Year	At period end	Average(1)	High(2)	Low(2)
		(Rp. per US$1.00)		
2004				
First Quarter	8,587	8,460	8,645	8,323
January	8,441	8,386	8,574	8,323
February	8,447	8,425	8,452	8,390
March	8,587	8,569	8,645	8,442
April	8,661	8,608	8,661	8,574
May	9,210	8,965	9,225	8,679
June 24, 2004	9,410	—	—	—

(1) The average of the middle exchange rate announced by Bank Indonesia applicable for the period.
(2) The high and low amounts are determined based upon the daily middle exchange rate announced by Bank Indonesia during the applicable period.
Source: Bank Indonesia

The exchange rates used for translation of monetary assets and liabilities denominated in foreign currencies are the buy and sell rates published by Bridge Telerate in 2001 and Reuters in 2002 and 2003. The buy and sell rates published by Bridge Telerate were Rp.10,400 and Rp.10,450 to US$1 as at December 31, 2001. The Reuters buy and sell rates, applied respectively to monetary assets and liabilities, were Rp.8,940 and Rp.8,960 to US$1 as of December 31, 2002, and Rp.8,430 and Rp.8,450 to US$1 as of December 31, 2003. The Company does not guarantee that assets and liabilities denominated in foreign currencies can be converted into Indonesian Rupiah at the rates of exchange as of December 31, 2003.

The consolidated financial statements are stated in Rupiah. The translations of Rupiah amounts into US Dollars are included solely for the convenience of the readers and have been made using the average of the market buy and sell rates of Rp.8,440 to US$1 published by Reuters on December 31, 2003. The convenience translations should not be construed as representations that the Rupiah amounts have been, could have been, or can in the future be, converted into US Dollars at this or any other rate of exchange.

B. Capitalization and Indebtedness

Not applicable.

C. Reason for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

TELKOM did not file a fully compliant 2002 Annual Report on Form 20-F until February 9, 2004 and may face an SEC enforcement action, or other legal liability or adverse consequences.

TELKOM was unable to meet its June 30, 2003 deadline to file a fully compliant Annual Report on Form 20-F for 2002 because the audit firm it had originally appointed to perform its 2002 audit was not qualified for SEC purposes, and TELKOM's SEC-qualified 2002 auditors, KAP Drs. Haryanto Sahari & Rekan (formerly KAP Drs. Hadi Sutanto & Rekan), the member firm of PricewaterhouseCoopers in Indonesia, did not begin their audit work until their appointment in July 2003. TELKOM filed a non-compliant Annual Report on April 17, 2003 and then filed an amended non-compliant Annual Report on June 11, 2003 to:

- remove the 2002 reports of TELKOM's prior auditors, KAP Eddy Pianto, and the auditors of TELKOM's subsidiary, Telkomsel;

- identify the consolidated financial statements therein for 2002 as “unaudited” and indicate that TELKOM’s consolidated financial statements therein for 2002 had not been audited by an independent accounting firm qualified in accordance with SEC requirements;
- furnish an explanation of the foregoing;
- describe the review by the SEC’s Division of Corporation Finance of TELKOM’s Annual Report on Form 20-F for 2002 and of TELKOM’s public statements regarding its annual report, and the referral of those matters to the SEC’s Division of Enforcement;
- discuss the material consequences of the deficiencies in its Annual Report, of TELKOM’s public statements regarding such Annual Report and of an SEC enforcement action regarding the same; and
- describe TELKOM’s plan to bring its Annual Report into full compliance with applicable SEC regulations.

TELKOM did not file Amendment No. 2 to its 2002 Annual Report until February 9, 2004, which was over 7 months past the June 30, 2003 filing deadline. Amendment No. 2 to TELKOM’s 2002 Annual Report contained audited consolidated financial statements as of and for the years ended December 31, 2000, 2001 and 2002 which restated previously filed audited consolidated financial statements as of and for the years ended December 31, 2000 and 2001 and previously filed unaudited consolidated financial statements as of and for the year ended December 31, 2002, and revised or updated various disclosures. Such restated consolidated financial statements (and the related selected financial information) reflected certain adjustments and modified certain disclosures for several items under Indonesian GAAP and with respect to the reconciliation of those items to US GAAP.

Because of the foregoing and because TELKOM did not file a compliant Annual Report on Form 20-F until after the June 30, 2002 deadline, TELKOM may face an SEC enforcement action under U.S. securities law and incur other legal liability and adverse consequences such as a delisting of its ADSs from the New York Stock Exchange. In addition, the staff of the SEC described a press release that TELKOM issued and furnished to the SEC on Form 6-K in May 2003 as “grossly understating the nature and severity of the staff’s concerns” regarding matters related to TELKOM’s filing of a non-compliant Annual Report. Such press release could also form the basis of an SEC enforcement action and other legal liability. TELKOM cannot at this time predict the likelihood or severity of an SEC enforcement action or any other legal liability or adverse consequences.

As a result of TELKOM’s failure to timely file a compliant Annual Report on Form 20-F for 2002 with the SEC by the June 30, 2003 deadline and the May 2003 press release relating thereto, TELKOM may have been in breach of certain covenants in its Citibank and Bank Central Asia (BCA) debt facilities that require TELKOM, among other things, to comply with all laws and regulations applicable to it and deliver financial statements to the lenders. TELKOM has obtained written waivers from both Citibank, acting as agent for the lenders under the relevant facility agreements, and BCA with respect to such breaches. Nevertheless, any of the adverse consequences referred to in the immediately preceding paragraph (such as, but not limited to, an SEC enforcement action) could give rise to defaults under one or more of TELKOM’s debt facilities and cross defaults under other debt facilities with respect to such defaults. If TELKOM were unable to obtain waivers of any such defaults, indebtedness outstanding under such debt facilities could become immediately due and payable, which could have a material adverse effect on TELKOM’s financial condition and results of operations.

Risks Relating to Indonesia

Current political and social events in Indonesia may adversely impact business activity in Indonesia.

Since 1998, Indonesia has experienced a process of democratic change, resulting in political and social events that have highlighted the unpredictable nature of Indonesia’s changing political landscape. These events have resulted in political instability, as well as general social and civil unrest on a number of occasions in the past few years. For example, in June 2001, demonstrations and strikes affected at least 19 cities after the Government mandated a 30% increase in fuel prices. Similar demonstrations occurred in January 2003, when the Government again tried to increase fuel prices, as well as electricity and telephone charges. In both instances, the Government was forced to drop or substantially reduce such proposed increases.

Recently, hostilities in the province of Aceh have reached new heights. A prior peace pact, known as the Cessation of Hostilities Agreement, has failed to maintain peace between the Free Aceh Movement (GAM) militia and the Government and the Joint Security Committee formed by the two sides has been disbanded. Increasing tension in Aceh has led to a recent military build-up in the province and continued outbreaks of violence, arson and social unrest. Human rights violators, including those from high-ranking military positions, have recently begun to be more actively prosecuted in Indonesia. However, the success of these prosecutions has been mixed.

During the years 2002 and 2003, several bombing incidents took place in Indonesia, including in Bali, at the JW Marriott hotel in Jakarta and at the airport, shopping centers and places of worship. Terrorist acts may be directed at foreigners in Indonesia or in relation to political matters such as the July 2004 Presidential and Vice-Presidential elections.

In April 5, 2004, Indonesians for the first time directly elected representatives to the Indonesian parliament via proportional voting with an open list of candidates. As of the date hereof, the tallying of votes and the overall results of the parliamentary election have been generally peaceful, and business and investment activity in Indonesia do not appear to have been adversely affected. We expect, however, that in the lead-up to the July 2004 Presidential and Vice-Presidential elections, increased political activity and campaigning may result in a degree of political and social uncertainty with regard to Indonesia and economic activity may be adversely affected, as both foreign and domestic investors may become cautious and scale down or postpone business activity during this period.

Political and related social developments in Indonesia have been unpredictable in the past and there can be no assurance that social and civil disturbances will not occur in the future and on a wider scale, or that any such disturbances will not, directly or indirectly, have a material adverse effect on us or on an investment in the ADSs or Common Stock. Further, these social and civil disturbances could continue to have a material adverse effect on investment and confidence in and the performance of, the Indonesian economy and in turn our business.

Declines or volatility in Indonesia’s currency exchange rates can have a material adverse impact on business activity in Indonesia.

The Government’s exchange rate policies and any future changes in the value of the Rupiah against the US Dollar or other currencies could adversely affect TELKOM’s financial condition and results of operations. On August 14, 1997, Bank Indonesia permitted the exchange rate for the Rupiah to float without announcing a level at which it would intervene. From August 1997 to mid-1998, the month-end value of the Rupiah relative to the US Dollar declined from approximately Rp.2,600 per US Dollar to as low as approximately Rp.15,000 per US Dollar. There can be no assurance that: (a) the Rupiah will not be subject to continued depreciation or volatility; (b) the current exchange rate policy will remain the same; (c) the Government will act when necessary to stabilize, maintain or increase the value of the Rupiah, or that any such action, if taken, will be successful.

Continued depreciation or volatility of the Rupiah against the US Dollar or other currencies could adversely affect general economic conditions in Indonesia. Rupiah depreciation would also drive up the Rupiah cost of TELKOM’s capital expenditure program since most of the equipment to be used in the expansion of TELKOM’s network capacity is sourced off-shore and priced in foreign currencies, mainly in US Dollars and Euros, while almost all of TELKOM’s revenues are in Rupiah. Changes in the current exchange rate policy may result in significantly higher domestic interest rates, liquidity shortages, capital or exchange controls or the withholding of additional financial assistance by multilateral institutions. The foregoing consequences, if they occur, could have a material adverse effect on TELKOM's business. As of December 31, 2003, the average exchange rate of Rupiah to US Dollar, based on the Reuters middle buy and sell rates, was Rp.8,440 per US Dollar.

Fluctuations in the exchange rate between the Rupiah and the US Dollar could affect, among other things, the dollar value of any amounts a holder or beneficial owner of ADSs will receive in the event we issue dividends, the US Dollar value of the proceeds a holder or beneficial owner would receive upon the sale in Indonesia of shares of the Common Stock and the secondary market price of the ADSs.

Indonesia ended its Extended Financing Facility with the International Monetary Fund and the consequences thereof are unpredictable.

In December 2003, the Government ended its Extended Financing Facility ("EFF") program with the International Monetary Fund ("IMF") and began to drawdown on its gross foreign reserves, as well as on its outstanding balances at the IMF. Considering the Government's current fiscal deficit and modest foreign exchange reserves, the end of the EFF has raised concerns about the ability of the Government to fund subsidies for staples such as food and fuel, which, in turn, could have extremely serious political and social consequences. The end of the EFF also brings with it the end of the Government's ability to reschedule Indonesia's Paris Club bilateral foreign loans. Other consequences of ending the EFF are not known at this stage. While the Government has sought to address these concerns by issuing a White Paper setting forth its fiscal strategy and policy objectives for 2004, there can be no assurance that the Government's strategy will be successful or that its objectives will be met in full or in part.

Indonesia no longer has access to the Paris Club but continues to rely on loans from official creditors.

Since the financial crisis of 1997, the members of the Paris Club have been an important source of funding for the Government. The Paris Club is an informal voluntary group of 19 creditor countries that coordinates solutions for payment difficulties experienced by debtor nations. As of December 31, 2003, lending from the Paris Club members to the Government accounted for approximately 36% of the Government's total foreign debt. The last debt rescheduling took place in April 2002 when the Paris Club rescheduled approximately US$5.4 billion of principal and interest due from the Government between April 2002 and December 2003. This was done by extending the period within which the amounts could be repaid.

In addition to the Paris Club, the World Bank and the Asian Development Bank have been major sources of financing. As of December 2003, these Banks had outstanding loans to the Indonesian government of approximately US$18.3 billion. Disbursements from these sources have been slower than expected in recent years due to the slow pace of institutional reforms in Indonesia and concerns regarding the Government's decentralization plan. Currently, regional governments in Indonesia are not allowed to borrow in foreign currency and any change to Indonesian law allowing them to borrow in foreign currency could be a source of potential debt service problems. The World Bank and Asian Development Bank lending programs are subject to regular compliance reviews and can be reduced or withdrawn at any time. The impact of any elimination of lending cannot be assessed but is likely to be materially adverse.

Indonesia's high level of sovereign debts may result in it being unable to service its debt obligations when they become due.

Indonesia's high level of sovereign debts has forced it to negotiate with its major creditors several times since the 1997 financial crisis. For example, the Government held a round of talks with the Paris Club donor countries and the IMF in April 2002 to discuss the rescheduling of Indonesia's debt due in 2002. In these talks, the Government sought to restructure not just debt principal, but interest payments as well, totaling US$2.6 billion. The meeting resulted in the rescheduling of debt principal payments only, but no assurance can be given as to Indonesia's capacity to meet these rescheduled debt payments. While no further rescheduling has taken place, future decisions to renegotiate Indonesia's existing sovereign indebtedness cannot be ruled out. Such decisions may affect Indonesia's sovereign credit rating and could have a material adverse impact on investor confidence in Indonesia.

Indonesia's sovereign debt rating continues to be reviewed and revised by international rating agencies.

Beginning in 1997, certain recognized statistical rating organizations, including Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Rating Services ("S&P"), downgraded Indonesia's sovereign rating and the credit ratings of various credit instruments of the Government and a large number of Indonesian banks and other companies. As of April 2, 2004, the Government's long-term foreign currency debt and its short-term foreign currency debt were rated "B2" and "B2", respectively, by Moody's and rated "B" and "B", respectively, by S&P. These ratings reflect an assessment of the Government's overall ability to pay its obligations and its willingness to meet its financial commitments as they come due. No assurance can be given that Moody's, S&P or any other international credit rating agency will not downgrade the credit ratings of Indonesia or Indonesian companies. Any such downgrade would have an adverse impact on liquidity in the Indonesian financial markets and the ability of Indonesian companies, including TELKOM, to raise additional financing and the interest rates at which such additional financing is available.

Risks relating to TELKOM and its subsidiaries

TELKOM's expansion plans may strain key resources and thereby adversely affect its business, financial condition and prospects.

To remain competitive and position TELKOM in gaining market share, TELKOM has identified its primary business objective as becoming a full service and network provider. To achieve this objective, TELKOM has determined that it should increase its focus on multimedia and other types of services in addition to its present core business concentration on local, domestic long-distance and mobile cellular services. TELKOM has also received its commercial license to provide IDD services and has begun offering IDD services beginning June 7, 2004. The implementation of measures designed to achieve these objectives could strain TELKOM's managerial, financial and other resources, which could adversely affect TELKOM's business, financial condition and prospects.

Failure to amicably resolve KSO disputes may in some areas result in limited network expansion in some regions and impede TELKOM's access to subscribers and ability to compete effectively.

As a result of the Indonesian economic crisis that began in 1997, certain KSO partners experienced substantial difficulties in fulfilling their obligations to TELKOM under the KSO Agreements, leading to disputes between TELKOM and certain KSO partners. TELKOM has explored various options to resolve the KSO issues and has negotiated the acquisition of all or a majority of shares of certain KSO partners. In 2001, TELKOM acquired a 90.32% equity interest in PT Dayamitra Telekomunikasi Indonesia ("Dayamitra"), the KSO partner for KSO VI. On April 19, 2002, TELKOM entered into a conditional sale and purchase agreement for the purchase of all of the outstanding equity interests in PT Pramindo Ikat Nusantara ("Pramindo"), the KSO partner for KSO I, to be completed in three stages. As part of the initial closing, it acquired legal ownership of 30% of the shares of Pramindo in August 2002 and obtained control over Pramindo, subject to certain conditions, including that TELKOM continues to meet its payment obligations under the terms of the promissory notes issued as consideration for the purchase price and the protective rights retained by the selling stockholders. Under the agreement, the legal ownership of TELKOM in Pramindo increased by a further 15% (from 30% to 45%) on September 30, 2003 and the legal ownership to the remaining 55% was transferred to TELKOM on March 15, 2004. On July 31, 2003, TELKOM purchased all of the outstanding equity interests in PT AriaWest International ("AriaWest"), the KSO partner for KSO III. As a result of these acquisitions, TELKOM resolved its disputes with its former KSO partners for KSO I, KSO III and KSO VI. TELKOM now has full operational and management control over these KSO regions.

On January 20, 2004, TELKOM and PT Mitra Global Telekomunikasi Indonesia (“MGTI”) entered into an agreement to amend and restate the KSO Agreement with respect to Regional Division IV. Under this amendment agreement, for the remaining KSO period, TELKOM will be entitled at its sole discretion and expense to construct new telecommunications facilities in Regional Division IV and MGTI will receive fixed monthly payments derived from revenues generated by the Regional Division IV operations.

TELKOM continues to have a KSO partner for KSO VII, PT Bukaka SingTel International (“Bukaka SingTel”). As of the date of this Annual Report, there are no disputes between TELKOM and Bukaka SingTel. However, because Bukaka SingTel continues to be responsible for network development in KSO VII and has operational responsibility, should any issues or disputes arise that are not amicably resolved network expansion may be limited and this would impede TELKOM’s access to subscribers and its ability to compete effectively in KSO VII.

TELKOM’s controlling stockholder’s interests may differ from those of TELKOM’s other stockholders.

The Government has an aggregate interest of approximately 51.19% of the issued and outstanding shares of TELKOM and has control of TELKOM and the ability to determine the outcome of substantially all actions requiring the approval of TELKOM shareholders. The Government is also the holder of the Dwiwarna share of TELKOM, which has special voting rights and veto rights over certain matters, including the election and removal of the Directors and Commissioners of TELKOM. Through the MoC, the Government also exercises regulatory power over the Indonesian telecommunications industry. There might be situations where the objectives of the Government, as TELKOM’s regulator and its controlling shareholder, conflict with TELKOM’s business goals. In addition, there can be no assurance that the Government will not direct opportunities to other telecommunications service providers in which it holds an interest.

Certain systems failures could, if they occur, adversely affect TELKOM’s results of operations.

TELKOM’s telecommunications services are currently carried through its fixed-line, cellular and data networks. All types of networks use last mile access, regional metro junction and long haul transmission networks as a common network resource. For last mile access, TELKOM operates Copper Access Network, Optical Access Network and Wireless Access Network. The regional metro junction and long haul transmission network operated by TELKOM consists of optical fiber cable, microwave, submarine cable and satellite transmission links.

Any failure of this integrated network, TELKOM’s servers, or any link in the transmission chain that results in an interruption in TELKOM’s operations or the provision of any service, whether from operational disruption, natural disaster or otherwise, could damage TELKOM’s ability to attract and retain subscribers and adversely affect its results of operations, financial condition and prospects.

TELKOM’s regulators and other telecommunications operators may challenge TELKOM’s ability to apply PSTN tariffs to its new CDMA-based fixed wireless phone service, which is marketed under the brand name TELKOMFlexi.

In December 2002, TELKOM introduced new CDMA-based fixed wireless phone service, which is marketed under the brand name TELKOMFlexi. As of December 31, 2003, this service was offered in 38 cities, 25 of which are financed entirely by TELKOM (in non-BOT areas) and the remaining 13 are financed through the Build, Operate and Transfer (BOT) scheme (in BOT areas). CDMA-based fixed wireless technology enables rapid development of telephone networks and reduces the capital expenditures per line by obviating the need for the installation of underground cables. TELKOMFlexi offers customers the ability to use a wireless handset with limited mobility (within a local code area).

Customers have all features offered by cellular services except roaming to other local area codes. Postpaid TELKOMFlexi customers are charged PSTN tariff rates for this service while prepaid customers are charged tariffs slightly higher than PSTN tariff rates, and in each case the tariffs are substantially lower than tariffs for cellular services. Telecommunications regulators, cellular operators and cellular trade associations have sought and may in the future seek to impose limitations on TELKOM’s ability to provide fixed wireless services at PSTN rates. If any such limitations are imposed, TELKOM could lose part or all of the benefit of its investment in the network that supports the TELKOMFlexi service. TELKOM may also be subject to disputes with its regulators or competitors.

TELKOM may need to raise funds required for certain future expenditure requirements and the terms of any debt financing may subject TELKOM to restrictive covenants.

TELKOM may need to raise significant additional funds in order to support its growth, undertake acquisitions, meet unexpected contingencies and develop new or enhanced services and products. It may also need to respond to competitive pressures, acquire complementary businesses or technologies or take advantage of opportunities. TELKOM cannot be certain that such additional funding, if needed, will be available on acceptable terms. Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit TELKOM’s operating flexibility with respect to certain business matters. If adequate funds are not available on acceptable terms, TELKOM may be unable to develop or enhance its services. It may also be unable to take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on TELKOM’s business, results of operations and financial condition.

TELKOM’s ability to develop adequate financing arrangements is critical to support its capital expenditures.

The telecommunications industry is capital intensive in nature. In order to satisfy customer demand and provide service and technology that is comparable to and compatible with, other telecommunications service providers, TELKOM must continue to expand and modernize its network, which involves substantial capital investment. TELKOM historically has relied heavily on two-step loans obtained through the Government and third-party financing, including vendor financing, to support the development of its fixed line network. If TELKOM is unable to obtain adequate vendor or other third-party financing for its planned capital expenditures or otherwise fund such expenditures through other financing arrangements, including free cash flows, TELKOM may have to forego, delay or postpone certain of its planned capital expenditures. This may prevent TELKOM from being able to expand sufficiently and upgrade its network.

Employee unions may negatively affect TELKOM’s business.

Laws permitting the formation of labor unions, combined with weak economic conditions, have resulted and may continue to result, in labor unrest and activism in Indonesia. On February 25, 2003, the Indonesian Parliament passed a new employment law, Law No. 13 of 2003 (the “Employment Law”), which took effect on March 25, 2003. The Employment Law covered the increment of severance amount, service and compensation payment payable to terminated employees as well as to allow employees to unionize without intervention from employers. The Employment Law and new implementation regulations that may be issued thereunder may substantially affect labor relations in Indonesia. In May 2000, TELKOM employees formed a union named “Serikat Karyawan TELKOM” or “SEKAR”. Membership with SEKAR is not compulsory. TELKOM believes that its relations with SEKAR are good. However, there can be no assurance that the activities of employee unions will not materially and adversely affect TELKOM’s business, financial condition and prospects.

New technologies may adversely affect TELKOM’s ability to remain competitive.

The telecommunications industry is characterized by rapid and significant changes in technology. TELKOM may face increasing competition from technologies currently being developed or that may be developed in the future. New technologies, services or standards could require significant changes to its business model, the development of new products or the provision of additional services. In addition, TELKOM may need to substantially upgrade its network to implement convergent technologies and update and expand its billing and credit control systems to accommodate growth in its business and the adoption of new technologies and services. New products and services may be expensive to develop and may result in the introduction of additional competitors into the marketplace. TELKOM cannot accurately predict how emerging and future technological changes will affect its operations or the competitiveness of its services. Similarly, TELKOM cannot provide any assurances that the technologies it adopts will not soon thereafter become obsolete or subject to intense competition from new technologies in the future.

TELKOM operates in a legal and regulatory environment that is undergoing significant reforms and such reforms may adversely affect TELKOM’s business.

There are a number of uncertainties in the current regulatory environment for the Indonesian telecommunications industry. In particular, the Telecommunications Law No. 36 of 1999 (“Telecommunications Law”) provides key guidelines for industry reforms, including industry liberalization, facilitation of new entrants and changes to the industry’s competitive structure. The Telecommunications Law only outlines the framework and substantive principles for the liberalization of the telecommunications industry. TELKOM believes that there is uncertainty in the Indonesian regulatory environment with regard to, among other things:

- *Interconnection:* TELKOM is obligated to allow other operators to interconnect their networks with those of TELKOM subject to entering into interconnection agreements with those other operators. Currently, TELKOM’s ability to negotiate such interconnection agreements is limited by the provisions set forth in various Ministerial Decrees governing interconnection rates. Following the enactment of the Telecommunications Law, a restructuring of the interconnection policy was proposed based upon a cost-based tariff as mutually determined by the operators rather than the revenue sharing scheme as currently implemented. As of the date of this Annual Report, the MoC has issued a decree stating that cost-based interconnection will commence beginning January 1, 2005 and the MoC is in the process of appointing an independent consultant that will assist in determining the basis for the new cost-based tariffs. The MoC is also drafting detailed regulations that will implement this new policy. TELKOM expects that the current interconnection fees may be adjusted as a result of the new cost-based interconnection scheme but TELKOM can give no assurance regarding the impact, if any, of such adjustment on TELKOM’s business, financial condition, results of operations and prospects.

- *Licenses:* The Government is in the process of amending certain TELKOM licenses to comply with the Telecommunications Law and to establish the so-called Modern License. The Government, with due regard to prevailing laws and regulations, may amend the terms of TELKOM’s licenses and business authority at its discretion. Any breach of the terms and conditions of its licenses or business authority or failure to comply with applicable regulations may result in such licenses or business authority being revoked. Any revocation or unfavorable amendment of the licenses or business authority, or any failure to renew them on comparable terms, could have a materially adverse effect on TELKOM’s business, financial condition, results of operations and prospects.

- *Tariffs:* In 1995, the Government implemented regulations providing a formula to establish the tariff adjustment for domestic fixed line telecommunications services. However, such annual tariff review adjustment has not been applied on a consistent basis. In addition, amendments to the current price cap policy allow operators to calculate yearly tariff adjustments beginning

January 1, 2002, based on a formula to be stipulated by the Government. On January 29, 2002, the Government issued a letter to TELKOM stipulating a 45.49% increase in domestic fixed line telephone tariffs to be implemented over three years. For the year 2002 a tariff increase, with a weighted average 15% increase, was implemented. In January 2003, the Government postponed the second tariff increase due to numerous public protests. However, on March 30, 2004, the Government, through the ITRB, announced that it would allow operators to rebalance their tariffs, with the resulting weighted average of tariffs increasing by 9%. There is no assurance as to when or whether the remaining tariff increases will be implemented by the Government.

- *Indonesian Telecommunications Regulatory Body* (“ITRB”): The Telecommunications Law contemplates the establishment of a new independent regulatory body to regulate, monitor and control the telecommunications industry. The ITRB comprises officials from the Directorate General of Post and Telecommunication and the Committee of Telecommunications Regulations and was officially established on July 11, 2003. There can be no assurance that the ITRB will not take actions that may be detrimental to TELKOM’s business or prospects.

- *Competition in the Fixed Line Domestic Telecommunications Market:* Historically, TELKOM has had the exclusive right to provide fixed line domestic telecommunications services in Indonesia. Pursuant to regulations introduced to implement the Telecommunications Law, the Government plans to terminate TELKOM’s monopoly in providing fixed line domestic telecommunications services. It has issued Indosat a principal license to provide local telephone services from August 2002, an operational license for local telephone services. On May 13, 2004, Indosat received its commercial license to provide domestic long-distance telephone services. As of the date of this Annual Report, TELKOM cannot provide any assurance as to when Indosat will commence offering domestic long-distance services to customers, thereby creating a “duopoly system” in Indonesia’s fixed line domestic telecommunications market. In June 2004, Indosat launched its own CDMA fixed wireless service, called “StarOne.” As of the date of this Annual Report, Indosat only offers this service in Surabaya but is expected to expand service coverage to other cities in Indonesia. This greater competition in the fixed line market, including fixed wireless, could lead to a decline in TELKOM’s existing subscriber base as subscribers choose to receive services from other providers.

- *DLD and IDD Services:* On March 11, 2004, the MoC issued Decree No. 28/2004, Decree No. 29/2004 and Decree No. 30/2004 regarding DLD and IDD services. These Decrees further implement the Government’s policy of encouraging competition in the markets for DLD and IDD services. Among other matters, the Decrees state that consumers will be able to choose their DLD and IDD providers among various competitors, including TELKOM and Indosat, and require operators to create separate 3-digit access codes for DLD and IDD services. TELKOM expects to incur costs in connection with these new DLD and IDD requirements (including establishing DLD and IDD access codes), such as expenditures required to create a new routing database, costs relating to customer education and other marketing costs. In addition, competition in the market for DLD services could lead to a decline in TELKOM’s DLD revenues as subscribers choose to receive DLD services from other providers, such as Indosat. With regard to IDD services, on May 13, 2004 TELKOM received its commercial license from the Government to provide IDD services and began offering such services to customers on June 7, 2004. Nevertheless, competition among IDD service providers may limit TELKOM’s ability to generate significant IDD revenues.

- *Compensation Risk:* The Telecommunications Law provides that TELKOM and Indosat will be compensated for the early termination of their exclusive rights. TELKOM previously had exclusive rights to provide fixed local and domestic long-distance services in Indonesia. TELKOM’s exclusive right to provide fixed local telecommunications services was terminated by the Government in August 2002 and TELKOM’s exclusive right to provide domestic long-distance services was terminated on March 30, 2004. The Government has determined the scheme of compensation for the termination of TELKOM’s exclusive rights, which will consist of

(i) expedited issuance of an IDD license to TELKOM, which was issued on May 13, 2004; (ii) approval of the reissuance and transfer of TELKOM's DCS 1800 license to Telkomsel, which took place on July 12, 2002; and (iii) a net cash payment to TELKOM and its KSO partners of Rp.478 billion (after taxes). While the amount of the compensation payable to TELKOM and its KSO partners has been determined, payment is contingent on appropriations to the State Budget for the MoC, which requires approval by Parliament. As of the date of this Annual Report, TELKOM can provide no assurance with regard to when Parliament will approve the necessary appropriations or as to the effects the net cash payment will have on TELKOM's financial condition, results of operations and prospects.

- *USO Risk:* All telecommunications network operators and service providers are bound by a Universal Service Obligation, or USO, which requires provision of certain telecommunications facilities and infrastructure in rural and remote areas. As a local network provider, TELKOM is obligated to build and operate telecommunications networks in the USO areas. Historically, TELKOM has been obligated to contribute 5% of its capital expenditures to its USO requirements. TELKOM has typically experienced financial losses in providing such network capacity in rural and remote areas. On March 30, 2004, the Government issued a new regulation which requires telecommunications operators in Indonesia to contribute 0.75% of gross revenues (with due consideration for bad debt and interconnection charges) for USO development. The Government is also in the process of drafting detailed regulations that will fully implement the USO program for telecommunications operators in Indonesia.

There can be no assurance that the amendment or interpretation or implementation of current laws and regulations, or the introduction of additional laws or regulations, will not adversely affect TELKOM's business, financial condition and prospects.

TELKOM's increasingly important cellular operations face significant constraints and competitive pressures.

TELKOM provides cellular telecommunications services primarily through its subsidiary Telkomsel (GSM 900 Mhz and 1800 Mhz). Telkomsel has experienced rapid growth in its subscriber-base in recent years and its revenue has become an increasingly large component of TELKOM's consolidated revenue. Telkomsel's future growth depends upon its ability to manage capacity and spectrum constraints. Telkomsel has experienced such constraints in the past and may face such constraints in the future, which may result in network congestion, reduced service quality and an inability to increase and retain its subscriber-base and as a result may impede future growth. Telkomsel is seeking to substantially increase the capacity of its cellular network over the next three years. However, spectrum and capacity are subject to regulatory approval and allocation.

The Indonesian cellular telecommunications market is highly competitive. Currently, Telkomsel competes primarily with Indosat and Excelcomindo in attracting and retaining subscribers for its mobile cellular telecommunications services. There are also several other new competitors, including new CDMA cellular operators. Competition between Telkomsel and all of these operators is based on various factors such as pricing, network quality and coverage, range of services offered and customer service.

TELKOM's satellites have a limited life and substantial risk exists for TELKOM-1 and Palapa B-4 to be damaged or interrupted during operation and satellite loss or reduced performance may adversely affect our financial condition, results of operations and ability to provide certain services.

TELKOM's TELKOM-1 and Palapa B-4 satellites have a limited operational life. A number of factors affect the operational lives of satellites, including the quality of their construction, the durability of their component parts, the amount of fuel on board, the launch vehicle used and the manner in which the satellite is monitored and operated. The satellites could fail before the end of their useful lives and repairing these satellites while in orbit is not feasible. TELKOM currently maintains in-orbit insurance covering the loss of the TELKOM-1 and Palapa B-4 satellites, providing for payments of US$57.2 million for TELKOM-1 and US$2.3 million for Palapa B-4 in the event of a total loss of the satellite. TELKOM plans to launch its new TELKOM-2 satellite between November 30, 2004 and December 30, 2004. TELKOM-2 will replace the existing Palapa B-4 satellite (which is expected to be taken out of service around the end of 2004). The loss of existing satellites and the failure to launch the new satellite may have a material adverse effect on our financial condition, results of operations and ability to provide certain services.

TELKOM is subject to Indonesian accounting and corporate disclosure standards that differ in significant respects from those applicable in other countries.

There may be less publicly-available information about Indonesian public companies, including TELKOM, than is regularly disclosed by public companies in countries with more mature securities markets. TELKOM's audited consolidated financial statements have been prepared in accordance with Indonesian GAAP, which differs in certain material respects from U.S. GAAP. See Item 5. "Operating and Financial Review and Prospects — A. Operating Results — Summary of Significant Differences between Indonesian GAAP and U.S. GAAP" and Note 58(1) to TELKOM's consolidated financial statements.

You are unable to pursue claims against Prasetio, Utomo & Co., a member firm of Arthur Andersen, which was the former auditor for Telkomsel.

Prasetio, Utomo & Co., formerly a member firm of Arthur Andersen, no longer exists as a legal entity in Indonesia following its dissolution in 2002. Accordingly, you will not be able to seek or recover damages from Prasetio, Utomo & Co. or Arthur Andersen in connection with its audit report for Telkomsel.

TELKOM is incorporated in Indonesia and it may not be possible for investors to effect service of process or to enforce judgments obtained in the United States against TELKOM.

TELKOM is a limited liability company incorporated in Indonesia, operating within the framework of Indonesian laws relating to public companies and all of TELKOM's significant assets are physically located in Indonesia. In addition, the majority of TELKOM's Commissioners and Directors reside in Indonesia and a substantial portion of the assets of such persons is located outside the United States. As a result, it may not be possible for investors to effect service of process, including judgments, on TELKOM or such persons within the United States, or to enforce against TELKOM or such persons in the United States judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the United States federal securities laws or the securities laws of any state within the United States, or upon other bases.

TELKOM has been advised by its Indonesian legal advisor that judgments of United States courts, including judgments predicated upon the civil liability provisions of the United States federal securities laws, are not enforceable in Indonesian courts, although such judgments could be admissible as non-conclusive evidence in a proceeding on the underlying claim in an Indonesian court. There is doubt as to whether Indonesian courts will enter judgments in original actions brought in Indonesian courts predicated solely upon the civil liability provisions of the United States federal securities laws. As a result, holders of ADSs or Common Stock would be required to pursue claims against TELKOM or its Commissioners and Directors in an Indonesian court.

Forward-looking statements reflect current expectations and may not be correct.

This document contains various forward-looking statements, including statements regarding our expectations and projections for future operating performance and business prospects. The words "believe", "expect", "anticipate", "estimate", "project" and similar words identify forward-looking