Foreign Exchange

Indonesia operates a liberal foreign exchange system that permits the free flow of foreign exchange. Capital transactions, including remittances of capital, profits, dividends and interest, are free of exchange controls. A number of regulations, however, have an impact on the exchange system. For example, only banks are authorized to deal in foreign exchange and execute exchange transactions related to the import and export of goods. In addition, Indonesian banks (including branches of foreign banks in Indonesia) are required to report to Bank Indonesia any fund transfers exceeding US$10,000. As a State-Owned Company, and based on the decree of the Head of Foreign Commercial Loan Coordinating Team ("PKLN"), we are required to obtain an approval from PKLN prior to acquiring foreign commercial loans and must submit periodical reports to PKLN during the term of the loans.

For the year 2011, the average rate of Rupiah to the US Dollar was Rp8,779, with the highest and lowest rates being Rp9,185 and Rp8,460, respectively.

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASON FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

Risks Related to Indonesia

Political and Social Risks

Current political and social events in Indonesia may adversely affect our business

The Indonesian political landscape has changed as a result of the changed governmental structure and the successful organization of direct general elections for the President, Vice President, heads of local governments, and members of the national and regional parliaments (DPR and DPRD). The successes in the 2004 elections were successfully replicated in 2009, when President Susilo Bambang Yudhoyono was re-elected for a second term. Likewise, at the sub-national level, elections for local government heads were conducted throughout 2011 and 2010 without incident.

Labor issues have come to the fore in Indonesia. In 2003, the Government enacted a new labor law that gave employees greater protections. Occasional efforts to reduce these protections have prompted an upsurge in public protests as workers responded to policies that they deemed unfavorable.

Moreover, Indonesia has experienced social unrest due to separatist activity in Aceh in the past and in Papua currently. The country has also seen inter-ethnic conflict, for example in Kalimantan, as well as inter-religious conflict such as in Maluku and Poso.

With each year, Indonesians are becoming increasingly sophisticated with regard to politics and democracy and more mature in expressing their opinions in public and at addressing ethnic and religious differences. Nevertheless, political and related social developments in Indonesia have been unpredictable in the past. 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, materially and adversely affect our business, financial condition, results of operations and prospects.

Terrorist activities in Indonesia could destabilize Indonesia, which would adversely affect our business, financial condition and results of operations, and the market price of our securities

There have been a number of terrorist incidents in Indonesia, including the May 2005 bombing in Central Sulawesi, the Bali bombing in October 2005 and the bombing at the JW Marriot and Ritz Carlton Hotels in Jakarta in July 2009.

The police have successfully countered some terrorist activities in recent years and arrested several of those suspected of being involved in these incidents. Nevertheless, terrorist incidents may continue and, if serious or widespread, might have a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy and may also have a material adverse effect on our business, financial condition, results of operations and prospects and the market price of our securities.

Although the police have continued to enhance their anti-terrorist capabilities, there can be no assurance that terrorist activities will not occur again in future, or that if such events do occur, they will not have an impact on business or our securities market price in Indonesia capital market.

Macro Economic Risks

Negative changes in global, regional or Indonesian economic activity could adversely affect our business

Changes in the Indonesian, regional and global economies can affect our performance. Two significant events in the past that impacted Indonesia’s economy were the Asian economic crisis of 1997 and the continuing the global economic crisis which started in 2007. The 1997 crisis affected Southeast Asia, including Indonesia, while the current global economic crisis that arose from the subprime mortgage crisis in the US put Indonesia’s economy under pressure, although not as severe as in 1997. For nearly three years, the Euro as a currency came under severe pressure, particularly due to the budget deficits within Portugal, Spain, Greece, Ireland and Italy. The Euro crisis has primarily affected the financial sector and has not had a significant or immediate impact on Indonesia’s economic growth, which is expected by the Government to remain positive in 2012. However, if the crisis becomes protracted, or extends to Asia and Indonesia we can give no assurances that it will not have a material and adverse effect on Indonesia’s economic growth and consequently on our business.

In the past, economic volatility, had a material adverse effect on both the quality and growth of business in Indonesia, among other things by leading to currency depreciation, slowing economic growth, increasing inflation and interest rates, weakening purchasing power and causing social unrest.

During 2011, Indonesia’s economy was relatively stable, as reflected in the stability of the Indonesian Rupiah exchange rate at around Rp9,000 per US$1.00 and the Bank of Indonesia rate at 6.75% per annum for most of 2011, single digit inflation in the last two years and positive economic growth. Nevertheless, there is no guarantee that there will not be a recurrence of economic instability in future, or that, should it occur, it will not have an impact on the performance of our business.

Adverse economic conditions could result in less business activity, less disposable income available to consumers to spend and reduced consumer purchasing power, which may reduce demand for communication services, including our services, which in turn would have an adverse effect on our business, financial condition, results of operations and prospects. There can be no assurance that the recent improvements in economic conditions globally and in the region will continue or that adverse economic conditions will not reoccur.

Fluctuations in the value of the Indonesian Rupiah may materially and adversely affect us

Our functional currency is the Indonesian Rupiah. One of the most important effects of the Asian economic crisis that affected Indonesia was the depreciation and volatility in the value of the Indonesian Rupiah as measured against other currencies, such as the US Dollar. From 2007 to 2011, the Indonesian Rupiah per US Dollar exchange rate ranged from a low of Rp12,400 per US Dollar to a high of Rp8,460 per US Dollar. As a result, we recorded a gain of Rp43 billion in 2010 and a loss of Rp210 billion in 2011. As of December 31, 2011, the Indonesian Rupiah per US Dollar exchange rate stood at Rp9,067.5 per US Dollar.

Although the Indonesian Rupiah's value was relatively stable in 2011, this trend may reverse should global economic conditions change and the European financial crisis extend to Asia and Indonesia. To the extent the Indonesian Rupiah depreciates further from the exchange rates as of December 31, 2011, our obligations under our accounts payable, procurements payable and our foreign currency-denominated loans payable and bonds payable would increase in Indonesian Rupiah terms. Such depreciation of the Indonesian Rupiah would result in losses on foreign exchange translation, significantly affect our other income and net income and reduce the US Dollar amounts of dividends received by holders of our ADSs. We can give no assurances that we will be able to control or manage our exchange rate risk successfully in the future or that we will not be adversely affected by our exposure to exchange rate risk.

In addition, while the Indonesian Rupiah has generally been freely convertible and transferable, from time by time, Bank of Indonesia has intervened in the currency exchange markets in furtherance of its policies, either by selling Indonesian Rupiah or by using its foreign currency reserves to purchase Indonesian Rupiah. We can give no assurances that the current floating exchange rate policy of Bank of Indonesia will not be modified or that the Government will take additional action to stabilize, maintain or increase the Indonesian Rupiah's value, or that any of these actions, if taken, will be successful. Modification of the current floating exchange rate policy could result in significantly higher domestic interest rates, liquidity shortages, capital or exchange controls or the withholding of additional financial assistance by multinational lenders. This could result in a reduction of economic activity, an economic recession, loan defaults or declining subscriber usage of our services, and as a result, we may also face difficulties in funding our capital expenditures and in implementing our business strategy. Any of the foregoing consequences could have a material adverse effect on our business, financial condition, results of operations and prospects.

Downgrades of credit ratings of the Government or Indonesian companies could adversely affect our business

As of this date of the Annual Report, Indonesia's sovereign foreign currency long-term debt is rated "Baa3" by Moody's (upgraded from "Ba1" on January 18, 2012) , "BB+" by Standard & Poor's (upgraded from "bb" on April 8, 2011) and "BBB" by Fitch Ratings ("Fitch"). Indonesia's short-term foreign currency debt is rated "B1/NP" by Moody's, "B" by Standard & Poor's and "B" by Fitch. On January 18, 2012, Moody's upgraded Indonesia's long-term debt rating to investment grade status.

The likelihood of these agencies reviewing or changing these ratings downwards this year is, based on the information that we have today, low. However we can give no assurances that Moody's, Standard & Poor's or, Fitch, will not change or downgrade the credit ratings of Indonesia. Any such downgrade could have an adverse impact on liquidity in the Indonesian financial markets, the ability of the Government and Indonesian companies, including us, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available. Interest rates on our floating rate Rupiah-denominated debt would also likely increase. Such events could have material adverse effects on our business, financial condition, results of operations and prospects.

Disaster Risks

Indonesia is vulnerable to natural disasters and events beyond our control, which could adversely affect our business and operating results

Many parts of Indonesia, including areas where we operate are prone to natural disasters such as floods, lightning strikes, typhoons, earthquakes, tsunamis, volcanic eruptions, fires droughts, power outages and other events beyond our control. The Indonesian archipelago is one of the most volcanically active regions in the world as it is located in the convergence zone of three major lithospheric plates. It is subject to significant seismic activity that can lead to destructive earthquakes, tsunamis or tidal waves. From time to time, natural disasters have killed, affected or displaced large numbers of people and damaged our equipment. These events have been done in the past, and may in the future, disrupt our business activities, cause damage to equipment and adversely affect our financial performance and profit.

In recent years, several natural disasters have occurred in Indonesia (in addition to the Asian tsunami in 2004), including tsunamis in Pangandaran in West Java in 2006 and 2010, an earthquake in Yogyakarta in Central Java in 2006, a hot mud eruption and subsequent flooding in East Java in 2006 and separate earthquakes in Papua, West Java, Sulawesi and Sumatra in 2009.

The September 2, 2009 earthquake in of West Java caused damage to the Company's assets. On September 30, 2009 an earthquake in West Sumatra disrupted the provision of telecommunications services in several locations. Although our Crisis Management Team in cooperation with our employees and partners was able to restore services quickly, the earthquake caused severe damage to our assets. There were a number of earthquakes detected in 2010, although none of them presented significant risks to our business in general.

Flash floods and more widespread flooding occur regularly during the rainy season from November to April 2011. Cities, especially Jakarta, are frequently subject to severe localized flooding which can result in major disruption, and occasionally fatalities. Jakarta experienced significant floods in February 2007 as did in Solo Central Java in January. In January 2009, torrential rain caused a dam to burst outside Jakarta, flooding hundreds of homes in a densely populated neighborhood, resulting in the death of approximately 100 people. Landslides regularly occur in rural areas during the wet season.

There are numerous volcanoes in Indonesia, any of which can erupt without warning. In October and November 2010, Mount Merapi in Central Java erupted several times, killing an estimated 140 persons, displacing several hundred thousand others in a 20 km radius, causing billions of dollars of property damage and disrupting air travel. Since April 2008, Mount Soputan in North Sulawesi, Mount Egon on Flores Island, Nusa Tenggara, Mount Ibu in North Maluku and Anak Krakatau in the Sunda Strait have shown significant increased volcanic activity. Mount Sinabung, 60 km (40 miles) southwest of Sumatra's main city Medan, erupted on August 29, 2010 after lying dormant for 400 years. Ash and acrid smoke from the volcano have blanketed villages and crops.

In 2010, our submarine cables forming part of our backbone suffered damage due to a tsunami in West Sumatra and an earthquake in Sumbawa. These were repaired.

Although we have implemented a Business Continuity Plan ("BCP") and a Disaster Recovery Plan ("DRP"), and test these regularly and we have insured our assets to protect from any losses attributable to natural disasters or other phenomena beyond our control, there is no assurance that the insurance cover will be sufficient to cover the potential losses, that the premium payable for these insurance policies upon renewal will not increase substantially in the future, or that natural disasters would not significantly disrupt our operations. In addition, a significant earthquake, other geological disturbance or weather-related natural disaster in a major Indonesia's cities could severely disrupt the Indonesian economy and undermine investor confidence. Any of these events could materially and adversely affect our business, financial condition, results of operations and prospects.

There are no assurances that future geological or meteorological occurrences will not have a significant impact on Indonesian and its economy. A significant earthquake, other geological disturbance or weather-related natural disaster in any of Indonesia's more populated cities and financial centers could severely disrupt the Indonesian economy and undermine investor confidence, thereby materially and adversely affecting our business, financial condition, results of operations and prospects.

Our operations may be adversely affected by an outbreak of avian influenza, Influenza A (H1N1) virus or other epidemics

During the last three years, large parts of Asia experienced unprecedented outbreaks of avian influenza. As of June 2, 2010, the World Health Organization ("WHO") had confirmed a total of 262 fatalities in a total number of 433 cases reported to the WHO, which only reports laboratory confirmed cases of avian influenza. Of these, the Indonesian Ministry of Health reported to the WHO 115 fatalities in a total number of 141 cases of avian influenza in Indonesia. In addition, the WHO announced in June 2006 that human-to-human transmission of avian influenza had been confirmed in Sumatra, Indonesia. According to the United Nations Food and Agricultural Organization, avian influenza virus is entrenched in 31 of Indonesia's 33 provinces, increasing the possibility that the virus may mutate into a deadlier form. No fully effective avian influenza vaccines have been developed and an effective vaccine may not be discovered in time to protect against a potential avian influenza pandemic.

In April 2009, there was an outbreak of the Influenza A (H1N1) virus, which originated in Mexico but has since spread globally, including confirmed reports in Hong Kong, Indonesia, Japan, Malaysia, Singapore and elsewhere in Asia. The Influenza A (H1N1) virus is believed to be highly contagious and may not be easily contained.

An outbreak of avian influenza, Influenza A (H1N1) virus or a similar epidemic, or the measures taken by the Governments of affected countries, including Indonesia, against such an outbreak, could severely disrupt the Indonesian and other economies and undermine investor confidence, thereby materially and adversely affecting our financial condition or results of operations and the market value of its securities. Moreover, our operations could be materially disrupt if our employees remained at home and away from our principal places of business for extended period of time, which would have a material and adverse effect on our financial condition or results of operations and the market value of its securities.

Other Risks

Indonesian Corporate Disclosure Standards differ in significant respects from those applicable in other countries including the United States

As an IDX, NYSE and LSE listed company, we are subject to regulatory and exchange corporate governance and reporting requirements in multiple jurisdictions. There may be less publicly-available information about Indonesian public companies, including us, than is regularly disclosed by public companies in countries with more mature securities markets. As a result, investors may not have access to the same level and type of disclosure as that available in other countries, and comparisons with other companies in other countries may not be possible in all respects.

Our financial results are reported herein in conformity with IFRS; however we report our financial results to Bapepam-LK in conformity with IFAS, which differs in certain significant respects from IFRS, and we distribute dividends based on profit for the year attributable to owners of the parent and net income per share determined in reliance on IFAS

In accordance with regulations of the Capital Markets and Financial Institutions Supervisory Agency ("Bapepam-LK") and the IDX, we are required to report our financial results to Bapepam-LK in conformity with IFAS. We have provided to Bapepam-LK our Annual Report for the financial year ended December 31, 2011, dated March 30, 2012, which we furnished to the SEC on a Form 6-K dated April 2, 2012, which contains our audited Consolidated Financial Statements for the year ended December 31, 2010 and 2011 and financial information as of and for the years ended December 31, 2007, 2008 and 2009, prepared in conformity with IFAS. IFAS differs in certain significant respects from IFRS, and, as a result, there are differences between our financial results as reported under IFAS and IFRS, including profit for the year attributable to owners of the Parent and net income per share. We distribute dividends based on profit for the year attributable to owners of the Parent and net income per share determined in reliance on IFAS.

Using IFAS results, our profit for the year attributable to owners of the Parent would be Rp11,537 billion and Rp10,965 billion for 2010 and 2011, and our net income per share would be Rp586.54 and Rp559.67 for 2010 and 2011. Dividends declared per share were Rp322.59 for 2010. The dividends per share for the year 2011 will be decided at the 2012 AGMS, scheduled for May 2012.

We are incorporated in Indonesia, and it may not be possible for investors to effect service of process, or enforce judgments, on us within the United States, or to enforce judgments of a foreign court against us in Indonesia

We are a limited liability company incorporated in Indonesia, operating within the framework of Indonesian laws relating to Indonesian companies with limited liability, and all of our significant assets are located in Indonesia. In addition, our Commissioners and our Directors reside in Indonesia and a substantial portion of the assets of such persons are located outside the United States. As a result, it may be difficult for investors to effect service of process, or enforce judgments on us or such persons within the US, or to enforce against us or such persons in the US, judgments obtained in US courts.

We have been advised by Soewito Suhardiman Eddymurthy Kardono, our Indonesian legal advisor that judgments of US courts, including judgments predicated upon the civil liability provisions of the US federal securities laws or the securities laws of any state within the US, 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. They have also advised that 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 US federal securities laws or the securities laws of any state within the US. As a result, the claimant would be required to pursue claims against us or such persons in Indonesian courts.

Our controlling shareholder’s interest may differ from those of our other shareholders

The Government has a controlling stake of 53.2% of our issued and outstanding shares of common stock and the ability to determine the outcome of all actions requiring the approval of the shareholders. The Government also holds our one Dwiwarna share, which has special voting rights and veto rights over certain matters, including the election and removal of our Directors and Commissioners. It may also use its powers as majority shareholder or under the Dwiwarna share to cause us to issue new shares, amend our Articles of Association or bring about actions to merge or dissolve us, increase or decrease our authorized capital or reduce our issued capital, or veto any of these actions. One or more of these may result in the delisting of our securities from certain exchanges. Further, through the MoCI, the Government exercises regulatory power over the Indonesian telecommunications industry.

As of December 31, 2011, the Government had a 14.29% equity stake in PT Indosat Tbk ("Indosat"), our competitor, principally in fixed IDD telecommunications services, and the competitor in cellular services of our majority owned subsidiary, Telkomsel. The Government's stake includes the Series A Dwiwarna share which has special voting rights and veto rights over certain strategic matters under Indosat's Articles of Association, including decisions on dissolution, liquidation and bankruptcy, and also permits the Government to nominate one Director to our Board of Directors and one Commissioner to its Board of Commissioners. There may thus be instances where Government interests will conflict with ours. There is no assurance that the Government will not direct opportunities to Indosat or favor Indosat when exercising regulatory power over the Indonesian telecommunications industry. If the Government were to give priority to Indosat’s business over ours or to expand its stake in Indosat, our business, financial condition, and results of operations and prospects could be materially and adversely affected.

Table of Content

Risks Related to Our Business

Operation Risks

A material failure in the continuing operations of our network, certain key systems, gateways to our network or the networks of other network operators could adversely affect our business, financial condition, results of operations and prospects

We depend to a significant degree on the uninterrupted operation of our network to provide our services. For example, we depend on access to our fixed wireline network (PSTN) for the operation of our fixed-line network and the termination and origination of cellular telephone calls to and from fixed-line telephones, and a significant portion of our cellular and international long-distance call traffic is routed through the PSTN. We also depend on access to a fixed wireless network (CDMA), an internet and broadband network and a cellular network. Our integrated network includes a copper access network, fiber optic access network, BTSs, switching equipment, optical and radio transmission equipment, an IP core network, satellite and application servers.

In addition, we also rely on interconnection to the networks of other telecommunications operators to carry calls and data from our subscribers to the subscribers of operators both within Indonesia and overseas. We also depend on certain technologically sophisticated management information systems and other systems, such as our customer billing system, to enable us to conduct our operations. Our network, including our information systems, IT and infrastructure and the networks of other operators with whom our subscribers interconnect, are vulnerable to damage or interruptions in operation from a variety of sources including earthquake, fire, flood, power loss, equipment failure, network software flaws, transmission cable disruption or similar events.

Although we have a comprehensive BCP and a DRP, that we test and strive to improve we cannot guarantee that the implementation of such plans will be completely or partially successful should any portion of network be severely damaged or interrupted. Any failure that results in an interruption of our operations or of the provision of any service, whether from operational disruption, natural disaster or otherwise, could adversely affect our business, financial condition, results of operations and prospects.

Our networks, particularly our wireline access network, face both potential physical and cybersecurity threats, such as theft, vandalism and acts intended to disrupt operations, which could adversely affect our operating results

Our networks and equipment, particularly our wireline access network, face both potential physical and cybersecurity threats. Physical threats include theft and vandalism of our equipment and organized attacks against key infrastructure intended to disrupt operations. In addition, telecommunications companies worldwide face increasing cybersecurity threats as businesses become increasingly dependent on telecommunications and computer networks and adopt cloud computing technologies. Cybersecurity threats include gaining unauthorized access to our systems or inserting computer viruses or malicious software in our systems to misappropriate consumer data and other sensitive information, corrupt our data or disrupt our operations. Unauthorized access may also be gained through traditional means such as the theft of laptop computers, portable data devices and mobile phones and intelligence gathering on employees with access.

Although we have not experienced a material cyberattack to date, a successful cyberattack may lead us to incur substantial costs to repair damage or restore data, implement substantial organizational changes and training to prevent future similar attacks and lost revenues and litigation costs due to misused sensitive information, and cause substantial reputational damage. We take preventive and remedial measures, including enhanced cooperation with the police, particularly in areas prone to criminal activity and regular upgrades of our data security measures. However, there is no assurance that our physical and cybersecurity measures will be successful. Damage to our network, equipment or data and the need to repair such damage resulting from a physical or cyberattack may materially and adversely affect our business, financial condition and operating results. Our networks, particularly our wireline access network face potential security threats, such as theft or vandalism, which could adversely affect our operating results.

A revenue leakage might occur due to internal weaknesses or external factors and if this happened it could have an adverse effect on our operating results

A revenue leakage is a generic risk for all telecommunications operators. We may face revenue leakage problems, or problems with collecting all the revenues to which we may be entitled, due to the possibility of weaknesses at the transactional level, delay in transaction processing, dishonest customers or other factors.

We have taken some preventive measures against the possibility of revenue leakage by increasing control functions in all of our existing business process, implementing revenue assurance methods, employing adequate policies and procedures as well as implementing information systems applications to minimize revenue leakages. Nonetheless, there is no assurance that in the future there will be no significant revenue leakages or that any such leakages will not have a material adverse affect on our operating results.

New technologies may adversely affect our ability to remain competitive

The telecommunications industry is characterized by rapid and significant changes in technology. We may face increasing competition due to technologies currently under development or which may be developed in the future. Future development or application of new or alternative technologies, services or standards could require significant changes to our business model, the development of new products, the provision of additional services and substantial new investments by us. New products and services may be expensive to develop and may result in the introduction of additional competitors into the marketplace. We cannot accurately predict how emerging and future technological changes will affect our operations or the competitiveness of our services. Further, we cannot guarantee that we will be able to effectively integrate new technologies into our existing business model.

To maintain and strengthen the growth of our business, we are currently undergoing a transformation to the TIME business. As part of our transformation to a TIME business, we are seeking to develop new businesses through which we also provide content to our telecommunications subscribers. We do not yet have substantial experience as a content provider and, further, we cannot assure you that we will be able to effectively manage the growth of this business.

We cannot assure you that our technologies will not become obsolete, or be subjected to competition from new technologies in the future, or that we will be able to acquire new technologies necessary to compete in changed circumstances on commercially acceptable terms. Our failure to react to rapid technological changes could adversely affect our business, financial condition, results of operations and prospects.

Our satellites have limited operational life they may be damaged or destroyed during in-orbit operation. The loss or reduced performance of our satellites, whether caused by equipment failure or its license being revoked, may adversely affect our financial condition, results of operations and ability to provide certain services

Our Telkom-1 and Telkom-2 satellites have a limited operational life, currently estimated to end in 2015 and 2020, respectively. A number of factors affect the operational lives of satellites, including the quality of their construction, the durability of their systems, subsystems and component parts, on-board fuel reserves, accuracy of their launch into orbit, exposure to micrometeorite storms, or other natural events in space, collision with orbital debris, or the manner in which the satellite is monitored and operated. We currently use satellite transponder capacity on our satellites in connection with many aspects of our business, including direct leasing of such capacity and routing for our international long-distance and cellular services.

Moreover, International Telecommunication Union (“ITU”) regulations specify that a designated satellite slot has been allocated for Indonesia, and the Government has the right to determine which party is licensed to use such slot. While we currently hold a license to use the designated satellite slot, in the event our Telkom-1 and Telkom-2 satellites experience technical problems or failure, the Government may determine that we have failed to optimize the existing slot under our license, which may result in the Government withdrawing our license. We cannot assure you that we will be able to maintain use of the designated satellite slot in a manner deemed satisfactory by the Government.

We are in the process of developing the Telkom-3 satellite, which has a 15-year lifespan and higher transponder capacity, and which is scheduled to be launched in the second quarter 2012. Should we fail to launch Telkom-3 on time or at all, or if it fails leasing transponder capacity from a third party would likely increase our costs of operations and might result in service interruptions.

We maintain in-orbit insurance on our Telkom-1 and Telkom-2 satellites on terms and conditions consistent with industry practice. If damage or failure renders our satellites unfit for use and we fail to launch Telkom-3, we may elect to cease our satellite operations or lease transponder capacity from a third-party provider rather than launching a new satellite. The termination of our satellite business could increase expenses associated with our provision of other telecommunications services, particularly in the eastern parts of Indonesia which currently rely largely on satellite coverage for telecommunications services, and could adversely affect our business, financial condition and results of operations.

We face a number of risks relating to our internet-related services

We currently provide a range of internet-related services, including dial-up and broadband internet access, and internet-related applications. We face a number of risks in providing these services.

Our network may be vulnerable to unauthorized access, computer viruses, organized cyber security threats and other disruptive problems. See "Our networks, particularly our wireline access network, face both potential physical and cybersecurity threats, such as theft, vandalism and acts intended to disrupt operations, which could adversely affect our operating results."

In addition, because we provide connections to the internet and host websites for customers and develop internet content and applications, we may be perceived as being associated with the content carried over our network or displayed on websites that we host. We cannot and do not screen all of this content and may face litigation claims due to a perceived association with this content. Based on our experience, these types of claims can be costly to defend, divert management resources and attention, and may damage our reputation.

Financial Risks

We are exposed to interest rate risk

Our debt includes bank borrowings to finance our operations. Where appropriate, we seek to minimize our interest rate risk exposure by entering into interest rate swap contracts to swap floating interest rates for fixed interest rates over the duration of certain of our borrowings. However, our hedging policy may not adequately cover our exposure to interest rate fluctuations and this may result in a large interest expense and an adverse effect on our business, financial condition and results of operations.

We may not be able to successfully manage our foreign currency exchange risk

Changes in exchange rates have affected and may continue to affect our financial condition and results of operations. Most of our debt obligations are denominated in Indonesian Rupiah and a majority of our capital expenditures are denominated in US Dollars. Most of our revenues are denominated in Indonesian Rupiah and a portion is denominated in US Dollars (for example from international services). We may also incur additional long-term indebtedness in currencies other than the Indonesian Rupiah, including the US Dollars, to finance further capital expenditures.

We use a hedging policy to protect our business from extreme currency exchange risk, based on annual net open positions in foreign currency. The implementation of our hedging policy is reviewed monthly to anticipate extreme changes in currency exchange rates.

Although the exchange rate of the Indonesian Rupiah to the US Dollar was relatively stable in 2011 at the level of Rp9,000 per US Dollar, we can give no assurance you that we will be able to manage our exchange rate risk successfully in the future or that our business, financial condition or results of operations will not be adversely affected by our exposure to exchange rate risk.

We may be unable to fund the capital expenditures needed for us to remain competitive in the telecommunications industry in Indonesia

The delivery of telecommunications services is capital intensive. In order to be competitive, we must continually expand, modernize and update our telecommunications infrastructure technology, which involves substantial capital investment. For the years ended December 31, 2009, 2010 and 2011, our actual consolidated capital expenditures totaled Rp19,161 billion, Rp12,651 billion and Rp14,603 billion (US$1,610 million), respectively. During 2012, we intend to allocate Rp18,871 billion to optimize our legacy fixed wireline business, new wave, infrastructure and support programs. Our ability to fund capital expenditures in the future will depend on our future operating performance, which is subject to prevailing economic conditions, levels of interest rates and financial, business and other factors, many of which are beyond our control, and upon our ability to obtain additional external financing. We cannot assure you that additional financing will be available to us on commercially acceptable terms, or at all. In addition, we can only incur additional financing in compliance with the terms of our debt agreements. Accordingly, we cannot assure you that we will have sufficient capital resources to improve or expand our telecommunications infrastructure technology or update our other technology to the extent necessary to remain competitive in the Indonesian telecommunications market. Our failure to do so could have a material adverse effect on our business, financial condition, results of operations and prospects.

Legal and Compliance Risks

If we are found liable for price fixing by the Indonesian Anti-Monopoly Committee and for class action allegations, we may be subject to substantial liability which could lead to a decrease in our revenue and affect our business, reputation and profitability

On November 1, 2007, the Indonesian Supervising Committee for Business Competition (the "KPPU") issued a preliminary decision regarding an investigation involving us, our majority-owned subsidiary Telkomsel and seven other telecommunication companies based on allegations of price-fixing for SMS services and breach of Article 5 of the Anti-monopoly Law ("Law No. 5 / 1999"). On June 18, 2008, the KPPU determined that the Company, Telkomsel, XL Axiata Tbk ("XL"), PT Bakrie Telecom Tbk ("Bakrie Telecom"), PT Mobile-8 Telecom Tbk (now Smartfren) ("Mobile-8") and PT Smart Telecom ("Smart Telecom") had jointly breached Article 5 of Law No. 5/1999. Mobile-8 appealed this ruling to the Central Jakarta District Court, where XL, Indosat, PT Hutchison CP Telecommunication ("Hutchison"), Bakrie Telecom, Smart Telecom, PT Natrindo Telepon Selular ("Natrindo") and our Company were summoned to appear as additional parties to be bound by the proceedings, while the Company and Telkomsel appealed the KPPU's ruling to the Bandung District Court and the South Jakarta District Court respectively. On April 11, 2011, the Supreme Court ("SC") ordered a consolidation of the appeals and appointed the Central Jakarta District Court to handle the appeals. See "Item 8. Financial Information–Consolidated Statements and Other Financial Information–Material Litigation"The Central Jakarta District Court will consider objections against the KPPU decision based on a re-examination of the KPPU decision and case files submitted by KPPU but we cannot assure you that the KPPU decision will be overturned. If the District Court issues a verdict against the Company and/or Telkomsel, we could be subjected to the payment of a fine, the amount of which will be subject to the discretion of the District Court, which could have an adverse effect on our business, reputation and profitability.

Class action lawsuits were filed against Telkomsel and Indosat during 2007 and 2008 in the District Court of Bekasi, the Central Jakarta District Court and the Tangerang District Court, relating to Temasek Holding's prior cross ownership of shares in Telkomsel and Indosat, alleging price fixing of telecommunications services. The plaintiffs withdrew the lawsuit filed with the District Court of Bekasi. On January 27, 2010, the court dismissed the class action filed with the Central Jakarta District Court on the basis that the plaintiffs did not establish their legal standing and that two members of the plaintiff class did not qualify as class representatives. On May 24, 2010, the court dismissed the class action filed with the Tangerang District Court on the basis that the plaintiffs failed to establish their legal standing as class representatives. There can be no assurances that other subscribers will not file similar cases in the future. If a District Court, in any new class action suit, issues a verdict in favor of such plaintiffs, it could have an adverse effect on our business, reputation and profitability.

Table of Content

Forward-looking statements may not be accurate

This Annual Report incorporates forward-looking statements that include announcements regarding our current goals and projections of our operational performance and future business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project” and similar words identify forward-looking statements. In addition, all statements, other than statements that contain historical facts, are forward-looking statements. While we believe that the expectations contained in these statements are reasonable, we cannot give an assurance that they will be realized. These forward-looking statements are subject to a number of risks and uncertainties, including changes in the economic, social and political situation in Indonesia and other risks described in "Risk Factors". All forward-looking statements, written or verbal, made by us or by persons on behalf of us are deemed to be subject to those risks.

Regulation Risks

We operate in a legal and regulatory environment that is undergoing significant change. These changes may result in increased competition, which may result in reduced margins and operating revenue, among other things. These changes may also directly reduce our margins or reduce the costs of our competitors. These adverse changes resulting from regulation may have a material adverse effect on us

Reforms in Indonesian telecommunications regulation initiated by the Government in 1999 have to a certain extent resulted in the industry’s liberalization including removal of barriers to entry and the promotion of competition. However, in recent years, the volume and complexity of regulatory changes has created an environment of considerable regulatory uncertainty. In addition, as the legal and regulatory environment of the Indonesian telecommunications sector continues to change, competitors, potentially with greater resources than us, may enter the Indonesian telecommunications sector and compete with us in providing telecommunications services. Further, it is impossible to anticipate the regulatory policies that will be applied to new technologies.

We derive substantial revenue from interconnection services because we have the largest network in Indonesia and our competitors must pay tariffs to connect to our network. The Government, through the Ministry of Communication and Information (“MoCI”), has regulated these tariffs since 2007 and presently sets tariffs based on certain specified "costs” reported by ourselves and Telkomsel as dominant service providers, with corresponding cellular network “costs” from Indosat used for comparison. As regulated by the MoCI, interconnection rates have decreased in recent years. The current interconnection rates, effective in 2011, reduced rates by an average of 1.5% to 3.0% compared to the previous rates effective in 2008. See “Item 4. Information on the Company–Regulations–Interconnection.”

To cite another example, in 2008, the Government required telecommunications operators to allow competitors to utilize their towers without discrimination. Our competitors enjoy disproportionately greater potential cost savings than ours under this regulation because we have the largest network and have already spent to build towers in various areas. Further, our competitors gain access to areas they otherwise would have no access to because tower sites in densely populated urban areas are scarce or unavailable while we benefit substantially less because we secured sites in many such areas. See “Item 4. Information on the Company–Regulations–Telecommunications Towers”.

In the future, the Government may announce or implement other regulatory changes which may adversely affect our business or our existing licenses. We cannot assure you that we will be able to compete successfully with other domestic and foreign telecommunications operators, that regulatory changes will not disproportionately reduce our competitors’ costs or disproportionately reduce our revenues, or that regulatory changes, amendments or interpretations of current or future laws and regulations promulgated by the Government will not have a material adverse effect on our business and operating results.

The Government suspension of premium SMS services could adversely affect the revenues from our cellular phone services and result in sanctions against us

Telkomsel, our majority owned subsidiary which operates our cellular phone services, derived substantial revenues from premium SMS services in previous years. These services include the delivery of music and ringtones, smartphone wallpapers and other graphics, voting in contests and polls and content including horoscopes, Qur’an quotes and news alerts. In 2011, the Indonesia Telecommunication Regulatory Body (ITRB) asked telecommunications companies to deactivate premium SMS services and give users a notice of the deactivations with the option to resubscribe. These companies were also asked to cease promoting premium SMS services until further notice, summarize premium SMS service charges for users and return amounts deducted from them for premium SMS services, and report weekly to ITRB regarding action taken. The ITRB based its action on complaints from consumers that they were charged for services for which they were not aware they had or inadvertently subscribed and from which they had substantial difficulty unsubscribing. Other consumers complained that charges were unclear and difficult to monitor, particularly consumers of prepaid services. The ITRB has clarified that it does not intend to prohibit premium SMS services but to effectively reset such services and give consumers the option to deregister from these. MoCI has expressed support for the ITRB’s action.

The disruption to Telkomsel's premium SMS services due to the ITRB's action has resulted in a substantial reduction of our revenues from these services. Similar action by the ITRB or MoCI in the future may likewise reduce or restrict the growth of Telkomsel's revenues from these services or other related or new products. The ITRB or MoCI may also take more aggressive action that may lead to disruptions in the delivery of Telkomsel's products or fines or other administrative sanctions. Any of these factors may materially and adversely affect our results of operations and financial condition.

The entry of additional Indonesian telecommunications operators as providers of international direct dialing services could adversely affect our international telecommunications services operating margins, market share and results of operations

Our Company obtained a license and entered the international long-distance service market in 2004, and acquired a significant market share for IDD services by the end of 2006. Indosat, one of our primary competitors, entered this market prior to us and continues to maintain a substantial market share for IDD services. Bakrie Telecom was awarded an IDD license in 2009 to provide international long distance service using the 009 access code, although Bakrie Telecom has not yet obtained an IDD operating license. It is expected that XL Axiata and Axis will be granted IDD licenses in 2012. The operations of incumbents and the entrance of new operators into the international long-distance market, including the VoIP services provided by such operators, continue to pose a significant competitive threat to us. We cannot assure you that such adverse effects will not continue or that such increased competition will not continue to erode our market share or adversely affect our fixed telecommunications services operating margins and results of operations

We face risks related to the opening of new long distance access codes

In an attempt to liberalize DLD services, the Government issued regulations assigning each provider of DLD services a three-digit access code to be dialed by customers making DLD calls. In 2005, the MoCI announced that three-digit access codes for DLD calls will be implemented gradually within five years and that it would assign us the "017" DLD access code for five major cities, including Jakarta, and allow us to progressively extend it to all other area codes. Indosat was assigned "011" as its DLD access code. We were required to open DLD access codes in all remaining areas on September 27, 2011.

We do not believe that any of our competitors presently implement the "01X" DLD access codes. The implementation of any new DLD access codes can potentially increase competition by offering our subscribers more options for DLD services. In addition, the opening of new DLD access codes is expected to result in increased competition and less cooperation among industry incumbents, which may result in reduced margins and revenues, among other things, all of which may have a material adverse effect on us. We cannot assure you that our access codes will remain intact or be successful in increasing our revenues from DLD services.

New regulations for the configuration of BTS towers may delay the setting up of new BTS towers or changes in the placement of existing towers, and may erode our leadership position by requiring us to share our towers with our competitors

In 2008 and 2009, the Government issued regulations relating to the construction, utilization and sharing of BTS towers. Pursuant to the regulations, the construction of BTS towers requires permits from the local Government. The local government has a right to determine the placement of the towers, the location in which the towers can be constructed, and also to determine a license fees to build tower infrastructure. These regulations also obligate us to allow other telecommunication operators to lease space and utilize our telecommunications towers without any discrimination.

These regulations may adversely affect in the allocation, development or expansion plan of our new BTS towers as setting up of our new towers will become more complicated. They may also adversely affect our existing BTS towers if local Governments required any changes in the placement of the existing towers.

The requirement that we share space on our cellular (Telkomsel) towers and our fixed wireless (Telkom Flexi) towers may also disadvantage us by requiring that we allow our competitors to expand quickly, particularly in urban areas where new space for additional towers may be difficult to obtain.

Effective 2011, local Governments are permitted to assess fees of up to 2.0% of the tax assessed value of towers. Although we do not expect the amount of these fees to be material in 2012, there can be no assurance that they will not be substantial in the future.

Competition Risks Related to Our Fixed Telecommunication Business

We may further lose wireline telephone subscribers and revenues derived from our wireline voice services may continue to decline, which may materially adversely affect our results of operations, financial condition and prospects

We continued to lose wireline telephone subscribers and revenues derived from our wireline voice services continued to decline during the past several years mainly due to the increasing popularity of mobile voice services and other alternative means of communication, such as VoIP. Tariffs for mobile services have declined in recent years which has further accelerated substitution of mobile for wireline voice services. The number of our fixed wireline subscribers decreased by 0.9% at the end of 2010 compared to that at the end of 2009 and increased by 3.6% at the end of 2011. Revenues from our wireline voice services increased by 3.2% in 2010 compared to that in 2009 and decreased by 6.5% in 2011. The percentage of revenues derived from our wireline voice services out of our total revenues continued to decrease, from 16.0% in 2010 to 14.4% in 2011.

We have been taking various measures in order to mitigate the impact of loss of our wireline telephone subscribers and stabilize our revenues from wireline voice services. However, we cannot assure you that we will be successful in mitigating the adverse impact of the substitution of mobile voice services and other alternative means of communication for wireline voice services or in reducing the rate of decline in our revenues generated from wireline voice services. Migration from wireline voice services to mobile services and other alternative means of communication may further intensify in the future, which may affect the financial performance of our wireline voice services and thus materially and adversely affect our results of operations, financial condition and prospects as a whole.

Our fixed wireless business is subject to intense competition

Our fixed wireless telephone business faces competition from an increasing number of operators, including Bakrie Telecom and Indosat, as well as mobile cellular services, SMS, VoIP services and e-mail. In addition, there is currently no new frequency bandwidth available from the Government for the expansion of our fixed wireless telephone business, and in densely populated areas, our current fixed wireless operations use substantially all of the available frequency bandwidth that we have been allocated.

Competition in the cellular and fixed wireless markets has remained intense, with each operator launching increasingly attractive and creative marketing programs. The lower average tariffs due to intense competition in the cellular market has in part lead to declining ARPU for Telkom Flexi, with blended monthly ARPU decreasing from approximately Rp22,000 in 2009, Rp15,000 in 2010, and Rp9,500 in 2011.

We have been taking various measures in order to mitigate the impact of intense competition in our fixed wireless business and the limited capacity of bandwidth. However, we cannot assure you that we will be successful in mitigating the adverse impact. Competition may further intensify in the future, which may affect the financial performance of our fixed wireless services and thus materially and adversely affect our results of operations, financial condition and prospects as a whole.

Our data and internet services are facing increasing competition, and we may experience declining margins from such services as such competition intensifies

Our data and internet services are facing increase competition from other data and internet operators as well as mobile operators.

Wireless broadband access operators (such as First Media) that received licenses in 2009 for Wi-Max technology began to establish their businesses in the fourth quarter of 2010. Other wireless broadband operators established their businesses in 2012. The increased number of operators will adversely affect our market share and revenues from our Speedy broadband service.

The number of broadband mobile subscribers has increased with the Blackberry’s popularity. The increasing use of mobile broadband services also adversely affects our market share and revenues from our fixed data and internet services.

We have been taking various measures in order to mitigate the impact of intense competition in our data and internet businesses. However, we cannot assure you that we will be successful in mitigating such adverse impact. Competition may further intensify in the future, which may affect the financial performance of our data and internet services and thus materially and adversely affect our results of operations, financial condition and prospects as a whole