

# Reaching more people, Delivering more value





NATION'S WIDEST COVERAGE. BY THE END OF 2006, ALL SUBDISTRICTS IN THE ISLAND OF JAVA, BALI AND SUMATERA, HAVE BEEN FULLY COVERED AND IT KEEPS ON GOING.



TELKOMSEL HAS THE LARGEST CUSTOMER BASE OF OVER 35 MILLION BY THE END OF 2006.



THE LAUNCHING OF TELKOMSEL'S 3G WORLD IN SEPTEMBER 2006 ENABLES SUBSCRIBERS TO ENJOY HIGH-SPEED MULTIMEDIA SERVICES ON THEIR CELLULAR PHONES.





As the nation's largest mobile cellular operator, Telkomsel continues to extend its coverage with the aim of establishing a presence in every subdistrict in Indonesia. Having reached all subdistricts in Java, Bali and Sumatera, we are now rolling out our coverage to every subdistrict in Kalimantan, Sulawesi and Eastern Indonesia. As part of our commitment to bringing the latest technological developments to our customers, Telkomsel introduced a brand new era in communications with 3G World, a ground breaking product that allows customers to access high speed multimedia services. Currently, more than 35 million customers-which accounts for more than 55% of the market-are experiencing the benefits of Telkomsel's presence, enjoying greater convenience and flexibility than ever before in communications for both social and business activities. Telkomsel is reaching more people and delivering more value.



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# VISION

The Indonesian wireless telecommunications solutions company.

# MISSION

First choice wireless telecommunications solutions provider in Indonesia working in partnership with shareholders and other alliances to create value for investors, employees and the nation.

# FINANCIAL HIGHLIGHTS

(in billion rupiah)	2006	2005	2004	2003	2002
BALANCE SHEETS Current Assets Property, Plant and Equipment - Net Other Assets Total Assets	3,971	3,048	3,859	2,676	1,856
	31,706	21,993	14,967	12,695	9,034
	1,624	706	723	39	49
	<b>37,301</b>	<b>25,747</b>	<b>19,549</b>	<b>15,410</b>	<b>10,939</b>
Current Liabilities Other/Long-term Liabilities Stockholders' Equity Total Liabilities & Stockholders' Equity	10,588	6,545	3,306	2,790	2,152
	3,640	1,462	2,365	2,309	1,598
	23,073	17,740	13,878	10,311	7,189
	<b>37,301</b>	<b>25,747</b>	<b>19,549</b>	<b>15,410</b>	<b>10,939</b>
INCOME STATEMENTS Operating Revenues (Net) Operating Expenses (incl. Depreciation) EBITDA EBIT Net Income	29,145	21,133	14,765	11,146	7,573
	12,836	8,772	6,744	4,800	3,444
	20,737	15,408	10,672	8,026	5,110
	16,309	12,361	8,021	6,346	4,129
	11,182	8,647	5,473	4,237	2,787
CASH FLOWS Cash Flow From Operations*) Cash Flow For Investing Activities Cash Flow From Financing Activities**) Dividends Net Cash In/Out Flows	16,335	12,892	8,913	6,610	4,517
	(13,144)	(8,438)	(5,470)	(5,311)	(4,531)
	2,678	(936)	(341)	475	671
	(5,645)	(4,616)	(1,840)	(1,057)	(818)
	224	(1,098)	1,262	717	(161)
FINANCIAL RATIOS EBITDA Margin - gross <sup>1)</sup> EBITDA Margin - net <sup>2)</sup> Net Income Margin <sup>3)</sup> Return on Assets <sup>4)</sup> Return on Equity <sup>5)</sup>	59%	59%	58%	58%	54%
	71%	73%	72%	72%	67%
	38%	41%	37%	38%	37%
	35%	38%	31%	32%	30%
	55%	55%	45%	48%	45%

<sup>\*)</sup> Include effect of exchange rate changes on cash & cash equivalents

Exclude dividends

<sup>&</sup>lt;sup>1)</sup>EBITDA: Gross Operating Revenues (deducted by interconnect outpayment & dealer discounts)

<sup>&</sup>lt;sup>2)</sup> EBITDA: Net Operating Revenues (interconnect outpayment & dealer discounts were added back to revenues)

<sup>&</sup>lt;sup>3)</sup>Net Income: Net Operating Revenues

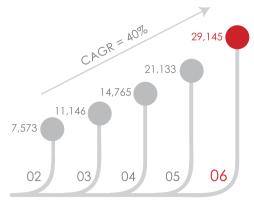
 $<sup>^{</sup>m 4)}$ Net Income : Average Total Assets

 $<sup>^{5)}</sup>$ Net Income : Average Equity

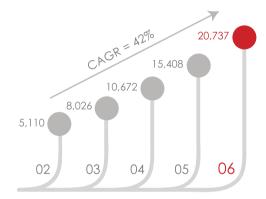
Strong financial performance. Net Operating Revenues, EBITDA and Net Income have grown with CAGR of more than 40 % in the last five years.

Telkomsel was able to sustain strong operating revenue growth in 2006, which was attributable to strong customer base growth and higher MoU.

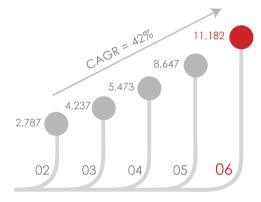
Despite the intensifying competition and our expansive network deployment to outside Java, Telkomsel has maintained its high margin through effective cost and budget control measures.



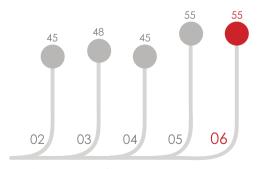
Net Operating Revenues (in billion rupiah)



**EBITDA** (in billion rupiah)



Net Income (in billion rupiah)



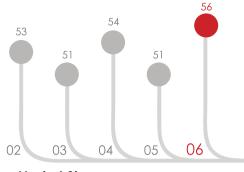
Return on Equity (in percentage)

# OPERATIONAL HIGHLIGHTS

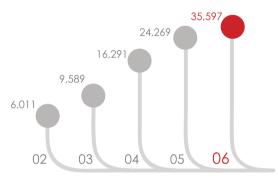
	2006	2005	2004	2003	2002
CUSTOMER BASE - in thousand  Net Additions Postpaid kartuHALO Prepaid simPATI Prepaid Kartu As Total	191	143	321	84	58
	5,374	4,447	2,976	3,494	2,701
	5,763	3,389	3,405	-	-
	<b>11,328</b>	<b>7,979</b>	<b>6,702</b>	<b>3,578</b>	<b>2,759</b>
Customer Base Postpaid kartuHALO Prepaid simPATI Prepaid Kartu As Total	1,662	1,471	1,328	1,007	923
	21,378	16,004	11,558	8,582	5,088
	12,557	6,794	3,405	-	-
	<b>35,597</b>	<b>24,269</b>	<b>16,291</b>	<b>9,589</b>	<b>6,011</b>
ARPU - in thousand rupiah  Total ARPU*)  Postpaid kartuHALO  Prepaid simPATI  Prepaid Kartu As  Blended	274	291	304	314	298
	83	84	84	95	103
	54	45	48	-	-
	84	87	102	123	145
Non voice ARPU Postpaid kartuHALO Prepaid simPATI Prepaid Kartu As Blended	47	47	41	30	21
	24	25	23	23	18
	18	15	17	-	-
	23	24	24	24	19
NETWORK DATA  BTS/Capacity  Base Station  Overall Network Capacity (in million subscribers)	16,057	9,895	6,205	4,820	3,483
	38.8	26.2	17.9	10.8	7.0
Quality of Service Call success rate Call completion rate	94.43%	94.32%	95.19%	94.62%	91.17%
	94.43%	99.30%	99.26%	99.19%	98.75%
EMPLOYEE DATA Total Employees Efficiency Ratio (subscribers/employee)	3,797	3,566	3,331	2,869	2,536
	9,375	6,806	4,891	3,342	2,370

<sup>\*)</sup>ARPU refers to average monthly ARPU (Average Revenue Per User) of the year which is calculated by taking the sum of the ARPU for each month of the year and dividing by 12. ARPU is computed by dividing total cellular revenues for either postpaid or prepaid subscribers (excluding connection fees, interconnection revenues, international roaming revenues from visitors, dealer discounts and tax) each month by the respective average number of postpaid or prepaid subscriber for that month.

Strong customer growth in 2006, which took about 70% of the market growth.

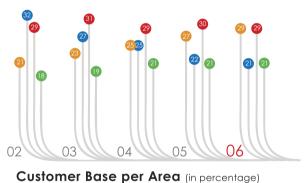


Market Share (in percentage)

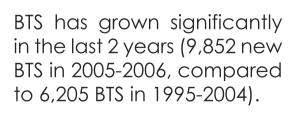


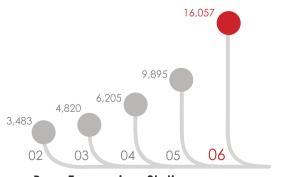
Customer Base (in thousand)

Customer base growth from outside Java has increased. It contributed around 54% of total growth in 2006.









**Base Transceiver Station** (BTS)

# MESSAGE FROM THE PRESIDENT COMMISSIONER



Telkomsel has continued to deliver impressive results through executing a three-pronged strategy of extending our network coverage, strengthening quality and pioneering new technology.

We have remained a trendsetter in the Indonesian telecoms industry by introducing breakthroughs in terms of innovative products, pricing, marketing and services.

A key component of our strategy is to enhance our value chain, particularly through our partnerships with service providers. Although managing our relationships with international vendors, banks and a growing network of dealers and distributors throughout the country poses significant challenges, it also offers critical opportunities to provide a richer, more seamless experience to our customers and thus differentiate the Telkomsel brand from that of our competitors.

2006 was an outstanding year for Telkomsel, as reflected in the company's 47% year-on-year growth in customer base and 38% net revenues growth. With more than 55% of the domestic market, Telkomsel is indisputably Indonesia's largest cellular phone operator. Moreover, the gap between Telkomsel and its closest competitors is widening, thanks to the company's strong ARPU and the strategic advantage of having the greatest number of outlets and rapidly growing coverage (of a total of more than 16,000 Telkomsel base transceiver stations, 9,800 were processed in the last two years alone). Going forward, we will consolidate these achievements through further expansion and investing in developing our human capabilities and operational support. We therefore believe that Telkomsel is exceptionally well-positioned for consistent long-term performance.

3G, of course, is the latest evolution in mobile cellular technology, which allows users to access a fully integrated

package of easy-to-use multimedia services such as highspeed internet browsing, data downloads, video calls, mobile TV and mobile video directly on their cellular phones.

These technologies are fast becoming essential in an increasingly mobile and information-hungry world that relies on instant communications and rapid access to information. Telkomsel has once again led the way in bringing such services to the Indonesian public. In February we were among the winners of the government tender for the country's first 3G licenses. Thanks to a combination of strategic investment and meticulous preparation over the last two years, coupled with a marketing approach that focused on consumer education, we were able to win an astonishing 1.5 million subscribers within the first three months of Telkomsel's 3G launch in September, making Indonesia the 10th largest 3G market in the world based on number of customers.

At the same time we have applied ourselves to building business assurance within the organization by focusing on business excellence, including excellence in our human resources, infrastructure and IT, business processes and partnership management; on business innovation, covering technology application, business schemes such as mobile data and product and service development; and on business effectiveness, where we have attended to governance issues.

Business effectiveness and good corporate governance go hand-in-hand. And while we make sure that Telkomsel is in full compliance with all regulations and industry standards, our vision of good governance goes well beyond this. We aim to build trust both inside and outside the company by emphasizing integrity, transparency, ethical behavior and sustainable practices therefore throughout the company's operation.

Being a good corporate citizen is a critical element in fostering such trust. Telkomsel's corporate social responsibility agenda is designed to deliver greater value for all stakeholders. In 2006, as well as partnering communities on a range of social and health development programs, we mounted a rapid response to several major

natural disasters that afflicted the nation during the year. The coming year will bring many challenges. One will be to maintain our technological edge to ensure that we can capture and benefit from new developments as they emerge. Another is competition, which will grow more dynamically as new players come onto the market with innovative and competitively priced products. We will also have to redouble our efforts to improve efficiency in anticipation of a steady fall in prices. In order to maintain our projected growth, we will therefore pursue an aggressive but smart strategy of expanding the company's revenue streams through innovation, while at the same time putting pressure on costs.

To conclude, I would like to express my thanks to our management team and the entire staff of Telkomsel for their dedication and commitment to our mission – to be the first choice wireless solutions provider in Indonesia. As ever, we are also grateful to all our shareholders, customers, dealers and vendors for their strong support.



**Mochammad Hasjim Thojib**President Commissioner

# MESSAGE FROM THE PRESIDENT DIRECTOR

Telkomsel is the operator of choice for more than half of all wireless telecommunications subscribers. With this privileged we constantly demonstrate our commitment to transparency, fairness, responsibility, accountability and integrity

In 2006, we continued to deliver robust results. Gross revenues grew 34% to Rp 34.90 trillion in 2006, driven by strong growth in our customer base and a 73% rise in Minutes of Use (MoU) thanks to our on-net/off-peak call pricing. This allowed for a 29% increase in net income to Rp 11.18 trillion.

As the country's macro-economic indicators stabilized and inflation fell to more manageable levels, Telkomsel was able to consolidate the progress made in the previous year and focus on our three principal strategies: expanding coverage, enhancing quality and capacity, and pioneering new business. All three strategies were successfully executed and we are pleased to report that we achieved all our targets for the year.

First of all, having covered all subdistricts in Java and Bali in 2005, we expanded comprehensive coverage to all sub-districts in Sumatera in 2006, adding an average 500 base transceiver stations each month to reach a total of 6,162 additional BTS installed by the end of the year.

For the second strategy, we realized that one of the keys to customer satisfaction is sharper segmentation. We therefore introduced an array of innovative value-added products and services designed to address the needs of our increasingly diverse customer base. These included a new off-peak/on-net discount rate for *simPATI* customers and a new tariff package for *kartuHALO* subscribers featuring the country's longest off-peak period. Kartu As customers

were also able to take advantage of Indonesia's first ever flat-tariff per-second rate, designed to meet the specific needs of this more cost-conscious segment of the market. At the same time, we continued to upgrade network capacity and performance. This continuous attention to enhancing the subscriber experience was a key factor in enabling Telkomsel to chalk up a total of 35.60 million customers by the end of 2006, representing a 47% year-on-year growth in our customer base.

With regard to new business, our most important achievement was the launch of the country's first commercial high-speed 3G wireless service. In February 2006, Telkomsel successfully acquired a 3G license through a bidding process, securing the 'cleanest' frequency block available. The following month, the company paid an up front fee of Rp 436 billion as well as a frequency fee of Rp 32 billion for the first year. To support the rollout of the network, we signed network deployment contracts with vendors Nokia, Ericsson and Siemens.

Telkomsel's first 3G trial in May 2005 also served as an opportunity to showcase the potential of this technology to the public. A comprehensive customer education cum pre-registration campaign throughout the month of August 2006—the highlight of which was a demonstration of Telkomsel's 3G services and content at the Presidential Palace during the Independence Day ceremony on 17th August—resulted in more than 60,000 subscriptions by the time of the September launch in Jakarta. Deployment was rolled out over the following weeks in Bandung, Surabaya, Medan, Semarang, Yogyakarta, Batam, Bali and Makassar, coinciding with a themed roadshow in each city. By the end of the year, more than one-and-a-half million customers were enjoying an integrated package of high-speed digital voice, video and data services.

Due to good planning and preparation, the anticipated changes in the regulatory environment in 2006 had no adverse impact on our business. Telkomsel's approaches to the government in advance of the issuance of a regulation requiring registration of all prepaid subscribers ensured that there was sufficiently broad public consultation, and we did not even experience the drop in revenue typically felt when registration has been introduced in other countries.

Even though Telkomsel is the operator of choice for more than half of all wireless telecommunications subscribers in Indonesia, we are well aware that to maintain and build on this privileged position we have to consistently demonstrate our commitment to transparency, fairness, responsibility, accountability and integrity. We have therefore continued to scale up and systematize our implementation of good corporate governance. One of the new initiatives developed in 2006 was enterprise risk management. Once this is fully applied in 2007 it will provide a further layer of protection for our products and services against a broad range of business risks, including fraud. Another important element of this commitment is corporate social responsibility. As in previous years, we have continued to invest in the country's future by supporting sustainable educational and social development projects.

Telkomsel has demonstrated how business opportunities and social responsibility can go hand-in-hand during our annual Telkomsel Siaga program. This is a nationwide operation designed to fulfill our social objectives by channeling funds and other support to people in need during the Muslim fasting month and Idul Fitri holiday. Telkomsel Siaga simultaneously raises our brand profile among subscribers and non-subscribers alike by making available a range of support services for the 14 million people who travel back to their hometowns during this period. To provide this assistance, Telkomsel cooperates with a range of partners, including the police, the automotive industry, radio stations and other public services. At the same time we captured a significant increase in revenue by providing an array of tariff discounts and topical content features that increased traffic by up to 115% (for SMS) on peak days during the period.

In 2007, we intend to expand our business beyond the traditional voice and SMS. We will enlarge our 3G footprint by scaling up coverage and launching new data and content solutions. At the same time we will explore new revenue streams, including WiFi and non-human business. As part of our commitment to cover every subdistrict in Indonesia, Telkomsel will continue rolling out its network in Kalimantan, Sulawesi and the rest of Indonesia.



Critical to the success of our strategy will be having—and keeping—capable, visionary people. With this in mind we will not only be recruiting additional personnel in the coming year but are also seeking to enhance and maximize the potential within the present team. In 2006 we began a process of restructuring our human resource management, starting with a job valuation scheme that defines existing and expected capabilities for each position and will facilitate career mapping and identification of competency building needs.

On behalf of the Directors, I would like to thank all our employees, dealers, distributors and vendors for their enormous contribution to our achievements this year. My thanks go also to our customers, shareholders and other stakeholders for your continued loyalty and trust.

Kiskanda Swighardia

**Kiskenda Suriahardja**President Director

2006 Annual Report

# 2006 EVENT HIGHLIGHTS



#### January

Telkomsel welcomed the new year by launching the new simPATI Jitu starter pack and offering a new off-peak rate on calls and discounts on SMS tariffs for simPATI users.

Kartu As customers were able to take advantage of the innovative 'Pulse Transfer' to share their airtime credits with other As users. Also targeting this market, Telkomsel introduced a new Rp 5,000 electronic refill voucher for Kartu As, making it the lowest denomination reload on the market.

## **February**

Telkomsel secured 5 MHz of 3G spectrum through a bidding process. Telkomsel paid up-front fee (IDR 436 billion) and frequency fee for the first year (IDR 32 billion) in March 2006.

Following the huge success of its HOKI loyalty program for simPATI customers, Telkomsel launched TELKOMSELpoin, in which customers earn points that can later be redeemed either for free SMS or airtime credits, or for lucky draw coupons.

#### March

This month Telkomsel reached a total of 26 million customers. To mark this huge achievement, Telkomsel launched a program of activities and support for 26 social foundations in Jakarta.



#### Apri

Telkomsel claimed another 'first' by launching Indonesia's first ever prepaid flat per-second rate for Kartu As. This new low tariff is available on calls to any other Telkomsel customer—that is, 53% of all mobile users in Indonesia.



#### May

Telkomsel responded to the devastating earthquake in Central Java with Peduli Yogya 5000, allowing Telkomsel customers to make automatic donations to the Indonesian Red Cross relief effort using a simple SMS command.



#### June

Convenient new pricing option was introduced this month: kartuHALO subscribers were able to enjoy new flat on-peak and off-peak tariffs through HALObebas Bicara.

World Cup fever prevailed this month, and Telkomsel joined forces with ESPN and its Bridge Mobile Alliance partners to provide the region's first mobile sports content service. Telkomsel maximized opportunities from this event through a series of other World Cup related value-added features such as quizzes, contests and ring tones.

#### July

Telkomsel lined up with software giant Microsoft to launch a comprehensive mobile push email option, Direct Push. After receiving several awards earlier this year including, eg. Best Call Center, Best GSM Operator, Customer Loyalty Award and Indonesia's Most Admired Company. Telkomsel received Indonesian Best Brand Award for 4 consecutive years for kartuHALO and simPATI.

#### August

This was a landmark month, with Telkomsel officially introducing the country's first commercial 3G service. Customers with 3G-ready phones could pre-register through a simple text message and get the chance to experience 3G at first hand. 300 3G base station transceivers were already standing by for the full operational launch in September.

Kartu As customers were rewarded with a new loyalty program offering the chance to win Rp 1 million worth of bonus airtime for a minimum usage of just Rp 30,000 per period.



#### September

Indonesia's first commercial high-speed wireless 3G service was successfully rolled out in several parts of Jakarta, followed later in the month by Bandung and Surabaya.

Telkomsel's annual Telkomsel Siaga program was launched for the  $10^{\rm th}$  year.



#### October

Telkomsel Siaga swung into action, providing a range of support services for millions of holidaymakers heading home at the end of the fasting month. Telkomsel coordinated a synergy with most of public service organizations to ensure safety and convenience during the annual migration.

#### November

Telkomsel's 3G network was extended to Batam and Bali. In the same month we launched Dunia 3G Telkomsel, a mobile video content package that spans a broad range of needs and interests.

The Bali 3G launch coincided with the introduction of 3G international roaming, allowing 3G customers to access 3G services in 12 countries across the globe.



#### **December**

3G services were rolled out in Makassar, which also marked the launch of Telkomsel's new 3G Mobile TV and Video Portal. To provide convenience and peace of mind for Telkomsel customers performing the hajj pilgrimage this season, Telkomsel relaunched its 24-hour service in Mecca and Medina, Saudi Arabia.

And to end the year on a high note, Telkomsel introduced an innovative "Color SMS" feature, enabling customers to get creative with festive and colorful Christmas and New Year messages.



# LARGEST CUSTOMER BASE

Telkomsel has the nation's largest customer base, reaching over 35 million customers by the end of 2006. With mobile penetration in Indonesia of approximately 27%, the potential for futher growth is huge.

# TELKOMSEL'S PORTFOLIO

Telkomsel's flagship products and services are leaders in their respective product categories. On a platform of GSM Dual Band (900 & 1800), GPRS, EDGE and 3G Technology, Telkomsel offers a wide range of diversified products and services to meet the needs of various segments of the market.

Telkomsel is recognized for its success in developing advanced and reliable networks, products and services. Since it first launched its postpaid *kartuHALO* service in 1995, Telkomsel has introduced countless innovative products and features while consistently working to improve service quality—a strategy that has had stellar results. Telkomsel's flagship products and associated value added services are widely acknowledged as leaders in their respective product categories in terms of numbers of active customers, brand awareness and customer satisfaction.

The brand line-up currently consists of:

- kartuHALO, the country's most popular postpaid service with a total of 1.66 million active subscribers;
- simPATI, Indonesia's most comprehensive rechargeable prepaid service, currently with 21.38 million customers nationwide that offers best offpeak rates; and
- Kartu As, which with a total of 12.56 million users, is the country's leading 'entry-model' product and the first prepaid brand that offers per second charging.

simPATI has maintained its position at the forefront of the prepaid market in Indonesia by staying ahead of shifting customer preferences with the introduction of strategically targeted service features and pricing. After successfully launching the lower off-peak tariff in 2005, we extended our off-peak period with another competitive pricing. The launch of the low-priced simPATI Jitu starter pack was also a key factor in attracting an additional 5.37 million customers to simPATI over the year.

Kartu As extended its reach into the more cost-conscious market segment with the launch of several innovative and cost-effective services such as per second flat tariff and credit transfer facility enabling subscribers to transfer credit to other Kartu As customers through a designated SMS command. A new feature-rich starter pack introduced



in collaboration with popular Indonesian rock band Slank generated considerable interest among the younger segment of the market, while the launch of a new low-denomination electronic prepaid voucher refill—the lowest on the market—is a factor in allowing ever greater numbers of Indonesians to access low-priced mobile services.

The country's premier postpaid product, kartuHALO, remained at the head of its market. Though this segment is small, it generates the highest ARPU, and Telkomsel focused on capturing opportunities to maximize this revenue and generate additional traffic through value added services special flat tariffs on peak time calls for HALObebas customers and optional upgrades for corporate customers.

Telkomsel has succeeded in staying ahead of a highly competitive field by investing in innovation and leveraging emerging technologies so that we can constantly enhance and broaden the cellular experience for our customers. Towards the end of the year, Telkomsel passed a major milestone by launching Indonesia's first 3G services, enabling kartuHALO, simPATI and Kartu As customers to register for an exciting package of services that includes video calls, mobile TV and mobile video content. With

mobile communications already an integral part of everyday life, 3G opens up a whole new spectrum of possibilities for the way we interact with people, data and media. Telkomsel 3G customers can already access 3G services internationally on a roaming basis in 12 countries.

Convergence in the communications world is proceeding rapidly, and with it a demand for mobile emailing. Telkomsel joined forces with Microsoft to launch Direct Push Email, offering a flexible solution for people who are constantly on the move but need to stay connected.

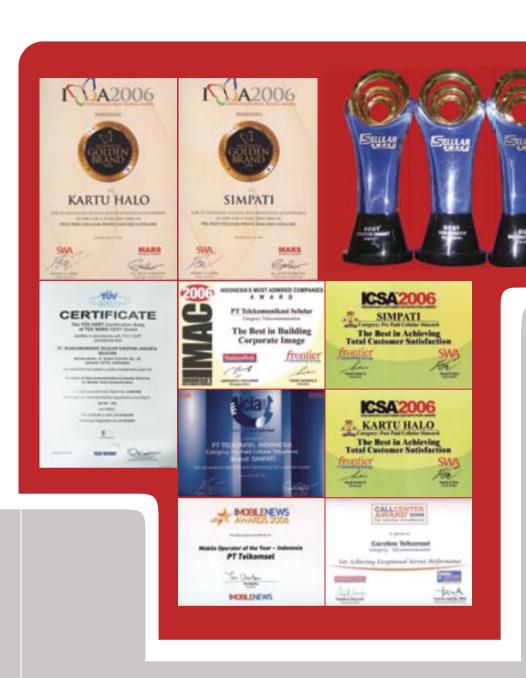
Telkomsel's highly popular Call Me service was augmented by two new services, Missed Call Alert (MCA) and Notify Me. MCA allows Telkomsel subscribers to get an alert via SMS if they cannot answer an incoming call because their handset is inactive or they are outside the service area. Notify Me, conversely, informs the calling party when the called party becomes active. Like Call Me, both these features offer added convenience and peace of mind for the customer.

Recognizing that customers are increasingly using cellular rather than fixed line services across provincial and international boundaries, we introduced a new Local Direct Dialed Service (LDDS) service that enables inbound roamers using the Telkomsel network to be called by Telkomsel customers or other inbound roamers at rates that are substantially lower than regular IDD tariffs.

From the outset, we have sought to position Telkomsel as the leader in customer service as well as in product quality and diversity. Telkomsel customers have access to a network of Grapari service centers which is continuously expanded and upgraded, as well as our call center, which can now handle an average 27,900,000 calls per month, up from 12,800,000 at the end of 2005.

Telkomsel's excellence in customer service once again earned recognition from several quarters. Telkomsel won Indonesian Customer Satisfaction Awards (ICSA) for kartuHALO and simPATI for the sixth and seventh consecutive years respectively. We were also cited as "Best Call Center in the Indonesian Telecommunication Industry" by the Center for Customer Satisfaction and Loyalty.

Telkomsel has succeeded in staying ahead of a highly competitive field by investing in innovation and leveraging emerging technologies so that we can constantly enhance and broaden the cellular experience for our customers.



AWARDS	ISSUED BY
Indonesian Customer Loyalty Award 2006 (Best Brand Loyalty in the Prepaid Category)	SWA/MARS Research Agency
Best Call Center 2006 in the Indonesian Telecommunications Industry	Center for Customer Satisfaction and Loyalty
Mobile Operator of the Year	Asian Mobile News Magazine
Indonesia's Most Admired Companies Award (Telecommunications Category)	Business Week/Frontier Consulting Group
Indonesian Best Brand Award	SWA/MARS Research Agency
Dale Carnegie Leadership Award	Dale Carnegie
Indonesian Customer Satisfaction Awards:  kartuHALO (Postpaid Category)  simPATI (Prepaid Category)	SWA/Frontier Consulting Group







No.	Product Features	kartuHALO	simPATI	Kartu As
1.	Call Hold	Υ	Υ	Υ
2.	Call Waiting	Υ	Υ	Υ
3.	Voice Mail	Υ	Υ	N/A
4.	Call Forwarding	Υ	Υ	N/A
5.	SMS	Υ	Υ	Y
6.	Mobile Fax & Data	Y	N/A	N/A
7.	CH/CHP	Ϋ́	Y	Y
8.	Normal International Roaming	Y	N/A	N/A
9.	SMS International Roaming	Y	Y	N/A
			Y	
10.	International Roaming via UCB	N/A		N/A
11.	International Roaming via Camel	N/A	Y	N/A
12.	Pulse Checking - International	N/A	Y	N/A
13.	Domestic Roaming	Y	Y	Υ
14.	Info On Demand	Υ	Υ	N/A
15.	WAP	Υ	Υ	Υ
16.	Multi Party Calling	Υ	Υ	Υ
17.	Pulse Checking/Voucher Inquiry	Υ	Υ	Υ
18.	CLIR	Υ	N/A	N/A
19.	Internet Message Service	Y	Y	N/A
20.	SMS to Email	Y	Y	N/A
20.	M-Banking Plain SMS	Y	Y	N/A Y
22.	M-Banking STK	Y	Y	N/A
23.	Premium Call Access	Y	Y	Υ
24.	GPRS	Υ	Υ	Υ
25.	MMS	Υ	Υ	Υ
26.	EDGE	Υ	Υ	Υ
27.	CSD Data	Υ	N/A	N/A
28.	Video Streaming	Υ	Υ	Υ
29.	WiFi	Υ	Υ	N/A
30.	VOIP	Υ	Υ	Y
31.	MMS Inter Operator	Ϋ́	Ϋ́	Ϋ́
32.	Pulse Transfer	N/A	N/A	Y
		Y		
33.	Ring Back Tone		Y	Y
34.	Telkomsel Call Me	Y	Y	Y
35.	USSD Menu Browser	Y	Y	Υ
36.	Recharge via IVR	N/A	Υ	Υ
37.	Recharge via USSD	N/A	Υ	Y
38.	3G Services	Υ	Υ	Υ
39.	STK Menu Browser	Υ	Υ	Υ
40.	Voucher Top Up	Υ	N/A	N/A
		1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	1 5.5	12 1 1
TELKOM	ISEL's Tariff (per minute)	kartuHALO	simPATI	Kartu As
LOCAL (	BOC MOBILE)			
	POC MOBILE)  H, or SP to SP, or KA to KA	650 - 813	300 - 1500	1200
	P or KA to other Telkomsel	650 - 813	300 - 1500	1200
	P or KA to other Operators	775 - 938	1300 - 1600	2400
	·			
	ISTANCE -1	(50, 0,00	200 4000	1000
	H, or SP to SP, or KA to KA P or KA to other Telkomsel	650 - 2628 650 - 2628	300 - 4000 300 - 4000	1200 1200
KH or S	P or KA to other Operators	1110 - 2628	3500 - 4000	2400
	ISTANCE -2			
	H, or SP to SP, or KA to KA P or KA to other Telkomsel	650 - 3083 450 - 3083	300 - 4500 300 - 4500	1200 1200
KH or S	P or KA to other Operators	650 - 3083 1220 - 3083	4000 - 4500	2400
	·			
	red phone)		700	
Telkoms	el to local POC_PSTN (=< 30KM) el to PSTN Zone-1:> 30 KM - < 200 KM	450 - 531 650 - 1696	700 - 950 2000 - 2300	1800 1800
	el to PSTN Zone-2: 200 KM - \ 200 KM	785 - 2221	3200 - 3720	1800
Telkoms	el to PSTN Zone-3: > 500 KM	895 - 2676	3600 - 4150	1800
DOWN	TO BO A MINIO			
	(IC ROAMING	Eroo	Eroo	Eroo
Domes	tic Roaming (Incoming)	Free	Free	Free
SMS		250 - 350	299 - 350	300*
MMS		1000 - 1250	1250	1250
GPRS		25/kB-30/kB**	30/kB**	30/kB**
TIME IIN	IT (in second)			
Local	ir (iii second)	20	30	1
LONG	DISTANCE -1	15	30	į
LONG	DISTANCE -2	15	30	1

- Notes:
   Tariff excluding 10% tax for postpaid; including tax for prepaid
   KH = KartUHALO
   SP = simPATI
   KA = Kartu As

- \*Tariff SMS Kartu As Rp.99 299 during promotional period Apr 2006 Mar 2007 \*\*GPRS tariff is Rp.12/kB during promotional period from Sep 2006 to Feb 2007



# NATION'S WIDEST COVERAGE

By the end of 2006, all subdistricts on the islands of Java, Bali and Sumatera had been fully covered, but there is more to come: Telkomsel aims to bring comprehensive coverage to every corner of the archipelago by adding more base stations and improving network quality to ensure that all Indonesians have the chance to enjoy Telkomsel's innovative mobile communications solutions.

# NETWORK AND INFORMATION TECHNOLOGY

We realize that the key to profitable and sustainable growth is to constantly strengthen our network coverage and quality. Our priorities have therefore remained focused on bringing new coverage to more than 90% of Indonesia's populated areas, growing our network capacity to accommodate additional subscribers, and delivering a level of quality that is equal to that of the world's leading operators.

In advanced information technologies, strategic investment helps to ensure that Telkomsel's IT platforms deliver comprehensive and flexible support right across the Company's operational systems. This strategy has enabled Telkomsel to consistently create value for all segments of the market and retain its leading position in the industry.

#### **Boosting network performance**

Telkomsel is recognized for its consistently high quality performance. Our success in this area is made possible by constantly maintaining and developing our network infrastructure. One indicator of this is that despite our aggressive development of new sites deep in rural areas, where maintenance is more complex, national base station subsystem (BSS) availability in December 2006 reached 99.40%. A Successful Call Rate (SCR) and Call Completion Rate (CCR) of 94.43% and 99.42% respectively during daytime, as well as a blocking rate of below 1%, are further measures of Telkomsel's strong performance over the year.

In 2006, Telkomsel's network was classified into five area classes to differentiate the way operations are handled within each particular area. In this way, the specific requirements of each class—the Central Business District, Business, Industrial, Residential, and Rural areas—with regard to network performance and availability can be met more effectively. Area differentiation has already successfully improved availability in the Central Business District up to 99.989%.

## Reaching further than ever before

Although Telkomsel is still the dominant player in the Indonesian market with a current cellular network capacity of over 38 million, the company is continually pursuing further expansion. In 2006 we added 5,220 base transceiver stations (BTS) and 942 Node B (3G BTS) to bring the total deployed to 16,057 BTS/Node B. With this addition, more than 90% of the populated area is now covered.

In 2006, Telkomsel successfully brought coverage to every subdistrict (kecamatan) in Sumatera, having already managed to reach all the subdistricts in Java and Bali in 2005. This latest achievement makes Telkomsel the first

operator to have a presence in all subdistricts throughout Sumatera, Java and Bali.

#### Investment ahead of growth

During the first quarter of 2006, Telkomsel revised its infrastructure Capex. Following an increase in MoU/subscriber and corresponding traffic increase as a result of the new off-peak tariff.

Telkomsel always aims to build network infrastructure at least three months ahead of traffic growth to ensure that sufficient capacity is available to support any sudden marketing initiatives. The Company's Capex Plan is therefore based on close monitoring of traffic patterns, revenue and monthly subscriber growth.

# Improving IT Internal Control to ensure regulatory compliance

A number of remediation measures were taken throughout 2006 to comply with the Sarbanes Oxley Act (SOA). The IT Infrastructure Library or ITIL, which includes the System Development Life Cycle (SDLC) framework, was implemented continuously to ensure the delivery of high quality IT services and IT general controls in both IT development and IT operations. In addition, we completed the implementation of IT governance to improve IT entity level controls.

#### Guaranteeing better service availability

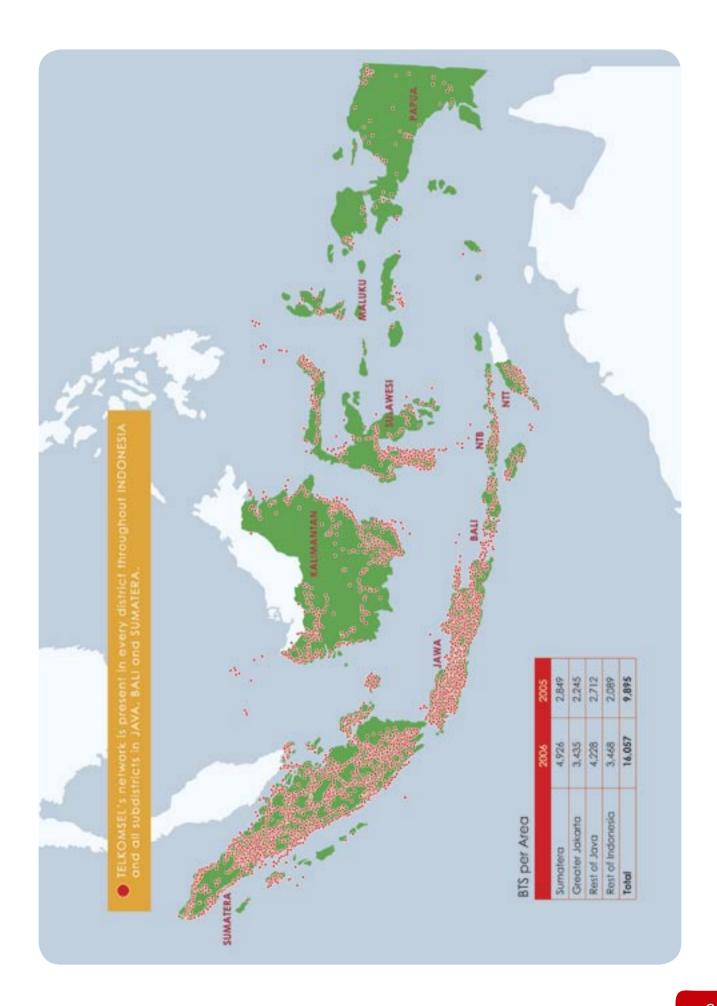
Telkomsel's infrastructure improvements in 2006 focused on ensuring a standard level of service to customers in line with ISO certification indicators. As a result, the Service Level Availability of important services increased from 95% to 98%. We also carried out various remediation measures, such as improving IT infrastructure resilience.

Important service availability improvements were also made with regard to recharging services. To ensure consistent availability of the Voucher Management System (VoMS), the application architecture was enhanced to support a distributed environment through the Distributed VoMS initiative.

In 2006, Telkomsel successfully brought coverage to every subdistrict (kecamatan) in Sumatera, having already managed to reach all the subdistricts in Java and Bali in 2005.

#### Deploying enabling infrastructure

Another key priority in 2006 was to establish enabling infrastructure that facilitates and expedites innovation in the business. Our new Unstructured Supplementary Service Data (USSD) menu browser, for example, has enabled the Company to significantly reduce time to market when creating or launching new services. Using USSD, we can create new services without the inconvenience of replacing the SIM card.





# NEWEST DEVELOPMENT: TELKOMSEL'S 3G WORLD

The launching of Telkomsel's 3G World in September 2006 enables subscribers to enjoy high-speed multimedia services on their cellular phones. With video calls, live TV streaming, high-speed data access and portals to a wide range of sports, news, games, music and other content, 3G offers customers a richer, more exciting and more convenient mobile communications experience.

# HUMAN RESOURCES DEVELOPMENT

In the process of fulfilling our mission to become Indonesia's first choice wireless telecommunications solutions company, Telkomsel has identified a key enabler: the development of the Company's human capital through becoming a performance-based organization, and through fostering a service culture.

One of our long-term objectives is revitalizing our corporate culture and encouraging high ethical standards. Alongside this, we have also formalized a job valuation scheme, which forms the basis of a performance-based career development program and underpins pay and incentive systems aimed at rewarding excellence and retaining the right people.

In 2006, Telkomsel renewed its Collective Labor Agreement (CLA) for 2006-2008. This sets forth the rights and responsibilities of management and employees, as represented by the union, with respect to working conditions and industrial relations issues. We have taken comprehensive measures to communicate the CLA throughout the Company and it is backed up by a range of management directives that reinforces the CLA as an integral element of human resource management at Telkomsel.

#### Corporate Culture

Over the long term, Telkomsel's sustainable growth will depend on the successful internalization of corporate values that guide each member of our organization in expected standards of behavior. In 2006 Telkomsel's management revisited our corporate values and reformulated them as teamwork, professionalism, customer intimacy and integrity.

These values were disseminated throughout the organization by a cascading process that began with a meeting of the Integrated Management Forum, attended by all Telkomsel's Vice Presidents and General Managers. A set of activities was devised, implemented and closely monitored at each stage of the process, using a culture survey to gauge the early effectiveness of the program and identify the strengths and weaknesses of our communication efforts.

#### **Code of Conduct**

Having re-energized our corporate culture and ensured compliance with the Sarbanes Oxley Act through a range of Good Corporate Governance (GCG) initiatives, the logical next step was to launch a new Telkomsel Code of Conduct. The Code further elaborates the corporate culture and other relevant principles outlined under the Sarbanes Oxley Act. The Code of Conduct is reinforced through transparent performance evaluations linked to compensation.

#### **Staffing Levels**

As of 31 December 2006, Telkomsel employed 3,797 employees, including seconded employees and members of the Board of Directors. Our total employee count increased by 6% in 2006 in line with the company's ongoing expansion of its telecommunications business and our efforts to elevate our service levels and pursue a broad range of business development opportunities.

Telkomsel's ongoing commitment to human resource development received external affirmation when the Company accepted the Dale Carnegie Leadership Award in recognition of Telkomsel's success in developing competencies, building communication skills and nurturing leadership qualities among its staff.



# GOOD CORPORATE GOVERNANCE

#### **Board of Commissioners**

Telkomsel's Articles of Association (the "Articles") provide that the Board of Commissioners shall consist of six members, including the President Commissioner. The Shareholders' Agreement further provides that the President Commissioner shall be appointed by the shareholder holding the greater number of shares.

The principal functions of the Board of Commissioners are to supervise the management of Telkomsel by the Board of Directors, and the implementation of Telkomsel's Business Plan. The Board of Commissioners is accountable to the General Meeting of Shareholders. Members of the Board of Commissioners are elected by the shareholders of Telkomsel. The shareholders are entitled to nominate a number of candidates as Commissioners (and recommend the removal of such Commissioners) in proportion to the size of their respective ownership. Telkom is currently entitled to nominate four Commissioners, and SingTel Mobile is entitled to nominate two Commissioners. However, since Telkom only assigns three representatives on the Board of Commissioners, one position on the Board of Commissioners is currently vacant.

Meetings of the Board of Commissioners must be held at least once every three months and at any other time at the request of any member of the Board of Commissioners. The quorum for all Board of Commissioners meetings is four members of the Board, one of whom must be a Commissioner nominated by SingTel Mobile.

Results of meetings of the Board of Commissioners shall be by affirmative vote of a majority of the members of the Board. In the event of a tie, the matter shall be referred to a General Meeting of Shareholders for resolution.

#### **Board of Directors**

The principal functions of the Board of Directors are to lead and manage Telkomsel as well as control and manage Telkomsel's assets. The Board of Directors shall consist of five Directors, one of whom shall be the President Director.

The shareholders are entitled to nominate more than one candidate as a Director (and recommend the

removal of such Director) in proportion to their respective shareholdings. Telkom is currently entitled to nominate three Directors and SingTel Mobile is entitled to nominate two Directors. The President Director and Director of Finance shall be Telkom's representatives.

Meetings of the Board of Directors must be held at least once every two months and at any other time at the request of any of the Directors. The quorum for all Directors' meetings is four members of the Board present or represented in such meeting, one of who must be a Director nominated by SingTel Mobile.

Resolutions of meetings of the Board of Directors shall be adopted by affirmative vote of a majority of the members of the Board. In the event of a tie, the matter shall be referred to a meeting of the Board of Commissioners.

#### Compensation

The Commissioners and Directors receive compensation determined at the general Meeting of Shareholders of Telkomsel. No fees are paid to the Commissioners or Directors for their attendance at their respective board meetings. For the year ended 31 December 2006 the aggregate compensation paid by Telkomsel to all Commissioners and Directors as a group was approximately Rp 19.6 billion.

## **Conflict of Interest**

Members of the Board of Directors are prohibited from assuming other positions outside Telkomsel which may directly or indirectly raise conflicts of interest with Telkomsel and/or which violate the provisions of existing laws and regulations. The Articles further state that any non-conflicting current position assumed by a member of the Board of Directors would require the permission of the Board of Commissioners and shall be reported to the General Meeting of Shareholders. Members of the Board of Commissioners shall not assume any position outside Telkomsel that may directly or indirectly raise conflicts of interest unless determined otherwise by the General Meeting of Shareholders.

#### **Family Relationships**

None of the Directors are related to each other.

#### **Committees**

Either Board may, at any time, establish or authorize the formation of committees of its members to deal with matters relating to, or assist with the discharge of, the responsibilities and obligations of said Board. Each of these committees must include at least one person nominated by SingTel Mobile. The following committees currently exist in Telkomsel, all formed by the Board of Commissioners:

- Audit Committee. This committee is responsible for reviewing the Company's audited financial statements and discussing them with the external auditors. The Audit Committee consists of Triwahyusari (Head of Committee), Lim Chuan Poh and Iwan Setiawan (Committee Members), and is regulated by an Audit Committee Charter. The Audit Committee also regularly interacts with the head of Internal Audits to discuss internal control issues.
- Remuneration Committee. This committee has responsibility for determining the remuneration of the Board of Directors, subject to the unanimous approval of the Board of Commissioners. The Remuneration Committee comprises Woeryanto Soeradji (Head of Committee) and Thomas Yeo Eng Choon (Committee Member).
- Investment Committee. Responsible for reviewing the investment plans and the way in which such plans are implemented by the Company, the Investment Committee consists of Thomas Yeo Eng Choon (Head of Committee), Woeryanto Soeradji and Herfini Haryono (Committee Members).



#### **Business Planning and Budget Preparation**

The Board of Directors and no more than two representatives of each Shareholder shall meet prior to 30 September each year to prepare a new Budget for the following financial year and to refine and update the Business Plan.

If the Budget and/or the Business Plan is unanimously agreed by the Business Plan Team, it shall present the proposed Budget and Business Plan to the Board of Commissioners for their review, consideration and approval prior to 30 November each year.

#### Transparency and Disclosure

Telkomsel reports its operational and financial performance to the Board of Commissioners and its shareholders on a monthly basis.

On a quarterly basis, Telkomsel reports its operational and financial performance by issuing quarterly "highlights". These highlights are available on Telkomsel's website (www.telkomsel.com) and are mailed to anyone who has signed up for our mailing service. Telkomsel's database for this mailing service contains major investment houses and fund managers, financial institutions, analysts, and private individuals.

Each year, an annual report is produced, primary to fulfill the reporting requirement to the shareholders, and to provide a growing group of investors, analysts and others with an overview of the previous year's performance.

Although Telkomsel is a private, non-public company, we do have an investor relations team. The task of the investor relations team is to define, prepare and provide information that the company is willing to share and disclose to interested third parties.

#### **Internal Controls**

Telkomsel continuously strengthens the quality of its internal controls though a regular, systematic test of control process to ensure their integrity. In addition, any change in business processes is automatically accompanied by a review of the design of the pertinent controls and Standard Operating Procedures in order to maintain their effectiveness.

The Company's internal controls not only ensure compliance with capital market regulations but also provide assurance, both internally and externally, that the business processes in all work units conform to the SOPs. In this way, we aim to minimize the possibility of fraud and other undesirable practices.

#### **Control Self-Assessment**

Telkomsel's computer-based CSA system enables each work unit to evaluate the extent of its compliance with the pertinent SOPs and to assess the effectiveness of the internal controls. There has been improvement in the effectiveness of internal controls in the two years since CSA was launched.

#### **SOA Compliance**

An Internal Control Over Financial Reporting (SOA-ICOFR) audit was conducted by the external auditor in 2006 which main objective was to support the SOA-ICOFR works of PT Telkom (the company's shareholder). The SOA-ICOFR Audit assessed both the design and the operational effectiveness of the internal controls developed by the company.

#### Risk & Foreign Exchange Management

Telkomsel's exposure to foreign exchange risk arises mainly from its capital expenditure, and, to a lesser extent, from its operational expenditure, which is denominated in USD and EUR, while revenues are denominated principally in Rupiah. Financing facilities for expenditures have been in Rupiah, USD and EUR.

The objective of the Company's foreign exchange policies is to allow the company to effectively manage exposures that arise from business operation within a framework of controls that does not expose the company to unnecessary foreign exchange risks. The policies include:

- Progressive accumulation of USD and EUR funds using excess cash flows to continually cover foreign exchange exposures based on the Company's cash flow projections.
- Hedging foreign exchange exposures with derivative financial instruments such as forward foreign exchange contracts.

Revenues from international roaming services also provide a natural hedge for transactional foreign exchange exposure.

#### **Corporate Social Responsibility**

Good financial stewardship balanced with responsible social and environmental practices together lay a strong foundation for sustainability. Telkomsel has underlined its commitment to such practices by formulating a set of CSR priorities under the "Indonesia Sehat dan Santun" (Healthy and Helpful Indonesia) program.

In 2006, Telkomsel worked with local education authorities and foundations to support the rehabilitation of 60 primary schools, upgrading sanitation facilities and playgrounds and providing school supplies and computers. Telkomsel also provided surgery free of charge for 200 children to correct cleft lips/cleft palates, and channeled funds to orphans and social welfare organizations.

Given Indonesia's inherent vulnerability to natural disasters, each year Telkomsel allocates funds for emergency relief and reconstruction in affected areas. When a huge earthquake caused severe damage in Yogyakarta and much of the surrounding area on 27 May 2006, we immediately sent food, medicines, tents and other supplies. We also rapidly organized, in cooperation with Telkom Group and the Indonesian Red Cross, an SMS donation scheme as well as discounts on SMS tariffs between Telkomsel customers from Yogyakarta and Solo. Telkomsel channeled more than Rp 15 billion into disaster management initiatives in 2006, including more than Rp 1 billion towards the development of a tsunami early warning system.





# MANAGEMENT DISCUSSION AND ANALYSIS

#### INTRODUCTION

In 2006, Telkomsel again recorded strong growth in customer base and revenue. We ended the year with 35.60 million customers, or an additional 11.33 million new customers. This represents 47% growth compared to the customer base at year-end 2005, or a 42% growth in netadds. Gross revenues grew 34% to Rp 34.90 trillion, while Minutes of Use (MoU) increased 73% to 18.2 billion minutes. All this can be attributed to a successful execution of the right strategies.

Having covered all subdistricts in Java and Bali in 2005, Telkomsel continued in 2006 deploying our network infrastructures to subdistrict level in other parts of Indonesia in order to take advantage of the potential growth from outside Java. By end of 2006, all subdistricts in Sumatra had been covered. Total 6,162 BTS (including 942 3G NodeB) have been rolled out during 2006, which brought the total number of BTS on-air to 16,057 BTS. This strategy clearly worked. Approximately 34% of customer base growth in 2006 originated in Sumatera (increase from 30% in 2005) and more than 20% was from Kalimantan and East Indonesia. Telkomsel also scaled up efforts to enhance network quality and improve capacity. As a result, even when we adjusted our on-net/off-peak tariff for our prepaid product simPATI and per-second charging for Kartu As, the network was able to accommodate the increased traffic without compromising quality. These tariff adjustments have been followed by an increase in MoU, which helped to slow down the decline in ARPU.

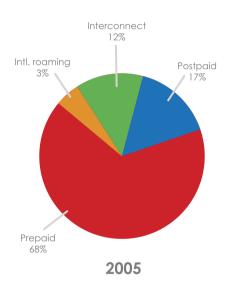
## **FINANCIAL RESULTS**

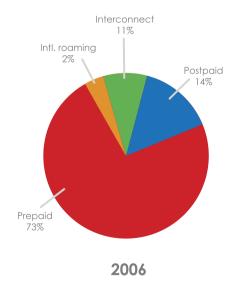
#### **Operating Revenues**

Telkomsel was able to sustain strong operating revenue growth in 2006. This was attributable to strong customer base growth and higher MoU as a result of the lower onnet/off-peak tariff structures and the new per second tariff of Kartu As.

In 2006, gross operating revenues grew 34% year-on-year (YoY) to Rp 34.90 trillion, while net operating revenues increased 38% YoY to Rp 29.15 trillion. The growth in operating revenues was largely driven by prepaid

## **Gross Operating Revenues**





products, which contributed 90% of total gross revenue growth. Prepaid revenues accounted for 73% of total gross revenues.

- Although postpaid ARPU declined, Gross Postpaid revenues increased 8% to Rp 4.89 trillion due to the 13% growth in the postpaid customer base.
- Gross Prepaid revenues rose by 45% to Rp 25.55 trillion on the back of 49% prepaid customer growth.
- Gross International roaming revenues decreased slightly (3%) to Rp 0.82 trillion due to a decline in revenue from foreign visitor roamers.
- Gross Interconnection revenues grew 19% to Rp 3.64 trillion, which was derived mainly from interconnection with Telkom (72%).
- Discounts/commissions increased 17% to Rp 2.43 trillion, which was in line with sales and customer base growth and the expansion of bonus programs on starter packs and recharges.
- Interconnection/International roaming/Data provider charges increased 15% to Rp 3.32 trillion mainly because of an increase in interconnect payments, which accounted for 75% of these charges.

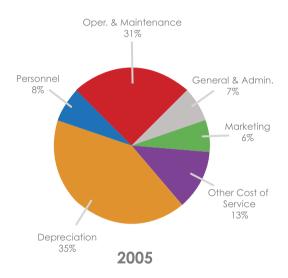
Non-voice/data revenues (gross) increased 39% to Rp 8.28 trillion, which was even stronger than total gross revenues growth. As a result, in 2006 non-voice/data revenues contributed 24% of gross revenues compared to 22% of gross revenues in 2005. Although this was still largely dominated by SMS revenues, revenues from mobile data services indicated steady growth particularly on content download and ring-back tones.

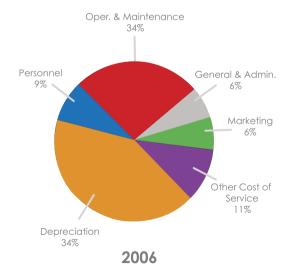
## **Operating Expenses**

Operating Expenses (including depreciation) increased 46% YoY to Rp. 12.84 trillion in 2006, which was mainly as a result of aggressive network development that caused a significant growth in depreciation expenses and operation & maintenance expenses.

 Personnel expenses grew 65% YoY to Rp 1.17 trillion. This was due to salary adjustment (as part of a company retention program, which included a competitive remuneration package) and 6% growth in the number of employees.

## **Operating Expenses**





Operation & maintenance expenses rose 59% to Rp 4.37 trillion, which was due mainly to network infrastructure growth (the number of BTS increased by 62% and overall network capacity increased by 48%), which affected transmission costs, frequency fees and repair & maintenance costs for the network equipment.

in billion rupiah	2005	2006	Growth (%)
Transmission	1,117	1,918	72%
Frequency & License Fee Amortization	529	730	38%
Repair & Maintenance	739	1,131	53%
Others	357	588	65%
Total O & M	2,742	4,367	59%

- General & administration expenses increased 15% YoY to Rp 0.71 trillion, which was still in line with the business growth. Most of this increase came from rental and travel & transportation expenses.
- Marketing & selling expenses grew 44% YoY to Rp 0.71 trillion, which was mainly attributable to higher advertising and sales support costs.
- Other cost of services consists of cost of cards, concession fees, account receivable collection costs and provision for bad debt, all of which increase in line with sales/customer base growth. In 2006 this figure increased 24% to Rp 1.45 trillion, which was largely the result of higher concession and USO fees. The growth in cost of cards was not as significant in 2006 as in previous years, reflecting the increasing percentage of electronic refill transactions at relatively little cost.

in billion rupiah	2005	2006	Growth (%)
Cost of cards	459	512	12%
Bad Debt	171	127	-26%
Concession & USO fees	357	494	38%
Others	178	315	77%
Other cost of services	1,165	1,448	24%

 Depreciation expenses increased 45% to Rp 4.43 trillion due to network infrastructure growth (BTS grew by 62%, while overall network capacity expanded by 48%).

## Other Income/(Expenses)

Other Income/(Expenses) increased from net expenses of Rp 15 billion to net expenses of Rp 143 billion, due largely to:

- higher interest expenses from new loan facilities secured in 2006 (amounting to Rp 3.5 trillion);
- other charges from tax expenses (resulting from a tax audit) and loss on assets disposal.

Both expenses eliminated foreign exchange gain recorded in 2006.

in billion rupiah	2005	2006	Growth (%)
Interest Income	150	146	-3%
Financing charges	(133)	(231)	74%
Forex gain/ (losses)	(88)	121	238%
Others - Net	56	(179)	-420%
Other inc./ (exp)	(15)	(143)	853%

#### **EBITDA** and Net Income

Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) reached Rp 20.74 trillion in 2006, a 35% increase over the 2005 figure. The EBITDA margin over gross revenues was stable at 59%, although the EBITDA margin over net revenues fell from 73% to 71%. Net Income increased by 29% to Rp 11.18 trillion. The net income margin over net revenues for 2006 was 38%, down from 41% in 2005. The lower EBITDA margin (net) and net income margin were the result of higher operational expense growth as a result of aggressive network development program to cover all sub-districts in Indonesia, which led to a significant growth in both depreciation expenses and operation & maintenance expenses.

#### **Balance Sheet**

As a result of the growth of investment and business activities, Telkomsel's total assets increased 45% to Rp 37.30 trillion. Total liabilities increased 78% to Rp 14.23 trillion. Total equity, meanwhile, increased 30% to Rp 23.07 trillion.

- Current assets increased 30% to Rp 3.97 trillion mainly on the strength of an increase in cash balance, accounts receivable, prepaid rental for network sites and claim for tax refunds.
- Property, plant and equipment rose 44% to Rp 31.71 trillion as a result of significant growth in network infrastructure (the 62% growth in BTS and a 48% expansion in overall network capacity).
- Current liabilities grew 62% to Rp 10.59 trillion, largely because of an increase in accounts payable & accrued liabilities, as well as part of the Rp 3.5 trillion in new loan facilities signed in 2006.
- Non-current liabilities more than doubled (149%) to Rp 3.64 trillion as a result of the new loan facilities and an increase in deferred tax liabilities.

#### **OPERATIONAL RESULT**

#### **Customer Base**

Telkomsel's customer base showed even stronger growth in 2006 than in the previous year. We added 11.33 million new customers in 2006, 42% higher than the net addition in 2005. This represented approximately 70% of total market growth. At the end of 2006, Telkomsel's customer base had reached 35.60 million customers, a 47% increase compared to the previous year.

As Indonesian mobile cellular market is a prepaid market, almost all Telkomsel's growth (98%) was derived from prepaid products. Telkomsel added 11.14 million prepaid customers in 2006, 42% higher than our net-adds in 2005. Of this prepaid customer growth, 5.37 million originated from simPATI while 5.76 million came from Kartu As. At the end of December 2006, the total number of prepaid subscribers reached 33.93 million (representing 49% growth), consisting of 21.38 million simPATI and 12.56 million Kartu As customers. Telkomsel's postpaid kartuHALO subscribers grew by a respectable 191K customers to 1.66 million, which was 13% higher than the customer base at the end of 2005.

Telkomsel's strategy of expanding coverage to the subdistrict level has been successful in mining potential demand. Having reached all subdistricts in Java and Bali in 2005, we were able to bring coverage to all subdistricts in Sumatera by the end of 2006 and will continue to roll

out coverage to other areas in 2007. Proof of the success of this strategy is that in 2006, most of our customer base growth came from outside Java: 34% from Sumatera and 20% from Kalimantan and East Indonesia.

#### **ARPU**

During the last few years, most mobile cellular industry growth has come from the lower end of the market. ARPU, therefore, has tended to decline. However, Telkomsel has been able to manage its ARPU decline with on-net/offpeak tariffs for *simPATI* and a per-second tariff for Kartu As. Along with strong network quality and improved capacity, this tariff strategy has succeeded in increasing traffic: MoU increased 73% to 18.2 billion minutes while MoU per customer increased from 40 minutes in 2005 to 50 minutes in 2006. The result has been a slowdown in the ARPU decline: in 2005, blended ARPU dropped 15% YoY, but in 2006 it was only 3% lower than the 2005 figure.

ARPU generated by postpaid subscribers decreased 6% YoY from Rp 291K to Rp 274K. For simPATI, ARPU contracted by just 1% to Rp 83K, while for Kartu As, ARPU actually grew 20% YoY from Rp 45K to Rp 54K. A key factor here was the new per-second charging introduced in April 2006. Blended ARPU declined 3% from Rp 87K to Rp 84K.

#### **CAPITAL EXPENDITURES AND CASH FLOWS**

In 2006, Telkomsel added Rp 12.37 trillion (USD 1.35 billion) to fixed assets for network infrastructure and other investment. Cash spending on capex during 2006 was Rp 13.15 trillion (USD 1.44 billion). These expenditures were mostly used for Telkomsel's program of coverage expansion to subdistrict level, capacity expansion and quality enhancement. A total of 6,162 new BTS were installed (including 942 NodeB for 3G) in 2006, along with an additional 12.6 million subscriber capacity.

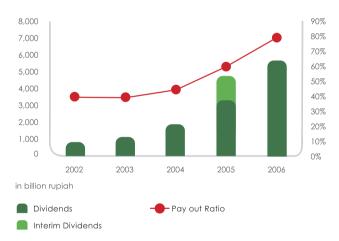
Capital Expenditures were mostly financed by cash flow from operations. Telkomsel's net cash flow from operating activities was Rp 16.33 trillion and free cash flow was Rp 3.19 trillion. At the end of 2006, Telkomsel's cash & cash equivalent balance stood at Rp.2.08 trillion.

in billions of rupiah & in	2005 2006				Growth
millions of US dollars	Rp	Rp	US\$ <sup>(1)</sup>	(%)	
CAPEX Cash Spending New contracts issued	8,506	13,149	1,438	55%	
during the period Total open commitments	11,647	16,496	1,805	42%	
end of period Free Cash Flow (2)	5,876 <b>4,386</b>	9,117 <b>3,186</b>	997 <b>349</b>	55% <b>-27%</b>	

(1)US\$ = Rp. 9,141 (average end of months Jan-Dec 2006 mid-rate, quoted from Bank Indonesia)

In 2006, Telkomsel declared dividends of Rp 7.35 trillion (85% of 2005's net income), of which Rp 1.5 trillion was paid out in December 2005 as an interim dividend. The remainder was paid in 3Q06.

#### DIVIDENDS



## LOAN/DEBT

In December 2002, Telkomsel signed two export credit facility (ECA) agreements . Both facilities were fully drawn down by the end of 2004 and the remaining installments are due semi-annually until 2008.

Telkomsel signed a Rp 1.5 trillion medium term loan facilities agreement in 1Q06 and an additional Rp 2 trillion short and medium term loan facility agreement in 3Q06 from local banks. These loan facilities have been fully drawn.

The medium term loan facilities are repayable on a semi annual basis until 2009 and the remaining installments of the short term loan facility shall be repaid by June 2007.

At the end of December 2006, the balances of all the facilities were as follows:

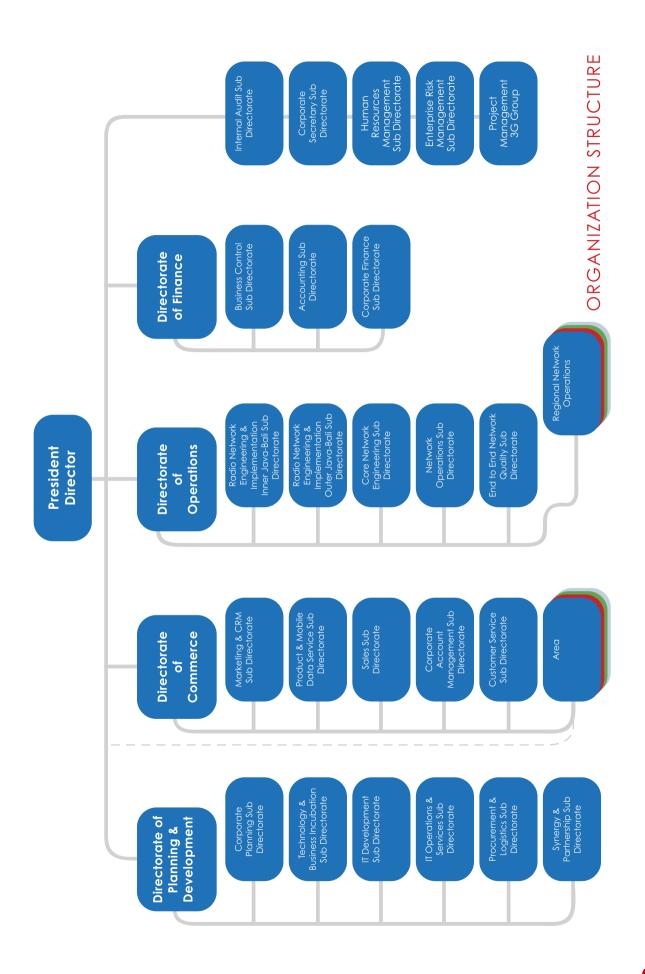
	Outstanding	Interest	Repayment
ECA 1 ECA 2	Euro 22.0 mln US\$ 25.17 mln	appr. 4.48%* 4.02%	2007-2008 2007-2008
Local Banks *floating rate	Rp 3.2 trln	11.0 - 11.25%*	2007-2009

	Amount	In Use	Deferred repayment
L/C Facility	US\$ 20 mln	Rp 120 bln equivalent to US\$ 13.3mln	-

Telkomsel has to observe certain agreed financial covenants related to its loan/debt. As at the end of 2006 these covenants were as follows:

	Outstanding	Interest	Repayment
ECA Facilities	Debt to equity ratio Debt service	€2	0.16
	coverage ratio Permitted	>1.25	6.45
	indebtedness	≼Rp.41.45 trln	Rp.3.65trln
	EBITDA to debt service Debt to tangible	≽1.25	19.78
	net worth	≤2.00	0.16

<sup>&</sup>lt;sup>(2)</sup>Cash flow from operations less cash flow for capex



# CORPORATE DATA

## MANAGEMENT PROFILE

#### **BOARD OF COMMISSIONERS**

#### Mochammad Hasjim Thojib President Commissioner

Mr. Thojib graduated with a degree in Accounting from the Institute of Finance, Jakarta. He was Finance Director of PT TASPEN between1996-2002, Finance Director of PT INDOSAT between 1999-2000, and Head of Corporate Planning of PT TELKOM between 2003-2005.

#### Triwahyusari Commissioner

Ms. Triwahyusari is the Vice President of Accounting of PT Telkom and has been working in the company for more than 20 years. She graduated from the University of Airlangga.

#### Woeryanto Soeradji Commissioner

Mr. Soeradji graduated with a degree in Electronic Engineering from Bandung Institute of Technology and obtained his MBA from the Institute of Indonesian Management Development. He was Director of Commerce of PT Telkomsel between 2001-2003, Corporate Secretary of PT TELKOM between 2003-2004 and Director of Human Resource and Support Business of PT TELKOM between 2004-2005.

#### Lim Chuan Poh Commissioner

Mr. Lim joined SingTel in October 1998. He was appointed CEO International in October 2006. Besides overseeing the performances of SingTel's current overseas assets, he is responsible for driving the Group's regional mobile initiatives and supporting the growth objectives of SingTel's business groups through strategic investments. Previously, he held the position of Executive Vice President for Corporate Business, Consumer Business and Strategic Investments. He is also the Chairman of Bridge Mobile Alliance, Asia Pacific's largest mobile alliance group. Mr. Lim holds a Bachelor of Engineering Science (Honours) from Balliol College, University of Oxford, UK and a Master in Public Health Engineering from Imperial College of Science and Technology, University of London.

## Thomas Yeo Eng Choon Commissioner

Thomas Yeo was appointed Vice President of Consumer Sales of Singapore Telecom in April 2006. He is responsible for the sales of all SingTel consumer products, including

postpaid and prepaid mobile. Previously, he held the position of Vice President of Consumer Marketing, responsible for the integrated marketing function of SingTel's consumer group which includes product marketing, marketing communications, campaign, segment and event marketing. Mr Yeo has also held the position of Vice President of Corporate Business Marketing where he was in charge of developing and setting strategic direction in SingTel's global marketing efforts. Prior to that, Mr Yeo headed SingTel Yellow Pages as its Chief Executive Officer from 1995 to 2000.

#### **BOARD OF DIRECTORS**

#### Kiskenda Suriahardja President Director

As President Director and Chief Executive Officer, Mr. Suriahardja is responsible for Telkomsel's overall management. He has previously served as the Director of the Jakarta regional office of PT Telkom. Mr. Suriahardja has a degree in telecommunications engineering from Bandung Institute of Technology and obtained his MBA from the Prasetya Mulia Management Institute and has over 20 years of experience in the telecommunications industry.

#### Jusuf Kurnia Director of Finance

As Director of Finance and Chief Financial Officer, Mr. Kurnia is responsible for the overall financial management of Telkomsel. He was previously the chief PT Telkom's activity based costing project. He has a degree in economics from the University of Tanjungpura and has over 20 years experience in the telecommunications industry.

## **Bambang Riadhy Oemar** Director of Planning and Development

Mr. Oemar is Director of Planning and Development of PT Telkomsel. He has over 20 years experience in the telecommunications industry and graduated with a degree in telecommunications engineering from Bandung Institute of Technology. He previously served as the President Director of PT Indo Nusa Telemedia.

## Yuen Kuan Moon Director of Commerce

As Director of Commerce, Mr. Yuen is responsible for all Marketing, Sales, Product and Customer Service activities

of Telkomsel. Mr. Yuen has more than 14 years experience in Telecommunications. He graduated with first class honors degree in engineering from The University of Western Australia. He also holds a Master of Science degree in Management from Stanford University in California, USA (Sloan program). He was previously the Vice President of Sales and Product of PT Telkomsel.

#### Alan Ho Director of Operations

Mr. Alan Ho is Director of Operations of PT Telkomsel and in charge for Network Design and Operational Management. He holds an MBA from University of Southern California and Master of Engineering & Bachelor of Engineering (First Class) from University of Singapore. Since joining SingTel in 1979, he has assumed a variety of positions and had been assigned to other SingTel international affiliates (Yorkshire Cable Group and Shinawatra Datacom). He has also spent several years in Ericsson Telecommunications as Vice President in Singapore and Philippines.





Board of Commissioners: (top right to bottom) Mochammad Hasjim Thojib Triwahyusari Woeryanto Soeradji Lim Chuan Poh Thomas Yeo Eng Choon

Board of Directors: (top middle to left bottom) Kiskenda Suriahardja Jusuf Kurnia Bambang Riadhy Oemar Yuen Kuan Moon Alan Ho













# BRIDGE MOBILE ALLIANCE







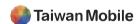














Telkomsel is an active shareholder member of Bridge Mobile Alliance, Asia Pacific's largest mobile operator partnership. In October 2006, Telkomsel successfully hosted the Regional Members' Forum in Bali. During this occasion, Bridge Mobile Alliance welcomed CTM as the ninth operator member, joining a network of top mobile operators across the region with a combined subscriber base of 100 million. Bridge Mobile Alliance also enjoys the backing of global technology powerhouses such as Axalto, Gemplus, Ericsson, HP, Logica CNG, Motorola, Nokia, Qualcomm, Siemens and ZTE as Associate Members.

Originally established to encourage closer collaboration and leverage collective capabilities across the mobile value chain, Bridge Mobile Alliance now delivers added value and perks to customers roaming on alliance member's networks across Asia, providing a seamless

experience across borders. Features currently include exclusive offers on 3G video calls and Blackberry roaming, a one-stop mobile travel portal, "Bridge ConciergeGo", and the "Roam in Asia and Be Rewarded" program, with instant gifts and attractive prizes for top roamers.

In 2006, Telkomsel in collaboration with Bridge Mobile Alliance, launched its first Regional Mobile Content Service with Mobile ESPN across seven markets in the Asia Pacific region. The service will be offered by seven Bridge Mobile Alliance member operators: Airtel (India), CSL (Hong Kong), Globe Telecom (Philippines), Maxis (Malaysia), SingTel Mobile (Singapore), Taiwan Mobile (Taiwan) and Telkomsel (Indonesia). The Mobile ESPN sports content service is the first of a suite of regional mobile content services to be offered by the Alliance as part of its regional mobile service strategy.





Telkomsel's shareholders are PT Telekomunikasi Indonesia Tbk ("Telkom") and Singapore Telecom Mobile Pte Ltd ("Singtel Mobile").

Telkom, which owns 65% of Telkomsel's issued share capital, is the largest full-service telecommunications operator in Indonesia. Telkom is listed on the Jakarta Stock Exchange ("JSX":TLKM), the New York Stock Exchange ("NYSE":TLK) and the London Stock Exchange ("LSE":TKIA) and is majority owned by the Government of Indonesia.

SingTel Mobile owns 35% of Telkomsel's issued share capital and is a wholly owned subsidiary of Singapore Telecommunications Limited ("SingTel"). SingTel is one of Asia's leading telecommunications service operators. SingTel is listed on the Singapore Exchange ("SGX":ST) and the Australian Stock Exchange Limited ("ASX":SGT). SingTel is ultimately majority-owned by the Government of Singapore.

#### **COMPANY'S ADDRESS**

## PT Telekomunikasi Selular (Telkomsel)

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