Industri Telekomunikasi Indonesia	8,528	1,679	0.06	0.01
Total	16,710	21,516	0.12	0.12

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities (%)	
	2004	2005	2004	2005
Dividend payable				
Others	2,948	4,242	0.02	0.02
Accrued expenses (as restated)				
Ministry of Communications and Information Technology (formerly "Ministry of Communications")	359,846		190,962	2.54
1.03				
Key management personnel	51,002	68,825	0.36	0.37
Jiwasraya	19,444	14,924	0.14	0.08
Telkom	882		3,695	0.00
0.02				
Others	27,248	-	0.19	-
Total	458,422	278,406	3.23	1.50
Due to related parties				
PT Pos Indonesia	-	3,602	-	0.02
Indonesia Comnet	-	2,299	-	0.01
TVRI	2,262	2,262	0.01	0.01
State-owned banks	-	1,875	-	0.01
Kopindosat	1,518	1,530	0.01	0.01
Others	32,334	2,075	0.23	0.01
Total	36,114	13,643	0.25	0.07
Loans payable (including current maturities)				
State-owned banks	1,010,986	628,985	7.12	3.39
Other non-current liabilities				
Ministry of Communications and Information Technology	145,991	145,991	1.03	0.79

	Amount		Percentage to Respective Income or Expenses (%)	
	2004	2005	2004	2005
Operating revenues				
Telkom	634,644	504,689	8.13	5.67
State-owned banks	119,063	97,617	1.53	1.10
Telkomsel	156,503	83,080	2.00	0.93
Sing Tel	118,654	50,131	1.52	0.56
StarHub	26,572	26,480	0.34	0.30
PT Infokom Elektrindo	13,150	13,970	0.17	0.16
Lembaga Kantor Berita Negara Antara	12,793	8,337	0.16	0.09
Belgacom S.A.	9,898	7,855	0.13	0.09
CSM	6,034	7,586	0.08	0.09
PT Angkasa Pura	3,837	4,637	0.05	0.05
Optus	8,451	4,313	0.11	0.05
PSN	5,513	3,469	0.07	0.04
PT Garuda Indonesia	2,135	3,035	0.03	0.03
Others	121,549	81,993	1.56	0.91
Total	1,238,796	897,192	15.88	10.07

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Respective Income or Expenses (%)	
	2004	2005	2004	2005
Operating expenses				
Personnel (as restated)				
Key management personnel	121,920	94,574	2.38	1.56
Jiwasraya	25,336	21,204	0.49	0.35
Total	147,256	115,778	2.87	1.91
Administration and general				
Kopindosat	21,603	43,460	0.42	0.72
PT Usaha Gedung Bank Dagang Negara ("UGBDN")	2,741	1,743	0.05	0.03
Kantor Pos dan Giro Besar I	234	1,153	0.00	0.02
Total	24,578	46,356	0.47	0.77
Compensation to telecommunications carriers and service providers				
Telkom	352,647	318,243	6.88	5.26
Others	5,033	3,352	0.10	0.06
Total	357,680	321,595	6.98	5.32
Leased circuits				
PT Indonesia Comnet Plus ("Comnet")	9,523	24,376	0.19	0.40
Sing Tel	10,904	15,410	0.21	0.25
StarHub	1,456	5,199	0.03	0.09
Total	21,883	44,985	0.43	0.74
Other costs of services				
Ministry of Communications and Information Technology	392,907	410,055	7.66	6.78
Other income				
Interest income				
State-owned banks	51,171	37,571	(9.69)	(2.79)

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 17).

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

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 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 26).
- The compensation arrangement for the services provided is based on interconnection tariffs (Note 36) 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.

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 36).

- (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.

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

b. Telkom (continued)

- (3) In 1999, Lintasarta entered into an agreement with Telkom, whereby Telkom agreed to lease transponder to Lintasarta. This agreement has been amended several times, the latest amendment of which is based on the fourth amendment agreement dated April 8, 2005. Transponder lease expense charged to operations amounted to Rp11,266 in 2004 and Rp6,075 in 2005 which are presented as part of "Operating Expenses - Compensation to Telecommunications Carriers and Service Providers".

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

	Amount		Percentage to Respective Income or Expenses (%)	
	2004	2005	2004	2005
Net operating revenues	634,644	504,689	8.13	5.67
Operating expenses	352,647	318,243	6.88	5.26

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 nine months ended September 30, 2004 and 2005 amounted to Rp491,630 and Rp512,018 respectively, which are net of interconnection charges amounting to Rp342,948 and Rp52,239, respectively.

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

d. Jiwasraya

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

e. Key Management Personnel

The amounts due from key management personnel represent portions of housing and transportation allowances which were given in advance by the 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 2004 and 2005 amounted to Rp18,069 and Rp18,671, respectively, and are presented as part of "Due from Related Parties", while those given to non-key management personnel amounting to Rp3,100 and Rp3,000 as of September 30, 2004 and 2005 are presented as part of "Accounts Receivable - Others" for the current portion, and Rp122,222 and Rp117,253 as of September 30, 2004 and 2005, respectively, as "Long-term Receivables" for the long-term portion.

f. Kopindosat

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

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

As of September 30, 2004 and 2005, Kopindosat has investments in the following entities:

	<u>Equity Interest (%)</u>
PT Puri Perkasa Farmindo	95.00
PT Duta Sukses Utama	90.00
PT Mutiara Data Caraka Lintas	15.00
Lintasarta	0.66
Sisindokom (formerly Sisindosat)	0.53
IMM	0.50

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.

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

f. Kopindosat (continued)

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.

g. PSN

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

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

h. GLP

In 1997, GLP (an associated company) issued a promissory note amounting to US\$10,000 payable to PT Asuransi Jasa Indonesia, which note was subsequently arranged to be made payable to PT Rekasaran Utama on the maturity date of the note in 1997. The note was secured by a corporate guarantee issued by Sisindosat.

As a result of the economic condition in Indonesia (Note 40), GLP could no longer pay the note. As guarantor, Sisindosat had become liable for the payment of the note. At the Extraordinary Meeting of the Stockholders of GLP in 1998, the stockholders approved that Sisindosat be entitled to take custody of the office building when GLP defaulted in the payment of the note. Based on a negotiable promissory note agreement in 1999, the note was settled from the proceeds of a loan acquired by Sisindosat from the Company and Sisindosat's guarantee was released.

Sisindosat provided an allowance for possible loss from the non-collection of this loan receivable and related interest in 2002 and 2003, after considering GLP's financial position. GLP was sold in 2004 (Note 9).

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

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

No.	Related Parties	Relationship	Nature of Account Balances/Transactions
1.	TVRI	Affiliate	Operating revenues - MIDI and marketing expenses (advertising)
2.	StarHub	Affiliate	Operating revenues - international calls
3.	Sing Tel	Affiliate	Operating revenues - cellular and international calls

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

No.	Related Parties	Relationship	Nature of Account Balances/Transactions
4.	PT Infokom Elektrindo	Affiliate	Operating revenues - cellular, international calls and MIDI
5.	PT Pos Indonesia	Affiliate	Operating revenues - MIDI
6.	CSM	Affiliate	Operating revenues - MIDI
7.	Optus	Affiliate	Operating revenues - cellular and international calls
8.	Telekomindo	Affiliate	Operating revenues - cellular and international calls
9.	PT Garuda Indonesia	Affiliate	Operating revenues - MIDI
10.	Mobisel	Affiliate	Operating revenues - cellular and international calls
11.	Ministry of Communication and Information Technology	Government agency	Operating revenues - MIDI and concession fee
12.	YIMM	Associated company	Interest-bearing loan
13.	Kalimaya	Associated company	Interest-bearing loan
14.	Comnet	Affiliate	Other cost of services - rent of transmission channel
15.	PT Industri Telekomunikasi Indonesia	Affiliate	Procurement payable
16.	Lembaga Kantor Berita Negara Antara	Affiliate	Operating revenues - MIDI
17.	Belgacom S.A.	Affiliate	Operating revenues - cellular and international calls
18.	PT Angkasa Pura	Affiliate	Operating revenues - MIDI
19.	UGBDN	Affiliate	Rent expense

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31. EARNINGS PER SHARE

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

	2004 (As Restated - Note 4)	2005
Numerator for basic and diluted earnings per share		
Net income	1,516,240	1,018,427
Denominator - number of shares		
Denominator for basic earnings per share		
Weighted-average number of shares outstanding		
during the period including effect of exercise of		
ESOP Phase I and Phase II	5,269,295,500	5,241,368,148
Dilutive effect of ESOP (Note 20)		
Phase II	809,895	-
Denominator for diluted earnings per share	5,270,105,395	5,241,368,148
Basic earnings per share	287.75	194.31
Diluted earnings per share	287.71	194.31

32. DISTRIBUTION OF INCOME AND APPROPRIATION OF RETAINED EARNINGS

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

- a. Approve the utilization of 2003 net income 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, except payment of dividend for the Government which would be paid in accordance with the prevailing laws and regulations.

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

- a. Approve the utilization of 2004 net income as follows:
 - 50% for reinvestment and working capital
 - 1% for reserve fund
 - 49% for dividend or Rp154.23 per share
- b. Pay the dividend on July 15, 2005, except payment of dividend for the Government which will be paid in accordance with the prevailing laws and regulations.

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33. DERIVATIVES

The Company's overall treasury and funding policies focus on managing financial risks, including interest rate and foreign exchange risks, and on cost-efficient funding. The Company does not enter into derivative financial instruments for trading purposes.

During 2004 and 2005, the Company entered into several swap contracts. Listed below is information related to the contracts and their fair values as of September 30, 2004 and 2005:

Cross Currency Swap:

	Notional Amount (US\$)	Fair Value (Rp)			
		2004		2005	
		Receivable	Payable	Receivable	Payable
a. Goldman Sachs Capital Market, L.P., New York ("GSCM") ⁽¹⁾	50,000	-	-	-	-
b. GSCM ⁽¹⁾	25,000	-	-	-	-
c. GSCM ⁽¹⁾	25,000	-	-	-	-
d. Standard Chartered Bank, Jakarta Branch	25,000	-	-	5,956	25,501
e. GSCM ⁽²⁾	100,000	-	71,410	-	-
f. JPMorgan Chase Bank, Singapore Branch ("JPMorgan")	25,000	-	-	1,133	-
g. Goldman Sachs International ("GSI")	100,000	-	-	68,159	-
h. GSI	25,000	-	-	3,008	-
i. GSI	75,000	-	-	-	17,253
j. Merrill Lynch Capital Market Bank Limited ("MLCMB")	25,000	-	-	-	2,397
Sub-total		-	77,366	97,801	19,650

Interest Rate Swap:

	Notional Amount (US\$)	Fair Value (Rp)			
		2004		2005	
		Receivable	Payable	Receivable	Payable
k. Barclays Capital, London ("Barclays") ⁽³⁾	50,000	-	2,688	-	-
l. ABN AMRO Bank, N.V., London Branch ("ABN") ⁽⁴⁾	25,000	-	275	-	-
m. GSCM ⁽¹⁾	25,000	5,002	-	-	-
n. ABN ⁽⁴⁾	25,000	3,189	-	-	-
o. The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch ("HSBC") ⁽²⁾	25,000	3,400	-	-	-
p. ABN ⁽²⁾	50,000	-	-	-	-
Sub-total		11,591	2,963	-	-
Total		11,591	80,329	97,801	19,650

⁽¹⁾ terminated in 2004

⁽²⁾ terminated in May 2005

⁽³⁾ terminated in April 2005

⁽⁴⁾ terminated in January 2005

The net change in fair value of the swap contracts totalling (Rp63,045) and Rp35,628 in 2004 and 2005, respectively, is presented as "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses) in the consolidated statements of income. "Derivative Assets" is presented under current assets amounting to Rp11,591 and Rp97,801 as of September 30, 2004 and 2005, respectively, and

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“Derivative Liabilities” is presented under current liabilities amounting to Rp80,329 and Rp19,650 as of September 30, 2004 and 2005, respectively.

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33. DERIVATIVES (continued)

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 would 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 would be computed based on 12-month LIBOR rate. The contract provided 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 was equal to or less than 5.90%. Otherwise, the semi-annual payments would be at 12-month U.S. dollar LIBOR plus 2.125% per annum. Total swap cost in 2004 amounting to Rp8,313 is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

This contract was terminated on August 9, 2004. Based on the termination confirmation, the Company should pay US\$2,340 to GSCM for the termination payment and to roll over the US\$2,340 outstanding balance under the contract into the new cross currency swap contract (Note 33e).

- b. On February 20, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company would 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 would be computed based on 12-month LIBOR rate. The contract provided 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 was equal to or less than 6.20%. Otherwise, the semi-annual payments would be at 12-month U.S. dollar LIBOR plus 1.75% per annum. Total swap cost in 2004 amounting to Rp3,996 is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

This contract was terminated on August 9, 2004. Based on the termination confirmation, the Company should pay US\$1,020 to GSCM for the termination payment and to roll over the US\$1,020 outstanding balance under the contract into the new cross currency swap contract (Note 33e).

- c. On March 31, 2004, the Company entered into a cross currency swap contract with GSCM. Based on the contract, the Company would 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 would be computed based on 12-month LIBOR rate. The contract provided 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 Rp3,083 is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

This contract was terminated on August 9, 2004. Based on the termination confirmation, the Company should pay US\$4,140 to GSCM for the termination payment and to roll over the US\$4,140 outstanding balance under the contract into the new cross currency swap contract (Note 33e).

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33. DERIVATIVES (continued)

- 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 amounting to Rp4,241 and Rp5,995 in 2004 and 2005, respectively, is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives- Net" under Other Income (Expenses).
- e. On August 9, 2004, the Company entered into a new cross currency swap contract with GSCM to roll over the outstanding balance under its 3 previous cross currency swap contracts with GSCM (Notes 33a, 33b and 33c above). Based on the contract, the Company would swap at termination date on November 5, 2010, a total of Rp840,650 for US\$100,000. The contract provided for the Company to make semi-annual payments, every May 5 and November 5, up to termination date, at 6-month U.S. dollar LIBOR plus 2.62% per annum. Total swap cost amounting to Rp6,297 and Rp29,142 in 2004 and 2005, respectively, is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

Based on the contract, as of September 30, 2004, the Company had transferred margin deposit to GSCM's account amounting to US\$6,500 which amount was charged to restricted cash, a component of "Other Non-current Assets" account.

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

- f. On November 5, 2004, the Company entered into a cross currency swap contract with JPMorgan. Based on the contract:
- If the spot rate at termination date is less than Rp14,000 to US\$1 (in full amounts), the Company will swap at the final exchange date (termination date) on November 5, 2010, a total of Rp225,000 for US\$25,000.
 - If the spot rate at termination date is higher than Rp14,000 to US\$1 (in full amounts), the Company will swap at the final exchange date (termination date) on November 5, 2010, a certain rupiah amount [i.e., equivalent to US\$25,000 multiplied by exchange rate of Rp9,000 (in full amount) plus the excess of actual spot rate over Rp14,000 (in full amount)] for US\$25,000.

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

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

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33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

- g. On May 13, 2005, the Company entered into a cross currency swap contract with GSI. Based on the contract which is effective starting May 5, 2005, the Company will swap at termination date on November 5, 2010, a total of Rp832,250 for US\$100,000. Based on the contract, the Company will make semi-annual payments, every May 5 and November 5 up to termination date, at (i) fixed rate of 6.96% for US\$50,000 and at (ii) 6-month U.S. dollar LIBOR plus 2.62% per annum for US\$50,000 and will receive (i) semi-annual payments in the amount of 6month U.S. dollar LIBOR per annum multiplied by US\$11,750 during the period May 13, 2005 through May 13, 2008 and (ii) the amount of US\$11,750 on May 13, 2008.
- h. On May 13, 2005, the Company entered into a cross currency swap contract with GSI which is effective starting May 5, 2005. Based on the contract:
- If the Company determines rupiah/US\$ fixing rate at any time during the period from May 13, 2005 up to December 1, 2005, the Company will swap at the final exchange date (termination date) on November 5, 2010, a certain rupiah amount (i.e., equivalent to US\$25,000 multiplied by the determined rupiah/US\$ fixing rate).
 - If the Company does not determine rupiah/US\$ fixing rate, the Company will swap at the final exchange date (termination date) on November 5, 2010, a fixed rupiah amount (equivalent to US\$25,000 multiplied by rupiah/US\$ fixing rate provided by calculation agent based on prevailing rupiah/US\$ spot rate on December 2, 2005). Such rupiah/US\$ fixing rate should always be capped at the maximum of Rp12,000 (in full amount).

The contract provides for the Company to make semi-annual payments, every May 5 and November 5 up to termination date, at the fixed rate of 4.30% per annum of US\$25,000.

- i. On August 22, 2005, the Company entered into a cross currency swap contract with GSI which is effective starting June 22, 2005. Based on the contract, the Company will swap at termination date on June 22, 2012, a certain rupiah amount equivalent to US\$75,000 multiplied by the following Contract Foreign Exchange rate:
- If the Terminal Foreign Exchange rate (i.e., prevailing rupiah/US\$ spot rate determined by calculation agent on 2nd business day prior to termination date) is lower than or equal to Upper Strike [i.e, Lower Strike plus Rp4,300 (in full amount)], the Contract Foreign Exchange rate will be the Lower Strike (i.e., the lower of Rp9,700 (in full amount) and Rupiah/US\$ Fixing rate[#]).
- [#] Rupiah/US\$ fixing rate is the lowest daily rupiah/US\$ spot rate during Observation Period (i.e., from and including August 22, 2005 to and including June 20, 2012)
- If the Terminal Foreign Exchange rate is higher than Upper Strike, the Contract Foreign Exchange rate will be the Terminal Foreign Exchange rate minus Rp4,300 (in full amount).

The contract provides for the Company to make semi-annual payments, every June 22 and December 22 up to termination date, at the fixed rate of 3.28% per annum of US\$75,000.

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33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

- j. On September 20, 2005, the Company entered into a cross currency swap contract with Merrill Lynch Capital Markets Bank Limited ("MLCMB") which is effective starting September 22, 2005. Based on the contract, the Company will receive, at termination date on June 22, 2012, the following:
- If the rupiah/US\$ spot rate at termination date is less than Rp9,500 to US\$1 (in full amount), the Company will receive zero amount from MLCMB.
 - If the rupiah/US\$ spot rate at termination date is greater than Rp9,500, but less than or equal to Rp14,000 to US\$1 (in full amounts), the Company will receive a certain US\$ amount which equals to US\$25,000 multiplied by $(1 - \text{Rp}9,500/\text{rupiah/US\$ spot rate})$ (in full amount).
 - If the rupiah/US\$ spot rate at termination date is greater than Rp14,000 to US\$1 (in full amount), the Company will receive a certain US\$ amount which equals to US\$25,000 multiplied by $(\text{Rp}14,000 - \text{Rp}9,500) / \text{rupiah/US\$ spot rate}$ (in full amount)

The contract provides for the Company to make semi-annual payments, every June 22 and December 22 up to termination date, at the fixed rate of 2.99% per annum of US\$25,000.

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

Interest Rate Swap Contracts

- k. On February 10, 2004, the Company and Barclays entered into an interest swap contract with a notional amount of US\$50,000. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, every May 5 and November 5 up to the termination date on November 5, 2010, 6-month U.S. dollar LIBOR plus 0.45% (subsequently changed to 1.33%*), in exchange for 7.75% per annum, times the actual number of days in which the 6-month U.S. dollar LIBOR was to be located in the pre-determined annual (subsequently changed to semi-annual*) range. The range was to be predetermined annually (subsequently changed to semi-annually*) up to 2010 and would take effect on May 5 (subsequently changed to May 5 and November 5*) of each year. The swap income arising from this transaction amounting to Rp17,336 in 2004 is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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

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

* effective on September 15, 2004

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33. DERIVATIVES (continued)

Interest Rate Swap Contracts (continued)

- l. 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 was less than the upper limit. The upper limit was to be pre-determined semiannually up to 2008 and would take effect on May 5 and November 5 of each semester. The swap income arising from this transaction amounting to Rp5,768 in 2004 is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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

On January 20, 2005, ABN preterminated this contract (Note 33p).

- m. 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 was to be pre-determined semi-annually up to 2010 and would take effect on April 30 and October 30 of each semester. The swap income arising from this transaction amounting to Rp5,550 in 2004 is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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

On October 30, 2004, GSCM terminated this contract.

- n. On May 6, 2004, the Company and ABN entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in annual intervals, every November 5 up to termination date on November 5, 2006, 12-month U.S. dollar LIBOR plus 3.50% in exchange for 7.75% per annum. The swap income arising from this transaction amounting to Rp1,458 in 2004 is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

On January 20, 2005, ABN preterminated this contract (Note 33p).

- o. On May 7, 2004, the Company and HSBC entered into an interest swap contract with a notional amount of US\$25,000. Based on the contract, the Company agreed to pay at floating rate, in annual intervals, every November 5 up to the termination date on November 5, 2006, 12-month U.S. dollar LIBOR plus 3.50% in exchange for 7.75% per annum. The swap income arising from this transaction amounting to Rp1,511 and Rp9,174 in 2004 and 2005, respectively, is presented as part of "Gain (Loss) on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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

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33. DERIVATIVES (continued)

Interest Rate Swap Contracts (continued)

- p. On January 20, 2005, the Company entered into an interest rate swap contract with ABN with a notional amount of US\$50,000 to unwind its existing 2 interest rate swap contracts with ABN (Notes 33l and 33n). Based on the contract which was effective starting May 5, 2005, the existing interest rate swap contracts and all related cash flows were cancelled effective January 20, 2005 and the fair value of the existing interest rate swap contracts as of January 20, 2005 was transferred into the new interest rate swap contract. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, on November 5, 2005 and thereafter every May 5 and November 5 up to the termination date on November 5, 2008, 6-month U.S. dollar LIB OR plus 3.15% in exchange for 7.75% per annum times the actual number of days in which the 6-month U.S. dollar LIBOR was located in the pre-determined ranges up to the termination date.

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

34. COMMITMENTS AND CONTINGENCIES

- a. As of September 30, 2005, commitments on capital expenditures which are contractual agreements not yet realized relate to the procurement and installation of property and equipment amounting to US\$286,479, EUR1,135,248 (in full amount, equivalent to US\$1,367) and Rp1,468,446 (Note 41).

The significant commitments on capital expenditures are as follows:

- On July 28, 2005, the Company entered into Supply and Installation Agreement of PDH and SDH Microwave Radio Equipment for West Java, Central Java, and Bali Nusa Tenggara Islands with PT Alcatel Indonesia, Alcatel CIT, and Alcatel Italia ("Alcatel"), whereby Alcatel agreed to provide equipment and services in the installation of Cellular Transmission (PDH and SDH Microwave Radio).

As of September 30, 2005, the Company has issued several *Purchase Orders* ("POs") totalling US\$13,587 and Rp55,977 which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$12,356 and Rp47,580 as of September 30, 2005.

- On July 4, 2005, the Company entered into BSS Back Up Plan Agreement with Siemens AG ("Siemens"), whereby Siemens agreed to provide equipment and services in the installation of BSS for total contracts amounts of US\$6,950 and Rp46,202.

As of September 30, 2005, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$4,050 and Rp38,358 as of September 30, 2005.

34. COMMITMENTS AND CONTINGENCIES (continued)

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

As of September 30, 2005, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$33,654 and Rp14,096 as of September 30, 2005.

- On July 1, 2005, the Company has issued several POs totalling US\$9,264 and Rp30,726 which relate to the purchase commitment under 2005 BSS Roll Out Agreement for Sulawesi, Maluku and Papua with Huawei Tech Investment Co Ltd and PT Huawei Tech Investment ("Huawei"), whereby Huawei agreed to provide equipment and services in the installation of BSS. The POs that have not been served amounted to US\$9,264 and Rp30,726 as of September 30, 2005.
- On June 24, 2005, the Company entered into Supply and Installation Agreement of PDH Microwave Radio for Sulawesi Maluku and Papua with PT Industri Telekomunikasi Indonesia ("PT INTI"), whereby PT INTI agreed to provide equipment and services in the installation of PDH Microwave for total contract amounts of US\$6,269 and Rp28,932.

As of September 30, 2005, the Company has issued several POs which relate to the purchase commitment under this agreement and its amendment. The POs that have not been served amounted to US\$6,269 and Rp28,932 as of September 30, 2005.

- On March 15, 2005, the Company entered into Supply and Installation of BSS, MSC and IN Expansion Agreements with Ericsson, whereby Ericsson agreed to provide equipment and services in the installation of BSS, MSC and IN for total contract amounts of US\$59,833 and Rp87,271.

As of September 30, 2005, the Company has issued several POs which relate to the purchase commitment under these agreements. The POs that have not been served amounted to US\$43,484 and Rp72,545 as of September 30, 2005.

- 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 September 30, 2005, the Company has issued several POs which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$8,096 as of September 30, 2005.

- 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 US\$43,074 and Rp61,761. On October 19, 2004, the Company and Nokia amended the contract amounts to become US\$65,247 and Rp113,923.

As of September 30, 2005, the Company has issued several POs which relate to the purchase commitment under this agreement and its amendment. The POs that have not been served amounted to US\$17,799 and Rp32,618 as of September 30, 2005.

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34. COMMITMENTS AND CONTINGENCIES (continued)

- b. As of September 30, 2005, commitments made by the Company under operating lease agreements amounted to US\$78 and Rp15,571 (Note 41).
- 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 collected and distributed funds from the sale of APCN's IRU and Defined Underwritten Capacity ("DUC") and Occasional Commercial Use ("OCU") service, while as a CBP, the Company managed funds from the members of the consortium for upgrading the APCN cable. The funds received from the sale of IRU and DUC, OCU services and funds received for upgrading the APCN cable did not belong to the Company and, therefore, were not recorded in the Company's books. However, the Company managed these funds in separate accounts. Subsequently, on April 25, 2005, the Company was discharged as the CBP.

As of September 30, 2005, the balance of the funds (including interest earned) amounted to US\$22,214. Besides the funds from the sale of IRU, the members of the consortium also received their share of the interest earned by the above funds.

- 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.

In response to letter No. S-20/MBU.S/2004 dated January 28, 2004 from the Ministry of State-owned Enterprises (see above), the MOF through its letter No. S-126/MK.6/2004 dated March 15, 2004 stated that the request of the Ministry of State-owned Enterprises to release the Company from the penalty on late payment of dividends was difficult to consider as there was no regulation for the release of the penalty on the late payments of dividends.

On June 15, 2005, the MOF, in its letter No. S1680/AP/2005, reconfirmed the Company's penalties amounting to Rp63,535 and requested the Company to immediately settle the penalties.

As of September 30, 2004 and 2005, the Company did not accrue any penalties on the dividends because, in the opinion of the Company's legal counsels, the Company has assurance that it may not be liable to pay such penalties.

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35. TARIFF SYSTEM

a. International telecommunications services

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

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

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

b. Cellular services

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

- Connection fee
- Monthly charges
- Usage charges

The maximum tariff for connection fee is Rp200,000 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 |

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35. TARIFF SYSTEM (continued)

b. Cellular services (continued)

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.

36. INTERCONNECTION TARIFFS

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

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

1. Structure of Interconnection Tariff

a. Between international and domestic PSTN

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

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

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36. INTERCONNECTION TARIFFS (continued)

1. Structure of Interconnection Tariff (continued)

a. Between international and domestic PSTN (continued)

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

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

Based on regulation No. 28 year 2005 dated July 5, 2005 of the Government of the Republic of Indonesia, the USO tariff has been changed from Rp750 per successful international outgoing or incoming call to 0.75% of gross revenues from all services. The Company applied the new tariff starting January 1, 2005 (Note 27).

b. Between domestic PSTN and another domestic PSTN

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

c. Between cellular telecommunications network and domestic PSTN

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

(1) Local Calls

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

(2) SLJJ

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

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

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36. INTERCONNECTION TARIFFS (continued)

1. Structure of Interconnection Tariff (continued)

- d. Between cellular telecommunications network and another cellular telecommunications network

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

(1) Local Calls

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

(2) SLJJ

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

- e. Between international PSTN and cellular telecommunications network

Starting from 1998, the interconnection tariff for international cellular call traffic to/from overseas from/to domestic cellular subscribers, regardless of whether the traffic is made through domestic PSTN or not, is based on the same tariff applied to traffic made through domestic PSTN as mentioned in "a" above. However, up to September 30, 2005, as agreed mutually with the cellular telecommunications operators, the Company (including Satelindo until it was merged - Note 1e) still applied the original contractual sharing agreements regarding the interconnection tariffs (Note 37).

- f. Between international gateway exchanges

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

2. Revenue Sharing

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

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37. INTERCONNECTION AGREEMENTS WITH OTHER CELLULAR TELECOMMUNICATIONS OPERATORS

The Company, Satelindo and IM3 have interconnection agreements with each of PT Excelcomindo Pratama or "Excelcom" and Komselindo (for the interconnection agreement with Telkomsel, Note 30). The principal matters covered by the agreements are as follows:

- The Company's and Satelindo's international gateway exchanges are interconnected with mobile cellular 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 September 30, 2005, the latest agreement with Komselindo was signed on July 6, 2004, while the latest agreement with Excelcom was signed on May 12, 2003. The Company (including Satelindo and IM3 until they were merged - Note 1e) and the above operators still continue their business under the agreements by applying the original compensation formula.

Interconnection (revenues) charges - net (earned) incurred by the Company from the operators are as follows:

	2004	2005
Excelcom	(7,510)	23,384
Komselindo	1,878	(2,041)
Net charges	(5,632)	21,343

38. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Companies' monetary assets and liabilities denominated in various foreign currencies as of September 30, 2005 (converted to equivalent U.S. dollar if currency is other than U.S. dollar) are as follows:

	Amount in U.S. Dollar	Equivalent Rupiah *
<i>Assets:</i>		
Cash and cash equivalents	288,688	2,976,373
Accounts receivable		
Trade	108,712	1,120,820
Others	2,810	28,976
Derivative assets	9,486	97,801
Other current assets	150	1,550
Due from related parties	656	6,760
Non-current assets - others	3,678	37,917
Total assets	414,180	4,270,197

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38. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (continued)

	Amount in U.S. Dollar	Equivalent Rupiah *
<i>Liabilities:</i>		
Accounts payable - trade	9,344	96,339
Procurement payable	187,108	1,929,088
Accrued expenses	43,132	444,686
Derivative liabilities	1,906	19,650
Other current liabilities	503	5,180
Due to related parties	37	386
Bonds payable	550,000	5,670,500
Total liabilities	792,030	8,165,829
Net liabilities position	377,850	3,895,632

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

39. SEGMENT INFORMATION

The Companies manage and evaluate their operations in three major reportable segments: cellular, fixed telecommunication and MIDI. The operating segments are managed separately because each offers different services/products and serves different markets. The Companies operate in one 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.

Consolidated information by industry segment follows:

	Major Segments			Other Services	Segment Total
	Cellular	Fixed Telecommunication	MIDI		
<u>2004 (As Restated - Note 4)</u>					
<u>Operating revenues</u>					
Revenues from external customers	5,342,636	1,277,284	1,113,117	70,424	7,803,461
Inter-segment revenues	(68,856)	68,856	103,880	12,824	116,704
Total operating revenues	5,273,780	1,346,140	1,216,997	83,248	7,920,165
Inter-segment revenues elimination					(116,704)
Operating revenues - net					7,803,461

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39. SEGMENT INFORMATION (continued)

	Major Segments			Other Services	Segment Total
	Cellular	Fixed Telecommunication	MIDI		
2004 (As Restated - Note 4)					
(continued)					
<u>Income</u>					
Operating income (loss)	1,974,707	541,822	200,097	(39,062)	2,677,564
Gain on sale of investment in associated company					283,355
Interest income					145,996
Gain on sale of other long-term investment					110,929
Equity in net income of associated companies					62,259
Financing cost					(817,688)
Income tax expense					(678,016)
Amortization of goodwill					(169,761)
Loss on change in fair value of derivatives - net					(63,045)
Loss on foreign exchange - net					(61,995)
Others - net					44,011
Income before Minority Interest in Net Income of Subsidiaries					1,533,609
<u>Other Information</u>					
Segment assets	19,919,143		1,675,979	2,995,431	140,998
24,731,551					
Unallocated assets					6,203,030
Inter-segment assets elimination					(3,729,272)
Assets - net					27,205,309
Segment liabilities	13,954,643	1,359,022	1,035,368	58,962	16,407,995
Unallocated liabilities					671,058
Inter-segment liabilities elimination (2,877,332)					
Liabilities - net					14,201,721
Capital expenditure	2,907,992	297,491	500,156	1,978	3,707,617
Depreciation and amortization	1,485,207	113,421	320,754	3,646	1,923,028

	Major Segments			Other Services	Segment Total
	Cellular	Fixed Telecommunication	MIDI		
2005					
<u>Operating revenues</u>					
Revenues from external customers	6,690,488	978,202		1,239,957	-
8,908,647					
Inter-segment revenues	(34,620)	34,620	199,279	-	199,279
Total operating revenues	6,655,868	1,012,822	1,439,236	-	9,107,926
Inter-segment revenues elimination					(199,279)
Operating revenues - net					8,908,647
<u>Income</u>					
Operating income	2,326,770	262,059	270,845	-	2,859,674
Interest income					138,584

These consolidated financial statements are originally issued in Indonesian language.

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Gain on change in fair value
of derivatives - net

35,628

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39. SEGMENT INFORMATION (continued)

	Major Segments			Other Services	Segment Total
	Cellular	Fixed Telecommunication	MIDI		
2005 (continued)					
Gain on sale of investment in associated companies					1,223
Gain on sale of other long-term investment					1,204
Equity in net income of associated companies					67
Financing cost					(966,257)
Income tax expense					(470,107)
Loss on foreign exchange - net					(357,584)
Amortization of goodwill					(169,761)
Others - net					(27,957)
Income before Minority Interest in Net Income of Subsidiaries					1,044,714
Other Information					
Segment assets		26,956,487	1,192,699	3,283,406	-
31,432,592					
Unallocated assets					7,473,969
Inter-segment assets elimination					(6,754,126)
Assets - net					32,152,435
Liabilities segment	20,426,946	921,978	1,075,868	-	22,424,792
Unallocated liabilities					1,996,898
Inter-segment liabilities elimination (5,864,905)					
Liabilities - net					18,556,785
Capital expenditure	3,879,938	210,994	415,392	-	4,506,324
Depreciation and amortization	1,742,262	157,598	319,174	-	2,219,034

40. ECONOMIC CONDITIONS

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

41. SUBSEQUENT EVENT

- a. As of October 19, 2005, the average buying and selling rate of bank notes published by Bank Indonesia is Rp10,110 to US\$1 (in full amounts), while as of September 30, 2005, the average buying and selling rate was Rp10,310 to US\$1 (in full amounts). On the basis of the rate as of October 19, 2005, the Companies earned foreign exchange gain amounting to approximately Rp75,570 on the foreign currency liabilities, net of foreign currency assets, as of September 30, 2005 (Note 38).

The commitments for the capital expenditures and operating leases denominated in foreign currencies as of September 30, 2005 as disclosed in Notes 34a and 34b would approximate Rp2,909,991 and Rp789, respectively, if translated at the rate as of October 19, 2005.

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41. SUBSEQUENT EVENT (continued)

- b. Up to October 19, 2005, 10,842,000 additional share options from ESOP Phase II have been exercised by the employees (Note 19).

42. RECLASSIFICATION OF ACCOUNTS

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

<u>As Previously Reported</u>	<u>As Reclassified</u>	<u>Amount</u>
Operating expenses - leased circuits	Operating expenses - compensation to telecommunication carriers and service providers	47,699
Other income - interest income	Other expenses - loss on change in fair value of derivatives - net	(31,623)
Other expenses - financing cost	Other expenses - loss on change in fair value of derivatives - net	25,929

43. 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 October 19, 2005.