Year	At period end	Average(1)	High(2)	Low(2)
	(Rp. per US$1.00)			
2005				
January	9,165	9,204	9,305	9,133
February	9,260	9,245	9,300	9,166
March	9,480	9,371	9,520	9,250
April	9,570	9,539	9,755	9,475
May	9,495	9,480	9,545	9,435
June	9,713	9,616	9,713	9,528
July (through July 13, 2005)	9,750	9,785	9,860	9,740

(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 Reuters in 2002, 2003 and 2004. 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, Rp.8,430 and Rp.8,450 to US$1 as of December 31, 2003 and Rp.9,280 and Rp.9,300 to US$1 as of December 31, 2004. 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, 2004.

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.9,290 to US$1 published by Reuters on December 31, 2004. 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 the fiscal year ended December 31, 2002 (“2002 Annual Report on Form 20-F”) 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, PwC, did not begin their audit work until their appointment in July 2003. TELKOM filed a non- compliant 2002 Annual Report on Form 20-F on April 17, 2003 and then filed a non-compliant Amendment No. 1 to the Annual Report on Form 20-F/ A for the fiscal year ended December 31, 2002 (“Amendment No. 1 to 2002 Annual Report on Form 20-F/ A”) 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 2002 Annual Report on Form 20-F 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 2002 Annual Report on Form 20-F, 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 2002 Annual Report on Form 20-F into full compliance with applicable SEC regulations.

TELKOM did not file Amendment No. 2 to the 2002 Annual Report on Form 20-F/ A for the fiscal year ended December 31, 2002 ("Amendment No. 2 to 2002 Annual Report on Form 20-F/ A") until February 9, 2004, which was over 7 months past the June 30, 2003 filing deadline. Amendment No. 2 to 2002 Annual Report on Form 20-F/ A 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 2002 Annual Report on Form 20-F until after the June 30, 2003 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 2002 Annual Report on Form 20-F. 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 2002 Annual Report on Form 20-F with the SEC by the June 30, 2003 deadline and the May 2003 press release relating thereto, TELKOM was 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. During the period prior to obtaining such waivers, neither Citibank nor BCA issued any notice of acceleration of the debt under the relevant facility agreements. 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.

TELKOM had a number of material weaknesses in its internal control over financial reporting and concluded that as of December 31, 2003 and 2004, its disclosures and controls were ineffective, which could cause investors to lose confidence in its reported financial results and have an adverse effect on the trading price of its securities.

In the course of the audit of TELKOM's consolidated financial statements as of and for the year ended December 31, 2002 by PwC, TELKOM identified certain errors in and made certain adjustments to its consolidated financial statements as of and for the year ended December 31, 2002 that had been previously filed with the SEC. These errors were identified during the seven-month period ended on January 29, 2004, resulting in TELKOM's making adjustments during that seven-month period to its consolidated financial statements as of and for the year ended December 31, 2002. Following discussions between TELKOM and Deloitte, the auditor of TELKOM's consolidated financial statements as of and for the years ended December 31, 2000 and 2001, TELKOM also identified certain errors in and made certain adjustments to, its previously issued consolidated financial statements as of and for the years ended December 31, 2000 and 2001. These errors were identified during the seven-month period ended on January 29, 2004, resulting in TELKOM's making adjustments during that seven-month period to its consolidated financial statements as of and for the years ended December 31, 2000 and 2001.

Reportable conditions (as defined under standards established by the American Institute of Certified Public Accountants) relating to TELKOM's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) were also identified and communicated by PwC in their report dated January 9, 2004 in connection with its audit of the consolidated financial statements as of and for the year ended December 31, 2002, and by KPMG in connection with its audit of the consolidated financial statements as of and for the years ended December 31, 2003 and 2004. Both PwC and KPMG identified the same material weaknesses as part of their respective audits. As part of their communications, both PwC and KPMG informed the Audit Committee that they had identified "reportable conditions" each of which constituted a "material weakness" (as each such term is defined under standards established by the American Institute of Certified Public Accountants) in TELKOM's internal control over financial reporting. TELKOM's principal executive officer and principal financial officer concluded that because of the "material weaknesses" identified, TELKOM's disclosure controls and procedures as of December 31, 2003 and 2004 were not effective to ensure that information required to be disclosed by TELKOM in the reports that TELKOM files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and is accumulated and communicated to TELKOM's management, including TELKOM's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. See Item 15. "Control and Procedures".

Since November 2003, TELKOM has been working to improve its internal control over financial reporting, including those needed to enable it to comply with Section 404 of the Sarbanes-Oxley Act of 2002, as well as its disclosure controls and procedures, and has taken a number of steps to address these issues. See Item 15. "Control and Procedures". TELKOM cannot provide any assurance that the steps that it has taken and is continuing to take will result in all material weaknesses being identified and corrected. TELKOM expects that its internal controls over financial reporting and disclosure controls and procedures will continue to evolve in the future. Any control system, regardless of how well designed, operated and evaluated, can provide only reasonable, not absolute, assurance that its objectives will be met. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could adversely affect TELKOM's ability to report financial results on a timely and accurate basis or cause TELKOM to fail to meet its reporting obligations. Inadequate internal controls could also cause investors to lose confidence in TELKOM's reported financial information, which could have an adverse effect on the trading price of TELKOM's securities.

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.

Actions by separatist movements and clashes between religious and ethnic groups have also resulted in social and civil unrest in parts of Indonesia. In the provinces of Aceh and Papua (formerly Irian Jaya), there have been numerous clashes between supporters of separatist movements and the Indonesian military. In the province of Maluku, clashes between religious groups have resulted in thousands of casualties and displaced persons in recent years. The Government has attempted to resolve problems in these troubled regions with limited success.

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.

Terrorist activities in Indonesia could destabilize Indonesia, which could adversely affect TELKOM's business.

Bombings have occurred in recent years, at government buildings, foreign diplomatic facilities, night clubs and other locations, including the Jakarta Stock Exchange building, the Police Function Building in Jakarta, the departure lounge of Jakarta's Soekarno-Hatta International Airport, the parliament building in Jakarta and a shopping mall in Jakarta. A bombing campaign struck religious buildings throughout Indonesia in 2000. On October 12, 2002, over 200 people were killed in a bombing at a tourist area in Bali. This terrorist attack resulted in a significant decline in international tourism. On August 5, 2003 a bomb exploded at the J.W. Marriott Hotel in Jakarta killing at least 12 people and injuring more than 150 people. On September 9, 2004, a bomb exploded outside the Australian embassy in Jakarta's central business district, killing at least nine people and injuring over 180 people. On May 28, 2005, two bombs exploded in a crowded market in Tentena in central Indonesia, killing at least 20 people and injuring at least 40. Indonesian and United States government officials have indicated that some of these bombings may be the responsibility of Jemaah Islamiya, a Southeast Asian-based terrorist network allegedly linked to the international terrorist organization, Al-Qaeda. In May 2005, the United States also closed its embassy in Indonesia for a few days following an unspecified threat.

There can be no assurance that further terrorist acts will not occur in the future. A number of governments have from time to time issued warnings to their citizens in relation to a perceived increase in the possibility of terrorist activities in Indonesia, targeting foreign, particularly United States, interests. Such acts could destabilize Indonesia and increase internal divisions within the Government as it considers responses to such instability and unrest. Violent acts arising from and leading to instability and unrest have in the past had, and could continue to have, a material adverse effect on investment and confidence in, and the performance of, the Indonesian economy and 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, 2004, the average exchange rate of Rupiah to US Dollar, based on the Reuters middle buy and sell rates, was Rp.9,290 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. 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. 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. As of the date of this Annual Report, 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 July 13, 2005, the Government's long-term foreign currency debt and its short-term foreign currency debt were rated "B2" and "NP", 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.

Indonesia is vulnerable to natural disasters and other events beyond TELKOM's control, which could severely disrupt the normal operation of TELKOM's business and adversely affect TELKOM's operating results.

TELKOM's existing operations are primarily in Indonesia, parts of which are vulnerable to natural disasters. Disruption of operations for any reason, including earthquakes, tsunamis, floods, volcanic eruptions, droughts, power outages or other events beyond TELKOM's control, could cause disruptions to operations and damage to equipment which would adversely affect TELKOM's financial condition and results of operations.

In 2002, a major flood in Jakarta affected TELKOM's operations in Jakarta, where a significant portion of its revenues are derived. In December 2004, northern parts of the Indonesian island of Sumatra, and particularly the province of Aceh, suffered severe damage following a massive earthquake estimated to be of magnitude 9.3 on the Richter scale and a series of tsunami waves on December 26, 2004. The tsunami resulted in 18 TELKOM employees being killed or missing, caused an estimated Rp.54.9 billion (US$5.9 million) of damage to TELKOM's assets and equipment in the Aceh province, including 22 out of 44 switching facilities and transmission facilities and disrupted over 35,000 telephone lines out of approximately 99,000 lines.

On March 28, 2005, a major earthquake estimated to be of magnitude 8.7 on the Richter scale struck off the western coast of Sumatra. Scientists and seismic experts believe that rather than relieving stresses along the Sunda fault, located to the south of Sumatra, the seismic stresses along the Sunda fault continue unabated or have increased, and warned of the possibility of further earthquakes and tsunamis. The increased seismic activity has also coincided with a volcano in Sumatra spewing ash in April 2005, as well as increased volcanic activity and build up of gases in a volcano in Sumatra and another one near Bandung, where TELKOM’s headquarters is based.

While TELKOM maintains several insurance policies relating to TELKOM’s assets which covered the losses resulting from tsunami damage, it does not maintain business interruption insurance, and there can be no assurance that the insurance coverage will be sufficient to protect TELKOM from potential losses resulting from natural disasters and other events beyond its control. In addition, there can be no assurance that the premium payable for these insurance policies upon renewal will not increase substantially, which may adversely affect TELKOM’s financial condition and results of operations.

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.

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 Ministry of Communication and Information (“MoCI”), 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 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.

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 for both fixed and portable handsets. As of December 31, 2004, this service was offered in 192 cities, 130 of which are financed entirely by TELKOM and the remaining 62 are financed through revenue sharing-arrangements (“RSAs”). 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 the same area code). Customers generally have all features offered by cellular services except roaming to other area codes and internationally. Postpaid TELKOMFlexi customers are charged tariffs that are similar to PSTN tariff rates for this service while prepaid customers are charged tariffs slightly higher than postpaid rates but with no monthly fees. In each case, both TELKOMFlexi postpaid and prepaid 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, if at all. 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 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 to a next generation network to implement convergent technologies and upgrade 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 competition structure. The Telecommunications Law only outlines the framework and substantive principles for the liberalization of the telecommunications industry. TELKOM considers 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. As of the date of this Annual Report, 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 approach as mutually agreed by the operators rather than the revenue sharing scheme as currently implemented. On March 11, 2004, the Ministry of Communication ("MoC"), the former telecommunications regulator, issued a decree stating that cost-based interconnection will commence beginning January 1, 2005. In connection with the implementation of cost-based interconnection, the MoC appointed an independent consultant to assist in determining the basis for the new cost-based tariffs. As of the date of this Annual Report, the MoCI has not issued implementing regulations. 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:* TELKOM’s separate licenses to provide fixed line services, DLD services and IDD services were replaced and combined into a single license issued on May 13, 2004. TELKOM also has a multimedia license that includes services such as Internet service provider, data communication and VoIP. The Government, with due regard to prevailing laws and regulations, may amend the terms of TELKOM’s licenses and business authority at its discretion. It may also impose certain mandatory obligations on the license holders. See Item 4.B. “Business Overview — Regulation — Modern License”. 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 of 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, as recommended by the ITRB, announced that it would allow operators to rebalance their tariffs, with the resulting weighted average of tariffs increasing by 9%. The Government did not effect the remaining tariff increases by January 2005, and 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 allows Government to delegate its authority to regulate, supervise and control the telecommunications sector in Indonesia to an independent regulatory body, while maintaining the authority to formulate policies over the industry. Such delegation of authority to the ITRB was implemented under Decree of the Minister of Communications No. 31/2003, dated July 11, 2003. The ITRB comprises officials from the Directorate General of Post and Telecommunication and the Committee of Telecommunications Regulations. 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 had the exclusive right to provide fixed line domestic telecommunications services in Indonesia. Pursuant to regulations introduced to implement the Telecommunications Law, the Government terminated TELKOM’s monopoly in providing fixed line domestic telecommunications services. The MoC issued Indosat a license to provide local telephone services from August 2002. On May 13, 2004, Indosat received its commercial license to provide domestic long-distance telephone services. Indosat launched its CDMA fixed wireless access service under the brand name “StarOne” in Surabaya on May 29, 2004 and in Jakarta on July 25, 2004, thereby creating a “duopoly system” in Indonesia’s fixed line domestic telecommunications market. As of December 31, 2004, Indosat only offered this service in Jakarta, Surabaya, Malang and their surrounding areas. Based on amendment to the interconnection agreement between TELKOM and Indosat dated March 31, 2005, TELKOM has agreed to open interconnection with Indosat’s local fixed line service in certain areas such as Batam, Bandung, Medan, Balikpapan and Malang. Therefore, Indosat is expected to expand its service coverage to other cities in Indonesia. Indosat also commenced offering limited domestic long-distance services for calls within its network in late

2004. 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 that 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 utilize separate three digit access codes for DLD and IDD services. Based on Decree No. 28/2004, TELKOM, which currently uses "0" as the access code for its DLD service, was required by March 1, 2005 to cease using the "0" access code and to implement a three digit access code in the form of "01X" for access to its DLD service. However, TELKOM has not within the given deadline implemented, and does not expect to in the near future to implement, a three digit access code, as extensive installation or upgrade of equipment will be required. TELKOM expects to incur significant costs in connection with the new requirement to establish three digit DLD access codes, including expenditures required to install or upgrade new switching facilities, create a new routing database, costs relating to customer education and other marketing costs. In response to the MoC Decree No. 28/2004, in June 2004, TELKOM submitted a letter to the ITRB highlighting the technical difficulties in implementing the three digit DLD access codes within the given deadline and the substantial costs involved, and requesting that TELKOM be allowed to continue using the "0" prefix for its DLD access prefix and that it be given an additional five year period to implement the three digit DLD access codes. On April 1, 2005, the MoCI, to which telecommunications regulatory responsibility was transferred, announced that it would make available to Indosat the "011" DLD access in five major cities that were technically ready for interconnection, including Jakarta, and progressively extend it to all other area codes within five years. TELKOM has also been assigned "017" as its DLD access code. However, interconnection between Indosat and TELKOM in these five cities would still be subject to the parties reaching agreement on technical and business arrangements and entering into an interconnection agreement. In the five-year interim period and thereafter, the "0" prefix may continue to be used by all operators, including TELKOM, as default codes for each operator's customers to access the DLD service selected by the respective operator.

  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. TELKOM is currently in the process of negotiating with Indosat to allow TELKOM's customers to access Indosat's DLD services, and for Indosat's customers to access TELKOM's IDD services.

  On May 17, 2005, the MoCI issued decree No.6/2005. According to Decree No.6/2005, the three digit access code in the form of "01X" and "0" access code for access to DLD services may be used. The "0" access code is being used to accommodate customers who prefer not to choose their long-distance carrier, while the "01X" access code has to be implemented gradually in local areas in which TELKOM has technical capabilities to support such services. By April 1, 2010, the "01X" long-distance services must be commenced in all TELKOM's local areas to accomodate customers who prefer to choose their long-distance carrier. TELKOM is in the process of negotiating with Indosat to allow TELKOM's customers to access Indosat's DLD services and for Indosat's fixed and mobile customers to access TELKOM's IDD services.

- *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 MoCI, 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. The MoC Decree No. 34/2004 issued on March 11, 2004 sets out certain minimum requirements that USO facilities must meet. On March 30, 2004, the MoC issued Announcement No. PM.2/2004, which sets forth the basic policies underlying the USO program and requires telecommunications operators in Indonesia to contribute 0.75% of gross revenues (with due consideration for bad debt and interconnection charges) for USO development. As of the date of this Annual Report, there has been no implementing regulations or announcement as to when such contribution will take effect. 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, Palapa B-4 and its to be launched TELKOM-2 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, Palapa B-4 and to be launched TELKOM-2 satellites have limited operational lifespans. A number of factors affect the operational livespans 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 maintains insurance coverage for TELKOM-1 satellite. As of December 31, 2004, such coverage was US$51.6 million, in the event of a total loss of the satellite. In connection with its planned launch of the TELKOM-2 satellite, TELKOM has procured insurance coverage to cover both the satellite and the launch services. With regard to the TELKOM-2 satellite, TELKOM has procured (i) a satellite launch and in-orbit insurance providing coverage of US$79.3 million to cover the event of a total loss of the satellite in the period between lift-off and up to one year in orbit, and (ii) post separation and in-orbit insurance coverage of US$71.0 million to cover the event of a total loss in the period between the separation of the satellite from the launcher up to one year in orbit. With regard to launch services, TELKOM has procured a launch risk guarantee from Arianespace that provides reflight in the event of a launch failure in the period between lift-off and separation. However, the loss of its satellites and the failure to launch the new satellite may have a material adverse effect on TELKOM's financial condition, results of operations and ability to provide certain services, particularly in the eastern parts of Indonesia which currently relies largely on satellite coverage for telecommunication 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 56(1) to TELKOM's consolidated financial statements.

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