of December 31, 2003, Rp.9,280 and Rp.9,300 to US$1 as of December 31, 2004 and Rp.9,825 and Rp.9,835 to US$1 as of December 31, 2005. 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, 2005.

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.9,830 to US$1 published by Reuters on December 31, 2005. 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 had a number of material weaknesses in its internal control over financial reporting as of December 31, 2003, 2004 and 2005 and TELKOM concluded that as of December 31, 2005 its disclosure controls were not effective, which could cause investors to lose confidence in its reported financial results and have an adverse effect on the trading price of its securities.***

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 identified and communicated by KPMG in connection with its audits of the consolidated financial statements as of and for the years ended December 31, 2003, 2004 and 2005. As part of its communications, KPMG informed the Audit Committee that it 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, 2004, and 2005 were not effective to ensure that information required to be disclosed in the reports that TELKOM files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required, and is accumulated and communicated to TELKOM's management, including TELKOM's principal executive officer and principal financial officer, 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 eliminated. 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 over financial reporting or disclosure controls and procedures 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. In October 2005 following substantial increases in the market price of crude oil, the Government raised fuel prices by approximately 80%, which also led to numerous demonstrations and strikes.

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 province of Papua (formerly Irian Jaya), there have been numerous clashes between supporters of separatist movements and the Indonesian military. In the provinces of Maluku and Central Sulawesi (Poso), 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. In October 2005, multiple bombs exploded in two locations in Bali, killing 22 people and injuring at least 50. 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, 2005, the average exchange rate of Rupiah to US Dollar, based on the Reuters middle buy and sell rates, was Rp.9,830 per US Dollar.

Fluctuations in the exchange rate between the Rupiah and the US Dollar could adversely affect, among other things, the Rupiah cost of Telkom's network equipment purchases, 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 the World Bank and the Asian Development Bank.***

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. "The Government's long-term foreign currency debt was rated B1 by Moody's as of May 19, 2006, rated BB- by Fitch Ratings ("Fitch") as of March 3, 2006, and rated B+ by S&P as of February 9, 2006." 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, Fitch 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 and the earthquake caused approximately Rp.54.9 billion (US$5.6 million) of damages 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 volcanoes in Sumatra and Java, some of which have started to spew ashes and lava in the first quarter of 2006. Most recently, Mount Merapi in Central Java began erupting in May 2006, and experts believe a large eruption is imminent.

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. 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, 2005, this service was offered in 231 cities. 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 relies heavily on its internal funds, 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 does not have sufficient internal funds or 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, 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, which could adversely affect its revenues and growth.

***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 provides more protection for the employee, such as requiring a ruling from the Industrial Relations Court for termination of an employee in certain situations, and covers 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. If TELKOM is unable to keep pace with rapid technological changes, its business, financial condition and results of operations could be materially and adversely affected.

***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, including its subsidiaries such as Telkomsel, 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. On February 8, 2006, the MoCI issued Regulation No. 8/2006, which mandates a new cost-based interconnection tariff scheme for all telecommunications network and services operators. Under the new scheme, the operator of the network on which calls terminate would determine the interconnection charge to be received by it based on a formula to be mandated by the Government, which would be intended to have the effect of requiring that operators charge for calls based on the costs of carrying such calls. Such calculated interconnection charges must be presented in a Reference Interconnection Offer ("RIO") and reported to the ITRB. TELKOM submitted its RIO in April 2006. ITRB is expected to complete its review of RIOs submitted by large network operators, including TELKOM, by July 2006. The new interconnection tariff scheme will become effective on January 1, 2007. For further information on the interconnection scheme, see Item 4. "Information on the Company — B. Business Overview — Regulations — Interconnection". TELKOM can give no assurance regarding the impact, if any, of such adjustment on the interconnection revenues and costs on TELKOM and there can be no assurance that such impact would not have a material adverse effect 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. "Information on the Company — B. Business Overview — Regulations — 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 adjust their tariffs, with the resulting weighted average of tariffs increasing by 9%. There can be no assurance that the Government will implement further tariff increases or that tariffs will keep pace with costs over time. Any failure of the Government to implement regular tariff increases could have a material adverse effect on our business, financial condition and results of operations.

- *Migration of Frequencies for 3G Service Providers:* On August 31, 2005, the MoCI issued a press release which announced that in order to conform with the international standards of the industry and as recommended by the International Telecommunications Union — Radiocommunication Sector ("ITU-R"), the 1900 MHz frequency spectrum would only be used for the International Mobile Telecommunications- 2000 ("IMT-2000" or "3-G") network. The MoCI also announced that the CDMA-based technology network which TELKOM uses for its fixed wireless services can only operate in the 800 MHz frequency spectrum. At present, TELKOM utilizes the 1900 MHz frequency spectrum for its fixed wireless network in Jakarta and West Java areas while for other areas, TELKOM utilizes the 800 MHz frequency spectrum. As a result of the Government's decision, TELKOM's Base Station System ("BSS") equipment in Jakarta and West Java areas which are part of transmission installation and equipment for fixed wireless network can no longer be used commencing at the end of 2007. We expect that the BSS equipment will be completely replaced with the BSS equipment operating in 800 MHz by mid-2007. On January 13, 2006, the MoCI issued MoCI Regulation No. 01/PER/M.KOMINFO/1/2006 which reaffirmed the Government’s decision that TELKOM’s fixed wireless network can only operate in the 800 MHz frequency spectrum and that the 1900 MHz is allocated for the 3-G network. See Item 5. “Operating and Financial Review and Prospects — A. Operating Results — Overview — Write-down of Assets, Depreciation Expense, Loss on Procurement Commitments, and Operations, Maintenance and Telecommunication Services Expenses”. There can be no assurance that TELKOM will not recognize further loss as a result of such Government decisions.

- *Termination of Wireless Local Loop (“WLL”) License:* In the first quarter of 2005, the Government, in its efforts to rearrange the frequency spectra utilized by the telecommunications industry, issued a series of regulations which resulted in TELKOM not being able to utilize certain frequency spectra it currently uses to support its fixed wireline cable network commencing at the end of 2006. As a result of these regulations, certain of TELKOM’s cable network facilities within the fixed wireline segment, which comprise primarily of WLL and approach link equipment (a transmission equipment to link BTSs to a local exchange) operating in the affected frequency spectra, can no longer be used commencing at the end of 2006. See Item 5. “Operating and Financial Review and Prospects — A. Operating Results — Overview — Write-down of Assets, Depreciation Expense, Loss on Procurement Commitments, and Operations, Maintenance and Telecommunication Services Expenses”. There can be no assurance that TELKOM will not recognize further loss as a result of such Government decisions.

- *Indonesian Telecommunications Regulatory Body (“ITRB”):* The Telecommunications Law allows the 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 the MoC Decree 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, financial condition, results of operations 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, 2005, Indosat offered this service in Jakarta, Bogor, Depok, Tangerang, Bekasi, Banten, Surabaya, Yogyakarta, Malang, Sidoarjo, Gresik, Batu, Madura (Bangkalan, Sampang, Sumenep), Pasuruan, and Medan. Based on the interconnection agreement between TELKOM and Indosat dated September 23, 2005, TELKOM and Indosat have agreed to open interconnection (i) of TELKOM’s local fixed line network with Indosat’s long-distance fixed line network; (ii) of Indosat’s local fixed line network with TELKOM’s long-distance fixed line network; (iii) between TELKOM’s and Indosat’s long-distance fixed line networks; (iv) of TELKOM’s domestic fixed line network with Indosat’s international fixed line network; and (v) Indosat’s local fixed line network with TELKOM’s international fixed line network, with the interconnection tariff being calculated on a call-by-call basis. On December 1, 2005, TELKOM and Indosat entered into an interconnection agreement for the interconnection of TELKOM’s fixed network with Indosat’s mobile cellular network and allowing Indosat’s mobile customers to access TELKOM’s IDD services. 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. TELKOM's interconnection arrangements will be affected by the new cost-based interconnection scheme which was publicly announced in February 2006. An amendment to the interconnection agreement with Indosat reflecting the new cost-based interconnection scheme is expected to be effective by the end of 2006.

- *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. 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 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, the interconnection agreement between Indosat and TELKOM in these five cities does not contain any provisions on technical and business arrangements regarding the use of "011" and "017" DLD access codes. In the five-year interim period and thereafter, the "0" prefix may continue to be used by all operators, including TELKOM, as default code 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. 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 accommodate customers who prefer to choose their long-distance carrier. For further information, see Item 4. "Information on the Company — B. Business Overview — Indonesian Telecommunications Industry — Regulations — DLD and 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 of Rp.478 billion (after taxes). While the amount of the compensation payable to TELKOM has been determined, payment was contingent on appropriations to the State Budget for the MoCI, which requires approval by Parliament. On December 15, 2005, TELKOM signed an agreement on Implementation of Compensation for Termination of Exclusive Rights with the Directorate General of Post and Telecommunications of MoCI. Pursuant to this agreement, the Government agreed to pay Rp.478.0 billion to TELKOM over a five-year period. Under the plan, the Government paid Rp.90.0 billion in 2005 and shall pay Rp.90.0 billion in 2006 and then the remaining Rp.298.0 billion thereafter in installments or in lump-sum, which payment schedule will depend upon the Government's budgetary considerations. In addition, TELKOM is required by the Government to use funds received thereunder for development of Indonesian telecommunications infrastructure. TELKOM can provide no assurance that the Government will honor its promise to pay the balance within the next five years.

- *Identity Registration:* For prepaid subscribers, there is a new obligation regulated under the MoCI Decree No. 23/2005, issued on October 28, 2005. Pursuant to this Decree, TELKOM is required to obtain identity information for all of its prepaid customers on or prior to April 28, 2006. Such an obligation may slow down revenue growth in 2006 compared to 2005 and have an adverse impact on TELKOM's profit as TELKOM will have to incur additional expenditures on support systems and dealers' compensation. It may also present difficulties for TELKOM in retaining existing customers and expose TELKOM customers' identities to illegal use or government investigations. This identity registration requirement, however, will affect other competitors as well.

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 has therefore deployed significant resources to eliminate such constraints. Although Telkomsel is not currently experiencing such difficulties, there is no guarantee that Telkomsel would not 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.

The Indonesian cellular telecommunications market is highly competitive. Currently, Telkomsel competes primarily with Indosat and PT Excelcomindo Pratama ("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. While TELKOM believes Telkomsel has been successful in maintaining its market share to date, there can be no assurance that Telkomsel will be successful in competing in the cellular market in the future.

***TELKOM's satellites have a limited life and substantial risk exists for TELKOM-1 and 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 and 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. For further information on the insurance coverage for TELKOM-1 and TELKOM-2 satellites, see Item 4. "Information of the Company — B. Business Overview — Insurance". While TELKOM has provided insurance for its satellites, there can be no assurance that such insurance will offer adequate coverage. The loss of its satellites 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 varies in certain significant 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 54 to TELKOM's consolidated financial statements.

***Certain TELKOM employees, including present and former TELKOM directors, are subject to on-going police investigations.***

There are on-going investigations by the West Java Police Department as to the conduct of TELKOM's Director of Human Resources Development, TELKOM's Director of Consumer, and several other TELKOM employees (including one former TELKOM director and one former President Director of Napsindo). As the details of the investigations have not been made public, TELKOM does not know the full nature or extent of the investigations or the matters to which they relate, or whether any charges are likely to be filed. Based on press reports, TELKOM understands that the investigations relate principally to an alleged violation of anti-corruption law regarding (i) the retention by TELKOM of a consultant and an alleged overpayment without compliance with proper procedures; and (ii) the alleged provision of interconnection services to Napsindo, TELKOM's subsidiary, and Globalcom, a Malaysian company, at an incorrect tariff, and alleged use by Napsindo/Globalcom of TELKOM's network for the provision of illegal VoIP services. It is also understood that one of the investigations relates to TELKOM's guarantee of a bank loan obtained by Napsindo. To TELKOM's knowledge, no charges have been filed against any of the persons investigated by the West Java Police Department, although several of them (but not our Director of Consumer) were held in custody in West Java pending completion of the investigations. On May 10, 2006, those individuals were released from police custody because the police were unable to find any incriminating evidence to support the alleged charges during the 120-day period they were held. 120 days is the maximum period allowed for police custody of suspects for investigation purposes. However, the investigation is ongoing.

There can be no assurance that the police will not find evidence of wrong-doing, that charges will not be filed in relation to the foregoing or that such persons or other TELKOM employees will not be found guilty of any offence. Although TELKOM believes that the investigations are without merit, to the extent any of such persons are in custody, or are found guilty of any offence, TELKOM is and