

**Consolidated Financial Statements
With Independent Auditors' Report
Years Ended December 31, 2003, 2004 and 2005**

**PT INDOSAT Tbk
AND SUBSIDIARIES**

These consolidated financial statements are originally issued in Indonesian language.

**PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

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This report is originally issued in Indonesian language.

Independent Auditors' Report

Report No. RPC-5123

Stockholders and Boards of Commissioners and Directors PT Indosat Tbk

We have audited the consolidated balance sheets of PT Indosat Tbk ("the Company") and Subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2003, 2004 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of PT Indosat Tbk and Subsidiaries as of December 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years ended December 31, 2003, 2004 and 2005 in conformity with generally accepted accounting principles in Indonesia.

As described in Note 4, in 2004 the Company early adopted Statement of Financial Accounting Standards ("SAK") 24 (Revised 2004), "Accounting for Employee Benefits", and SAK 38 (Revised 2004), "Accounting for Restructuring Transactions of Entities under Common Control". The 2003 consolidated financial statements have been restated to reflect the retrospective application of those SAKs.

Prasetio, Sarwoko & Sandjaja

Drs. Hari Purwantono

Public Accountant License No. 98.1.0065

February 21, 2006

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

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2004 and 2005

(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)

	Notes	2004	2005	2005 (Note 3)
		Rp	Rp	US\$
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	2d,5,30	4,010,238	4,717,269	479,885
Short-term investments - net of allowance for decline in value of Rp25,395 in 2004 and Rp33,984 in 2005	2e	1,377	38,998	3,967
Accounts receivable				
Trade	2f,17			
Related parties				
PT Telekomunikasi Indonesia Tbk ("Telkom") - net of allowance for doubtful accounts of Rp86,884 in 2004 and Rp89,485 in 2005	6,30	166,596	67,595	6,876
Others - net of allowance for doubtful accounts of Rp62,212 in 2004 and Rp61,492 in 2005	30	156,073	108,804	11,069
Third parties - net of allowance for doubtful accounts of Rp375,001 in 2004 and Rp528,314 in 2005	7	987,944	982,351	99,934
Others - net of allowance for doubtful accounts of Rp39,728 in 2004 and Rp34,575 in 2005	2f,30e	18,348	16,316	1,660
Inventories	2g	113,684	203,954	20,748
Derivative assets	2r,33	2,102	79,221	8,059
Advances		88,064	47,728	4,855
Prepaid taxes	8,15	661,655	940,155	95,641
Prepaid expenses	2h,2q,29,30	254,155	295,436	30,054
Other current assets	2d,30,33	112,841	29,165	2,967
Total Current Assets		6,573,077	7,526,992	765,715

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)
December 31, 2004 and 2005

(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)

	Notes	2004	2005	2005 (Note 3)
		Rp	Rp	US\$
NON-CURRENT ASSETS				
Due from related parties - net of allowance for doubtful accounts of Rp23,089 in 2004 and Rp 1,753 in 2005	2f,30	47,953	30,401	3,093
Deferred tax assets - net	2t,15	33,204	44,197	4,496
Investments in associated companies - net of allowance for decline in value of Rp75,212 in 2004 and Rp56,300 in 2005	2i,9	33,134	524	53
Other long-term investments - net of allowance for decline in value of Rp221,567 in 2004 and Rp99,977 in 2005	2i,10	102,157	2,730	278
Property and equipment	2j,2k,2p,11,17,24			
Carrying value		27,821,510	35,073,128	3,567,968
Accumulated depreciation		(10,461,076)	(13,409,736)	(1,364,164)
Impairment in value		(117,258)	(98,611)	(10,032)
Net		17,243,176	21,564,781	2,193,772
Goodwill and other intangible assets - net	2c,2l,12	3,012,578	2,682,600	272,899
Long-term receivables	30e	129,671	122,281	12,440
Long-term prepaid pension - net of current portion	2q,29,30	180,183	236,491	24,058
Long-term advances	13,30	290,801	327,351	33,301
Others	2d,2h,17,30	226,533	248,785	25,310
Total Non-current Assets		21,299,390	25,260,141	2,569,700
TOTAL ASSETS		27,872,467	32,787,133	3,335,415

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)
December 31, 2004 and 2005

(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)

	Notes	2004	2005	2005 (Note 3)
		Rp	Rp	US\$
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term loans	30	9,819	-	-
Accounts payable - trade				
Related parties	30	21,581	30,462	3,099
Third parties		204,140	163,617	16,645
Procurement payable	14,30	2,049,063	2,609,278	265,440
Taxes payable	2t,15	220,199	205,852	20,941
Accrued expenses	16,24, 29,30	759,307	843,206	85,779
Unearned income	2o	602,586	488,694	49,714
Deposits from customers		55,929	26,519	2,698
Derivative liabilities	2r,33	175,420	11,539	1,174
Current maturities of:				
Loans payable	2m,17			
Related parties	30	168,286	-	-
Third parties		207,135	49,700	5,056
Bonds payable	2m,18	-	981,936	99,892
Other current liabilities		19,345	20,577	2,093
Total Current Liabilities		4,492,810	5,431,380	552,531
NON-CURRENT LIABILITIES				
Due to related parties	30	39,061	16,607	1,689
Deferred tax liabilities - net	2t,15	489,074	865,672	88,064
Loans payable - net of current maturities	2m,17			
Related parties	30	760,717	630,251	64,115
Third parties		827,362	678,522	69,026
Bonds payable - net of current maturities	2m,18	7,524,083	10,161,905	1,033,764
Other non-current liabilities	30	390,318	511,779	52,063
Total Non-current Liabilities		10,030,615	12,864,736	1,308,721
MINORITY INTEREST	2b	164,450	175,689	17,873

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (continued)
December 31, 2004 and 2005

(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)

	Notes	2004	2005	2005 (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 5,285,308,499 B shares in 2004, and 1 A share and 5,356,174,499 B shares in 2005	19	528,531	535,617	54,488
Premium on capital stock	19	880,869	1,178,274	119,865
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	41,080
Stock options	2n,20	71,207	90,763	9,233
Difference in foreign currency translation	2b	429	228	23
Retained earnings				
Appropriated		33,590	49,922	5,079
Unappropriated		11,266,154	12,056,712	1,226,522
Total Stockholders' Equity		<u>13,184,592</u>	<u>14,315,328</u>	<u>1,456,290</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		<u>27,872,467</u>	<u>32,787,133</u>	<u>3,335,415</u>

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
Years Ended December 31, 2003, 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)

	Notes	2003	2004	2005	2005
		(As Restated - Note 4)			(Note 3)
		Rp	Rp	Rp	US\$
OPERATING REVENUES					
Cellular	2o,30 21,35,36,37	5,111,919	7,342,061	8,644,951	879,445
Multimedia, Data Communication, Internet ("MIDI")	23	1,245,759	1,483,941	1,694,033	172,333
Fixed telecommunication	22,35,36,37	1,807,669	1,544,684	1,250,807	127,244
Other services		64,259	59,420	-	-
Total Operating Revenues		8,229,606	10,430,106	11,589,791	1,179,022
OPERATING EXPENSES					
Depreciation and amortization	2o 2j,11,12	2,038,006	2,818,657	3,080,205	313,348
Personnel	2p,2q,20, 24,29,30	1,022,989	1,207,384	1,264,653	128,652
Maintenance	2j,30	297,097	473,388	614,595	62,522
Administration and general Compensation to telecommunications carriers and service providers	25,30 26,30,36	497,988 724,193	471,347 513,355	606,022 408,411	61,650 41,547
Marketing		242,337	349,824	360,049	36,628
Leased circuits	30	91,697	97,667	142,210	14,467
Other costs of services	27,30	967,404	1,300,418	1,461,729	148,701
Total Operating Expenses		5,881,711	7,232,040	7,937,874	807,515
OPERATING INCOME		2,347,895	3,198,066	3,651,917	371,507
OTHER INCOME (EXPENSES)					
Interest income	2o 30	147,712	187,430	215,103	21,882
Gain on sale of investment in associated companies	9	-	286,204	14,625	1,488
Gain on sale of other long-term investments - net	4,10	-	110,929	1,204	123
Financing cost	2m,17,18, 28,30	(838,666)	(1,097,531)	(1,264,764)	(128,664)
Amortization of goodwill	2i,12	(252,907)	(226,347)	(226,352)	(23,027)
Gain (loss) on foreign exchange - net	2s,6,7	200,050	(66,116)	(79,932)	(8,132)
Loss on change in fair value of derivatives - net	2r,33	-	(170,451)	(44,209)	(4,497)
Others - net		(51,162)	99,085	85,117	8,659
Other Expenses - Net		(794,973)	(876,797)	(1,299,208)	(132,168)
EQUITY IN NET INCOME OF ASSOCIATED COMPANIES	2i,9	33,771	61,489	86	9
INCOME BEFORE INCOME TAX AND EXTRAORDINARY ITEM		1,586,693	2,382,758	2,352,795	239,348

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (continued)
Years Ended December 31, 2003, 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollars, except share data)

	Notes	2003	2004	2005	2005
		(As Restated - Note 4)			(Note 3)
		Rp	Rp	Rp	US\$
INCOME TAX BENEFIT (EXPENSE)					
Current	2t,15	(585,570)	(140,902)	(331,541)	(33,727)
Deferred		603,398	(583,652)	(366,383)	(37,272)
Income Tax Benefit (Expense) - Net		17,828	(724,554)	(697,924)	(70,999)
INCOME BEFORE EXTRAORDINARY ITEM AND MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		1,604,521	1,658,204	1,654,871	168,349
EXTRAORDINARY ITEM - Realized Gain on Difference in Value from Restructuring Transactions of Entities under Common Control - net of deferred tax effect of Rp2,943,963	4	4,499,947	-	-	-
INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		6,104,468	1,658,204	1,654,871	168,349
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	2b	(22,497)	(24,996)	(31,390)	(3,193)
NET INCOME	32	6,081,971	1,633,208	1,623,481	165,156
BASIC EARNINGS PER SHARE	2v,19,31				
Income before extraordinary item		305.56	313.91	309.04	0.03
Extraordinary item		869.13	-	-	-
Net Income Per Share		1,174.69	313.91	309.04	0.03
DILUTED EARNINGS PER SHARE	2v,19,20,31				
Income before extraordinary item		305.17	313.63	309.04	0.03
Extraordinary item		868.04	-	-	-
Net Income Per Share		1,173.21	313.63	309.04	0.03
BASIC EARNINGS PER ADS (50 B shares per ADS)	2v,19,31				
Income before extraordinary item		15,277.87	15,695.59	15,452.16	1.57
Extraordinary item		43,456.76	-	-	-
Net Income Per ADS		58,734.63	15,695.59	15,452.16	1.57
DILUTED EARNINGS PER ADS	2v,19,20,31				
Income before extraordinary item		15,258.66	15,681.59	15,452.16	1.57
Extraordinary item		43,402.11	-	-	-
Net Income Per ADS		58,660.77	15,681.59	15,452.16	1.57

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2003, 2004 and 2005
(Expressed in millions of rupiah)

Year Ended December 31, 2003 (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, 2003, as previously reported		517,750	673,075	4,467,740	284,285	-	-	14,528	4,646,024	10,603,402
Adjustment arising from early adoption of SAK 24 (Revised 2004) - net of applicable income tax of Rp73,323	4	-	-	-	-	-	-	-	(171,085)	(171,085)
Balance as of January 1, 2003, as restated		517,750	673,075	4,467,740	284,285	-	-	14,528	4,474,939	10,432,317
Gain on sale of investment in PT Pramindo Ikat Nusantara to Telkom which was accounted for under the pooling-of-interests method	2i,10	-	-	32,207	-	-	-	-	-	32,207
Reversal of deferred tax liabilities on difference in transaction of equity changes in PT Satelit Palapa Indonesia and PT Bimagraha Telekomindo as a result of the merger	1e,15	-	-	-	119,917	-	-	-	-	119,917
Proportionate five months' compensation expense relating to Employee Stock Option Program ("ESOP") Phase I	2n,20	-	-	-	-	24,809	-	-	-	24,809
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 Rp132 and Rp3, respectively	2b	-	-	-	-	-	316	-	-	316
Decrease in PT Satelit Palapa Indonesia's difference in transaction of equity changes in a subsidiary arising from the translation of the financial statements of Satelindo International Finance Company B.V. from U.S. dollars to rupiah - net of applicable income tax of Rp167	2b	-	-	-	(390)	-	-	-	-	(390)
Resolution during the Annual Stockholders' General Meeting on June 26, 2003										
Declaration of cash dividend	32	-	-	-	-	-	-	-	(151,318)	(151,318)
Appropriation for reserve fund	32	-	-	-	-	-	-	3,362	(3,362)	-
Adjustment arising from early adoption of SAK 38 (Revised 2004)	4	-	-	(4,499,947)	-	-	-	-	-	(4,499,947)
Net income, as previously reported		-	-	-	-	-	-	-	1,569,967	1,569,967
• Adjustment arising from early adoption of SAK 24 (Revised 2004) - net of applicable income tax of Rp5,167	4	-	-	-	-	-	-	-	12,057	12,057
• Adjustment arising from early adoption of SAK 38 (Revised 2004)	4	-	-	-	-	-	-	-	4,499,947	4,499,947
Net income for the year, as restated		-	-	-	-	-	-	-	6,081,971	6,081,971
Balance as of December 31, 2003, as restated		517,750	673,075	-	403,812	24,809	316	17,890	10,402,230	12,039,882

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
Years Ended December 31, 2003, 2004 and 2005
(Expressed in millions of rupiah)

Year Ended December 31, 2004										
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	2n,19, 20	10,781	207,794	-	-	(49,592)	-	-	-	168,983
• Proportionate seven months' compensation expense relating to ESOP Phase I and five months' compensation expense relating to ESOP Phase II	2n,20	-	-	-	-	95,990	-	-	-	95,990
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 Rp18 and Rp30, respectively	2b	-	-	-	-	-	113	-	-	113
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 year		-	-	-	-	-	-	-	1,633,208	1,633,208
Balance as of December 31, 2004		528,531	880,869	-	403,812	71,207	429	33,590	11,266,154	13,184,592

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (continued)
Years Ended December 31, 2003, 2004 and 2005
(Expressed in millions of rupiah)

Year Ended December 31, 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	2n,19, 20	7,086	297,405	-	-	(71,182)	-	-	-	233,309
• Proportionate seven months' compensation expense relating to ESOP Phase II	2n,20	-	-	-	-	90,738	-	-	-	90,738
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 of Indosat Finance Company B.V. and Indosat International Finance B.V. from European euro to rupiah - net of applicable income tax benefit of Rp64, Rp19 and Rp3, respectively	2b	-	-	-	-	-	(201)	-	-	(201)
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 year		-	-	-	-	-	-	-	1,623,481	1,623,481
Balance as of December 31, 2005		535,617	1,178,274	-	403,812	90,763	228	49,922	12,056,712	14,315,328

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PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2003, 2004 and 2005
(Expressed in millions of rupiah and thousands of U.S. dollars)

	Notes	2003	2004	2005	2005 (Note 3)
		Rp	Rp	Rp	US\$
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from:					
Customers		8,002,123	10,537,812	11,402,721	1,159,992
Interest income		146,190	179,374	215,114	21,883
Refund of taxes	8	-	1,044,853	176,408	17,946
Other income - net		78,151	309,850	254,093	25,849
Cash paid for:					
Employees and suppliers		(2,914,426)	(4,063,751)	(4,137,439)	(420,899)
Financing cost		(790,326)	(1,077,747)	(1,166,621)	(118,680)
Taxes		(1,356,438)	(683,481)	(796,369)	(81,014)
Other operating expenses		(246,060)	(257,919)	(531,341)	(54,053)
Net Cash Provided by Operating Activities		2,919,214	5,988,991	5,416,566	551,024
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of other long-term investments	10	185,992	200,038	100,631	10,237
Decrease (increase) in restricted cash and cash equivalents	33e	-	(81,287)	81,288	8,269
Proceeds from sale of subsidiaries	1d	-	-	40,141	4,083
Proceeds from sale of investment in associated companies	9	-	498,713	14,625	1,488
Swap income from interest rate swap contracts	33l - p	-	34,143	9,174	933
Proceeds from sale of short-term investment		51,880	141,580	1,131	115
Proceeds from sale of property and equipment	11	6,147	18,490	463	47
Acquisitions of property and equipment	11	(3,967,014)	(5,238,331)	(6,771,870)	(688,898)
Payment for termination of swap contracts	33e,f,l,p,q	-	-	(187,983)	(19,123)
Swap cost from cross currency swap contracts	33a - k	-	(31,274)	(106,400)	(10,824)
Purchase of short-term investments		(65,437)	(77,677)	(47,341)	(4,816)
Additional advances for purchase of property and equipment		(32,028)	(196,972)	(36,550)	(3,718)
Acquisition of additional investment in a subsidiary	1d	-	-	(17,481)	(1,778)
Net Cash Used in Investing Activities		(3,820,460)	(4,732,577)	(6,920,172)	(703,985)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from bonds payable	18	5,018,065	-	3,484,992	354,526
Proceeds from exercise of ESOP Phase I and Phase II	20	-	148,993	233,309	23,734
Proceeds from long-term loans	17	2,327,861	96,200	40,059	4,075
Decrease in restricted cash and cash equivalents		193,956	12,542	11,210	1,140
Cash dividend paid	32	(151,318)	(753,584)	(816,591)	(83,071)
Repayment of long-term loans	17	(3,058,203)	(1,251,580)	(653,579)	(66,488)
Repayment of bonds payable	18	(1,544,507)	-	(51,347)	(5,223)
Repayment of short-term loans		(224,934)	(8,255)	-	-
Proceeds from short-term loans		18,074	-	-	-
Net Cash Provided by (Used in) Financing Activities		2,578,994	(1,755,684)	2,248,053	228,693

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

These consolidated financial statements are originally issued in Indonesian language.

PT INDOSAT Tbk AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years Ended December 31, 2003, 2004 and 2005
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	Notes	2003	2004	2005	2005 (Note 3)
		Rp	Rp	Rp	US\$
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,677,748	(499,270)	744,447	75,732
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,831,760	4,509,508	4,010,238	407,959
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF A DIVESTED SUBSIDIARY	1d	-	-	(37,416)	(3,806)
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	<u>4,509,508</u>	<u>4,010,238</u>	<u>4,717,269</u>	<u>479,885</u>
DETAILS OF CASH AND CASH EQUIVALENTS:					
Cash on hand and in banks		211,922	170,498	136,278	13,864
Time deposits with original maturities of three months or less		<u>4,297,586</u>	<u>3,839,740</u>	<u>4,580,991</u>	<u>466,021</u>
Cash and cash equivalents as stated in the consolidated balance sheets		<u>4,509,508</u>	<u>4,010,238</u>	<u>4,717,269</u>	<u>479,885</u>
SUPPLEMENTAL CASH FLOW INFORMATION:					
Transactions not affecting cash flows:					
Acquisitions of property and equipment on account credited to procurement payable		292,845	672,328	505,666	51,441
Premium on capital stock		-	49,592	71,182	7,241
Stock options		24,809	46,398	19,556	1,990
Bonus retained for exercise of ESOP Phase I		-	19,990	-	-
Realized gain on difference in value from restructuring transactions of entities under common control	4	4,499,947	-	-	-
Reversal of deferred tax liabilities relating to the merger transaction credited to:					
Income tax benefit - deferred		1,142,293	-	-	-
Goodwill		382,403	-	-	-
Difference in transactions of equity changes in associated companies/subsidiaries		119,527	-	-	-
Dividend distribution in the form of convertible bonds/limited bonds		30,436	-	-	-

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

PT INDOSAT Tbk AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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1. GENERAL

a. Company's Establishment

PT Indosat Tbk ("the Company", formerly PT Indonesian Satellite Corporation Tbk) was established in the Republic of Indonesia on November 10, 1967 within the framework of the Indonesian Foreign Investment Law No. 1 of 1967 based on the notarial deed No. 55 of Mohamad Said Tadjoeidin. 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. 146 dated October 21, 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 Law and Human Rights of the Republic of Indonesia based on its letter No.C-33508 HT.01.04.TH 2005 dated December 16, 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.

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1. GENERAL (continued)

a. Company's Establishment (continued)

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

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

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

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

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

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

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

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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 (Note 41c).

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) Stockholders' Extraordinary Meeting held on December 27, 2002 which is notarized under Deed No. 41 of Rini Yulianti, S.H. (as a substitute notary of Poerbaningsih Adi Warsito, S.H.) on the same date, (ii) Annual Stockholders' General Meeting held on June 22, 2004 which is notarized under Deed No. 124 of Aulia Taufani, S.H. (as a substitute notary of Sutjipto, S.H.) on the same date and (iii) 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 December 31, 2003, 2004 and 2005 is as follows:

	2003	2004	2005
President Commissioner	Peter Seah Lim Huat	Peter Seah Lim Huat	Peter Seah Lim Huat
Commissioner	Lee Theng Kiat	Lee Theng Kiat	Lee Theng Kiat
Commissioner	Sio Tat Hiang	Sio Tat Hiang	Sio Tat Hiang
Commissioner	Sum Soon Lim	Sum Soon Lim	Sum Soon Lim
Commissioner	Roes Aryawijaya	Roes Aryawijaya	Roes Aryawijaya
Commissioner	Umar Rusdi	Umar Rusdi	Setyanto P. Santosa
Commissioner	Lim Ah Doo *	Lim Ah Doo *	Lim Ah Doo *
Commissioner	Achmad Rivai *	Eva Riyanti Hutapea *	Eva Riyanti Hutapea *
Commissioner	Soebagijo Soemo-dihardjo *	Mohammad 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) Annual Stockholders' General Meeting held on June 26, 2003 which is notarized under Deed No. 89 of Poerbaningsih Adi Warsito, S.H. on the same date, (ii) Stockholders' Extraordinary 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 (iii) Stockholders' Extraordinary Meeting held on December 22, 2005 which is notarized under Deed No.199 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 December 31, 2003, 2004 and 2005 is as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
President Director	Widya Purnama	-*	Hasnul Suhaimi
Deputy President Director	Ng Eng Ho	Ng Eng Ho	Kaizad Bomi Heerjee
Planning and Project Development Director	-	-	Wityasmoro Sih Handayanto
Consumer Market Director	-	-	Johnny Swandi Sjam
Corporate Market Director	-	-	Wahyu Wijayadi
Finance Director	Nicholas Tan Kok Peng	Wong Heang Tuck	Wong Heang Tuck
Corporate Services Director	Sutrisman	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	Wityasmoro Sih Handayanto	-
Cellular Marketing Director	Hasnul Suhaimi	Hasnul Suhaimi	-
Fixed Telecom and MIDI Director	Wahyu Wijayadi	Wahyu Wijayadi	-
Operation and Quality Improvement Director	-	Raymond Tan Kim Meng	-

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

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The Company and its subsidiaries (collectively referred to hereafter as “the Companies”) have approximately 6,330, 7,820 and 8,137 employees, including non-permanent employees, as of December 31, 2003, 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 (%)		
				2003	2004	2005
Satelindo International Finance B.V.	Amsterdam	Finance	1996	100.00	100.00	100.00
Indosat Finance Company B.V.	Amsterdam	Finance	2003	100.00	100.00	100.00
Indosat International Finance Company B.V.	Amsterdam	Finance	2005	-	-	100.00
Indosat Singapore Pte. Ltd.	Singapore	Telecommunication	2005	-	-	100.00
PT Indosat Mega Media	Jakarta	Multimedia	2001	99.85	99.85	99.85
PT Satelindo Multi Media	Jakarta	Multimedia	1999	99.60	99.60	99.60
PT Aplikanusa Lintasarta	Jakarta	Data Communication	1989	69.46	69.46	72.36
PT Artajasa Pembayaran Elektronik	Jakarta	Telecommunication	2000	45.15	45.15	39.80

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1. GENERAL (continued)

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

Name of Subsidiary	Location	Principal Activity	Start of Commercial Operations	Percentage of Ownership (%)		
				2003	2004	2005
PT Sisindosat Lintasbuana *	Jakarta	Information Technology	1990	96.87	96.87	-
PT Asitelindo Data Buana *	Jakarta	Multimedia	1997	49.40	49.40	-

Name of Subsidiary	Total Assets (Before Eliminations)		
	2003	2004	2005
Satelindo International Finance B.V.	6,791	8,002	8,526
Indosat Finance Company B.V.	2,569,853	2,820,797	2,984,732
Indosat International Finance Company B.V.	-	-	2,462,039
Indosat Singapore Pte. Ltd.	-	-	-
PT Indosat Mega Media	372,339	450,288	523,014
PT Satelindo Multi Media	10,699	11,187	10,690
PT Aplikanusa Lintasarta	644,997	798,273	876,201
PT Artajasa Pembayaran Elektronik	60,218	73,964	73,627
PT Sisindosat Lintasbuana *	162,305	159,230	-
PT Asitelindo Data Buana *	9,822	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 December 31, 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")

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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%.

On December 21, 2005, the Company entered into a Sale and Purchase Agreement, whereby the Company agreed to purchase 2.90% equity interest in Lintasarta from Dana Pensiun Bank Negara Indonesia ("DPBNI") for Rp17,480. Such purchase of equity interest, which resulted in the recognition of goodwill (Note 12), increased the Company's ownership in Lintasarta from 69.46% to 72.36%.

PT Artajasa Pembayaran Elektronik ("APE")

APE is engaged in telecommunication and information services.

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

On June 21, 2005, Lintasarta sold a portion of its ownership in APE to Yayasan Kesejahteraan Karyawan Bank Indonesia ("YKKBI") for Rp7,250, resulting in the decrease of Lintasarta's equity interest in APE from 65% to 55%.

Indosat Singapore Pte. Ltd. ("ISP")

ISP was incorporated in Singapore on December 21, 2005. It shall engage in telecommunication services.

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.

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

On January 25, 2005, the Company received the 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 Telekom indo ("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 years ended December 31, 2003, 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.

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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 (%)		
	2003	2004	2005
SIB	100.00	100.00	100.00
IFB	100.00	100.00	100.00
IIFB	-	-	100.00
ISP	-	-	100.00
IMM	99.85	99.85	99.85
SMM	99.60	99.60	99.60
Lintasarta	69.46	69.46	72.36
Sisindosat	96.87	96.87	-
*			

* sold in January 2005

The consolidated financial statements also include the accounts of APE (Lintasarta's subsidiary which was 65%-owned in 2003 and 2004 and reduced to become 55%-owned in 2005) and Asiatel (Sisindosat's 51%-owned subsidiary in 2003 and 2004). The accounts of APE in 2003, 2004 and 2005 and of Asiatel in 2003 and 2004 were consolidated because their financial and operating policies were controlled by Lintasarta and Sisindosat, respectively.

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

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

c. Accounting for Acquired Businesses

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 was effective starting January 1, 2005 but encouraged early adoption. Based on SAK 38 (Revised 2004), the balance of "Difference in Value from Restructuring Transactions of Entities under Common Control" can be

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realized to gain or loss from the time the common control no longer exists between the entities that entered into the transactions (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 year.

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, the effect of the integration of telecommunications network by locations in the country and also in consideration of the effect of technological advancement and upgrading done by the Company. 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 to 20

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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	5 to 15	15
Switching equipment	15	10
Telecommunications peripherals	5 to 15	5
Information technology equipment	5 to 10	3 to 5
Office equipment	3 to 6	
5		
Building and leasehold improvements	5 to 15	5
Vehicles	5	5
Cellular technical equipment	5 to 15	10 to 15
Satellite technical equipment	12 to 15	12
Transmission and cross-connection equipment	5 to 24	12
Fixed Wireless Access ("FWA") technical equipment	8	10

Landrights are stated at cost.

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

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

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

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. Stock-based Compensation

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

o. Revenue and Expense Recognition

Cellular

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

For post-paid subscribers, monthly service fees are recognized as the service is provided.

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

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

Cellular revenues are presented on a net basis, after interconnection expenses and compensation to value added service providers.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Revenue and Expense Recognition (continued)

MIDI

Frame Net, World Link and Direct Link

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

Internet

Revenues arising from installation service are recognized at the time the installations are placed in service. Revenues from monthly service fees are recognized as the services are provided. Revenues from usage charges are recognized monthly based on the duration of internet usage or based on the fixed amount of charges depending on the arrangement with the customers.

Satellite Lease

Revenues are recognized on the straight-line basis over the lease term.

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

Fixed Telecommunication

International Calls

Revenues from services are accounted for on the accrual basis. At the end of each year, income from outgoing international call traffic is recognized on the basis of the actual recorded traffic for the year. 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 year these are incurred.

Fixed Wireless

Fixed wireless revenues arising from airtime are recognized based on the duration of successful calls made through the Company's fixed network.

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

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

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

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Revenue and Expense Recognition (continued)

Fixed Telecommunication (continued)

Fixed Line

Revenues from fixed line installations are recognized at the time the installations are placed in service. Revenues from usage charges are recognized based on the duration of successful calls made through the Company's fixed network.

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

Other Services

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

Expenses

Expenses are recognized when incurred (accrual basis).

p. Personnel Costs

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

q. Pension Plan and Employee Benefits

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

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

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).

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Derivatives

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

s. Foreign Currency Transactions and Balances

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

For December 31, 2003, 2004 and 2005, the rates of exchange used (in full amounts) were Rp8,465, Rp9,290 and Rp9,830 to US\$1, respectively, computed by taking the average of the last buying and selling rates of bank notes published by Bank Indonesia.

t. Income Tax

Current tax expense is provided based on the estimated taxable income for the year. 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 year 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.

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

u. Segment Reporting

The Companies follow Revised SAK 5, "Segment Reporting", in the presentation of segment reporting in their financial statements. The Revised SAK 5 provides more detailed guidance for identifying reportable business segments and geographical segments. The financial information which is used by management for evaluating the segment performance is presented in Note 39.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Basic Earnings per Share/ADS and Diluted Earnings per Share/ADS

In accordance with SAK 56, "Earnings Per Share", basic earnings per share is computed by dividing net income, which consists of income before extraordinary item and extraordinary item, by the weighted-average number of shares outstanding during the year after considering the effect of stock split and exercise of ESOP Phase I and Phase II (Note 31).

Diluted earnings per share is computed by dividing net income, which consists of income before extraordinary item and extraordinary item, by the weighted-average number of shares outstanding during the year, 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.

w. Use of Estimates

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

3. TRANSLATIONS OF RUPIAH INTO UNITED STATES DOLLAR

The consolidated financial statements are stated in rupiah. The translations of the rupiah into United States dollar (US\$) are included solely for the convenience of the readers, using the average buying and selling rate published by Bank Indonesia (Central Bank) on December 31, 2005 of Rp9,830 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 2003 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:

- 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

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the net assets of the investees acquired or sold was credited to "Difference in Value from Restructuring Transactions of Entities under Common Control".

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4. RESTATEMENT OF 2003 CONSOLIDATED FINANCIAL STATEMENTS (continued)

SAK 38 (continued)

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 Company (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 2003 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

In 2004, the Company also early adopted SAK 24 (Revised 2004) (Note 2q). 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 2003 consolidated financial statements as a result of the retrospective application of SAK 38 (Revised 2004) and SAK 24 (Revised 2004) is as follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Consolidated Balance Sheet		
Total Assets	26,153,024	26,059,192
Total Liabilities	13,954,114	14,019,310
Total Stockholders' Equity	12,198,910	12,039,882
Consolidated Statement of Income		
Operating Expenses	5,902,912	5,881,711
Extraordinary Item - Realized Gain on Difference in Value from Restructuring Transactions of Entities under Common Control - net of deferred tax effect	-	4,499,947
Net Income	1,569,967	6,081,971
Consolidated Statement of Changes in Stockholders' Equity		
Difference in Value from Restructuring Transactions of Entities under Common Control	4,499,947	-

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Retained Earnings - Unappropriated

Beginning of year	4,646,024	4,474,939
End of year	6,061,311	10,402,230

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5. CASH AND CASH EQUIVALENTS

This account consists of the following:

	<u>2004</u>	<u>2005</u>
Cash on hand		
Rupiah	1,391	868
U.S. dollar (US\$11 in 2004 and US\$27 in 2005)	103	270
	<u>1,494</u>	<u>1,138</u>
Cash in banks		
Related parties (Note 30)		
Rupiah		
PT Bank Mandiri (Persero) Tbk ("Mandiri")	22,527	26,700
PT Bank Pembangunan Daerah DKI Jakarta	4,308	2,955
PT Bank Rakyat Indonesia (Persero) Tbk ("BRI")	1,016	1,857
PT Bank Danamon Indonesia Tbk ("Danamon")	1,196	864
PT Bank Pembangunan Daerah Yogyakarta	-	853
PT Bank Negara Indonesia (Persero) Tbk ("BN")	1,317	802
PT Bank Tabungan Negara (Persero) ("BTN")	51	625
PT Bank Syari'ah Mandiri ("Mandiri Syari'ah")	682	101
Others (each below Rp500)	1,643	687
U.S. dollar		
Mandiri (US\$1,162 in 2004 and US\$163 in 2005)	10,794	1,600
Others (US\$107 in 2004 and US\$10 in 2005)	994	99
Third parties		
Rupiah		
Deutsche Bank AG, Jakarta Branch	25,777	18,752
PT Bank Central Asia Tbk ("BCA")	30,347	18,116
The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch	-	7,148
PT Bank Umum Koperasi Indonesia ("Bukopin")	1,260	3,007
PT Bank Permata Tbk	582	1,106
Citibank N.A., Jakarta Branch	1,569	852
PT Bank Artha Graha	540	503
PT Bank Niaga Tbk ("Niaga")	679	182
PT Bank Mega Tbk ("Mega")	548	-
Others (each below Rp500)	551	491

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5. CASH AND CASH EQUIVALENTS (continued)

	2004	2005
Cash in banks (continued)		
Third parties		
U.S. dollar		
Deutsche Bank AG, Jakarta Branch (US\$5,453 in 2004 and US\$2,192 in 2005)	50,659	21,552
Citibank N.A., Jakarta Branch (US\$757 in 2004 and US\$1,509 in 2005)	7,028	14,835
Bukopin (US\$276)	-	2,718
Niaga (US\$46 in 2004 and US\$54 in 2005)	427	530
PT Bank Finconesia (US\$385)	3,580	-
Others (US\$100 in 2004 and US\$835 in 2005)	929	8,205
	169,004	135,140
Time deposits		
Related parties (Note 30)		
Rupiah		
Mandiri	730,681	504,945
BRI	387,000	200,000
Danamon	353,300	199,400
BNI	244,315	173,715
Mandiri Syari'ah	142,000	150,000
BTN	6,450	2,000
Others	1,000	1,000
U.S. dollar		
Mandiri (US\$10,029 in 2004 and US\$52,071 in 2005)	93,169	511,862
BRI (US\$27,000 in 2004 and US\$35,000 in 2005)	250,830	344,050
BNI (US\$25,000)	-	245,750
Mandiri Syari'ah (US\$10,000 in 2004 and US\$23,000 in 2005)	92,900	226,090
Danamon (US\$20,000 in 2004 and 2005)	185,800	196,600
BTN (US\$10,000)	-	98,300
Third parties		
Rupiah		
PT Bank Muamalat Indonesia ("Muamalat")	80,000	210,000
BCA	-	152,500
Niaga	44,400	109,800
Bukopin	262,800	109,000
Deutsche Bank AG, Jakarta Branch	435,151	35,161
Citibank N.A., Jakarta Branch	-	7,600
Mega	24,852	5,595
Standard Chartered Bank, Jakarta Branch	50,000	-
Others	6	6

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5. CASH AND CASH EQUIVALENTS (continued)

	2004	2005
Time deposits (continued)		
Third parties		
U.S. dollar		
Deutsche Bank AG, Jakarta Branch (US\$14,201 in 2004 and US\$42,406 in 2005)	131,930	416,856
Bukopin (US\$25,000 in 2004 and US\$37,000 in 2005)	232,250	363,710
Niaga (US\$4,785 in 2004 and US\$27,253 in 2005)	44,455	267,901
Muamalat (US\$5,000)	-	49,150
BCA (US\$5,000)	46,451	-
	3,839,740	4,580,991
Total	4,010,238	4,717,269

Time deposits denominated in rupiah earned interest at annual rates ranging from 5.00% to 15.35% in 2003, from 4.00% to 7.50% in 2004 and from 4.00% to 13% in 2005, while those denominated in U.S. dollar earned interest at annual rates ranging from 0.60% to 5.03% in 2003, from 0.54% to 1.50% in 2004 and from 0.65% 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:

	2004		2005	
	Percentage Amount	Percentage (%)	Amount	(%)
Number of Months Outstanding				
0 - 3 months	166,812	65.81	74,381	47.35
4 - 6 months	8,103	3.20	542	0.35
over 6 months	78,565	30.99	82,157	52.30
Total	253,480	100.00	157,080	100.00

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6. ACCOUNTS RECEIVABLE - TRADE - TELKOM (continued)

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 year	90,872	86,884
Provision	2,646	4,556
Deduction due to sale of Sisindosat)	-	(2,250)
Write-off	(6,184)	-
Net effect of foreign exchange adjustment	(450)	295
Balance at end of year	86,884	89,485

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

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

7. ACCOUNTS RECEIVABLE - TRADE - THIRD PARTIES

This account consists of the following:

	2004	2005
Overseas international carriers		
DiGi Telecommunications Sdn Bhd (formerly Mutiara Telecommunications Sdn Bhd), Malaysia (US\$6,203 in 2004 and US\$9,095 in 2005)	57,622	89,402
Saudi Telecom Company, Saudi Arabia (US\$9,334 in 2004 and US\$8,086 in 2005)	86,717	79,483
Maxis International Sdn Bhd, Malaysia (US\$2,881 in 2004 and US\$6,284 in 2005)	26,762	61,768
Telekom Malaysia Berhad, Malaysia (US\$583 in 2004 and US\$4,773 in 2005)	5,420	46,922
UAE-Etisalat, United Arab Emirates (US\$3,903 in 2004 and US\$4,578 in 2005)	36,261	45,003
Celcom Malaysia Berhad, Malaysia (US\$3,555 in 2004 and US\$3,953 in 2005)	33,027	38,857
Cableview Services Sdn Bhd ("Mega TV"), Malaysia (US\$3,289 in 2004 and 2005)	30,558	32,334
Jabatan Telekom Brunei, Brunei Darussalam (US\$4,061 in 2004 and US\$2,992 in 2005)	37,722	29,410
DDI Corporation, Japan (US\$5,533 in 2004 and US\$2,389 in 2005)	51,399	23,484
Korea International Telecommunication, Korea (US\$2,957 in 2004 and US\$2,229 in 2005)	27,468	21,909
NTT Communications Corporation, Japan (US\$1,323 in 2004 and US\$2,205 in 2005)	12,286	21,672
Mega Media Broadcasting Network Co. Ltd., Taiwan (US\$2,203 in 2004 and 2005)	20,467	21,656
Ciberner, United Kingdom (US\$286 in 2004 and US\$1,633 in 2005)	2,665	16,050
Orient Network HK Ltd., Singapore (US\$1,254 in 2004 and US\$1,411 in 2005)	11,647	13,867
T-System International GmbH, Germany (US\$2,081 in 2004 and US\$1,319 in 2005)	19,337	12,964
Eastern Broadband Telecom, Taiwan (US\$427 in 2004 and US\$ 1,273 in 2005)	3,965	12,517
People's Television Network, Canada (US\$1,270 in 2004 and 2005)	11,798	12,483
Equant Network Services Pte. Ltd., United Kingdom (US\$2,894 in 2004 and US\$817 in 2005)	26,816	8,027
Reach Networks Hong Kong Limited, Hong Kong (US\$2,039 in 2004 and US\$623 in 2005)	18,946	6,123
TT dotCom Sdn Bhd, Malaysia (US\$2,383 in 2004 and US\$508 in 2005)	22,134	4,991
MCI Worldcom, U.S.A. (US\$3,653 in 2004 and US\$494 in 2005)	33,940	4,861

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Dacom Corporation, Korea (US\$1,680 in 2004 and US\$272 in 2005)	15,609	2,673
MobileOne (Asia) Pte. Ltd., Singapore (US\$1,364 in 2004 and US\$93 in 2005)	12,671	911

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

	2004	2005
Overseas international carriers (continued)		
AT&T, U.S.A. (US\$3,988)	37,044	-
AT&T Global Network, Singapore (US\$2,081)	19,333	-
Others (each below Rp10,000, including US\$13,069 in 2004 and US\$16,895 in 2005)	121,413	166,075
	<u>783,027</u>	<u>773,442</u>
Local companies		
PT Cakrawala Andalas Televisi (US\$1,281 in 2004 and US\$872 in 2005)	11,904	8,575
PT Satkomindo (US\$782 in 2004 and US\$823 in 2005)	7,266	8,094
PT Ratelindo	8,988	4,713
Others (each below Rp6,000, including US\$12,611 in 2004 and US\$9,908 in 2005)	254,875	239,724
	<u>283,033</u>	<u>261,106</u>
Post-paid subscribers from:		
Cellular	290,509	444,957
Fixed Wireless	3,939	16,123
Fixed Line	2,437	15,037
	<u>296,885</u>	<u>476,117</u>
Total	1,362,945	1,510,665
Less allowance for doubtful accounts	375,001	528,314
Net	<u>987,944</u>	<u>982,351</u>

The aging schedule of the accounts receivable is as follows:

Number of Months Outstanding	2004		2005	
	Amount	Percentage (%)	Amount	Percentage (%)
0 - 6 months	898,417	65.92	727,463	48.16
7 - 12 months	159,556	11.71	306,247	20.27
13 - 24 months	141,944	10.41	235,362	15.58
over 24 months	163,028	11.96	241,593	15.99
Total	<u>1,362,945</u>	<u>100.00</u>	<u>1,510,665</u>	<u>100.00</u>

As of December 31, 2005, approximately 3.23% 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 year	353,221	375,001
Provision	18,624	163,956
Write-off	(11,852)	(10,999)
Deduction due to sale of Sisindosat	-	(4,260)
Net effect of foreign exchange adjustment	15,008	4,616
Balance at end of year	375,001	528,314

The net effect of foreign exchange adjustment was due to the weakening of the rupiah vis-à-vis the U.S. dollar in relation to U.S. dollar accounts previously provided with allowance and was charged to "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	539,882	649,608
Value Added Tax ("VAT")	101,181	254,695
Others	20,592	35,852
Total	661,655	940,155

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.

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8. PREPAID TAXES (continued)

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 payment amounting to Rp119,195 from the Tax Office for the Company's claim for tax refund for fiscal year 2003.

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	18,138 (a)	30,388
Cambodian Indosat Telecommunications S.A.	49.00	14,697	(149)	14,548
Others (carrying value below Rp10,000 each)	20.00 - 35.00	9,075	(1,965) (b)	7,110
Total		92,534	15,812	108,346
Less allowance for decline in value		75,212	-	75,212
Net		17,322	15,812	33,134

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

(b) net of cash dividends amounting to Rp61 and Rp43 from PT Sistelindo Mitralintas and PT Swadharma Marga Inforindo, respectively, 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 Income (Loss) of Associated Companies/Sale of Investments	Carrying Value
Investments in:				
PT Multi Media Asia Indonesia	26.67	56,512	(212)	56,300
Others (carrying value below Rp10,000 each) (c)(d)	20.00	100	424	524
Total		56,612	212	56,824
Less allowance for decline in value (c) (d)		56,300	-	56,300
Net		312	212	524

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

(d) net of investment in associated company of IMM which was written off

The changes in the carrying value of the investments in associated companies for the years ended December 31, 2004 and 2005 are as follows:

	2004	2005
Write-off of allowance for decline in value of investment due to sale and write-off of investment	25,057	18,912
Equity in net income of associated companies	61,489	86
Sale of investment	(226,493)	(50,012)
Write-off of investment	-	(1,596)
Provision for decline in value of investment	(16,779)	-
Cash dividends received from associated companies	(1,756)	-
Net Change	(158,482)	(32,610)

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 amounting to Rp75,212 and Rp56,300 as of December 31, 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 Pasifik Satelit Nusantara ("PSN") and M2A ("the Parties"), the Parties agreed that the Company would participate as a stockholder of M2A, which was previously wholly owned by PSN, by acquiring 485,000,000 new shares of M2A with an aggregate nominal value of US\$20,000, representing 26.67% equity interest in M2A. The Parties also agreed that the Company's investment in M2A would not be less than 20% of the

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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)

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 as of December 31, 2005.

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

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

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

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

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.

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9. INVESTMENTS IN ASSOCIATED COMPANIES (continue d)

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).

10. OTHER LONG-TERM INVESTMENTS

This account consists of the following:

	<u>2004</u>	<u>2005</u>
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	<u>102,157</u>	<u>2,730</u>

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10. OTHER LONG-TERM INVESTMENTS (continued)

- 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
Others (cost/carrying value below Rp4,000 each)	10.00 - 17.60	4,631
Total		234,184
Less allowance for decline in value		132,126
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
Others (cost/carrying value below Rp4,000 each) ^(a)	16.67 - 17.60	2,631
Total		102,608
Less allowance for decline in value ^(a)		99,977
Net		2,631

^(a) net of investment in PTPatra Telekomunikasi Indonesia sold in August 2005 and write-off of investment in AlphaNet Telecom Inc.

- b. Investments in convertible bonds

This account consists of:

	2004	2005
AlphaNet Telecom Inc.	71,441	-
PT Yasawirya Indah Mega Media	18,000	-
Total ^(b)	89,441	-
Less allowance for decline in value ^(b)	89,441	-
Net	-	-

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(b) The Company and IMM wrote off their investments in 2005.

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10. OTHER LONG-TERM INVESTMENTS (continued)

c. Equity securities which are available-for-sale

As of December 31, 2004 and 2005, this account consists of:

BNI	89
Telkom	10
	<hr/>
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 Rp221,567 and Rp99,977 as of December 31, 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 ("I-CO")

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

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 a loss amounting to Rp1,046. On April 7, 2005, the Company received the proceeds from the sale.

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10. OTHER LONG-TERM INVESTMENTS (continued)

AlphaNet Telecom Inc. ("ATI")

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

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

As a result of ATI's liquidation process, the Company received on March 9, 2001 the amount of Rp12,923 (CAD2,028,670) from the sale of ATI's assets. On September 23, 2004, the Company received the last liquidation payment amounting to Rp8,557 (CAD1,208,272) from ATI's trustee. As the liquidation process has been completed, the Company wrote off its investment in ATI in 2005.

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.

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:

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10. OTHER LONG-TERM INVESTMENTS (continued)

PIN (continued)

- 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 in 2004, its 2003 consolidated financial statements were restated to adjust such gain (Note 4).

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

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11. PROPERTY AND EQUIPMENT

The details of property and equipment are as follows:

	2004				Balance at End of Year
	Balance at Beginning of Year	Additions	Deductions	Reclassifications	
Carrying Value					
Landrights	259,743	23,855	-	-	283,598
Buildings	358,385	885	-	16,805	376,075
Submarine cables	717,258	-	2,201	147,761	862,818
Earth stations	108,484	-	-	7,729	116,213
Inland link	197,856	1,716	-	199,810	399,382
Switching equipment	308,773	-	-	16,514	325,287
Telecommunications peripherals	1,258,238	196,273	9,187	101,179	1,546,503
Information technology equipment	643,335	94,611	29,072	163,105	871,979
Office equipment	1,080,271	53,449	3,571	992	1,131,141
Building and leasehold improvements	439,535	95	3,671	482,524	918,483
Vehicles	15,655	1,007	1,301	-	15,361
Cellular technical equipment	12,004,516	-	10,974	5,138,109	17,131,651
Satellite technical equipment	1,227,346	8,025	-	8,598	1,243,969
Transmission and cross-connection equipment	465,007	-	-	6,469	471,476
FWA technical equipment	-	-	-	317,499	317,499
Properties under construction and installation	2,886,426	5,530,743	-	(6,607,094)	1,810,075
Total	21,970,828	5,910,659	59,977	-	27,821,510
Accumulated Depreciation					
Buildings	153,546	23,887	-	-	177,433
Submarine cables	248,003	63,005	1,618	-	309,390
Earth stations	72,973	7,392	-	-	80,365
Inland link	40,599	21,183	-	-	61,782
Switching equipment	146,400	27,007	-	-	173,407
Telecommunications peripherals	684,125	183,353	9,187	-	858,291
Information technology equipment	391,229	150,711	13,332	-	528,608
Office equipment	496,808	93,143	2,816	-	587,135
Building and leasehold improvements	192,576	98,044	846	-	289,774
Vehicles	9,809	2,614	1,033	-	11,390
Cellular technical equipment	4,637,579	1,854,442	815	-	6,491,206
Satellite technical equipment	556,435	139,440	-	-	695,875
Transmission and cross-connection equipment	147,998	26,290	-	-	174,288
FWA technical equipment	-	22,132	-	-	22,132
Total	7,778,080	2,712,643	29,647	-	10,461,076
Less impairment in value	99,621	17,637	-	-	117,258
Net Book Value	14,093,127				17,243,176

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11. PROPERTY AND EQUIPMENT (continued)

End of Year	2005					Balance at a Subsidiary
	Balance at Beginning of Year	Transactions during the Year			Divestment in	
		Additions	Deductions	Reclassifications		
<u>Carrying Value</u>						
Landrights	283,598	7,697	-	42,609	(5,250)	328,654
Buildings	376,075	20,394	-	38,249	(6,546)	428,172
Submarine cables	862,818	-	-	30	-	862,848
Earth stations	116,213	-	-	306	-	116,519
Inland link	399,382	-	-	210,795	-	610,177
Switching equipment	325,287	-	-	17,815	-	343,102
Telecommunications peripherals	1,546,503	212,383	-	83,872	(10,562)	1,832,196
Information technology equipment	871,979	6,310	3,080	144,129	-	1,019,338
Office equipment	1,131,141	154,881	350	118,573	(17,687)	1,386,558
Building and leasehold improvements	918,483	1,743	-	209,016	-	1,129,242
Vehicles	15,361	3,439	1,429	-	(1,425)	15,946
Cellular technical equipment	17,131,651	-	-	4,007,815	-	21,139,466
Satellite technical equipment	1,243,969	-	-	28,877	-	1,272,846
Transmission and cross- connection equipment	471,476	-	-	1,179	-	472,655
FWA technical equipment	317,499	-	-	117,245	-	434,744
Properties under construction and installation	1,810,075	6,891,100	-	(5,020,510)	-	3,680,665
Total	27,821,510	7,297,947	4,859	-	(41,470)	35,073,128
<u>Accumulated Depreciation</u>						
Buildings	177,433	21,873	-	-	(1,994)	197,312
Submarine cables	309,390	108,931	-	-	-	418,321
Earth stations	80,365	30,716	-	-	-	111,081
Inland link	61,782	33,884	-	-	-	95,666
Switching equipment	173,407	50,052	-	-	-	223,459
Telecommunications peripherals	858,291	264,531	-	-	(3,805)	1,119,017
Information technology equipment	528,608	208,168	946	-	-	735,830
Office equipment	587,135	140,678	2,446	-	(13,803)	711,564
Building and leasehold improvements	289,774	176,942	-	-	-	466,716
Vehicles	11,390	1,991	1,248	-	(1,289)	10,844
Cellular technical equipment	6,491,206	1,723,266	-	-	-	8,214,472
Satellite technical equipment	695,875	144,166	-	-	-	840,041
Transmission and cross - connection equipment	174,288	18,958	-	-	-	193,246
FWA technical equipment	22,132	50,035	-	-	-	72,167
Total	10,461,076	2,974,191	4,640	-	(20,891)	13,409,736
Less impairment in value	117,258	-	1,010	-	(17,637)	98,611
Net Book Value	17,243,176					21,564,781

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11. PROPERTY AND EQUIPMENT (continued)

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 2003, 2004 and 2005, sales of certain property and equipment were made as follows:

	2003	2004	2005
Proceeds from sales	6,147	18,490	463
Net book value	(6,974)	(17,072)	(219)
Gain (loss)	(827)	1,418	244

Depreciation charged to operations amounted to Rp1,938,805, Rp2,712,643 and Rp2,974,191 in 2003, 2004 and 2005, respectively.

In 2003, Lintasarta provided Rp1,010 as impairment reserve on its assets. In 2005, the reserve has been debited against the related properties under construction and installation due to the permanent decrease in value of the assets.

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

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

As of December 31, 2005, approximately 0.90% of property and equipment are pledged as collateral to letter of credit facilities obtained by Lintasarta (Note 17).

As of December 31, 2005, the Companies carry insurance on their respective property and equipment (except submarine cables and landrights) for US\$141,294 and Rp23,630,138, 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 2)). The effects of the change are to increase income before income tax as follows:

<u>Period</u>	<u>Amount</u>
Year ended December 31, 2005	246,651
Year ending December 31, 2006	202,702
Year ending December 31, 2007	197,357
Year ending December 31, 2008	153,148
Year ending December 31, 2009	135,174
Year ending December 31, 2010	81,620

The details of the Companies' properties under construction and installation as of December 31, 2004 and 2005 are as follows:

	<u>Percentage of Completion</u>	<u>Cost</u>	<u>Estimated Date of Completion</u>
2004			
Cellular technical equipment	68	1,525,579	January - June 2005
FWA technical equipment	95	105,562	January - March 2005
Building and leasehold improvements	79 - 93	68,587	January - April 2005
Inland link	83	66,002	June 2005
Information technology equipment	85 - 90	13,780	January - March 2005
Telecommunications peripherals	80	6,939	January - March 2005
Building	40	5,554	December 2005
Satellite technical equipment	40	1,070	January - March 2005
Others	91 - 95	17,002	January - April 2005
Total		1,810,075	
2005			
Cellular technical equipment	60 - 95	3,453,533	January - June 2006
Telecommunications peripherals	88 - 98	81,986	January - March 2006
FWA technical equipment	79 - 89	61,192	January - February 2006
Building and leasehold improvements	63 - 82	41,284	January - March 2006
Information technology equipment	67 - 87	15,960	January - April 2006
Office equipment	63 - 83	7,128	January - March 2006
Inland link	86 - 96	5,097	January - March 2006
Building	79 - 89	2,006	January - February 2006
Switching equipment	79 - 89	1,749	February - March 2006
Others	34 - 96	10,730	January - August 2006
Total		3,680,665	

Borrowing costs (interest expense) capitalized during the year to properties under construction and installation for the years ended December 31, 2003, 2004 and 2005 amounted to Rp84,775, Rp83,064 and Rp65,204, respectively.

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12. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill arose from the acquisition of equity interest in Bimagraha and Satelindo in 2001 and 2002, respectively (Note 1e) and from the acquisition of additional equity interest in Lintasarta in 2005 (Note 1d).

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

	Amount
Customer base	
- Post-paid	154,220
- Prepaid	73,128
Spectrum license	222,922
Brand	147,178
	597,448
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 (decrease) in income before income tax as follows:

Period	Amount
Year ended December 31, 2005	572,319
Year ending December 31, 2006	271,798
Year ending December 31, 2007	(84,603)

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

	2004	2005
Balance at beginning of year	3,344,939	3,012,578
Addition (Note 1d - Lintasarta)	-	2,388
Amortization of goodwill	(226,347)	(226,352)
Amortization of intangible assets	(106,014)	(106,014)
	3,012,578	2,682,600
Balance at end of year	3,012,578	2,682,600

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:

	2004	2005
Ericsson AB, Sweden (US\$55,709 in 2004 and US\$33,482 in 2005)	517,539	329,128
Siemens Aktiengesellschaft, Germany (including US\$28,102 in 2004 and US\$29,060 in 2005)	262,660	285,660
Nokia Corporation, Finland (US\$7,248 in 2004 and US\$21,157 in 2005)	67,337	207,974
PT Ericsson Indonesia (including US\$755 in 2004 and US\$7,570 in 2005)	10,628	204,959
Alcatel CIT, France (including US\$16,913 in 2004 and US\$14,468 in 2005)	157,447	142,545
PT Siemens Indonesia (including US\$986 in 2004 and US\$5,972 in 2005)	23,893	124,014
PT Alcatel Indonesia (including US\$6,259 in 2004 and US\$4,976 in 2005)	71,255	122,517
Siemens Mobile Communications S.p.A, Italy (US\$4,720 in 2004 and US\$9,282 in 2005)	43,847	91,246
ZTE Corporation, China (US\$10,235 in 2004 and US\$6,375 in 2005)	95,084	62,666
Huawei Tech Investment Co. Ltd., Hong Kong (US\$5,031)	-	49,455
PT Senopati Sellularindo	9,130	47,732
Kopindosat (including US\$9 in 2005)	57,539	44,853
PT Lintas Teknologi Indonesia (including US\$2,713 in 2004 and US\$3,987 in 2005)	27,497	44,280
PT NEC Indonesia (including US\$2,933 in 2004 and US\$3,866 in 2005)	27,629	39,959
PT Dawamiba Engineering	35,133	38,382
PT Industri Telekomunikasi Indonesia (including US\$491 in 2004 and US\$1,275 in 2005)	9,667	27,669
PT Kopnatel Jaya	9,967	27,358
PT Nokia Network (including US\$377 in 2004 and US\$2,166 in 2005)	3,506	25,410
PT Bahyutama Kerta Mukti	4,649	23,910
PT Sisindokom Lintasbuana (including US\$127 in 2004 and US\$1,842 in 2005)	3,794	22,975
PT Bukit Jaya Abadi	7,099	22,839
PT Berca Hardayaperkasa (including US\$1,788 in 2004 and US\$1,953 in 2005)	17,756	21,195
PT Sumacom Matra (US\$2,145 in 2005)	186	21,085
NT System Company Limited, Hong Kong (US\$1,097 in 2004 and US\$1,964 in 2005)	10,189	19,306
PT Ciptakomunindo Pradipta	9,693	18,636
PT Bukaka Teknik Utama	12,045	17,261
PT Mostniaga Semesta (including US\$47 in 2004 and US\$1,639 in 2005)	840	16,111
PT Enerfra Septadaya Prima	2,592	16,004
PT Gihon Telekomunikasi Indonesia	14,426	15,019

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PT Westindo Esa Perkasa (including US\$1,766 in 2004 and US\$1,481 in 2005)	17,882	14,928
PT Catur Elang Perkasa	13,767	14,855
PT Logica CMG Indonesia (US\$3,010 in 2004 and US\$1,249 in 2005)	27,962	12,278
PT Karya Mitra Nugraha	14,388	11,608
PT Ekaprasarana Primatel (including US\$3,546 in 2004 and US\$1,120 in 2005)	34,185	11,010
PT Emerson Indonesia (including US\$1,074)	-	10,992
PT Sekar Kedaton Nusantara	-	10,801
PT Reka Matra Bestari	3,366	10,665

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14. PROCUREMENT PAYABLE (continued)

	2004	2005
PT Hariff Daya Tunggal Engineering (including US\$1,871 in 2004 and US\$1,027 in 2005)	17,446	10,621
PT Piranti Bhakti Nusantara	3,107	10,339
PT Atma Sugih Abadi	6,638	10,042
M-Com Asia Pte. Ltd., Singapore (US\$994)	-	9,771
PT Telehouse Engineering	93	9,504
PT Duta Sembilan Kartika	8,414	9,215
PT Karunia Berca Indonesia	6,696	8,946
Evistel, France (US\$892)	-	8,768
PT Niko Nexel Nusantara	-	8,757
ADC Metrica, United Kingdom (US\$733 in 2005)	6	7,215
PT Bumikharisma Lininusa	6,675	7,175
PT Mitra Buana Sentosa (including US\$510 in 2004 and US\$713 in 2005)	4,741	7,148
PT Abhimata Citra Abadi (US\$802 in 2004 and US\$665 in 2005)	7,451	6,537
PT Mac Sarana Djaya (including US\$26 in 2004 and US\$20 in 2005)	4,300	6,415
PT Trimitra Bangun Jagad	15	6,326
PT Shinta Megah Mustika	-	6,292
Digitalwave Inc., South Korea (US\$637)	-	6,262
PT Samudra Perdana	3,102	5,697
Alcatel Singapore Pte. Ltd., Singapore (US\$545)	-	5,357
PT Rekapranata Ciptatangguh	4,073	5,222
PT Bumi Trafakon Utama	8,602	4,740
PT Tricipta Persada Nusantara (including US\$961 in 2004 and US\$360 in 2005)	9,420	4,638
PT Bangun Sarana Baja	9,715	3,386
PT Alita Praya Mitra	6,070	2,880
PT Rama Perwira	7,031	2,671
PT Auvikomunikasi Media Pro	8,766	1,795
Sumitomo Corporation, Japan (including US\$2,085 in 2004 and US\$58 in 2005)	19,699	567
PT Silkar National Ltd.	7,208	355
PT Asiakomnet Multimedia (including US\$690 in 2004 and US\$7 in 2005)	6,770	67
PT Data Media Telekomunikasi (US\$896 in 2004 and US\$5 in 2005)	8,323	48
PT Nexwave (US\$1,200)	11,148	-
PT Logica Indonesia (including US\$830)	7,977	-
PT Prima Mitratama Sejati (including US\$717)	7,301	-
Others (including US\$12,575 in 2004 and US\$7,902 in 2005, each below Rp5,000)	233,699	205,237
Total	2,049,063	2,609,278

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15. TAXES PAYABLE

The taxes payable as of December 31, 2004 and 2005 are as follows:

	2004	2005
Estimated corporate income tax payable, less tax prepayments of Rp131,499 in 2004 and Rp330,614 in 2005	9,403	927
Income tax:		
Article 21	86,626	88,290
Article 22	4,390	3,343
Article 23	51,085	45,891
Article 25	18,712	18,766
Article 26	22,055	46,472
Article 29	1,068	-
VAT	22,553	960
Others	4,307	1,203
Total	220,199	205,852

The reconciliation between income before income tax and extraordinary item and estimated taxable income (loss) of the Company for the years ended December 31, 2003, 2004 and 2005 is as follows:

	2003 (As Restated - Note 4)	2004	2005
Income before income tax and extraordinary item per consolidated statements of income	1,586,693	2,382,758	2,352,795
Extraordinary item - realized gain on difference in value from restructuring transactions of entities under common control	7,443,910	-	-
Subsidiaries' income before income tax and effect of inter-company consolidation eliminations	(312,887)	(112,210)	(91,286)
Income before income tax of the Company	8,717,716	2,270,548	2,261,509
Positive adjustments			
Provision for doubtful accounts	45,659	34,246	164,885
Compensation expense for ESOP (Note 20)	24,809	95,990	90,738
Accrual of employee benefits	59,862	51,300	72,804
Assessments for income taxes and related penalties	40,424	1,616	30,572
Employee benefits	37,876	5,201	20,345
Donation	5,847	20,645	19,494
Provision for termination, gratuity and compensation benefits of employees	-	8,823	16,283
Representation and entertainment	-	14,787	10,779
Loss from decline in value of investments in associated companies and other long-term investments	-	48,683	-
Gain on sale of investment in associated companies	-	7,688	-
Realized loss on difference in value from restructuring transactions of entities under common control	2,510,690	-	-
Reversal of write-off of other long-term investment and related interest receivable	413,049	-	-

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Interest expense on loans used to finance shares acquisition (Notes 17 and 18)	253,400	-	-
Gain on sale of other long-term investment (Note 10)	32,207	-	-
Provision for decline in value of short-term investment	25,395	-	-
Net periodic pension cost	5,993	-	-
Others	7,876	6,123	4,091

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15. TAXES PAYABLE (continued)

	2003 (As Restated - Note 4)	2004	2005
Negative adjustments			
Depreciation - net	(46,315)	(772,515)	(985,529)
Interest income already subjected to final tax	(58,985)	(178,616)	(193,795)
Equity in net income of investees	(993,418)	(156,882)	(152,244)
Sale of a subsidiary (Note 1d)	-	-	(109,691)
Capitalization of interest expense and personnel expenses to property and equipment (Notes 11 and 24)	-	(101,702)	(108,151)
Write-off of investment in other long-term investment	-	-	(103,590)
Realization of stock option resulting from the exercise of ESOP Phase I and Phase II	-	(49,592)	(71,182)
Net periodic pension cost	-	(15,964)	(36,423)
Amortization of goodwill and other intangible assets	(509,647)	(82,663)	(36,219)
Sale of an associated company (Note 9)	-	-	(14,697)
Write-off of accounts receivable	(23,998)	(6,184)	(5,329)
Amortization of debt and bonds issuance cost (Notes 17 and 18)	(21,662)	(314)	(1,069)
Gain from sale of property and equipment	-	(465)	(160)
Realized gain on difference in value from restructuring transactions of entities under common control	(9,813,209)	-	-
Reversal of interest expense on loans used to finance shares acquisition due to the merger (Notes 17 and 18)	(421,341)	-	-
Sale of other long-term investment and related interest receivable (Note 10)	(417,649)	-	-
Realized gain on sale of other long-term investment (Note 10)	(141,391)	-	-
Provision for termination, gratuity and compensation benefits of employees	(1,939)	-	-
Others	-	-	(9,154)
Estimated taxable income (loss) of the Company before tax losses carry-over	(268,751)	1,200,753	864,267
Tax losses carry-over at beginning of year	-	(934,637)	-
Tax losses carry-over of IM3 carried over to the Company as a result of the merger (Notes 1e and 15)	(665,886)	-	-
Estimated taxable income of the Company	-	266,116	864,267
Tax losses carry-over at end of year	(934,637)	-	-

The computation of the income tax expense (benefit) - net for the years ended December 31, 2003, 2004 and 2005 is as follows:

	2003 (As Restated - Note 4)	2004	2005
Estimated taxable income (loss) of the Company	(268,751)	266,116	864,267

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Income tax expense - current (at statutory tax rates)			
Company	-	79,817	259,263
Subsidiaries	585,570	61,085	72,278
Total income tax expense - current	585,570	140,902	331,541

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15. TAXES PAYABLE (continued)

	2003 (As Restated - Note 4)	2004	2005
Income tax expense (benefit) - deferred			
Company - effect of temporary differences at enacted maximum tax rate (30%)			
Depreciation - net	13,895	231,754	295,659
Equity in net income of investees	298,025	47,065	45,673
Loss (gain) on sale of subsidiary, investment in associated companies and other long-term investment	125,295	(2,306)	37,316
Capitalization of interest expense and personnel expenses to property and equipment (Notes 11 and 24)	-	30,511	32,445
Write-off of other long-term investment (Note 10)	-	-	31,077
Net periodic pension cost	(1,798)	4,789	10,927
Amortization of goodwill and other intangible assets	152,894	24,799	10,866
Write-off of accounts receivable	7,199	1,855	1,598
Amortization of debt and bonds issuance cost (Notes 17 and 18)	6,499	94	321
Gain on sale of property and equipment	-	139	48
Provision for doubtful accounts	(13,698)	(10,274)	(49,465)
Accrual of employee benefits	(17,959)	(15,390)	(21,841)
Compensation expense for ESOP	(7,443)	(13,919)	(5,867)
Provision for termination, gratuity and compensation benefits of employees	582	(2,647)	(4,885)
Tax loss carry-over	(80,626)	280,392	-
Loss from decline in value of investments in associated companies and other long-term investments	-	(14,605)	-
Realized gain on difference in value from restructuring transactions of entities under common control	2,943,963	-	-
Reversal of interest expense on loans used to finance shares acquisition due to the merger (Notes 17 and 18)	126,403	-	-
Effect on reversal of equity in net income of Satelindo, IM3 and Bimagraha due to the merger (Note 1e)	(709,772)	-	-
Reversal of write-off of other long-term investment and related interest receivable	(123,915)	-	-
Interest expense on loans used to finance shares acquisition (Notes 17 and 18)	(76,020)	-	-
Provision for decline in value of short-term investment	(7,618)	-	-
Others	(160)	(4,735)	(5,107)
	<u>2,635,746</u>	<u>557,522</u>	<u>378,765</u>
Subsidiaries			
Taxable gain on revaluation of property and equipment, offset against tax losses carry-over	68,242	-	-
Effect of temporary differences at enacted maximum tax rate (30%)			
Loss from decline in value of other long-term investments	(254)	12,404	6,900
Write-off of accounts receivable	1,810	3,316	1,677
Depreciation - net	150,618	(4,834)	(3,438)
Provision for doubtful accounts	(31,990)	7,961	(3,185)
Loss from decline in value of short-term investments	-	-	(2,577)
Tax loss	(118,637)	(21,762)	(565)

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Equity in net income of investees	133,712	2,270	-
Gain on sale of investment in associated company	3,525	-	-
Effect on reversal of equity in net income of Satelindo due to the merger (Note 1e)	(432,521)	-	-
Others	(1,717)	(4,916)	3,718
Valuation allowance - net	273	31,691	(14,912)

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15. TAXES PAYABLE (continued)

	2003 (As Restated - Note 4)	2004	2005
Effect on reversal of temporary difference on depreciation of revalued property and equipment	(68,242)	-	-
	(295,181)	26,130	(12,382)
Net income tax expense - deferred	2,340,565	583,652	366,383
Income tax expense - net	2,926,135	724,554	697,924

The income tax expense (benefit) - deferred is presented in the consolidated statements of income as part of the following accounts:

	2003 (As Restated - Note 4)	2004	2005
Income tax expense (benefit) - deferred	(603,398)	583,652	366,383
Extraordinary item - realized gain on difference from restructuring transactions of entities under common control	2,943,963	-	-
Net	2,340,565	583,652	366,383

The computation of the estimated income tax payable and claims for tax refund for the years ended December 31, 2004 and 2005 is as follows:

	2004	2005
Income tax expense - current		
Company	79,817	259,263
Subsidiaries	61,085	72,278
Total income tax expense - current	140,902	331,541
Less prepayments of income tax of the Company		
Article 22	76,527	108,631
Article 23	133,135	128,046
Article 25	224,074	217,980
Total prepayments of income tax of the Company	433,736	454,657
Less prepayments of income tax of Subsidiaries		
Article 22	2,349	2,928
Article 23	39,024	45,975
Article 25	17,505	23,479
Total prepayments of income tax of Subsidiaries	58,878	72,382
Total prepayments of income tax	492,614	527,039
Estimated income tax payable		

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Company	-	-
Subsidiaries	9,403	927
Total estimated income tax payable	9,403	927

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15. TAXES PAYABLE (continued)

	2004	2005
Claims for tax refund (presented as part of "Prepaid Taxes")		
Company	353,919	195,394
Subsidiaries	7,196	1,031
Total claims for tax refund	361,115	196,425

The reconciliation between the income tax expense including the income tax on extraordinary item calculated by applying the applicable tax rate of 30% to the combined income, net of loss, before income tax of the Company and Subsidiaries, and the income tax expense - net as shown in the consolidated statements of income for the years ended December 31, 2003, 2004 and 2005 is as follows:

	2003 (As Restated - Note 4)	2004	2005
Income before income tax and extraordinary item per consolidated statements of income	1,586,693	2,382,758	2,352,795
Extraordinary item - realized gain on difference in value from restructuring transactions of entities under common control	7,443,910	-	-
Company's equity in Subsidiaries' income before income tax and reversal of inter-company consolidation eliminations	2,047,223	90,976	153,344
Combined income, net of loss, before income tax of the Company and Subsidiaries	11,077,826	2,473,734	2,506,139
Income tax expense at the applicable tax rate of 30%	3,323,348	742,120	751,842
Taxable gain on revaluation of property and equipment, offset against tax losses carry-over	68,242	-	-
Tax effect on permanent differences			
Assessments for income taxes and related penalties	21	2,362	9,823
Employee benefits	23,043	2,251	7,302
Donation	7,241	6,194	5,863
Interest income already subjected to final tax	(15,112)	(57,473)	(64,647)
Realized loss on difference in value from restructuring transactions of entities under common control	753,207	-	-
Gain on sale of other long-term investment	9,662	-	-
Realized gain on sale of other long-term investment	(42,417)	-	-
Others	6,154	3,032	1,794
Valuation allowance adjustment	273	31,690	(14,912)
Unrealized tax loss	3,078	-	-
Effect on reversal of equity in net income of Satelindo, IM3 and Bimagraha due to the merger (Note 1e)	(1,142,293)	-	-
Effect on reversal of temporary difference on depreciation of revalued property and equipment	(68,242)	-	-
Adjustment due to tax audit and others	(70)	(5,622)	859
Income tax expense - net per consolidated statements of income	2,926,135	724,554	697,924

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15. TAXES PAYABLE (continued)

The tax effects of significant temporary differences between financial and tax reporting which are outstanding as of December 31, 2004 and 2005 are as follows:

	<u>2004</u>	<u>2005</u>
Company		
Deferred tax assets		
Allowance for doubtful accounts - net	156,743	204,610
Accrual of employee benefits - net	69,003	95,729
Allowance for decline in value of investments in associated companies and other long-term investments	92,565	46,883
Pension cost	39,525	28,598
Compensation expense for ESOP	21,362	27,229
Allowance for short-term investment	7,618	7,618
Total	<u>386,816</u>	<u>410,667</u>
Deferred tax liabilities		
Property and equipment	776,766	1,104,918
Investments in subsidiaries/associated companies - net of amortization of goodwill and other intangible assets	86,449	160,593
Deferred bonds and loans issuance costs	6,593	6,914
Difference in transactions of equity changes in associated companies/subsidiaries	1,752	1,752
Others	974	887
Total	<u>872,534</u>	<u>1,275,064</u>
Deferred tax liabilities - net	<u>485,718</u>	<u>864,397</u>
Subsidiaries (Asiatel and IMM in 2004; SMM and APE in 2004 and 2005)		
Deferred tax assets		
Tax loss carry-over	5,416	4,350
Allowance for doubtful accounts - net	7,413	508
Allowance for decline in value of associated company and other long-term investment	9,438	-
Others	484	27
	<u>22,751</u>	<u>4,885</u>
Valuation allowance	(21,251)	(4,708)
Net	<u>1,500</u>	<u>177</u>
Deferred tax liabilities		
Property and equipment	318	255
Investments in associated company	2,508	-
Others	2,030	1,197
Total	<u>4,856</u>	<u>1,452</u>
Deferred tax liabilities - net	<u>3,356</u>	<u>1,275</u>

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Deferred tax liabilities - net	<u>489,074</u>	<u>865,672</u>
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15. TAXES PAYABLE (continued)

	<u>2004</u>	<u>2005</u>
Subsidiaries (Sisindosat and Lintasarta in 2004; Lintasarta and IMM in 2005)		
Deferred tax assets		
Property and equipment	20,395	23,951
Allowance for doubtful accounts - net	6,888	9,569
Tax loss carry-over	20,426	-
Allowance for decline in value of investments in associated companies and other long-term investment	5,473	-
Others	11,809	11,112
Total	64,991	44,632
Valuation allowance	(30,981)	-
Net	34,010	44,632
Deferred tax liabilities		
Investments in associated companies	337	-
Others	469	435
Total	806	435
Deferred tax assets - net	33,204	44,197

The breakdown by entity of the foregoing deferred tax assets and liabilities outstanding as of December 31, 2004 and 2005 is as follows:

Deferred Tax	<u>2004</u>		<u>2005</u>	
	<u>Deferred Tax</u>	<u>Deferred Tax</u>	<u>Deferred Tax</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Company	-	485,718	-	864,397
Subsidiaries				
IMM	-	1,342	7,103	-
APE	-	1,323	-	1,275
Asiatel	-	691	-	-
Sisindosat	-	-	-	-
SMM	-	-	-	-
Lintasarta	33,204	-	37,094	-
Total	33,204	489,074	44,197	865,672

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15. TAXES PAYABLE (continued)

The significant temporary differences on which deferred tax assets have been computed are not deductible for income tax purposes until the decrease in the carrying value of investments in subsidiaries/associated companies and the allowance for decline in value of investments in associated companies and other long-term investments are realized upon sale of the investments, the doubtful accounts are written off, the tax loss carry-over is utilized, 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.

In 2003, 2004 and 2005, the Companies received assessment letters on tax underpayment ("SKPKB"/ "STP") detailed as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
VAT	-	-	14,499
Income tax es	40,424	1,616	16,073
Total *	40,424	1,616	30,572

* including penalties and interest

The above tax assessments have been settled by the Company.

In 2005, as a result of the corporate income tax audit for fiscal year 2003, the Company's tax loss carry-over as of December 31, 2003 amounting to Rp934,637 was adjusted by the Tax Office to become Rp501,179. On October 31, 2005, the Company submitted an objection letter to the Tax Office regarding the above tax correction. As of December 31, 2005, the Company has not received any decision from the Tax Office regarding such objection. No provision for probable loss on such loss carry-over adjustment was made in the consolidated financial statements as the Company believes that the Company has computed its corporate income tax in accordance with the tax regulations.

No income tax was provided for Sisindosat and Asiatel in 2003 and 2004, for Indosat in 2003, for SIB in 2004, and for SMM in 2003, 2004 and 2005 because they were in tax loss position during those years.

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 deferred tax liability (DTL) recognized by the Company as of November 20, 2003 (the merger date) on its investment in the merged subsidiaries amounted to Rp829,689, including Rp119,917 which was

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credited directly to "Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries", a component of Stockholders' Equity.

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15. TAXES PAYABLE (continued)

Bimagraha also recognized DTL on its equity in net income and difference in transactions of equity changes in Satelindo. As of November 20, 2003, the DTL recognized by Bimagraha from the date it was acquired by the Company on its equity in net income and difference in transactions of equity changes in Satelindo amounted to Rp432,521 and Rp34, respectively.

Due to the merger, the Company's expectation on the probability of the future settlement of the DTL changed since its investments in the merged subsidiaries changed in form and are assumed not to be sold to third parties; accordingly, all of the above DTL were reversed on the merger date. The reversal of net DTL was made against "Income Tax Benefit - Deferred" account or "Difference in Transactions of Equity Changes in Associated Companies/Subsidiaries" account, depending on whether the DTL or DTA impacted earnings or equity upon recognition.

On the merger date, the Company also reversed the balance of DTL on the difference in fair value between the tax basis and book basis of the net assets acquired during Bimagraha's and Satelindo's acquisition in 2001 and 2002, respectively. Total amount of DTL reversed amounting to Rp382,043 was credited to goodwill (Note 12).

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

The tax losses carry-over of SMM as of December 31, 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	1,885
Total	14,502

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16. ACCRUED EXPENSES

This account consists of the following:

	2004	2005
Interest	167,048	188,572
Network repairs and maintenance	121,005	151,771
Employee benefits	100,350	143,255
Universal Service Obligation ("USO")	70,376	78,788
Concession fee	101,214	65,275
Marketing	27,618	46,153
Outsourcing	15,055	21,735
Link	22,487	18,870
Consultancy fees	30,217	14,583
Rental	14,911	12,720
Utilities	8,066	3,300
Radio frequency fee	49,399	3,033
Others	31,561	95,151
Total	759,307	843,206

17. LOANS PAYABLE

This account consists of the following:

	2004	2005
Related parties		
Syndicated loan facility 2		
BNI - net of unamortized debt issuance cost of Rp10,497 in 2004 and Rp6,531 in 2005	752,628	511,114
Mandiri - net of unamortized debt issuance cost of Rp2,393 in 2004 and Rp1,455 in 2005	175,387	119,137
Others	988	-
Third parties - net of unamortized debt issuance cost of Rp12,372 in 2004 and Rp7,700 in 2005	1,034,497	728,222
Total loans payable	1,963,500	1,358,473
Less current maturities		
Related parties		
BNI	123,750	-
Mandiri	44,536	-
Third parties	207,135	49,700
Total current maturities	375,421	49,700
Long-term portion	1,588,079	1,308,773

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17. LOANS PAYABLE (continued)

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	3,165,000

* related parties

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		3,165,000

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 11.83% to 12.75% in 2003, from 11.00% to 11.92% in 2004 and from 9.30% to 11.92% in 2005.

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:

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17. LOANS PAYABLE (continued)

Syndicated Loan Facility 2 (continued)

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

As of December 31, 2004 and 2005, the outstanding balances of the loans are as follows:

Bank	2004	2005
BCA	901,875	611,763
BNI*	763,125	517,645
Mandiri*	177,780	120,592
Balance	1,842,780	1,250,000
Unamortized debt issuance cost	(25,262)	(15,686)
Net	1,817,518	1,234,314

* related parties

The amortization of debt issuance cost charged to operations amounted to Rp559 in 2003, Rp9,457 in 2004 and Rp9,576 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 Rp12,372 in 2004 and Rp7,700 in 2005	889,503	604,063
Investment Credit Facility 3 from Niaga	96,200	78,339
Investment Credit Facility 4 from Niaga	-	38,320
Import Sight Letter of Credit ("L/C") Facility and Investment Credit Facility 2 from Niaga	13,500	7,500
Investment Credit Facility 1 from Niaga	35,199	-
Others	95	-
Total	1,034,497	728,222
Less current maturities	207,135	49,700
Long-term portion	827,362	678,522

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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 Niaga for the purchase of telecommunication equipment, computer and other supporting facilities amounting to Rp98,000. The loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.5% per year. 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 December 31, 2004 and 2005, the outstanding balances of the loan amounted to Rp96,200 and Rp78,339, 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.

Based on addendum No. 215/AMD/CBG/JKT/05 dated August 29, 2005 of the credit agreement, the loan covenant that restricted Lintasarta from declaring dividend of more than 50% of the current year's net income has been replaced with the requirement for Lintasarta to maintain Debt Service Coverage Ratio of not less than 1.2 : 1.

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

b. Investment Credit Facility 4 from Niaga

On August 29, 2005, Lintasarta obtained a new credit facility amounting to Rp45,000 from Niaga for the purchase of telecommunication equipment. The loan from the facility bears interest at prevailing annual rate of 3-month Certificate of Bank Indonesia plus 3.00%. 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 December 31, 2005, Lintasarta has drawn Rp38,320 from the facility.

The loan is collateralized by all equipment purchased from the proceeds of the credit facility 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.

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17. LOANS PAYABLE (continued)

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

- Investment credit facility 2 amounting to Rp15,000 to finance the above facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 2.75% (subsequently changed to 3% on October 1, 2003). 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 December 31, 2005, Lintasarta has fully drawn the amount of this facility.

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

Based on addendum No. 214/AMD/CBG/JKT/05 dated August 29, 2005 of the credit agreement, the loan covenant that restricted Lintasarta from declaring dividend of more than 50% of the current year's net income has been replaced with the requirement for Lintasarta to maintain Debt Service Coverage Ratio of not less than 1.2 : 1.

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

d. Investment Credit Facility 1 from Niaga

On October 16, 2001, Lintasarta obtained investment credit facility amounting to Rp117,000 from Niaga. In 2002, Lintasarta drew Rp113,199 from the facility. This loan bears interest at 3-month time deposits rate guaranteed by Bank Indonesia plus 3.25% (subsequently changed to 2.75% on April 8, 2002 and 3% on October 1, 2003). 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 December 31, 2004, this loan had an outstanding balance of Rp35,199.

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

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 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 year's net income.

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

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17. LOANS PAYABLE (continued)

d. Investment Credit Facility 1 from Niaga (continued)

- Standby L/C facility amounting to US\$5,000 for the importation of electronic and telecommunication equipment and amounting to US\$100 for the payment to Lintasarta's supplier. On August 6, 2003, the facility was rolled over until August 6, 2004 but the facility amount was reduced to US\$1,000. The facility has been rolled over until August 6, 2006. As of December 31, 2005, Lintasarta has not used this facility.
- Bank guarantee facility amounting to US\$3,000. On August 6, 2003, this facility was rolled over until August 6, 2004 but the facility amount was reduced to US\$500. The facility has been rolled over until August 6, 2006. No drawdowns have been made from the reduced facility as of December 31, 2005.

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

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

- Overdraft facility amounting to US\$2,000 (including overdraft facility denominated in rupiah amounting to Rp16,000). Interest will be charged on daily balances at 3.75% per annum and 6% per annum below the HSBC Best Lending Rate for the loan denominated in rupiah and U.S. dollar, respectively. Interest is payable on a monthly basis by debiting the Company's current account.
- Revolving loan facility amounting to US\$5,000 (including revolving loan denominated in rupiah amounting to Rp40,000). The loan matures at the maximum period of six months and can be drawn in tranches with minimum amounts of US\$500. Interest will be charged on daily balances at 3% per annum and 6.3% per annum below the HSBC Term Lending Rate for the loan denominated in rupiah and U.S. dollar, respectively. Interest is payable on a monthly basis by debiting the Company's current account.

The Company also obtained treasury facilities as follows:

- Currency swap limit (weighted) amounting to US\$7,000 to facilitate the Company's requirement for hedging genuine foreign currency and international rate exposure through currency swap and/or interest rate swap, with a maximum maturity of 5 years.
- Exposure risk limit (weighted) amounting to US\$3,000 to facilitate the Company's requirement for hedging genuine foreign currency exposures through spot and forward transactions with maximum maturity of 3 months.

As of December 31, 2005, the Company has not used these facilities.

The facilities will expire 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:

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17. LOANS PAYABLE (continued)

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

- Loan facility amounting to Rp25,000, which can be drawn as advances with a minimum amount of Rp100 for each advance. Each advance will mature at the maximum period of six months and bear interest as follows:
 - The interest on each advance with maturity of three months or less shall be payable at 1.7% per annum over Certificates of Bank Indonesia rates.
 - The interest on each advance with maturities of over three months but less than six months shall be payable at 2.5% per annum over three-month Certificates of Bank Indonesia rates.
- Bank guarantee amounting to US\$2,000. The loan from the facility matures at the maximum period of one year.

The facilities expired on November 30, 2005 and were extended for 12 months. The facilities shall be automatically extended for further 12-month periods upon expiration, unless early notification of non-extension is made in writing.

As of December 31, 2005, the Company has not used these facilities.

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.

The scheduled principal payments from 2006 to 2008 of all the loans payable as of December 31, 2005 are as follows:

	Twelve months ended December 31,			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	49,700	58,639	15,820	124,159
Total	49,700	58,639	1,265,820	1,374,159
Less unamortized debts issuance cost				15,686
Net				1,358,473

* please refer to previous discussion on early repayment option

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18. BONDS PAYABLE

As of December 31, 2004 and 2005, this account consists of:

	<u>2004</u>	<u>2005</u>
Guaranteed Notes Due 2010 (US\$300,000) - net of unamortized notes issuance cost of Rp24,629 in 2004 and Rp21,171 in 2005	2,762,371	2,927,829
Third Indosat Bonds in Year 2003 with Fixed Rate - net of unamortized bonds issuance cost of Rp24,830 in 2004 and Rp20,345 in 2005	2,475,170	2,479,655
Guaranteed Notes Due 2012 (US\$250,000) - net of unamortized notes discount of Rp15,312 and unamortized notes issuance cost of Rp32,122	-	2,410,066
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 Rp8,247	-	806,753
Indosat Syari'ah Ijarah Bonds in Year 2005 - net of unamortized bonds issuance cost of Rp2,924	-	282,076
Indosat Syari'ah Mudharabah Bonds in Year 2002	175,000	175,000
Limited bonds issued by Lintasarta*	30,436	30,436
Convertible bonds issued by Lintasarta**	6,106	5,526
Total bonds payable	<u>7,524,083</u>	<u>11,143,841</u>
Less current maturities	-	981,936
Long-term portion	<u>7,524,083</u>	<u>10,161,905</u>

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

** after elimination of convertible bonds amounting to Rp14,473 issued to and purchased by the Company

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

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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.

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18. BONDS PAYABLE (continued)

Guaranteed Notes Due 2010 (continued)

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

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

The Notes are unconditionally and irrevocably guaranteed by the Company.

The amortization of notes issuance cost charged to operations amounted to Rp473 in 2003, Rp3,199 in 2004 and Rp3,458 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.

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.
- *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.

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

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18. BONDS PAYABLE (continued)

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

The amortization of bonds issuance cost charged to operations amounted to Rp749 in 2003, Rp4,613 in 2004 and Rp4,485 in 2005.

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

Guaranteed Notes Due 2012

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

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

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

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

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

The Notes are unconditionally and irrevocably guaranteed by the Company.

The amortization of notes discount and issuance cost charged to operations amounted to Rp945 and Rp2,004, 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.

Second Indosat Bonds in Year 2002 with Fixed and Floating Rates

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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:

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18. BONDS PAYABLE (continued)

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

- Series A bonds amounting to Rp775,000 which bear interest at the fixed rate of 15.75% per annum for 5 years starting February 6, 2003
- Series B bonds amounting to Rp200,000 which bear interest at the fixed rate of 16% per annum for 30 years starting February 6, 2003. The bonds mature if the Company or the bondholder exercises the following options:
 - *Buy Option* : the Company has the right to make early payment for all the Series B bonds on the 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 *id*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
- <i>Buy Option</i>	:	February 6, 2003 and every quarter thereafter up to November 6, 2007, 2012, 2017, 2022 and 2027
- <i>Sell Option</i>	:	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 *id*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 *id*AA+ (stable outlook) rating from Pefindo.

On September 12 and 13, 2005, the Company repurchased a portion of the Series A bonds with total principal amount of Rp48,500 at a price which is equal to 101.175% of the principal amount repurchased, plus the accrued and unpaid interest (totalling Rp50,562).

Fourth Indosat Bonds in Year 2005 with Fixed Rate

On June 21, 2005, the Company issued its Fourth Indosat Bonds in Year 2005 with Fixed Rate ("Fourth Indosat Bond"), with BRI as the trustee. The bonds have a total face value of Rp815,000 in Rp50 denomination. The bonds bear interest at the fixed rate of 12% per annum, payable on a quarterly basis. The bonds will mature on June 21, 2011.

The bonds will mature 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 Rp540 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 Rp193 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 $i_dAA_{(sy)}+$ (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 in March 2002, the stockholders approved, among others, the declaration of cash dividend amounting to Rp25,300 of which Rp4,149 (net of tax) was paid in June 2002. The remaining dividend was distributed in the form of unsecured convertible bonds, which bear interest at the annual fixed rate of 19% and payable on a quarterly basis. The bonds will be converted into Lintasarta's common stock at par value of Rp1,000,000 per share on the bonds' maturity date on June 3, 2007.

On May 23, 2003, Lintasarta obtained approval from Niaga on the issuance of the convertible bonds (Note 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, BRI and BTN, plus a fixed premium of 3%. The floating rate should have a maximum limit of 19% and a minimum limit of 11%. The first amendment is effective starting July 1, 2004.

The scheduled principal payments of all the bonds payable outstanding as of December 31, 2005 are as follows:

	Twelve months ended December 31,					
	2006	2007	2008	2010	2011 and thereafter	Total
<u>In U.S. dollar</u>						
Guaranteed Notes *						
Due 2010						
(US\$300,000)	-	-	-	2,949,000	-	2,949,000
Due 2012						
(US\$250,000)	-	-	-	-	2,457,500	2,457,500
Sub-total	-	-	-	2,949,000	2,457,500	5,406,500

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18. BONDS PAYABLE (continued)

Twelve months ended December 31,

	2006	2007	2008	2010	2011 and thereafter	Total
In rupiah						
Third Indosat Bonds * 2,500,000	-	-	1,860,000	-	640,000	-
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	640,000	1,300,000	5,831,936

Convertible Bonds of Lintasarta which will be converted into Lintasarta's shares of common stock **5,526**

Total **11,243,962**

Less:

- unamortized notes issuance cost	(53,293)
- unamortized bonds issuance cost (31,516)	
- unamortized notes discount	(15,312)

Net **11,143,841**

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

19. CAPITAL STOCK

The Company's capital stock ownership as of December 31, 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	41.08
Government of the Republic of Indonesia	776,624,999	77,662	14.69
Directors:			
Hasnul Suhaimi	240,000	24	0.01
Wahyu Wijayadi	27,500	3	0.00
Sutrisman	17,500	2	0.00
Others (each holding below 5%)	2,337,148,500	233,715	44.22

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Total	5,285,308,500	528,531	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	40.54
Government of the Republic of Indonesia	776,624,999	77,662	14.50
Commissioner:			
Roes Aryawijaya	135,000	14	0.00
Directors:			
Wahyu Wijayadi	252,500	25	0.01
Hasnul Suhaimi	240,000	24	0.01
Wityasmoro Sih Handayanto	200,000	20	0.00
Jos eph Chan Lam Seng	90,000	9	0.00
Johnny Swandi Sjam	30,000	3	0.00
Raymond Tan Kim Meng	22,500	2	0.00
S. Wimbo S. Hardjito	2,500	-	-
Others (each holding below 5%)	2,407,327,000	240,733	44.94
Total	5,356,174,500	535,617	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. The "A" share also has the right to appoint one director and one commissioner of the Company.

Based on a letter from ICL to the Company dated March 2, 2004 regarding a notification of pledge of shares with respect to shares of the Company, ICL informed the Company that ICL pledged substantially all of its B Shares as collateral for a loan facility obtained by STT Communications Limited, the sole shareholder of ICL, from third parties.

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

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19. CAPITAL STOCK (continued)

- 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, 178,674,500 B shares have been issued as of December 31, 2005 (Note 20) at a total premium of Rp505,199.

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)].

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 being forfeited amounting to Rp3,609.

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

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20. STOCK OPTIONS (continued)

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

The Company recognized the following compensation expense relating to ESOP as part of "Operating Expenses - Personnel" (Note 24):

	<u>2003</u>	<u>2004</u>	<u>2005</u>
ESOP Phase I			
Five months' compensation expense	24,809	-	-
Seven months' compensation expense	-	31,123	-
ESOP Phase II			
Five months' compensation expense	-	64,867	-
Seven months' compensation expense	-	-	90,738
Total	<u>24,809</u>	<u>95,990</u>	<u>90,738</u>

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 December 31, 2005, the number of stock options under ESOP Phase I and Phase II exercised by the employees is 121,428,000 and 57,246,500 shares, respectively (Note 19).

21. OPERATING REVENUES - CELLULAR

This account consists of:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Usage charges	3,270,652	4,218,800	4,794,098
Features	1,157,387	2,131,015	2,815,242
Interconnection income	482,274	707,544	746,755
Connection fee	49,431	103,625	191,264
Monthly subscription charges	115,836	130,413	21,048
Others	36,339	50,664	76,544
Total	<u>5,111,919</u>	<u>7,342,061</u>	<u>8,644,951</u>

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The above interconnection income includes interconnection income from related parties amounting to Rp466,711, Rp541,660 and Rp464,748 in 2003, 2004 and 2005, respectively (Note 30).

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22. OPERATING REVENUES - FIXED TELECOMMUNICATION

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>
International Calls			
Incoming calls	902,483	859,146	643,861
Outgoing calls	905,186	595,555	441,256
Fixed Wireless	-	11,366	86,236
Fixed Line	-	71,699	74,405
Others	-	6,918	5,049
Total	<u>1,807,669</u>	<u>1,544,684</u>	<u>1,250,807</u>

Net settlements from other foreign telecommunications carriers of international telephone services amounted to Rp450,874, Rp640,924 and Rp743,076 in 2003, 2004 and 2005, respectively.

Operating revenues from related parties amounted to Rp906,251, Rp856,929 and Rp368,420 in 2003, 2004 and 2005, respectively. These amounts represent 50.13%, 55.48% and 29.45% of total operating revenues - fixed telecommunication in 2003, 2004 and 2005, respectively (Note 30).

23. OPERATING REVENUES - MIDI

This account consists of:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Related parties</u>			
Frame net	79,201	98,842	92,840
World link and direct link	62,080	69,658	91,067
Internet	5,522	35,441	87,789
Application services	36,764	41,700	42,507
Leased line	568	11,860	20,961
Digital data network	26,684	28,451	14,838
Satellite lease	26,901	24,998	14,549
Packet net	15,189	14,826	8,419
Others	6,909	15,600	36,084
Sub-total	<u>259,818</u>	<u>341,376</u>	<u>409,054</u>

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23. OPERATING REVENUES - MIDI (continued)

	2003	2004	2005
<u>Third parties</u>			
Internet	188,140	253,675	302,452
Frame net	225,108	275,058	296,586
World link and direct link	244,848	216,922	240,909
Satellite lease	118,811	127,934	135,581
Digital data network	112,732	117,256	125,569
Leased line	16,857	81,578	116,485
TV link	13,305	10,985	20,902
Application services	11,008	12,908	18,371
Packet net	11,508	5,185	4,237
Others	43,624	41,064	23,887
Sub-total	985,941	1,142,565	1,284,979
Total	1,245,759	1,483,941	1,694,033

24. OPERATING EXPENSES - PERSONNEL

This account consists of:

	2003 (As Restated - Note 4)	2004	2005
Incentives and other employee benefits	220,354	203,228	276,449
Salaries	277,299	262,523	271,246
Employee income tax	127,233	161,167	178,787
Bonuses	151,564	216,987	167,755
Outsourcing	62,258	112,868	128,971
ESOP compensation expense (Note 20)	24,809	95,990	90,738
Postretirement healthcare benefit	11,797	48,133	81,146
Medical expense	30,966	38,110	45,978
Separation, appreciation and compensation expense under Labor Law No. 13/2003 (Note 29)	5,994	13,253	18,861
Pension (Note 29)	53,304	33,931	(3,018)
Early retirement compensation	48,844*	-	-
Others	8,567	21,194	7,740
Total	1,022,989	1,207,384	1,264,653

* On April 28, 2003, the Company's Directors issued Decree No. 28/DIREKSI/2003, "Program for Unconditional Voluntary Resignation due to Change in the Company's Status and the Company's Ownership Structure". Under this decree, employees were offered early retirement option in exchange for separation, appreciation, compensation and other benefits. At the end of the program on June 25, 2003, there were 104 employees who took the option.

The personnel expenses capitalized to properties under construction and installation in 2003, 2004, and 2005 amounted to Rp16,766, Rp18,638 and Rp42,947, respectively.

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25. OPERATING EXPENSES - ADMINISTRATION AND GENERAL

This account consists of:

	2003	2004	2005
Provision for doubtful accounts	144,352	33,786	161,208
Rent	66,340	90,057	90,489
Travel	66,914	55,211	69,225
Training, education and research	28,743	30,673	39,124
Utilities	30,178	27,662	36,932
Insurance	9,530	33,772	35,385
Professional fees	30,339	48,575	32,816
Catering	24,429	29,127	29,850
Communications	32,035	30,140	23,303
Office supplies and stationery	21,415	20,673	22,723
Public relations	7,068	13,809	14,868
Others	36,645	57,862	50,099
Total	497,988	471,347	606,022

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

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

	2003	2004	2005
Telkom	638,934	492,132	390,136
Other telecommunications carriers and service providers	85,259	21,223	18,275
Total	724,193	513,355	408,411

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.

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

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 2o). The details of interconnection revenues which are presented on a net basis and shown as part of Operating Revenues are as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>Domestic</u>			
Interconnection revenues	1,483,067	1,123,097	1,252,596
Interconnection charges	(848,184)	(741,430)	(719,741)
Net	634,883	381,667	532,855
<u>Overseas</u>			
Revenues from international carriers	1,000,781	1,006,750	909,774
Charges from international carriers	(549,907)	(365,826)	(166,698)
Net	450,874	640,924	743,076

27. OPERATING EXPENSES - OTHER COSTS OF SERVICES

This account consists of:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Radio frequency fee	204,801	175,854	352,023
Cost of SIM cards and pulse reload vouchers	221,909	426,497	346,900
Rent	127,205	123,626	171,667
Utilities	71,564	103,090	148,113
Concession fee	70,331	99,763	111,627
USO (Note 36)	21,153	70,376	82,172
Billing and collection	10,490	25,129	66,298
Delivery and transportation	30,795	29,113	44,793
Communications	24,345	25,567	16,170
Wartel ("Phone Kiosk") commission	8,543	33,481	14,722
Insurance	59,127	19,370	13,799
Cost of software sold	68,312	83,051	-
Impairment loss on property and equipment	1,010	17,637	-
Others	47,819	67,864	93,445
Total	967,404	1,300,418	1,461,729

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28. OTHER EXPENSES - FINANCING COST

This account consists of:

	2003	2004	2005
Interest on loans	825,381	1,075,911	1,240,802
Amortization of debts/bonds issuance cost (Notes 17 and 18)	1,781	17,269	20,256
Bank charges	11,504	4,351	2,761
Amortization of bonds discount (Note 18)	-	-	945
Total	838,666	1,097,531	1,264,764

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 were paid on due dates.

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

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

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

- An increase in pension basic salary at 6% compounded annually starting from December 25, 2002
- Thirteenth-month retirement benefit, which is payable annually 14 days before Idul Fitri
- An increase in periodic payment of retirement benefit at 6% compounded annually starting one year after receiving periodic retirement benefit for the first time
- If the average annual interest rate of time deposits of government banks exceeds 15%, the participants' retirement benefit will be increased by a certain percentage in accordance with the formula agreed by both parties .

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

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

- An increase in basic salary pension by 3% (previously was estimated at 8%) compounded annually starting April 1, 2003
- An increase in periodic payment of retirement benefit at 5% compounded annually starting one year after receiving periodic retirement benefit for the first time
- If the average annual interest rate of time deposits of government banks exceeds 15%, the participants' retirement benefit will be increased by a certain percentage in accordance with the formula agreed by both parties .

On May 2, 2005, Lintasarta entered into an agreement with Jiwasraya to amend the above agreement. The amendment covers employees registered as participants of the pension plan as of April 1, 2003 up to November 30, 2004 with additional total premium installments amounting to Rp1,653 which are payable in 10 annual installments starting 2005 until 2015.

The total contributions of the Company, Satelindo and Lintasarta to Jiwasraya amounted to Rp65,995, Rp69,216 and Rp73,262 for the years ended December 31, 2003, 2004 and 2005, respectively.

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

The composition of the net periodic pension cost for the years ended December 31, 2003, 2004 and 2005 is as follows:

	2003 (As Restated - Note 4)	2004	2005
Service cost	26,203	34,656	26,354
Interest cost	44,069	49,191	54,533
Net amortization	-	4,829	740
Return on plan assets	(48,398)	(54,745)	(69,957)
Immediate recognition of past service cost - vested benefit	31,430	-	-
Curtailment gain	-	-	(14,688)
Net periodic pension cost (income)	53,304	33,931	(3,018)

The net periodic pension cost for the pension plans for the years ended December 31, 2003, 2004 and 2005 was calculated based on the actuarial valuations as of December 31, 2003, 2004 and 2005, respectively.

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

	2003	2004	2005
Annual discount rate	12%	10%	13%
Expected annual rate of return on plan assets	7.5 - 12%	10%	10%
Annual rate of increase in compensation	6 - 10%	6 - 9%	3 - 9%

The funded status of the plans as of December 31, 2004 and 2005 is as follows:

	2004	2005
Projected benefit obligation	571,100	498,401
Plan assets at fair value	671,117	718,259
Excess of plan assets over projected benefit obligation	100,017	219,858
Unrecognized actuarial gain	82,175	38,614
Prepaid pension cost	182,192	258,472

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29. PENSION PLAN (continued)

Defined Benefit Pension Plan (continued)

Prepaid pension cost - net consists of:

	2004	2005
Prepaid pension:		
Current portion (presented as part of "Prepaid Expenses")		
Company	22,905	20,899
Lintasarta	-	1,082
	22,905	21,981
Long-term portion		
Company	180,183	235,000
Lintasarta	-	1,491
Accrued pension -		
Lintasarta	(187)	-
Other non-current liabilities-		
Lintasarta	(20,709)	-
Net	182,192	258,472

Plan assets as of December 31, 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 in 2003, 2004 and 2005 amounted to Rp18,657, Rp20,445 and Rp17,233, respectively. The plan assets are being administered and managed by seven financial institutions appointed by the Company and Satelindo, based on the choice of the employees.

Labor Law No. 13/2003

On June 20, 2000, the Ministry of Manpower issued Decree No. KEP-150/Men/2000 ("KEP-150") regarding the settlement of work dismissal and determination of separation, appreciation and compensation benefits by companies. Subsequently, KEP-150 was revoked by Labor Law No. 13/2003 dated March 25, 2003. The Companies' employees will receive the benefits under this new law at the minimum. As of December 31, 2004 and 2005, the balances of accruals provided by the Companies in accordance with this law amounted to Rp42,841 and Rp56,046, respectively. The accruals provided as of December 31, 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.

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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)	2,531,973	2,890,855	9.08	8.82
Accounts receivable - trade				
Telkom	253,480	157,080	0.91	0.48
PT Televisi Republik Indonesia (Persero) ("TVRI")	38,505	43,167	0.14	0.13
StarHub Pte. Ltd. ("StarHub"), Singapore	27,597	39,130	0.10	0.12
State-owned banks	20,128	28,350	0.07	0.09
Singapore Telecommunications Ltd ("SingTel"), Singapore	40,593	20,338	0.15	0.06
PT Pos Indonesia	9,238	9,760	0.03	0.03
PT Citra Sari Makmur ("CSM")	3,542	5,013	0.01	0.02
Telkomsel	41,912	2,733	0.15	0.01
Cable & Wireless Optus ("Optus"), Australia	5,079	892	0.02	0.00
Others	31,691	20,913	0.11	0.06
Total	471,765	327,376	1.69	1.00
Less allowance for doubtful accounts	149,096	150,977	0.53	0.46
Net	322,669	176,399	1.16	0.54
Prepaid expenses				
Ministry of Communications and Information Technology	111,458	118,902	0.40	0.36
Jiwasraya	22,905	21,981	0.08	0.07
Kopindosat	-	8,969	-	0.03
Telkom	1,553	-	0.01	-
Others	5,327	2,362	0.02	0.01
Total	141,243	152,214	0.51	0.47
Other current assets				
State-owned banks	11,918	18,872	0.04	0.06
Others	-	865	-	0.00
Total	11,918	19,737	0.04	0.06
Due from related parties - net				
Key management personnel	28,435	18,567	0.10	0.06
Telkomsel	9,602	7,048	0.03	0.02
Kopindosat	6,207	6,197	0.02	0.02
Optus	2,356	104	0.01	0.00
PT Yasawirya Indah Mega Media ("YIMM")	10,413	-	0.04	-
PT Kalimaya Perkasa Finance ("Kalimaya")	10,401	-	0.04	-
Others	3,628	238	0.01	0.00
Total	71,042	32,154	0.25	0.10
Less allowance for doubtful accounts	23,089	1,753	0.08	0.01
Net	47,953	30,401	0.17	0.09

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities (%)	
	2004	2005	2004	2005
Long-term prepaid pension				
Jiwasraya	180,183	236,491	0.65	0.72
Long-term advances				
Kopindosat	17,613	4,328	0.06	0.02
Others	1,246	1,341	0.01	0.00
Total	18,859	5,669	0.07	0.02
Non-current assets - others				
Telkom	26,016	26,086	0.09	0.08
State-owned banks	12,613	1,200	0.05	0.00
Others	2,675	-	0.01	-
Total	41,304	27,286	0.15	0.08
Short-term loans				
Mandiri	3,524	-	0.02	-
Accounts payable - trade				
Telkomsel	-	22,716	-	0.12
Telkom	5,940	6,000	0.04	0.03
Others	15,641	1,746	0.11	0.01
Total	21,581	30,462	0.15	0.16
Procurement payable				
Kopindosat	57,539	44,853	0.39	0.24
PT Industri Telekomunikasi Indonesia	9,667	27,669	0.07	0.15
Total	67,206	72,522	0.46	0.39
Accrued expenses				
Ministry of Communications and Information Technology	220,989	147,096	1.51	0.80
BNi	-	12,303	-	0.07
Key management personnel	25,077	8,995	0.17	0.05
Kopindosat	15,055	7,893	0.10	0.04
Telkom	6,987	1,740	0.05	0.01
Others	1,684	-	0.01	-
Total	269,792	178,027	1.84	0.97
Due to related parties				
Comnet	4,782	4,597	0.03	0.02
PT Pos Indonesia	-	4,100	-	0.02
TVRI	2,262	2,262	0.02	0.01
State-owned banks	2,125	1,875	0.01	0.01
Kopindosat	1,635	1,518	0.01	0.01
Telkom	12,989	450	0.09	0.00
PT Industri Telekomunikasi Indonesia	66	8	-	0.00
Others	15,202	1,797	0.10	0.02
Total	39,061	16,607	0.26	0.09

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount		Percentage to Total Assets/Liabilities (%)	
	2004	2005	2004	2005
Loans payable (including current maturities)				
State-owned banks	928,015	630,251	6.32	3.41
Others	988	-	0.01	-
Total	929,003	630,251	6.33	3.41
Other non-current liabilities				
Ministry of Communications and Information Technology	145,991	145,991	0.99	0.79
Telkomsel	16,436	14,773	0.11	0.08
Jiwasraya	20,709	-	0.14	-
Others	1,260	2,832	0.01	0.02
Total	184,396	163,596	1.25	0.89

	Amount			Percentage to Respective Income or Expenses (%)		
	2003	2004	2005	2003	2004	2005
Operating revenues						
Telkom	920,102	1,140,163	806,211	11.18	10.93	6.96
State-owned banks	123,413	221,727	184,291	1.50	2.13	1.59
Telkomsel	301,221	198,126	59,121	3.66	1.90	0.51
StarHub	41,340	15,141	37,860	0.50	0.15	0.33
SingTel	110,293	39,300	29,162	1.34	0.38	0.25
Lembaga Kantor Berita						
Negara Antara	2,176	22,933	21,324	0.03	0.22	0.18
CSM	7,648	8,607	11,192	0.09	0.08	0.10
PT Angkasa Pura	2,680	5,717	6,334	0.03	0.05	0.05
PSN	3,915	5,283	3,949	0.05	0.05	0.03
PT Garuda Indonesia	1,032	6,559	3,255	0.01	0.06	0.03
Ministry of						
Communications and Information Technology	2,890	3,339	486	0.04	0.03	0.00
Optus	13,530	5,540	(1,029)	0.16	0.05	(0.01)
PT Infokom Elektrindo (formerly "PT Elektrindo Nusantara")	15,014	16,604	-	0.18	0.16	-
Sistelindo	8,991	4,254	-	0.11	0.04	-
Mobisel	1,615	-	-	0.02	-	-
Advance Info Service Public Co.	2,575	-	-	0.03	-	-
Others	74,345	46,672	80,066	0.90	0.45	0.70
Total	1,632,780	1,739,965	1,242,222	19.83	16.68	10.72

* No longer affiliates

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount			Percentage to Respective Income or Expenses (%)		
	2003	2004	2005	2003	2004	2005
Operating expenses						
Personnel (as restated - Note 4)						
Key management						
personnel	78,902	160,003	108,190	1.34	2.21	1.36
Jiwasraya	53,304	33,931	(3,018)	0.91	0.47	(0.04)
Total	132,206	193,934	105,172	2.25	2.68	1.32
Maintenance						
Kopindosat	2,128	5,769	14,788	0.04	0.08	0.19
PT Industri						
Telekomunikasi						
Indonesia	595	-	3,096	0.01	-	0.04
SingTel	1,180	2,216	1,950	0.02	0.03	0.02
StarHub	986	165	-	0.02	0.00	-
Total	4,889	8,150	19,834	0.09	0.11	0.25
Administration and general						
Kopindosat	1,318	10,388	49,478	0.02	0.14	0.62
UGBDN	5,114	4,567	4,066	0.09	0.06	0.05
Kantor Pos dan						
Giro Besar I	8,410	-	133	0.14	-	0.00
Others	5,133	3,443	29,872	0.09	0.05	0.38
Total	19,975	18,398	83,549	0.34	0.25	1.05
Compensation to telecommunications carriers and service providers						
Telkom	638,934	492,132	390,136	10.86	6.80	4.91
Others	9,809	525	-	0.17	0.01	-
Total	648,743	492,657	390,136	11.03	6.81	4.91
Leased circuits						
Comnet	9,464	31,979	32,523	0.16	0.44	0.41
SingTel	6,724	18,289	19,529	0.11	0.25	0.25
StarHub	-	2,477	6,796	-	0.03	0.09
Others	-	18,227	-	-	0.25	-
Total	16,188	70,972	58,848	0.27	0.97	0.75
Other costs of services						
Ministry of						
Communications						
and Information						
Technology	296,285	345,993	545,822	5.04	4.78	6.88
Pemda DKI Jakarta	1,911	1,642	77	0.03	0.02	0.00
Others	4,076	8,186	2,555	0.07	0.11	0.03
Total	302,272	355,821	548,454	5.14	4.91	6.91

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

	Amount			Percentage to Respective Income or Expenses (%)		
	2003	2004	2005	2003	2004	2005
Other income (expenses)						
Interest income						
(expense) - net						
State-owned banks	(8,576)	(41,609)	33,376	1.08	4.56	2.57
Others	-	3,265	37,231	-	(0.36)	2.86
Net	(8,576)	(38,344)	70,607	1.08	4.20	5.43

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).

b. Telkom

(1) a. Fixed 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 Rp82 per record of outgoing call, 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.

On September 23, 2005, the Company and Telkom signed an agreement regarding the interconnection of local, long-distance and international fixed networks.

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

b. Telkom (continued)

(1) a. Fixed telecommunications services (continued)

The principal matters covered by the agreement are as follows:

- Interconnection between the Company's and Telkom's local, long-distance and international fixed networks enables the Company's fixed telecommunications service subscribers to make or receive calls to or from Telkom's subscribers or international gateways.
- The Company's and Telkom's international services are accessible and continuously open to each other's fixed networks.
- The Company and Telkom are responsible for their respective telecommunications facilities.
- The compensation arrangement for the services provided is based on interconnection tariffs determined by both parties.
- Each party handles subscriber billing and collection for the other party's international calls service used by the other party's subscribers. Each party has to pay the other party 1% of the collections made by the other party, plus the billing process expenses which are fixed at Rp82 per record of outgoing call as compensation for billing processing.

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

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

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

b. Cellular Services

Satelindo and IM3 also have agreements with Telkom for the interconnection of Satelindo and IM3's GSM mobile cellular telecommunications network with Telkom's Public Switched Telephone Network ("PSTN"), enabling Satelindo's and IM3's customers to make outgoing calls to or receive incoming calls from Telkom's customers. The interconnection tariffs are determined by the Ministry of Communications (Note 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, generally under the same terms as those of the Land Transfer Agreement.

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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 Rp19,282 in 2003, Rp14,516 in 2004 and Rp8,025 in 2005 which is presented as part of "Operating Expenses - Compensation to Telecommunications Carriers and Service Providers".

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

	Amount			Percentage to Respective Income or Expenses (%)		
	2003	2004	2005	2003	2004	2005
Net operating revenues	920,102	1,140,163	806,211	11.18	10.93	6.96
Operating expenses	638,934	492,132	390,136	10.85	6.80	4.92

c. Telkomsel

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

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

Interconnection revenues earned from Telkomsel for the years ended December 31, 2003, 2004 and 2005 amounted to Rp285,488, Rp185,210 and Rp29,933, respectively, which are net of interconnection charges amounting to Rp364,550, Rp431,543 and Rp653,645, respectively.

d. Jiwasraya

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

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

e. Key Management Personnel

The amounts due from key management personnel represent portions of housing and transportation allowances which were given in advance by the Companies to their employees and transformation incentive (incentive given to employees to encourage them to adapt to the transformation of the business of the Company from fixed line international provider to cellular operator) which is amortized over the average remaining service period of the employees. The prepaid/unamortized portions of housing and transportation advances and transformation incentives which were given to key management personnel in 2004 and 2005 amounted to Rp28,435 and Rp18,567, respectively, and are presented as part of "Due from Related Parties", while those given to non-key management personnel amounting to Rp2,355 and Rp3,597 as of December 31, 2004 and 2005 are presented as part of "Accounts Receivable - Others" for the current portion, and Rp129,671 and Rp122,281 as of December 31, 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 December 31, 2004 and 2005, Kopindosat has investments in the following entities:

	Equity Interest (%)	
	2004	2005
PT Puri Perkasa Farindo	95.00	95.00
PT Duta Sukses Utama	90.00	90.00
PT Mutiara Data Caraka Lintas	15.00	15.00
Lintasarta	0.66	0.66
Sisindokom (formerly Sisindosat)	0.53	0.53
IMM	0.50	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 which is subsequently reimbursed by Kopindosat. The timing of such reimbursement, which has historically occurred within the year of distribution, is subject to negotiations between the Company and Kopindosat. The receivable is non-interest bearing.

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,

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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.

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30. ACCOUNTS AND TRANSACTIONS WITH RELATED PARTIES (continued)

g. PSN (continued)

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

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

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

No.	Related Parties	Relationship	Nature of Account Balances/Transactions
1.	TVRI	Affiliate	Operating revenues - MIDI and marketing expenses
2.	StarHub	Affiliate	Operating revenues - international calls
3.	SingTel	Affiliate	Operating revenues - international calls
4.	PT Pos Indonesia	Affiliate	Operating revenues - MIDI
5.	CSM	Affiliate	Operating revenues - MIDI
6.	Optus	Affiliate	Operating revenues - international calls
7.	Ministry of Communications and Information Technology	Government agency	Operating revenues - MIDI and concession fee
8.	YIMM	Associated company	Interest-bearing loan
9.	Kalimaya	Associated company	Interest-bearing loan
10.	PT Industri Telekomunikasi Indonesia	Affiliate	Procurement payable
11.	Comnet	Affiliate	Other cost of services - rent of transmission channel
12.	Lembaga Kantor Berita Negara Antara	Affiliate	Operating revenues - MIDI
13.	PT Angkasa Pura	Affiliate	Operating revenues - MIDI
14.	PT Garuda Indonesia	Affiliate	Operating revenues - MIDI
15.	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:

	2003	2004	2005
Numerator for basic and diluted earnings per share (as restated - Note 4):			
Income before extraordinary item	1,582,024	1,633,208	1,623,481
Extraordinary item - net of deferred tax effect	4,499,947	-	-
Net Income	6,081,971	1,633,208	1,623,481
Denominator - number of shares			
Denominator for basic earnings per share:			
Weighted-average number of shares outstanding during the year (including effect of exercise of ESOP Phase I and Phase II in 2004 and 2005)	1,035,500,000	5,202,760,294	5,253,249,519
Effect of stock split (Note 19)	4,142,000,000	-	-
Denominator for basic earnings per share - adjusted weighted-average number of shares after effect of stock split (as restated) and effect of exercise of ESOP Phase I and Phase II in 2004 and 2005	5,177,500,000	5,202,760,294	5,253,249,519
Dilutive effect of ESOP (Note 20):			
Phase I	6,519,066	-	-
Phase II	-	4,646,308	-
Denominator for diluted earnings per share (as restated)	5,184,019,066	5,207,406,602	5,253,249,519
Basic earnings per share (as restated)			
Income before extraordinary item	305.56	313.91	309.04
Extraordinary item	869.13	-	-
Net income per share	1,174.69	313.91	309.04
Diluted earnings per share (as restated)			
Income before extraordinary item	305.17	313.63	309.04
Extraordinary item	868.04	-	-
Net income per share	1,173.21	313.63	309.04

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32. DISTRIBUTION OF INCOME AND APPROPRIATION OF RETAINED EARNINGS

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

- a. Approve the utilization of 2002 net income (before restatement - Note 4) as follows:
 - 54% for reinvestment and working capital
 - 1% for reserve fund
 - 45% for dividend or Rp29.23 per share (as restated, Note 19)
- b. Pay the dividend on August 1, 2003, except payment of dividend for the Government which would be made in accordance with the prevailing laws and regulations.

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 (before restatement - Note 4) 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 made 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:
 - 49% for reinvestment and working capital
 - 1% for reserve fund
 - 50% for dividend or Rp154.23 per share
- b. Pay the dividend on July 15, 2005, except payment of dividend for the Government which will be made in accordance with the prevailing laws and regulations.

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33. DERIVATIVES

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 December 31, 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	-	10,194	20,053	-
e. GSCM ⁽²⁾	100,000	-	110,203	-	-
f. JPMorgan Chase Bank, Singapore Branch ("JPMorgan") ⁽³⁾	25,000	-	20,915	-	-
g. Goldman Sachs International ("GSI")	100,000	-	-	55,260	-
h. GSI	25,000	-	-	3,908	-
i. GSI	75,000	-	-	-	1,303
j. Merrill Lynch Capital Market Bank Limited ("MLCMB")	25,000	-	-	-	2,863
k. MLCMB	25,000	-	-	-	7,373
Sub-total		-	141,312	79,221	11,539

Interest Rate Swap:

l. Barclays Capital, London ("Barclays") ⁽⁴⁾	50,000	-	19,745	-	-
m. ABN-AMRO Bank, N.V., London Branch ("ABN") ⁽⁵⁾	25,000	1,051	-	-	-
n. GSCM ⁽¹⁾	25,000	-	-	-	-
o. ABN ⁽⁵⁾	25,000	-	14,363	-	-
p. The Hongkong and Shanghai Banking Corporation Limited, Jakarta Branch ("HSBC") ⁽²⁾	25,000	1,051	-	-	-
q. ABN ⁽²⁾	50,000	-	-	-	-
Sub-total		2,102	34,108	-	-
Total		2,102	175,420	79,221	11,539

⁽¹⁾ terminated in 2004

⁽²⁾ terminated in May 2005

⁽³⁾ terminated in October 2005

⁽⁴⁾ terminated in April 2005

⁽⁵⁾ terminated in January 2005

The net change in fair value of the swap contracts totalling Rp170,451 and Rp44,209 in 2004 and 2005, respectively, is presented as "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses) in the consolidated statements of income. "Derivative Assets" presented under current assets amounted to Rp2,102 and Rp79,221 as of December 31, 2004 and 2005, respectively, and "Derivative Liabilities" presented under current liabilities amounting to Rp175,420 and Rp11,539 as of December 31, 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 amounted to Rp8,313, which is presented as part of "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 a 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 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 amounted to Rp3,996, which is presented as part of "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 a 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 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 amounted to Rp3,083, which is presented as part of "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 a new cross currency swap contract (Note 33e).

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33. DERIVATIVES (continued)

Cross Currency Swap Contracts (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 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 costs amounted to Rp5,086 and Rp13,865 in 2004 and 2005, respectively, which are presented as part of "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 costs amounted to Rp10,797 and Rp29,142 in 2004 and 2005, respectively, which are presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

As of December 31, 2004, the Company had transferred margin deposit to GSCM's account amounting to US\$8,750 which was charged to restricted cash, a component of "Other Current Assets" account.

On May 13, 2005, the Company terminated its cross currency swap contract with GSCM. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$11,750 (equivalent to Rp111,508). The payment was made 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 termination date on November 5, 2010, a total of Rp225,000 for US\$25,000.
 - If the spot rate at termination date is higher than Rp14,000 to US\$1 (in full amounts), the Company will swap at the termination date on November 5, 2010, a certain rupiah amount [i.e., equivalent to US\$25,000 multiplied by exchange rate of Rp9,000 (in full amount) plus the excess of actual spot rate over Rp14,000 (in full amount)] for US\$25,000.

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

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

On October 28, 2005, the Company terminated its cross currency swap contract with JPMorgan. Based on the termination confirmation, the Company was required to make termination payment in the amount of US\$380 (equivalent to Rp3,792), which was made on November 1, 2005.

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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 6-month U.S. dollar LIBOR per annum multiplied by US\$11,750 during the period May 13, 2005 through May 13, 2008 and (ii) the amount of US\$11,750 on May 13, 2008. Total swap cost amounted to Rp34,979 in 2005, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- 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, the Company will swap at termination date on November 5, 2010, a total of Rp245,000 for US\$25,000. The contract provides for the Company to make semi-annual payments every May 5 and November 5 up to termination date, at the fixed rate of 4.30% of US\$25,000 per annum. Total swap cost amounted to Rp5,642 in 2005, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).
- 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 certain predetermined exchange rate for US\$75,000.

The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to termination date at the fixed rate of 3.28% of US\$75,000 per annum. Total swap cost amounted to Rp12,180 in 2005, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

- j. On September 20, 2005, the Company entered into a cross currency swap contract with 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 amounts), the Company will receive zero amount from MLCMB.
 - If the rupiah/US\$ spot rate at termination date is greater than Rp9,500, but less than or equal to Rp14,000 to US\$1 (in full amounts), the Company will receive a certain U.S. dollar amount which equals to US\$25,000 multiplied by $(1 - \text{Rp}9,500/\text{rupiah}/\text{US}\$ \text{ spot rate})$ (in full amount).
 - If the rupiah/US\$ spot rate at termination date is greater than Rp14,000 to US\$1 (in full amounts), the Company will receive a certain US\$ amount which equals to US\$25,000 multiplied by $(\text{Rp}14,000 - \text{Rp}9,500)/\text{rupiah}/\text{US}\$ \text{ spot rate}$ (in full amounts).

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33. DERIVATIVES (continued)

Cross Currency Swap Contracts (continued)

The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to termination date at the fixed rate of 2.99% of US\$25,000 per annum. Total swap cost amounted to Rp3,640 in 2005, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

- k. On November 16, 2005, the Company entered into a cross currency swap contract with MLCMB which is effective starting November 18, 2005. Based on the contract, the Company will swap at the termination date on June 22, 2012, a total of Rp245,000 for US\$25,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to termination date at the fixed rate of 5.50% of US\$25,000 per annum. Total swap cost amounted to Rp1,265 in 2005, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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

Interest Rate Swap Contracts

- l. 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 amounted to Rp17,524 in 2004, which is presented as part of "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)

- m. 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 semi-annually up to 2008 and would take effect on May 5 and November 5 of each semester. The swap income arising from this transaction amounted to Rp6,867 in 2004, which is presented as part of "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 33q).

- n. 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 amounted to Rp6,431 in 2004, which is presented as part of "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.

- o. 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 amounted to Rp1,672 in 2004, which is presented as part of "Loss on Change in Fair Value of Derivatives - Net" under Other Income (Expenses).

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

- p. 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 amounted to Rp1,648 and Rp9,174 in 2004 and 2005, respectively, which is presented as part of "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)

- q. 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 33m and 33o). Based on the contract which was effective starting May 5, 2005, the existing interest rate swap contracts and all related cash flows were cancelled effective January 20, 2005 and the fair value of the existing interest rate swap contracts as of January 20, 2005 was transferred into the new interest rate swap contract. Based on the contract, the Company agreed to pay at floating rate, in semi-annual intervals, on November 5 2005 and thereafter every May 5 and November 5 up to the termination date on November 5, 2008, 6-month U.S. dollar LIBOR plus 3.15% in exchange for 7.75% per annum times the actual number of days in which the 6-month U.S.dollar LIBOR was located in the pre-determined ranges up to the termination date.

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

34. COMMITMENTS AND CONTINGENCIES

- a. As of December 31, 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\$156,199, EUR246,142 (in full amount, equivalent to US\$292) and Rp1,046,437 (Note 41 d).

The significant commitments on capital expenditures are as follows:

- On July 28, 2005, the Company entered into Supply and Installation Agreement of PDH and SDH Microwave Radio Equipment for West Java, Central Java, Bali and Nusa Tenggara Islands with PT Alcatel Indonesia, Alcatel CIT, and Alcatel Italia ("Alcatel"), whereby Alcatel agreed to provide equipment and services in the installation of Cellular Transmission (PDH and SDH Microwave Radio) for total contract amounts of US\$12,356 and Rp47,580.

As of December 31, 2005, the Company has issued several *Purchase Orders* ("POs") which relate to the purchase commitment under this agreement. The POs that have not been served amounted to US\$2,180 and Rp34,697 as of December 31, 2005.

- On July 4, 2005, the Company entered into a Base Station Subsystem ("BSS") Back-up Plan Agreement with Siemens AG ("Siemens"), whereby Siemens agreed to provide equipment and services in the installation of BSS for total contract amounts of US\$10,176 and Rp60,627.

As of December 31, 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\$1,062 and Rp27,048 as of December 31, 2005.

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34. COMMITMENTS AND CONTINGENCIES (continued)

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

As of December 31, 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\$17,661 and Rp37,457 as of December 31, 2005.

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

As of December 31, 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\$4,234 and Rp30,726 as of December 31, 2005.

- On June 24, 2005, the Company entered into a 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 Radio for total contract amounts of US\$6,269 and Rp28,932.

As of December 31, 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\$5,015 and Rp27,486 as of December 31, 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. These agreements have been amended from time to time, the latest amendment of which was made on December 13, 2005. The total contract prices, as amended, under these agreements amounted to US\$61,968 and Rp61,800.

As of December 31, 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\$25,614 and Rp47,075 as of December 31, 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 December 31, 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\$9,127 and Rp3,347 as of December 31, 2005.

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34. COMMITMENTS AND CONTINGENCIES (continued)

- b. In 1994 and 1998, the Company was appointed as a Financial Administrator ("FA") and Central Billing Party ("CBP"), respectively, by a consortium which was established to build and sell/lease Asia Pacific Cable Network ("APCN") submarine cable in countries in the Asia-Pacific Region. As an FA, the Company collected and distributed funds from the sale of APCN's IRU and Defined Underwritten Capacity ("DUC") and Occasional Commercial Use ("OCU") service, while as a CBP, the Company managed funds from the members of the consortium for upgrading the APCN cable. The funds received from the sale of IRU and DUC, OCU services and funds received for upgrading the APCN cable did not belong to the Company and, therefore, were not recorded in the Company's books. However, the Company managed these funds in separate accounts. Subsequently, on April 25, 2005, the Company was discharged as the CBP.

As of December 31, 2005, the balance of the funds (including interest earned) amounted to US\$22,421. Besides the funds from the sale of IRU, the members of the consortium also received their share of the interest earned by the above funds.

- c. Based on letters No. S-5341/LK/2002 and No. S-5327/LK/2002, both dated December 4, 2002, 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. S6287/LK/2003, refused to reconsider its decision. Based on the letter, the penalty for the dividend from the Company's net income in 2000 has been increased from Rp38,096 to Rp42,902.

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

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

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

On June 15, 2005, the MOF, in its letter No. S-1680/AP/2005, reconfirmed the Company's penalties amounting to Rp63,535 and requested the Company to immediately settle the penalties.

As of December 31, 2004 and 2005, the Company has not accrued any penalties on the dividends because, in the opinion of the Company's legal counsels, the Company has assurance that it may not be liable to pay such penalties.

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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, 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 annual gross revenues. Based on the decision letter of the Ministry of Communications and Information Technology, bad debts and compensation to other telecommunication carriers can be deducted in computing annual gross revenues. The Company applied the new tariff starting January 1, 2005 (Note 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 December 31, 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.

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

2. Revenue Sharing

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

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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, see 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 December 31, 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 charges (revenues) - net incurred (earned) by the Company from the operators are as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Excelcom	(5,787)	18,955	30,239
Komselindo	(675)	(3,992)	(3,432)
Total	(6,462)	14,963	26,807

38. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The Companies' monetary assets and liabilities denominated in various foreign currencies as of December 31, 2005 (converted to equivalent U.S. dollar if currency is other than U.S. dollar) are as follows:

	<u>Amount in U.S. Dollar</u>	<u>Equivalent Rupiah *</u>
Assets:		
Cash and cash equivalents	281,796	2,770,055
Accounts receivable		
Trade	100,500	987,915
Others	878	8,630

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

	Amount in U.S. Dollar	Equivalent Rupiah *
<i>Assets: (continued)</i>		
Derivative assets	8,059	79,220
Other current assets	797	7,835
Due from related parties	528	5,190
Non-current assets - others	1,316	12,936
Total assets	393,874	3,871,781
<i>Liabilities:</i>		
Accounts payable - trade	10,001	98,310
Procurement payable	177,701	1,746,801
Accrued expenses	26,392	259,433
Derivative liabilities	1,174	11,540
Bonds payable	550,000	5,406,500
Total liabilities	765,268	7,522,584
Net liabilities position	371,394	3,650,803

* 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 costs incurred during the year to acquire segment assets that are expected to be used for more than one year.

Consolidated information by industry segment follows:

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39. SEGMENT INFORMATION (continued)

	Major Segments				Segment Total
	Cellular	Fixed Telecommunication	MIDI	Other Services	
2003 (As Restated - Note 4)					
<u>Operating Revenues</u>					
Revenues from external customers	5,111,919	1,807,669	1,245,759	64,259	8,229,606
Inter-segment revenues	58,947	14,016	125,640	64,307	262,910
Total revenues	5,170,866	1,821,685	1,371,399	128,566	8,492,516
Inter-segment revenues elimination					(262,910)
Operating revenues - net					8,229,606
<u>Income</u>					
Operating income (loss)	1,962,438	422,821	23,808	(61,172)	2,347,895
Gain on foreign exchange - net					200,050
Interest income					147,712
Equity in net income of associated companies					33,771
Income tax benefit - net					17,828
Financing cost					(838,666)
Amortization of goodwill					(252,907)
Others - net					(51,162)
Income before Extraordinary Item and Minority Interest in Net Income of Subsidiaries					1,604,521
<u>Other Information</u>					
Segment assets	15,071,457	1,858,703	2,337,131	177,740	19,445,031
Unallocated assets					9,930,445
Inter-segment assets elimination					(3,316,284)
Assets - net					26,059,192
Segment liabilities	10,608,375	1,013,702	702,488	86,045	12,410,610
Unallocated liabilities					4,154,944
Inter-segment liabilities elimination					(2,546,244)
Liabilities - net					14,019,310
Capital expenditure	3,841,999	140,514	335,211	1,786	4,319,510
Depreciation and amortization	1,549,599	159,762	325,557	3,088	2,038,006

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39. SEGMENT INFORMATION (continued)

	Major Segments			Other Services	Segment Total
	Cellular	Fixed Telecommunication	MIDI		
2004					
<u>Operating Revenues</u>					
Revenues from external customers	7,342,061	1,544,684	1,483,941	59,420	10,430,106
Inter-segment revenues	(100,282)	100,282	176,778	134,339	311,117
Total revenues	7,241,779	1,644,966	1,660,719	193,759	10,741,223
Inter-segment revenues elimination					(311,117)
Operating revenues - net					10,430,106
<u>Income</u>					
Operating income (loss)	2,438,107	575,709	269,935	(85,685)	3,198,066
Gain on sale of investment in associated company					286,204
Interest income					187,430
Gain on sale of other long-term investment					110,929
Equity in net income of associated companies					61,489
Financing cost					(1,097,531)
Income tax expense					(724,554)
Amortization of goodwill					(226,347)
Loss on change in fair value of derivatives - net					(170,451)
Loss on foreign exchange - net					(66,116)
Others - net					99,085
Income before Extraordinary Item and Minority Interest in Net Income of Subsidiaries					1,658,204
<u>Other Information</u>					
Segment assets	20,490,078	1,803,385	3,003,617	160,567	25,457,647
Unallocated assets					6,058,820
Inter-segment assets elimination					(3,644,000)
Assets - net					27,872,467
Segment liabilities	13,861,414	1,069,168	977,572	65,908	15,974,062
Unallocated liabilities					1,508,706
Inter-segment liabilities elimination					(2,794,893)
Liabilities - net					14,687,875
Capital expenditure	4,611,015	507,556	790,817	1,271	5,910,659
Depreciation and amortization	2,209,323	182,040	425,002	2,292	2,818,657

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39. SEGMENT INFORMATION (continued)

	Major Segments			Other Services	Segment Total
	Cellular	Fixed Telecommunication	MIDI		
2005					
<u>Operating revenues</u>					
Revenues from external customers	8,644,951	1,250,807	1,694,033	-	11,589,791
Inter-segment revenues	(115,727)	115,727	269,462	-	269,462
Total operating revenues	8,529,224	1,366,534	1,963,495	-	11,859,253
Inter-segment revenues elimination					(269,462)
Operating revenues - net					11,589,791
<u>Income</u>					
Operating income	2,639,498	615,091	397,328	-	3,651,917
Interest income					215,103
Gain on sale of investment in associated company					14,625
Gain on sale of other long-term investments - net					1,204
Equity in net income of associated companies					86
Financing cost					(1,264,764)
Income tax expense					(697,924)
Amortization of goodwill					(226,352)
Loss on foreign exchange - net					(79,932)
Loss on change in fair value of derivatives - net					(44,209)
Others - net					85,117
Income before Extraordinary Item and Minority Interest in Net Income of Subsidiaries					1,654,871
<u>Other Information</u>					
Segment assets	28,303,265	1,149,005	3,269,091	-	32,721,361
Unallocated assets					6,410,391
Inter-segment assets elimination					(6,344,619)
Assets - net					32,787,133
Segment liabilities	19,857,524	904,541	960,832	-	21,722,897
Unallocated liabilities					2,142,746
Inter-segment liabilities elimination					(5,393,838)
Liabilities - net					18,471,805
Capital expenditure	6,330,401	306,349	661,197	-	7,297,947
Depreciation and amortization	2,431,356	214,206	434,643	-	3,080,205

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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 EVENTS

- a. On January 11, 2006, the Company entered into a cross currency swap contract with Standard Chartered Bank, Jakarta Branch which is effective starting January 2, 2006. Based on the contract, the Company will swap at termination date on June 22, 2012, a total of Rp236,250 for US\$25,000. The contract provides for the Company to make semi-annual payments every June 22 and December 22 up to and including termination date at the fixed rate of 4.78% of US\$25,000 per annum.
- b. On January 11, 2006, IFB, a wholly owned subsidiary of the Company, released a consent solicitation statement (the "solicitation") relating to its outstanding Guaranteed Notes Due 2010 (Note 18).

The primary purpose of the solicitation was to modify certain covenants under the indenture of Guaranteed Notes Due 2010 to conform with the terms in the indenture of Guaranteed Notes Due 2012.

The proposed amendment to the indenture includes, among others, the change in the limit of the permitted debt that can be incurred by IFB and Lintasarta, and IFB's ability to incur new debt.

On January 24, 2006, IFB received consents from holders of the Guaranteed Notes Due 2010 representing an aggregate principal amount of US\$239,526 or 79.842% of the outstanding Notes.

The consent fee amounted to US\$3 (full amount) per US\$1,000 (full amount).

- c. Based on decree No.19/KEP/M.KOMINFO/2/2006 dated February 14, 2006 of the Ministry of Communications and Information Technology, the Company has been determined as one of the winners in the selection of IMT-2000 cellular network providers using 2.1 GHz radio frequency bandwidth (known as "third generation (3G) of mobile communication technology") for 1 block (2 x 5MHz) of frequency.

As a winner, the Company is obliged, among others, to pay the upfront and radio frequency fee for the first year totalling Rp352,000 in 30 days from the date of the decree.

- d. As of February 21, 2006, the average buying and selling rate of bank notes published by Bank Indonesia is Rp9,240 to US\$1 (in full amounts), while as of December 31, 2005, the average buying and selling rate was Rp9,830 to US\$1 (in full amounts). On the basis of the rate as of February 21, 2006, the Companies earned foreign exchange gain amounting to approximately Rp219,122 on the foreign currency liabilities, net of foreign currency assets, as of December 31, 2005 (Note 38).

The commitments for the capital expenditures denominated in foreign currencies as of December 31, 2005 as disclosed in Note 34a would approximate Rp1,445,977 if translated at the rate as of February 21, 2006.

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42. RECLASSIFICATION OF ACCOUNTS

Following are the accounts in the 2003 and 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>
<u>2003</u>		
Operating revenues - other services	Operating revenues - MIDI	17,425
Operating expenses - other cost of services	Operating revenues - cellular	(5,661)
<u>2004</u>		
Non-current assets - others	Cash and cash equivalents	16,653
	Current assets - other current assets	87,967
Accrued expenses	Other non-current liabilities	168,082
Operating expenses - compensation to telecommunications carriers and service providers	Operating revenues - fixed telecommunication	(10,248)
Operating expenses - other cost of services	Operating revenues – cellular	(108,716)
	Other income (expenses) - others - net	36,643

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 February 21, 2006.