



« **How**
we stay in
our customers'
hearts...

2008
Annual Report



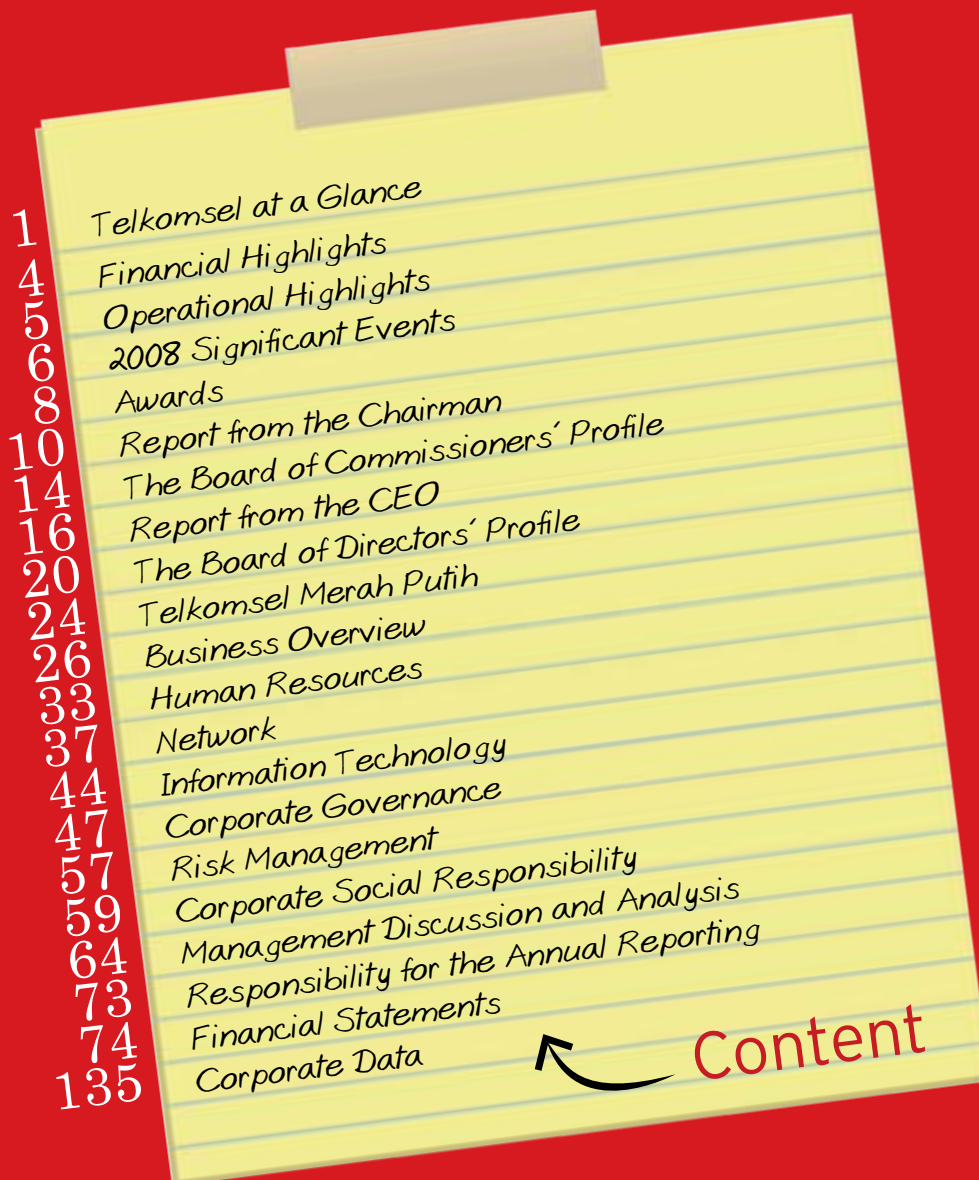
...by
maximizing
our competitive
excellence in
innovation and
technology.

Our Vision

The best mobile lifestyle provider in the region.

Our Mission

Deliver mobile lifestyle-services & solution in excellent way that exceed customer expectation, create value for all stakeholders, and the economic development of the nation.



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2008 was another remarkable year for Telkomsel with a record of 17.4 million new customers, the highest ever net add to our customer base. Despite the fierce competition, the Company succeeded in maintaining its market share as the leader, serving 65.3 million subscribers or 47% of all full-mobility users in the country, under very dynamic market conditions. At the same time, the year was also marked by the launch of the new interconnection tariffs by the Regulator, which lowered mobile interconnection tariffs by as much as 19% to 55%. This was expected to make cellular communications a real driver for the economy by making it more affordable for everyone. An astute pricing strategy, however, allowed the Company to maintain its revenue growth at a manageable 1.4%. The 257% growth in minutes of usage (MOU) to 90.2 billion minutes proved this proactive pricing policy. It was sufficient to offset the sharp 70% decline in effective revenue per minute (RPM) due to the tariff adjustment.

The sharp growth in MOU was, of course, as a result of our systematic network deployment. During 2008, another 6,014 new BTS were put into service to bring the total up to 26,872 BTS (a 29% increase), enough to cater to our growth.

Another highlight was the launch of the Telkomsel Merah Putih (TMP) our initiative to penetrate isolated and rural areas. This was another breakthrough in terms of creating new markets in what is already a mature and competitive environment. During the past year, more than 100 new TMP sites were deployed, dedicated to the commemoration of Indonesia's 100 years of national awakening.

All of this progress reflects our commitment to strengthening the Telkomsel network as a key element of our competition strategy. A solid network base, built on strong business fundamentals, is an absolute requirement in winning the long-term competition.

In 2008, we booked net operating revenue of Rp37.20 trillion, up from Rp36.67 trillion in 2007, or 1.4% year on year. The revenue growth booked last year, despite tough competition, reflected our strong business fundamentals, which in turn resulted from the right network deployment and business strategies. We hope this spirit of success and growth will continue in the coming years.

Of the total Rp37.20 trillion in net revenue, prepaid business (*simPATI* and Kartu As) was still the dominant contributor at 86%, followed by postpaid and others.

The fierce competition in the industry and the global economic downturn challenged us to focus on more than just the growth strategy. Instead, as mentioned, we strengthened our business fundamentals through massive network deployment and broader-based customer acquisition. This did result, however, in a more moderate EBITDA margin. The EBITDA margin was 65% in 2008, a slight adjustment from 70% in 2007. We believe this was essentially an adjustment to the industry's new market equilibrium.

Significant progress was made during the year in marketing and sales results. We booked a net growth in our customer base of 36% compared to the prior year. This was attributable to the net add of our prepaid subscribers amounting to 17.4 million,



and an incremental add of 27,000 postpaid subscribers. Again, we ascribe this to the period of adjustment as the market found a new equilibrium, with a more competitive and transparent environment.

Nevertheless, we acquired 39% of the industry net add during the year and maintained our leadership with a market share at 47% of the industry. This strong customer base, along with the biggest share of the market for eleven consecutive years, puts Telkomsel in an excellent position to compete with confidence.

Financial Highlights

(in billion Rupiah)

BALANCE SHEETS

	2008	2007	2006	2005	2004
Current Assets	4,257	5,059	3,971	3,048	3,859
Property, Plan and Equipment - Net	46,359	38,251	31,706	21,993	14,967
Other Assets	1,315	1,367	1,624	706	723
Total Assets	51,931	44,677	37,301	25,747	19,549
Current Liabilities	17,761	12,403	10,588	6,545	3,306
Other/Long-term Liabilities	7,137	6,082	3,640	1,462	2,365
Stockholders' Equity	27,033	26,192	23,073	17,740	13,878
Total Liabilities & Stockholders' Equity	51,931	44,677	37,301	25,747	19,549

INCOME STATEMENTS

Operating Revenues ¹⁾	37,199	36,671	29,145	21,133	14,765
Operating Expenses (Incl Depreciation)	20,401	16,792	12,836	8,772	6,744
EBITDA	24,062	25,604	20,737	15,408	10,672
EBIT	16,798	19,879	16,309	12,361	8,021
Net Income	11,422	13,624	11,182	8,647	5,473

CASH FLOWS²⁾

Cash Flow From Operations ³⁾	18,780	20,660	16,339	12,915	8,920
Cash Flow For Investing Activities	(12,333)	(13,180)	(13,149)	(8,461)	(5,477)
Cash Flow From Financing Activities ⁴⁾	2,142	3,349	2,678	(936)	(341)
Dividends	(10,210)	(10,137)	(5,645)	(4,616)	(1,840)
Net Cash In/Out Flows	(1,621)	692	224	(1,098)	1,262
Cash and Cash Equivalents at Beginning of Year	2,776	2,084	1,861	2,959	1,697
Cash and Cash Equivalents at End of Year	1,155	2,776	2,084	1,861	2,959

FINANCIAL RATIOS

EBITDA Margin ¹⁾	65%	70%	71%	73%	72%
Net Income Margin ²⁾	31%	37%	38%	41%	37%
Return On Assets ³⁾	24%	33%	35%	38%	31%
Return On Equity ⁴⁾	43%	55%	55%	55%	45%
Debt to Equity Ratio ⁵⁾	0.35	0.27	0.16	0.06	0.14

¹⁾ Net of interconnection charges

²⁾ 2004, 2005, 2006, 2007 balances have been reclassified to conform with 2008 presentation

³⁾ Include effect on exchange rate changes on cash & cash equivalents

⁴⁾ Exclude dividends

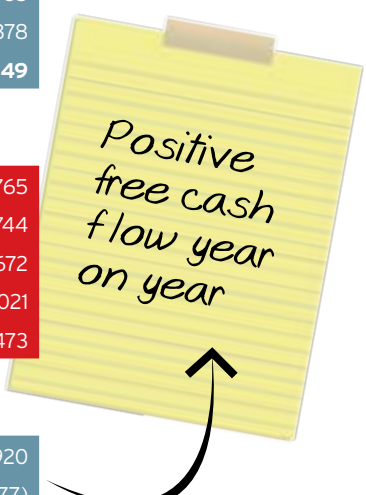
¹⁾ EBITDA: Operating Revenues

²⁾ Net Income: Operating Revenues

³⁾ Net Income: Average Total Assets

⁴⁾ Net Income: Average Equity

⁵⁾ Total Outstanding Debt: Total Equity



Positive
free cash
flow year
on year

Operational Highlights

2008 2007 2006 2005 2004

CUSTOMER BASE - in thousand

Customer Base	2008	2007	2006	2005	2004
Postpaid <i>kartuHALO</i>	1,940	1,913	1,662	1,471	1,328
Prepaid <i>simPATI</i>	43,033	23,986	21,378	16,004	11,558
Prepaid Kartu As	20,327	21,991	12,557	6,794	3,405
Total	65,300	47,890	35,597	24,269	16,291

Net Additions

Postpaid <i>kartuHALO</i>	27	251	191	143	321
Prepaid <i>simPATI</i>	19,047	2,608	5,374	4,447	2,976
Prepaid Kartu As	(1,664)	9,434	5,763	3,389	3,405
Total	17,410	12,293	11,328	7,979	6,702

MOU - in billion minutes

Minutes of Usage	90.2	25.2	18.2	10.5	6.0
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ARPU - in thousand rupiah

Total ARPU¹⁾					
Postpaid <i>kartuHALO</i>	216	264	274	291	304
Prepaid <i>simPATI</i>	63	84	83	84	84
Prepaid Kartu As	37	57	54	45	48
Blended	59	80	84	87	102
Non-voice ARPU					
Postpaid <i>kartuHALO</i>	40	49	47	47	41
Prepaid <i>simPATI</i>	16	25	24	25	23
Prepaid Kartu As	18	23	18	15	17
Blended	17	25	23	24	24
Effective ARPU ²⁾	55	77	81	87	95

NETWORK DATA

BTS/Capacity					
Base Station	26,872	20,858	16,057	9,895	6,205
Overall Network Capacity (in million subscribers)	67.3	50.5	38.8	26.2	17.9
Quality of Service					
Call success rate	93.61%	94.24%	94.43%	94.32%	95.19%
Call completion rate	98.73%	99.20%	99.42%	99.30%	99.26%

EMPLOYEE DATA

Total Employees	4,129	4,080	3,797	3,566	3,331
Efficiency Ratio (subscribers/employee)	15,815	11,738	9,375	6,806	4,891

¹⁾ 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) for each month by the respective average number of postpaid or prepaid subscriber for that month.

²⁾ Effective ARPU is calculated from booked net operating revenues (included discount) divided by the average number of subscribers (number of subscribers at the beginning of the year added with number of subscribers at the end of the year divided by 2) and then divided by 12.



2008 Significant Events



February

Telkomsel - Trusted Operator (Jakarta).

Telkomsel reached 50 million customers, consolidating its position as a trusted cellular operator in Indonesia.



April

13 Years of Telkomsel Serving Indonesia.

Commemorating 13 years of service to Indonesia on 26 May 2008, Telkomsel gave thanks to God for the trust placed in the Company by more than 50 million customers throughout the country. Telkomsel is committed to never-ending improvement of its service to customers. Telkomsel launched 13th Years Anniversary logo celebrating their 13 years serving Indonesia.



May

Prepaid Push Email Launch (Jakarta).

Launch of Prepaid BlackBerry®, the first prepaid BlackBerry® Internet Service (BIS) in Asia, in cooperation with Research In Motion (RIM).



September

simPATI Kangen for Indonesian Workers (Macau). *simPATI Kangen* is a prepaid cellular communication solution dedicated to Indonesian workers working abroad. Since its launch in Macau, *simPATI Kangen* has netted 100,000 users.

T-Remittance for Indonesian Workers (Hongkong).

Commemorating 100 years of National Awakening, Telkomsel launched *T-Remittance*, an innovation that allows Indonesian overseas workers to transfer money from abroad through their cellular phones.

October

Country Border Network (Papua & Timor). Telkomsel deployed country border networks in remote areas along the borders with Papua New Guinea and Timor Leste. The three locations were Sota Wasur District (12 kilometers from Merauke), Senggi (east of Jayapura), and Motamasin in East Nusa Tenggara (bordering Covalina in the Republic of Timor Leste).

December

The first in Asia - Telkomsel Hydro Fuel Cell (Medan). Telkomsel became the first in Asia to deploy an eco-friendly power supply system, installed at a site in Medan. We believe this could be an appropriate future energy solution for Indonesia.

Awards



AWARDS	ISSUED BY	DATE
Top Brand Award 2008: Outstanding Achievement for <i>kartuHALO</i>	Marketing Magazine & Frontier Consulting Group	Feb-2008
Top Brand Award 2008: Outstanding Achievement for <i>simPATI</i>	Marketing Magazine & Frontier Consulting Group	Feb-2008
Most Wanted Company 2007	Warta Ekonomi Magazine	Feb-2008
Call Center Award 2008 for Caroline Telkomsel	Marketing Magazine & CCSL (Center for Customer Satisfaction and Loyalty)	Mar-2008
Indonesia Golden Ring Award 2008 : Best Value Added Service for M-Komik	Wartawan Telekomunikasi	Mar-2008
The 5th Annual Selular Award: The Best Brand for Overall Operator Category	Selular Magazine & MARS	Apr-2008
The 5th Annual Selular Award: The Best Brand for GSM Operator Category	Selular Magazine & MARS	Apr-2008
The 5th Annual Selular Award: Trusted Brand for GSM Prepaid Category (<i>simPATI</i>)	Selular Magazine & MARS	Apr-2008
The 5th Annual Selular Award: Trusted Brand for GSM Postpaid Category (<i>kartuHALO</i>)	Selular Magazine & MARS	Apr-2008
The 5th Annual Selular Award: The Best Brand for GSM Postpaid (<i>kartuHALO</i>)	Selular Magazine & MARS	Apr-2008
Forsel Awards 2007: Telkomsel as Favourite GSM Operator	Forsel Magazine	May-2008
Forsel Awards 2007: <i>simPATI</i> as Favourite GSM Product	Forsel Magazine	May-2008
Gadget Awards 2007: Telkomsel as Best of The Best Operator	Gadget Magazine	May-2008
Gadget Awards 2007: Telkomsel as Best Innovative Customer Service	Gadget Magazine	May-2008



Gadget Awards 2007: Telkomsel as Best Coverage GSM Provider	Gadget Magazine	May-2008
Mobile Operator of the Year-Indonesia	Charlton Media Group	Jun-2008
Service Quality Award 2008 for GraPARI Telkomsel	Carre-CCSL (Center for Customer Satisfaction & Loyalty) and Marketing Magazines - Jakarta	Jun-2008
President of Republic Indonesia : Penghargaan Warga Utama	Badan Narkotika Nasional (National Narcotics Board)	Jun-2008
Indonesia Best Brand Award (IBBA) 2008 for <i>kartuHALO</i> as The Most Valuable Brand in Indonesia for Postpaid GSM Cellular Provider	SWA Sembada Magazine & MARS	Aug-2008
Indonesia Best Brand Award (IBBA) 2008 for <i>simPATI</i> as The Most Valuable Brand in Indonesia for Prepaid GSM Cellular Provider	SWA Sembada Magazine & MARS	Aug-2008
Diamond ICSA Award 2008: <i>kartuHALO</i> for Postpaid SIM Card Category	SWA Sembada Magazine & Frontier Consulting Group	Sep-2008
Diamond ICSA Award 2008: <i>simPATI</i> for Prepaid SIM Card Category	SWA Sembada Magazine & Frontier Consulting Group	Sep-2008
Appreciation for Telkomsel as Organizer for "Mudik Bareng Lebaran 2008"	Indonesian National Police - Metro Jaya	Sep-2008
Indonesia Telecoms Awards 2008 : Mobile Data Service Provider of The Year	Frost & Sullivan	Nov-2008

Report from the Chairman

On behalf of the Board of Commissioners, I am delighted to report our accomplishments for the 2008 financial year, and how we are continuing to advance our growth strategy.

During the year, we generated satisfactory operational results and continued to advance our strategy, notwithstanding the intense competition, a changing industry, and the regulatory environment. We remain the leader among our national incumbent cellular communication company peers in terms of earnings growth, investing in core and new wave business, and returning cash to shareholders through progressive dividends. I would like to thank our Board of Directors and all Telkomsel's people for their efforts and unwavering support for our achievements in 2008.

Looking back over the last five years, our strategy for building shareholder value has delivered CAGR of 22% in total assets, 41% in dividends, and 32% in customer base. These are the strong business fundamentals required to win the competition.

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Rinaldi Firmansyah, President Commissioner

MAINTAINING OUR GROWTH STRATEGY

The leading position of Telkomsel has undoubtedly been driven by four key success factors: broad network coverage, innovative products and services, strong financial performance, and an effective organization and human resources. Furthermore, we are committed to maintaining this leading position, as the following evidence shows:

- Deployment of 26,872 new BTS (29% year on year growth), as part of our Rp15.37 trillion investment program in 2008.
- Strengthening our innovative “T-Cash” product with a business license for micro-payment and remittance granted by Bank Indonesia. This is further proof of our trendsetting role in the digital economy era.
- Successfully maintaining our market share through our 2008 net addition of 17.41 million customers, representing growth of 42% compared to 2007 net addition.
- A solid organization and human resources that have delivered remarkable operational and financial performance. We maintained our EBITDA at Rp24.06 trillion, with a margin of 65%, and booked cash flow from operating activities of Rp18.78 billion.

I am convinced that capitalizing on this leading position is the key to building the sustainability of the company as the best mobile lifestyle provider in the region.



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2009, YEAR OF A NEW EQUILIBRIUM

I would prefer to view the past year, 2008, as a period of adjustment in the cellular industry; a preparation phase before reaching a new equilibrium in 2009 and beyond. In 2008 this was marked clearly by the introduction of the new interconnect regime by the government, and the market response to the existence of new players in the industry.

I would like to take this opportunity to convince our stakeholders that the fundamentals of Telkomsel are very strong compared to others in the

industry. Fundamentally, we remain the strongest and most profitable telecommunications company in Indonesia, and the most prepared to face the financial crisis. With the support of our stakeholders, to all of whom we owe a great debt of gratitude, Telkomsel is poised for continued success in the years to come.

Having established a truly broad, nationwide service network, we have the capacity to defend and grow the market share of our basic mobile cellular services. This places Telkomsel solidly on a new growth curve, which will extend our long-term sustainability even further.



Rinaldi Firmansyah
President Commissioner



The Board of Commissioners' Profile

RINALDI FIRMANSYAH, PRESIDENT COMMISSIONER

Mr. Rinaldi Firmansyah (49), graduated with a degree in Electrical Engineering from the Bandung Institute of Technology in 1985, and was awarded his MBA from the Indonesian Institute of Management Development (IPMI) Jakarta in 1988. He is also a Chartered Financial Analyst (CFA), having qualified at AIMR, Charlottesville, USA in 1998. Appointed as President Commissioner of Telkomsel in March 2006, he serves concurrently a President Director and CEO of PT. Telekomunikasi Indonesia, Tbk. (TELKOM). Prior to his appointment to this top position, he was TELKOM's Chief Financial Officer (2004-2007), Head of the Audit Committee and a Commissioner of PT Semen Padang (2003), and Director of Investment Banking, President Director, and Vice President Commissioner of PT Bahana Securities (1997-2003). He was named as Best CFO by *Asia Money* (2004) and third-ranked Best CEO by *Warta Ekonomi* (2007), and was awarded the Satya Lencana Pembangunan medal by the President of the Republic of Indonesia (2007). He also led TELKOM to *Finance Asia's* Best Managed Companies title in 2006.



LIM CHUAN POH, COMMISSIONER

Mr. Lim Chuan Poh (53), holds a Bachelor degree in Engineering Science (Honours) from Balliol College, University of Oxford, UK and a Master degree in Public Health Engineering from Imperial College of Science and Technology, University of London. After joining SingTel in October 1998, he was appointed as CEO International in October 2006, overseeing the performance of SingTel's overseas assets, which include AIS (Thailand), Airtel (India), Globe (Philippines), Telkomsel (Indonesia), PBT (Bangladesh) and Warid (Pakistan). Mr. Lim is also responsible for driving the Group's regional mobile initiatives and supporting the growth objectives of SingTel's business groups through strategic investments. Previously, Mr. Lim held the position of Executive Vice President for various key business groups in SingTel, including Consumer Business, Corporate Business and Strategic Investments. He currently sits on the boards of several companies, including SingTel's regional mobile associates, Telkomsel (Indonesia) and Warid Telecom (Pakistan). Mr. Lim is also the Chairman of Bridge Alliance, Asia Pacific's largest mobile alliance group.

NG KWON KEE, COMMISSIONER

Mr. Ng Kwon Kee (57), graduated from Brighton Polytechnic, UK, with a Bachelor degree in Electrical & Electronics Engineering (Honours). He was appointed Commissioner of Telkomsel in 2008. He also currently holds the position of Vice President (Regional-Technical) in SingTel, and sits on the board of Warid (Pakistan). He was previously Program Director and Director of the Broadband Connect Consortium in Optus, a wholly owned subsidiary of SingTel. In 2004, he was Director of Operations in Telkomsel, in charge of Network Design and Operational Management. Prior to 2003, he was the Senior Director (Network Integration & Interconnect) in Network Services in SingTel. In this role, he had overall responsibility for managing network interconnections and access, including the negotiation of interconnection agreements. He was also involved in the network integration with Optus and reviewed and streamlined the business process in the Network Group.

LOSO JUDIJANTO, COMMISSIONER

Mr. Loso Judijanto (37), holds Master's degrees in Statistics from the University of New South Wales, Sydney, Australia and in Management Accountancy from University of Indonesia. He is currently Special Adviser to the Minister of State-Owned Enterprises of the Republic of Indonesia. Previously, he served as Special Adviser to the Minister of Information and Communications Technology of the Republic of Indonesia (2005-2007), Corporate Governance Consultant (2000-2005), on the Staff of the Ministry of State-Owned Enterprises (1998-2000), and as a Public Policy Researcher at the Center for Policy and Implementation Studies (1995-1996).

ARIEF YAHYA, COMMISSIONER

Mr. Arief Yahya (47), graduated from the Bandung Institute of Technology (ITB) with a degree in Electrical Engineering and holds a Master's degree in Telecommunications Engineering from the University of Surrey, UK. Appointed as Commissioner of Telkomsel in 2006, he has also been TELKOM's Director of Enterprise & Wholesale since June 2005. He joined TELKOM in 1986 and has held several senior management positions in the company: Head of Regional Division V - East Java (2004-2005) and Head of Regional Division VI - Kalimantan (2003-2004), where he was awarded The Best Head of Regional Division. Mr. Yahya was awarded the Satya Lencana Pembangunan medal by the President of the Republic of Indonesia (2006) and cited as a Business Future Leader by *SWA Magazine* (2006).

Report from the CEO

First of all, on behalf Telkomsel's Board of Directors, I would like to extend my gratitude to our shareholders for their trust and support over the operating year of 2008. I would also like to thank Telkomsel's employees for their smart work and achievements, and most of all, to our customers and all parties related for their loyalty and trust.

We are pleased to report that the year 2008 was a remarkable year for us in terms of opportunity, challenges, and progress. Despite dealing with a difficult year, we have maintained strong business fundamentals through a successful enlargement of our customer base, a massive expansion in network deployment, and continuing progress in new wave business development.

The past year was a difficult one for business, with the global macroeconomic downturn affecting the market and prompting a decline in purchasing power. In the cellular industry, competition was intense and the new interconnect regime launched in April lowered mobile termination and originating rates. These new, lower rates prolonged the fierce on-net promotional season and led to a decline in our effective revenue per minute (RPM) of around 70% compared to 2007. This was the main challenge we had to deal with over the past year.

However, under the sharp decline of RPM, we managed to grow our revenue positively, booking Rp37.20 trillion for FY08 compared to Rp36.67 trillion in FY07, representing growth of 1.4%. EBITDA stood at Rp24.06 trillion, a slight decrease of 6% compared to FY07. We booked a net income of Rp11.42 trillion or 31% net income margin.

Our customer base grew 36% for the whole year to 65.30 million, consolidating our leading position in the industry, with a 47% market share.



Sarwoto Atmosutarno, President Director

BROADER AFFORDABILITY, STRENGTHEN CUSTOMER BASE

The addition of 17.41 million new customers—an exceptional result in a very competitive market—was brought about by our new pricing strategy, put in place in response to the aforementioned challenge. Our customer base grew 36% for the whole year to 65.30 million, consolidating our leading position in the industry, with a 47% market share.

The key success was our new pricing strategy which actually driven by fierce competition among operators. Admittedly, there was strong pressure on our effective rate per minute on the one hand, but an opportunity to embrace a wider segment of customers on the other. This is what we called a broader affordability.

The new pricing strategy also brought an extremely sharp increase in minutes of usage (MOU), which was up 257% to 90.2 billion minutes of traffic flowing through our network. We believe that such a customer base and usage pattern are a valuable endowment for our business fundamentals in the face of fierce competition.

For instance, the continued promotion of *simPATI* PeDe was one of the instruments we designed. Aiming to offer a more affordable service to a wider segment of the market, we introduced lower tariffs for both on-net and off-net, with a new basic tariff for *simPATI*. As mentioned earlier, the impact was exceptional sales results with a net add of more than 19 million, and a decline in our RPM from Rp980 in FY07 to Rp290 in FY08 (-70%). Despite this aggressive price-cutting promotional competition in 2008, we believe a new equilibrium will be reached in FY09.

AGAIN: ABOUT COVERAGE

Whilst creating greater access to our products through affordability, we were also concerned about geographical access, and continued our efforts to expand coverage. In 2008, we installed another 6,014 new BTS, 25% higher than the FY07 total of new BTS, which were distributed geographically either to enhance our service or to increase coverage.

Our Telkomsel Merah Putih initiative represented another committed effort to reach more communities over a wider area. Through this initiative, we saw an opportunity to create new markets instead of catering to existing markets. The launch (and sustained delivery) of our service in PELNI's (Pelayaran Nasional Indonesia: a national shipping line) maritime transportation network and Desa Santosa in West Java was remarkably successful. In short, we have taken a substantial step towards preparing a strong business foundation for the next competition. We have both a strong customer base and network coverage in hand.

THE NEW WAVE INITIATIVE, THE FUTURE BUSINESS

The past year was also marked by progress on our new wave initiative. We continued to expand our 3G coverage with the installation of 1,278 3G BTS out of a total 6,014 new BTS installed during FY08. At the same time, we continued to do intensive promotion of the service. As a new product in its introductory phase, the year's results showed 3G's potential for our new wave initiative in the future.

Another positive development is the potential shown by our T-Cash product. With a license granted by Bank Indonesia to facilitate transactions through our cellular network,

The keywords for the business in the future are affordability, availability and reliability. Telkomsel will continue to meet the customers' needs through its products and services, which will exemplify those keywords.

we see a promising future for T-Cash. Another regional operator, also a member of the BRIDGE Network, plans to introduce the same service soon. Operationally, we had more than 3,000 merchants at the end of FY08, marking significant progress for the implementation of this new wave business.

As a lifestyle service provider, we cannot overlook the content business. Therefore, during the past year we continued to develop and promote our mobile data services. The growth trend for this aspect of the business looks very promising.

With continued improvement in the development of T-Cash, Telkomsel-Flash (HSPDA), mobile data and video streaming, we aim to fulfill our mission to deliver excellent mobile lifestyle services and solutions that exceed customer expectations and create value for all stakeholders.

READINESS FOR THE COMPETITION

The challenges in the year to come will be highly complex. The industry is in the early stages of an unprecedented explosion in connectivity due to the new paradigm. Price-driven promotional strategies are still very much to the fore. At the same time, we have to take into consideration the lower economic growth trend. Against this backdrop, a combination of the right strategy, smart work, and focused targeting is required.

The keywords for the business in future are affordability, availability and reliability. Telkomsel will continue to meet the customers' needs through its products and services, which will exemplify those keywords.

With regard to affordability, we will continue to employ a dynamic pricing policy alongside network expansion. We believe, in terms of the price war, that the market will enter a new equilibrium that will be more sustainable for the industry.

In order to cope with availability, we are consistently enlarging our network coverage while maintaining its quality. Continual innovation and new business development will be another focus in 2009.



Sarwoto Atmosutarno
President Director

BOARD OF DIRECTORS EFFECTIVE ON JANUARY 29, 2009



The Board of Directors' Profile

**SARWOTO ATMOSUTARNO, PRESIDENT DIRECTOR**

Mr. Sarwoto Atmosutarno (51) earned a degree in Economics from the University of Airlangga in 1985 and obtained his Master of Business Engineer in Telecommunications from the Ecole Nationale Supérieure Des Telecommunications de Bretagne, France in 1995. Mr. Sarwoto held various roles in TELKOM as Head of Infratel Division (2007), Head of Long Distance Division (2004) and Vice President of Tariff and Interconnection (2001). He was awarded Satya Lencana Wirakarya medal by the President of the Republic of Indonesia (2000). As President Director and Chief Executive Officer of PT Telekomunikasi Selular (Telkomsel), he is responsible for Telkomsel's overall management.



TRIAHYUSARI, DIRECTOR OF FINANCE

Ms. Triwahyusari (52), graduated from the University of Airlangga with a degree in Accounting. Appointed as Director of Finance and Chief Financial Officer of Telkomsel in 2007, she is responsible for the overall financial management of Telkomsel. Ms. Triwahyusari was previously a member of Telkomsel's Board of Commissioners (2003-2007) and Vice President of Accounting of TELKOM.



DAVID NG, DIRECTOR OF OPERATIONS

Mr. David Ng (49), graduated with Second Class Honours in Engineering from the National University of Singapore. He was appointed as Director of Operations of Telkomsel in charge for Network Design and Operational Management in 2007. Previously, he was Director of the Consumer Products Group of SingTel. He joined SingTel in 1984 and has been exposed to a variety of functions during his assignment with this company in mobile, fixed-line and broadband businesses.



LEONG SHIN LOONG, DIRECTOR OF COMMERCE

Mr. Leong Shin Loong (54), graduated with degrees in engineering from Northwestern University and Rensselaer Polytechnic Institute, USA and completed the Advanced Management Programme at Harvard Business School in 1999. As Director of Commerce, Mr. Leong Shin Loong is responsible for all Marketing, Sales, Products and Customer Service activities of Telkomsel. Before assuming this role, Mr. Shin Loong was a member of Telkomsel's Board of Commissioners (2007-2008) and SingTel's Vice President of Project Quantz, in charge for the implementation of a high digital access network in Singapore to deliver breakthrough services to homes and offices. Prior to that, he spent two years with Advanced Info Services in Thailand and three years with Telkomsel in Indonesia (2001-2004) as Director of Planning & Development (2001-2002) and Director of Commerce (2003-2004).

Note: Mr. Leong Shin Loong replaced Mr. Richard Tan effective September 2008



HERFINI HARYONO, DIRECTOR OF PLANNING AND DEVELOPMENT

Ms. Herfini Haryono (42), graduated with a Diplom-Ingenieur degree in Electrical Engineering from Technical University of Braunschweig, Germany. Before being appointed as the Director of Planning and Development, she was the Vice President of Business Control (2007-2009) and the Vice President of Radio Access Engineering and Implementation (2004-2006) in Telkomsel. She also held various positions in other companies, among them was the Senior Manager of Radio Network Planning and Engineering in StarHub Singapore (1999-2004) and System Engineering Manager in PT Motorola Indonesia (1994-1997).

BOARD OF DIRECTORS AS OF DECEMBER 31, 2008**The Board of Directors**

The above BOD formation was changed based on a unanimous resolution of the stockholders on January 29, 2009, to appoint Mr. Sarwoto Atmosutarno and Ms. Herfini Haryono as the new President Director and the new Director of Planning and Development, respectively, effective since such date.



1. KISKENDA SURIAHARDJA, **PRESIDENT DIRECTOR**
2. TRIWAHYUSARI, **DIRECTOR OF FINANCE**
3. SYARIF SYARIAL AHMAD, **DIRECTOR OF PLANNING AND DEVELOPMENT**
4. LEONG SHIN LOONG, **DIRECTOR OF COMMERCE**
5. DAVID NG, **DIRECTOR OF OPERATIONS**



Telkomsel

Great potential on the new frontier

The Unification of Nusantara—the Archipelago—was the obsession of a great hero of the Majapahit era, Prime Minister Gadjah Mada. Though the year was 1336, or 672 years ago, his spirit of nationalism is still relevant today. Telkomsel is conveying this spirit through the vehicle of telecommunications.

In June 2008, which marked 100 years of national awakening, Telkomsel launched Telkomsel Merah Putih (TMP) which stands for Telkomsel **ME**nembus dae**RAH** Pedesaan, ind**U**stri **Ter**pencll dan ba**H**ari, a coverage expansion program dedicated to providing service coverage in previously isolated regions. TMP was inspired by the need to connect 38,500 isolated villages (as of mid-2008 data) throughout the country in an affordable and sustainable way, with cellular communication systems. Delivering a system that was affordable and sustainable was the main challenge faced by the sector's Universal Service Obligation (USO) program. Ultimately, Telkomsel provided the breakthrough: Telkomsel Merah Putih, a USO-like program dedicated to serving remote villages (include along national borders, tourist areas and resorts), remotely located industrial nodes (offshore, forestry concessions, or hilltops), and marine transportation systems.

THE RIGHT TECHNOLOGY FOR REMOTE AREAS

Hard-to-reach areas require a compact system that is cost-effective, as well as simple to install, operate and maintain. Relying on the conventional system of self-supported towers, conventional BTS, and commercial power systems can be difficult. To address this we developed the "Remote Solution System", an IP (Internet Protocol)-based GSM technology. The systems comprises IP-VSAT technology and Pico-BTS (Base Transceiver Stations) with power supplied by solar cells or APB (Automatic Power Backup) where commercial power is available. This compact system serves around 150 individual cellular customers, and two FWTs (fixed wireless telephones) dedicated as attended payphones for public service. Another feature offered by this concept is its fast deployment, with an installation time of just 2 hours compared to 2-3 months for a conventional system. The system currently supports telephony and short message services, with a future upgrade option for data communications.



*"As long as I do not
unify Nusantara, I will
not taste any spice.
Before I conquer
Gurun, Seram,
Tanjungpura, Haru,
Pahang, Dempo, Bali,
Sunda, Palembang,
Tumasik, I will never
taste any spice."*

(Sumpah Palapa - the famous oath
of Gadjah Mada, 1336).

All together,
for Merah Putih,
for the country



Merah Putih

DEDICATED TO THE NATION

It began with a desire to connect people in remote areas as a part of our social responsibility and commitment to being a good corporate citizen. More than 38,500 villages had not been reached by any telephone system. The drive to extend coverage to these locations was not just motivated by social and economic concerns; for reasons of national defense and security, as well as politics, it was increasingly important to cover the country's 1.9 million sq-km territory. In April 2008, we extended our footprint to Miangas Island, bordering the territory of the Philippines. This was followed by Desa Balabalakan (Ambo Island, located 8 km from Balikpapan), Kecamatan Wonreli (on Maluku's Kisar Island, 38 km from Timor Leste), and Desa Sentosa (on Mount Malabar in West Java).

The flexible "Remote Solution System" concept deployed for the program by our team also allowed us to deliver cellular communication systems to vessels in transit. KM Labobar of PELNI was the first vessel to incorporate the system, for the convenience of its passengers on voyages from Sabang to Merauke.

In total, the TMP program brought around 100 sites into Telkomsel's GSM Network during 2008. Another 5,000 nodes are scheduled in our implementation plan for 2009.

GREAT POTENTIAL ON THE NEW FRONTIER

The program was launched, people were connected, and it yielded a positive response. Since the initial launch, the growth in traffic has been promising. Communications technology has intensified people's desire to share information, and demand for connectivity continues to grow at a rapid pace. The traffic generated by the TMP program exceeded projections, and we believe this growth will continue as more nodes are integrated in future.

In the TMP program, Telkomsel introduces AMPU (Average Margin Per Unit) concept to measure the profitability and feasibility of each project.

TMP is positioning us on the new frontier. We believe it has enormous potential for the future, not just for Telkomsel but for nation's development and sovereignty, and for people's quality of life and values.



Business Overview

After thirteen years of operation with tremendous growth, Telkomsel is now positioned as a trendsetter in mobile communication lifestyles, with brand that is immediately identified with mobility and innovation.

Strong revenue growth from Rp2.80 trillion (2000) to Rp37.2 trillion (2008) reflects Telkomsel's position in the Indonesian cellular market. Over the same period, the total number of subscribers increased from 1.7 million (2000) to 65.3 million (2008). With the largest cellular network coverage in Indonesia, reaching over 95% of Indonesia's population, Telkomsel is the only operator in Indonesia that covers all the country's provinces and regencies, and all districts ("kecamatan") in Sumatra, Java, Bali and Nusa Tenggara.

Industry Background

During the past year, the Indonesian telecom industry came up against three events that could not be avoided: one was the fierce competition, second was the new national interconnection regime, and the third was the global economic crisis.

Innovative
products for
innovative
people



Competition had been intensifying since the second half of 2007 and reached a peak in 2008, when tariffs dropped sharply. As a consequence, however, minutes of use (MOU) increased dramatically. This year was also characterized by a shift in the customer behavior paradigm away from heavy SMS (text) usage to call (voice) usage.

The second major event was the introduction of the new interconnection structure, which came into effect on 1st of April, 2008. The mobile interconnection tariffs for local and long distance calls were reduced by varying amounts from 19% - 55% and the price war was intensified by a similar free-fall in on-net prices.

The global economic downturn in 2008, triggered by the financial crisis in the US, impacted the business sector in Indonesia hard, as reflected in the 77% drop in the Jakarta Composite Stock Price Index. In the infrastructure sector, it declined 49% yoy. Consumer purchasing power was inevitably affected, which in turn suppressed the revenue growth of telecom operators.

In conclusion, we believe that the industry experienced a drop in revenue per minute, on average, of 50% to 70%. There are two perspectives on the new interconnection regime. We can view it as a new challenge for revenue; alternatively, we could embrace it as a new driver for minutes of usage.

Our Telephony Services

Telkomsel tried to respond the market situation positively. Instead of treating the situation as an obstacle, we set out a simple strategy to deal with the crisis: build strong business fundamentals to drive a new equilibrium. For Telkomsel, strong business fundamentals mean a robust and loyal customer base, served by a reliable network, and being prepared for new business drivers. The keys are, we believe, being innovative in marketing and massive in network and system deployment.

On the front lines, *simPATI* continued to be the main engine of growth. With 19.0 million net additions (equivalent to 630% growth year on year), *simPATI* maintained its place as the most robust brand in the market. Its total customer base by the end of 2008 was 43.0 million, or 66% of the total Telkomsel customer base, while CAGR (2004-2008) was approximately 39%.

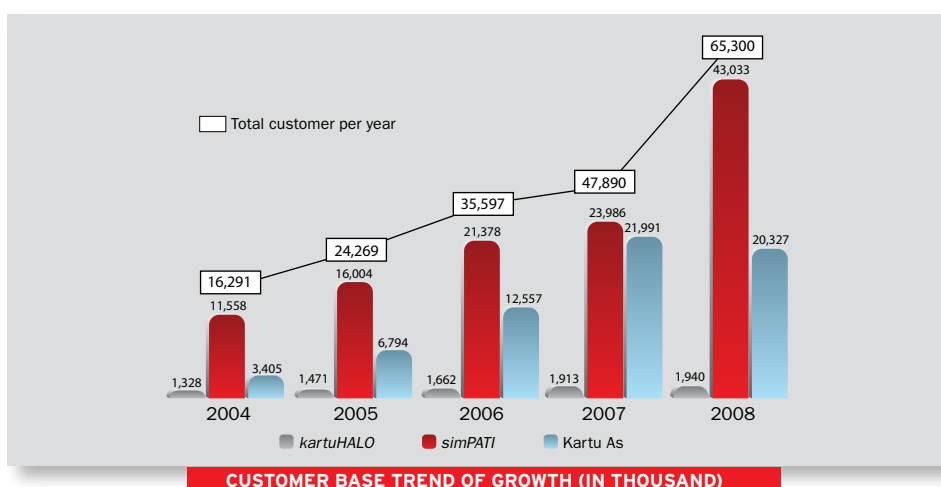
The tremendous growth of *simPATI* in last year's frenzied market was attributable to its strong brand and appropriate marketing strategy, implemented largely through an effective pricing policy.

Thanks to the effectiveness of our pricing policy, the drop in tariff per minute was offset by phenomenal growth in minutes of usage. MOU grew 257% year on year, from 25.2 billion minutes (2007) to 90.2 billion minutes (2008). *simPATI* MOU was the main contributor, growing almost fourfold compared to last year. This trade off was sufficient to

preclude any negative revenue growth; on the contrary, we booked a positive 1.4% growth from Rp36.67 trillion in 2007 to Rp37.20 trillion in 2008.

It is important to note that the strategy included the brand packaging of *simPATI* PeDe and *simPATI* Talkmania, which were continually extended and varied throughout the past year.

Kartu As, Telkomsel's other prepaid product, experienced a negative customer base growth of 8%. However we believe much of this decline was attributable to customers migrating from Kartu As to *simPATI* PeDe due to the attractive benefits offered by the latter. Strategically, this was a period of consolidation of our new strategy and product positioning. Among the promotional programs launched during the past year were "Kartu As Fress" (equipped with mobile advertising service), "1 Get 1", "SMS Asik & Nelpon Sip", Hai Sobat Kartu As (Kartu As School Community program) and Forever Kartu As, dedicated to Kartu As customers. The most attractive offer for Kartu As customers was the low basic tariff for SMS, i.e. Rp88 per SMS for on-net, and Rp149 for off-net.



kartuHALO, our postpaid product, is one of our brand image guards in the market, and we place a high value on the loyalty of our distinguished postpaid customers. To reward and reinforce their loyalty we offered a range of promotional programs throughout the year, such as "Talk 5 Minutes for 3 Minutes Cost" and "Telkomsel Flash Unlimited" (broadband wireless service).

Value Added Services

Communication is not merely telephony, or voice communications. Advancements in cellular technology are driving a new communication lifestyle, particularly in non-voice—that is, text, data and video—features. These are termed, technically, value added services.



Telkomsel maintained its position as market leader in terms of creating and launching innovative products and services. Among them were our BlackBerry® Internet Service and Telkomsel Flash, which received a phenomenal response upon their launch. Telkomsel Flash is a broadband wireless internet access service based on HSDPA technology. Launched in April 2007, it is available to both prepaid and postpaid customers. Telkomsel Flash has positioned Telkomsel strategically as the leading wireless broadband internet service provider in the market.

As of December 2008, our 3G service was available in more than 150 cities throughout Indonesia. The number of Flash subscribers has already surpassed 200,000, indicating very promising growth.

Telkomsel BlackBerry® is our wireless email solution, comprising push-mail technology that enables corporate customers to receive email automatically.

At its first launching, 2007, the BlackBerry® mobile internet service was available only to postpaid customers and corporate customers; 98 customers subscribed. However, Telkomsel's breakthroughs in innovation brought BlackBerry® Prepaid, the first such service in Southeast Asia, onto the Indonesian market in May 2008. Activation via SMS was launched at the same time, marking a worldwide first. Within a month of its launch, BlackBerry® Prepaid had netted a total of 9,400 subscribers. By end of December 2008, BlackBerry® subscriptions had reached 35,000 customers.

Digital Business

Growing fast on the back of the advanced digital technology being incorporated into cellular communication systems, the digital economy offers ease and flexibility in almost every aspect of our lives.



Telkomsel has positioned itself as a mobile lifestyle company, harnessing the power of modern networks and technology to help our customers communicate anywhere, anytime, seamlessly. Growing our digital business was therefore one of our priorities in 2008.

We focused mainly on two products: mobile banking and digital wallet. Mobile banking grew consistently, maintaining the trend of previous years, while the digital service emerged with considerable growth potential.

Mobile Banking

Upon its launch a few years ago, mobile banking showed signs of sharp growth. Last year, our mobile banking product showed convincing revenue growth, doubling in just 12 months. This was attributable to Telkomsel's aggressive effort to build cooperation with 40 banks. The service is dominated by Plain SMS (42%), single banking (33%) and IVR (21%).

Digital Wallet: T-Cash

Telkomsel's digital wallet service allows customers to use their handsets to pay for purchases at selected merchants. Launched in November 2007 under the brand name T-Cash, it currently offers a range of features: Cash in/out, Purchasing, Payment, Remittance, Check Balance, Change PIN, Top-Up Pulsa, Check Last Transaction, and Reset PIN.

Like its predecessor in the digital business, mobile banking, T-Cash showed pleasing growth prospects over the past year, growing from 979 users in January 2008 to 101,000 users at the end of December 2008, equivalent to 52% monthly compound growth.

The infrastructure shows a similar growth trend. From 173 terminals/outlets in January 2008, T-Cash could be used at a total of 3,217 terminals by December 2008, equivalent to 30% monthly compound growth.

The sharp growth of T-Cash was attributable to our aggressive marketing effort combined with the tangible benefits of this useful product.



"String up the strategy to get closer to the customers by giving more choices and make it more affordable for the customers."

» PROMOTIONS



Corporate Account Management

Innovation is the keyword to success for any corporation, any business. Driven by this belief, we have continued to deliver innovative solutions to our business customers. Our Corporate Business Solutions (CBS) offer our business customers anytime and anywhere connectivity through mobile virtual private networks (MVPN), BlackBerry® push-email, and broadband access via Telkomsel Flash. CAM also emphasizes customized and personalized services to fulfill corporate customers' needs in order to enhance their business process by making it more effective and efficient.

With a clear focus on superior products and service, we achieved an increase of 15% on our corporate customer base and contributed Rp.1.2 trillion in revenue. The focus was maintained through our two-way communication strategy with our corporate customers: users, CEOs and decision makers. In the spirit of this strategy, we conducted a series of Business Seminars and Sales Exhibitions in Surabaya (April), Balikpapan (April), Pekanbaru (May) and Jakarta (June), which were attended by a total 1,667 corporate customers. We also invited the CEOs of our corporate customers to visit Singapore in September 2008 for the F1 Night Race event.

Between April and June 2008 we held the "Corporate Golf Series 2008", a golf tournament for our corporate customers. The 10 regional champions were invited to the CAM Golf Final - Champion of Champions 2008 in November 2008.





Human Resources

- Preparing our Human Capital for the New Wave Era

A modern and massive network resource needs extraordinary human resources to manage it. Talented, professional people, working in sync in a solid and smart organization, are an absolute necessity. Recognizing the need for strategic human and organizational development, Telkomsel gives top priority to human resource management. To win in this highly competitive field, Telkomsel requires a human resource management model that meets the demands of managing a huge customer base, a vast network, and a wide-ranging product portfolio.

In the competitive environment that characterizes the new wave era, employers need to be innovative. Recognizing this, Telkomsel has redefined its concept of the human resources as human capital. This concept embodies a strengthening of the corporate culture to deal a dynamic market, designing a learning organization, and establishing harmony in employer-employee relationships. Preparing our human capital for the new wave era was a central theme in 2008.

Talented and professional human capital in a solid and smart organization: Resources in Harmony



CORPORATE CULTURE

In 2008 we continued the gradual internalization of our corporate values that guide each member of the organization towards expected standards of behavior. These basic values include teamwork, professionalism, customer knowledge and integrity. By embracing these core values we are strengthening the corporate culture.

Embedding the values of teamwork and professionalism will lead to excellence and outstanding performance in everything we do, including the delivery of products and services to customers, our interaction with stakeholders and with society, and our delivery on promises to our people. Strengthening customer knowledge and integrity will guide our people to be responsible, honest, open, transparent and fair in all our dealings with our stakeholders and amongst our colleagues.

The internalization of those values into our corporate culture helps to build collective corporate responsibility. This holds our people together in a shared sense of purpose and direction, reinforcing understanding of behaviors that are acceptable and those that are not.

The corporate responsibility mandate is an essential part of our brand, and Telkomsel's management is committed to ensure that all aspects are embedded in what our people do and the way they act. Once the values are internalized, they begin to shape the culture; as an organization united by a common culture, built on a foundation of shared values, we can pursue our strategies in a competitive environment with greater confidence.

To add to the values above, we now have a new value, synergy. At the TELKOM Group's 2008 HR Summit, the Group made a commitment to "Strengthen Synergy through Culture Transformation". A number of key deliverables were formulated during the meeting, such as systems and procedures for career management, sharing resources for recruitment, rewards and performance management with regard to synergy, corporate social responsibility (CSR) and the talent management development system.

The Summit also proposed the building of a common culture for the Group, in order to strengthen the business interaction and synergy within the Group, which will better equip each unit within the group to address the competitive pressures in their respective sectors. The common culture is defined as the sharing of values across the members of the group.

ORGANIZATION DESIGN AND STRUCTURE

A modern organization is a living entity. It is dynamic, growing and evolving, but remaining true to its foundations. A competitive business environment, characterized by rapid development of technology, requires a smart and adaptive learning organization. Recognizing this need, Telkomsel undertook a redesign of the operation division and the commerce division, in order to redefine the appropriate organizational and governance model. We started by examining various potential organizational structures for the




regional branches and for the governance model between headquarters and regions. This enabled the joint team to develop a new governance model, quantify the potential cost savings, define the necessary organizational changes and design and plan the implementation for 2009.

The efforts include job classification, personnel development plan, and process efficiency. Job classification eases the recruitment process, as well as personnel development for career planning for the employee. Process efficiency then introduced to all line managers in order to improve the organizational design and structure.

HR SYSTEM AND POLICY DEVELOPMENT

As a modern organization that relies on information technology, we put in place a new application of Telkomsel's Human Resource Information System. The sub-systems deployed during the year 2008 were:

- *iExpense*, mainly for the medical reimbursement of employees.
- Enhancement of the Training Module and Enrollment Training Mechanism in the HRIS.
- Alignment of the new income tax procedure with Telkomsel's payroll system.



Redesign of the operation division and the commerce division, redefine organizational and governance model

Another IT-based application we have deployed for human capital management was Telkomsel Easy, launched in 2007. In 2008, the Company improved the system implementation and mechanisms for measuring employee performance. Performance is measured on the basis of Unit Performance Targets and Individual Performance Targets, which are stated in the Contract. Each employee has defined objectives and targets set for each performance review period. The objectives are directly aligned with Telkomsel's strategy and deal with specific areas of implementation and execution. Employee performance is routinely measured against these objectives.

Telkomsel aims to be the employer of choice. The company takes care of its employees, provides extensive training for personal development, and supports the spiritual needs of every individual.

Telkomsel objectively evaluates individual performance, and considers its employees to be the human capital of the company, and in so doing protects and improves the workforce as a whole as well as individual welfare.

OTHERS

Telkomsel and Sepakat (Telkomsel's labor union) agreed a new Collective Labor Agreement (CLA) for the period 2008-2010. This articulates all the Company's employment policies and the relationship between the employees and Telkomsel as the employer. The new CLA brings with it the expectation of a mutually beneficial relationship between the company and the union that will support efficient and effective good corporate governance.

The Company continued to offer support for the spiritual welfare of our employees in the form of various programs and activities. For example, Moslem employees have the opportunity to be selected to take part in the holy pilgrimage to Mecca, courtesy of the Company. Similar opportunities are available to followers of other faiths.

Network

Telkomsel, serving more than 65.3 million subscribers, requires a premium quality network to stay in the hearts of its customers. The right approach to planning, a smart acquisition strategy, and careful project management are essential. However, today's increasingly sophisticated market calls for a paradigm shift in network management too.

The current cellular business environment in Indonesia has forced operators to review the old paradigm, in which they were able to enjoy high margins from their cellular business. The fiercer competition, a new cost-based interconnection policy, rapid changes in technology, and the economic downturn in 2008 are among the external factors that have to be taken into account. Under these circumstances, we need to secure our position as the number one quality provider by deploying the latest technology and providing adequate network dimensions. Accordingly, the objectives of our 2008 network development program were network enhancement in terms of capacity, quality, technology advancement and coverage. In order to achieve those objectives effectively, we took the following strategic steps:



- Intensifying our network capacity expansion. This was aimed at providing adequate foundations for our huge customer base and steep increase in MOU due to the drop in tariffs.
- Enhancing our data services.
- Intensifying both indoor and outdoor network optimization.
- Strengthening strategic partnerships with technology providers and business partners. These partnerships were established with the aim of offering advanced mobile technology and optimal services to our customers while keeping costs under control.

As a result of these actions, we are pleased to report that 2008 was a successful year for network provision. We now have a network with a strong base ready to cater to the future demands of customers in 2009 and beyond.

MASSIVE CAPACITY EXPANSION

Even though investment in 2008 was inhibited by the downward industry trend, we continued the massive capacity expansion of our network. This included the use of Adaptive Multi Rate (AMR) to cater the jump in voice traffic during the price war period. In total, we added 6,014 new BTS—a 25% expansion—which increased our network capacity by 33% compared to the previous year. This was sufficient to accommodate the growth in customers during 2008 with higher minutes of use and strengthened our foundations for the years to come. We enhanced our coverage so that in Java, Bali, West Nusa Tenggara, East Nusa Tenggara and Sumatra we have achieved more than 95% coverage while in the Eastern Indonesia Region (including Kalimantan), we have achieved 70%. This included our substantial effort to put in place adequate network capacity for the Idul Fitri celebration. We successfully carried more than 1 billion minutes (a 100% traffic increase compared to last year) and more than 550 million SMS (30% higher than last year) on the day of Lebaran itself.

We also expanded our coverage to shipping lines (by joining with PT PELNI), remote areas and villages across the archipelago through our Telkomsel Merah Putih program.

CONSISTENTLY OFFERING THE HIGHEST SPEEDS

During the year, demand for new telecommunications applications that run under the 3G and 3.5G technology platforms grew convincingly. We therefore continued the large-scale deployment of our 3G and HSDPA networks,





“Preparedness of Telkomsel’s personnel and systems to serve the huge seasonal upswing in traffic during Idul Fitri 1429H.”



»» **TELKOMSEL SIAGA**





completing 1,278 new 3G sites and 2,482 new HSDPA sites in 2008. At the end of 2008 we had a total of 3,218 3G nodes and 2,932 HSDPA nodes spread over 154 3G-networked cities and 150 HSDPA-networked cities.

All our HSDPA nodes are capable of delivering mobile broadband services at speeds of up to 3.6 Mbps. This broadband product, branded Telkomsel FLASH, has kept Telkomsel in the leading position in the new wave cellular business. HSDPA, together with other 3G-based services—including video calls, mobile video and mobile TV—constitute the “new wave” products that we believe will be the key drivers of Telkomsel’s growth in the future.

Preparations have also been made for NGN (Next Generation Network), ready for the massive roll-out of data backbone and broadband services. One New Wave service that is already on the market, T-Cash, or cash transactions via cellular mobile terminals, offers a glimpse of the exciting future that awaits Telkomsel’s customers.

CONTINUOUS NETWORK OPTIMIZATION

In the spirit of delivering “convenient communications” to our customers, we are committed to a high standard of network quality. Persistent improvement in network availability and reliability through network optimization is the part of our practice, as reflected in our operational indicators. We have regularly scheduled network optimization of our 2G network to ensure such standards. We will pursue the optimization of the new 3G network as well, to deliver higher data rates at all times. Our achievement has also been to combine our 2G and 3G networks into a single network with a seamless network migration toward next generation networking.

TELKOMSEL TELECOMMUNICATION CENTER (TTC)

Managing our modern network, of course, requires modern management as well. Network surveillance and management of the entire network is crucial. In order to assure our network performance, we established the Telkomsel Telecommunication Centers (TTC). A TTC is a network management center providing a full range of central network services.

At the end of December 2008, we operate 23 TTCs throughout the country to maintain our good quality service to our valuable customers.



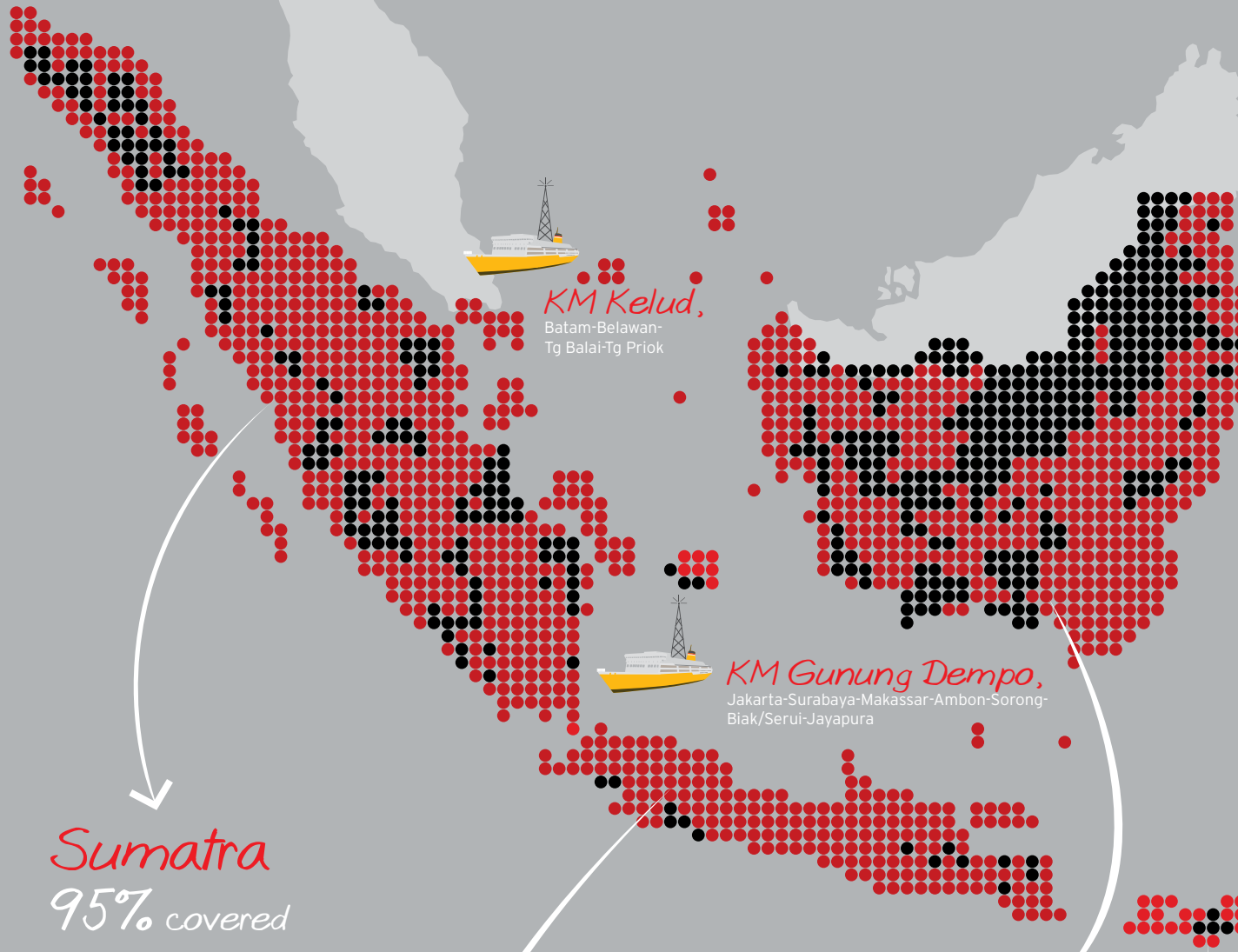
GREEN SOLUTIONS: CLEAN ENERGY INITIATIVES

Continuous improvement and never-ending innovation are among Telkomsel's corporate values, and they frame the entire spectrum of the business. Our clean energy initiative to find alternative energy for our network operation was one of our innovations for 2008, and is part of our overall eco-friendly effort. This initiative is exploring the application of solar cell, fuel cell, wind turbine, and micro-hydro power systems.

Application of the solar cell power system started as long ago as 2003 at the Pulau Tongkeng site (Kepulauan Seribu) with 10,000 VA capacity. It was rolled out to 20 sites by 2007 and 64 sites in 2008. Telkomsel is committed to deploying this clean energy system for more sites in future.

Another feature of tropical regions that has considerable potential is wind power. As part of our solid commitment to environmental responsibility, a research and field trial for a wind-turbine power system was implemented at the Taropo site in East Nusa Tenggara in 2008. We will continue to do selective and in-depth research into other initiatives, such as hydrogen fuel cells (one site in Northern Sumatra) and micro-hydro power (two sites in Southern Sumatra).

Power systems are one area where Telkomsel has made major improvements, especially in reducing reliance on air conditioning systems. For new BTS sites, Telkomsel no longer uses shelters, hence they do not require air conditioning. At existing sites, Telkomsel has changed the cooling system from air conditioning to the normal air flow within the shelter. As of the end of 2008, around 1,000 sites had been optimized in order to reduce power consumption, thereby reducing greenhouse gas emissions ("going green") as well as electricity and maintenance costs.



KM Kelud,
Batam-Belawan-
Tg Balai-Tg Priok

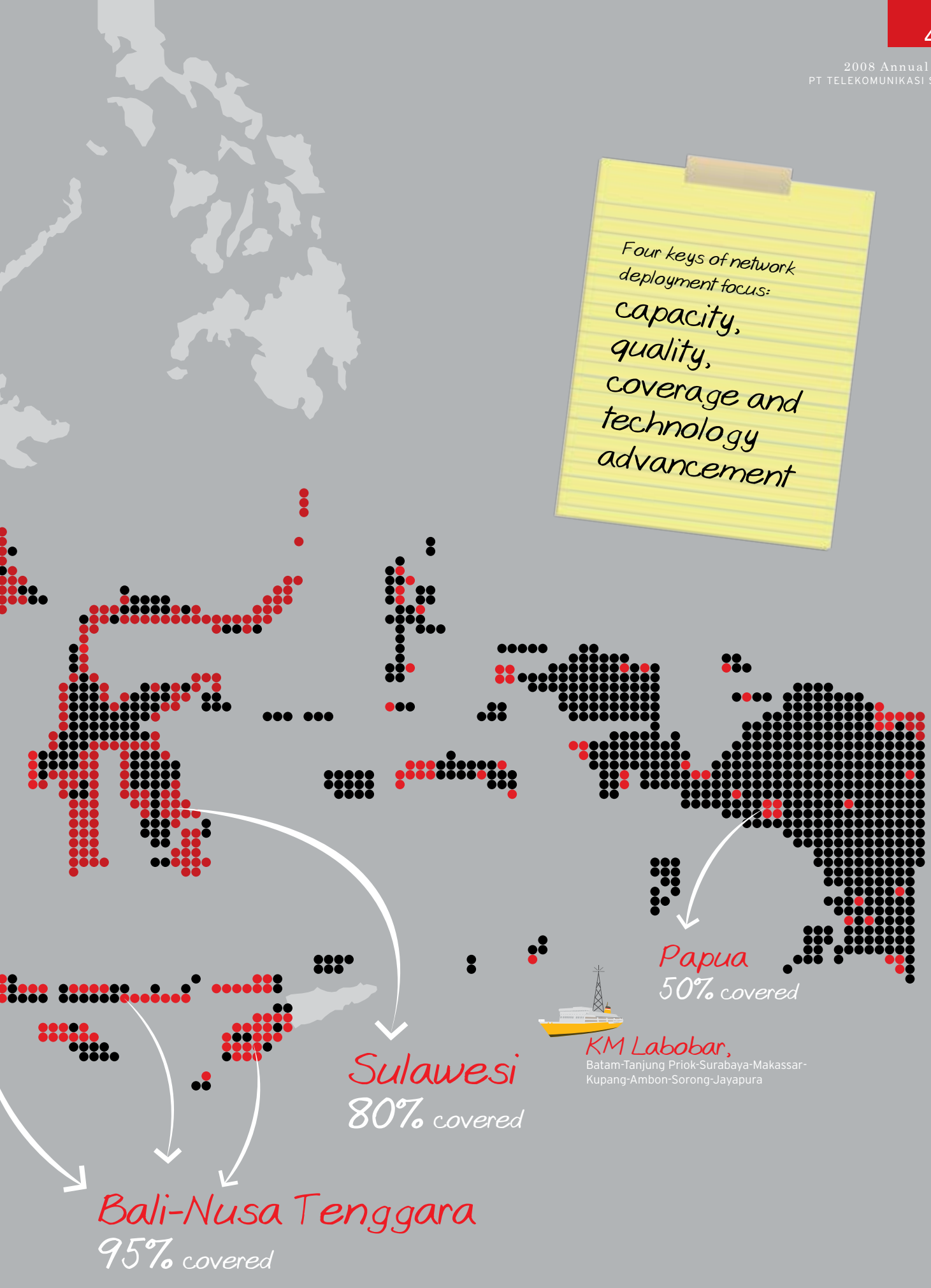
KM Gunung Dempo,
Jakarta-Surabaya-Makassar-Ambon-Sorong-
Biak/Serui-Jayapura

Sumatra
95% covered

Java
97% covered

Kalimantan
75% covered

Four keys of network deployment focus:
 capacity,
 quality,
 coverage and
 technology advancement



Note:

Covered percentage refers to populated areas.

Information Technology

In line with the Company's business strategy to increase revenue and to support business users by optimizing products and services, our IT Division marked several important achievements. These include the roll out of new products and service support such as *simPATI* PeDe Promo 13, Halobebas Promo, BlackBerry® Handheld Bold bundling, 3G handset bundling and the Video mania program. We also support the implementation of the new tariffs pursuant to the new interconnect regulation that came into effect on 1st of April, 2008.

PRODUCT DEVELOPMENT SUPPORT

Telesales on NSP (Nada Sambung Pribadi - Personalized Ring Back Tone)

One of the new service initiatives was *Telesales on NSP (Nada Sambung Pribadi - Personalized Ring Back Tone)*, which allows customer service agents to access the customer care system for NSP subscription approval at the customer's request. This program required modification of the IT System.

T-Cash Remittance Implementation

Following the launch of the T-Cash service, Telkomsel launched T-Cash Remittance. This latest feature enables Indonesians working overseas to transfer money via the T-Cash system.



Mobile Advertisement

2008 saw the development of the 1st Phase of our Mobile Advertisement Service. Embedded in our Kartu As Fress product, this service offers not only conventional voice and data, but also news and information, allowing content providers to advertise their products and services by messaging/SMS.

Mobile Broadband (Telkomsel Flash) Volume Based Bundling

We continued the development of Telkomsel Flash to provide data transfer (i.e. internet access and email exchange) for mobile customers. The IT Division supported the development of the *simPATI* PeDe bundling promo, whereby customers can get a 1 GB volume-based Flash bonus upon activation via SMS.

Customer Care System Enhancement

To continue to deliver excellent service to all customers, the IT Division supported Telkomsel's Customer Service by integrating the web client into our customer care system.

The development transformed the GT-X (Graham Technology Explore) client from a Windows-based to a web-based client system, designed to enable more rapid service to customers from GraPARI and service centers. The work included updating the Customer Care business process to simplify the workflow, and extending the capability of some of the some modules.

BlackBerry® Internet Service Provisioning

To maintain the momentum of the BlackBerry® euphoria that followed its launch in 2008, solid IT support was required for further service enrichment. A new feature development enables customers to activate Telkomsel's BlackBerry® Internet Service simply by sending an SMS. This breakthrough brought in an impressive 35,000 Telkomsel BlackBerry® customers, establishing Telkomsel as the leader in the ASEAN market. It is worth noting that this SMS activation service was the first in the world.

COMPANY OPERATIONAL SUPPORT

IT Service Availability Improvement

In 2008, IT Operation & Services launched the ITOCC (IT Operation Control Center), featuring an integrated monitoring system of servers, network, storage and applications. All Telkomsel's IT-related services connected centrally to the ITOCC, allowing ITOCC management to continuously monitor the status of the system. The system concept is based on the Business Service Management Method.

System improvements included the restructuring of the IT organization. It is now more focused on IT service management, as well as delivery of better SLA (Service Level Agreement) and OLA (Operational Level Agreement) for all Premium and Regular IT Services. Above all, the organizational and process restructuring was designed to ensure a more service-oriented management and culture.

Enabling Infrastructure Deployment and Operation

In a move to keep the system performing optimally, the IT Division successfully upgraded the license for Oracle RDBMS (Relational Database Management System), Data Guard & Application server. The work included the completion of the segregation of networks for business and office network phase-1.

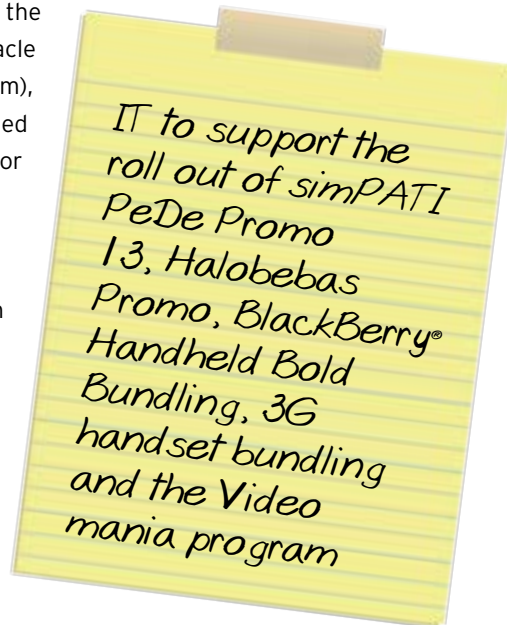
IT Governance

Another significant achievement of the IT Division in 2008 was the completion of the Telkomsel IT Master Plan (ITMP) 2009-2013. This will be the main reference for Telkomsel's future investment plan.

Network and system security was put to the test when the IT Division conducted a security test for preventive measures. This was also part of the preparation for ISO 27001 (Security Management certification).

The IT Governance framework was put into practice during the past year, following on from the 2007 initiative. The framework defines the IT Communication Process, the IT Continuity Process, IT Program Oversight (PMO), and the integration process for the entire IT Governance system. The automation of IT PMO (Rational System) was also completed in 2008 to support project/program development.

We have also continued to implement the IT Infrastructure Library (ITIL) framework through an assessment of the current implementation of Application Management Process (AMP) and ICT Infrastructure Management.





Corporate Governance

A group of professionals, united in a solid organization, is a critical element in achieving Telkomsel's mission. However, in today's modern and complex environment, this factor alone is not enough. The different parts of the organization need to interact with one another and with the public. Such interaction requires a high standard of accountability, responsibility, ethics and integrity—in short, good corporate governance.

Telkomsel is committed to a high standard of corporate governance and supports the need for clear standards to be set to safeguard the interests of shareholders and other stakeholders. The Board of Commissioners and the Board of Directors are accountable to the Company's shareholders for ensuring that the Company and its people operate within the requirements of good corporate governance.

Telkomsel was incorporated under the law of the Republic of Indonesia, and is therefore required to comply with the Company Law of No.40/2007. As a subsidiary of PT Telekomunikasi Indonesia Tbk (TELKOM), Telkomsel is also required to comply with the Group's rules and principles of corporate governance.

This report on Corporate Governance describes how the Company has attempted to applied those principles and whether or not the Company has achieved compliance with all the provisions throughout the year.

BOARD OF COMMISSIONERS

The Board of Commissioners is collectively responsible for supervising the management of Telkomsel by the Board of Directors. Telkomsel's Articles of Association ("the Articles") provide that the Board of Commissioners (BoC) shall consist of six members, including the President Commissioner. The Shareholders' Agreement further provides that the President Commissioner shall be from TELKOM.

The BoC is accountable to the General Meeting of Shareholders. The members are elected by the shareholders of Telkomsel for a certain period of time. 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 has only assigned three representatives to the BoC, one position on the BoC is currently vacant.

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

Resolutions of meetings of the BoC shall be made by affirmative vote of a majority of the members of the Board. In the event of a tie, the matter shall refer to a General Meeting of Shareholders for resolution.

BOC ACTIVITIES IN 2008

The BoC performed its duties in 2008 by overseeing the policies of the BoD in managing Telkomsel. Through monthly meetings, the BoC was able to monitor the performance of Telkomsel and provided direction and guidance on company policies for the Directors in case of circumstances that may affect the performance of the Company.

In performing its supervision duties, the BoC is supported by Committees that are formed by the BoC, namely the Audit Committee, the Capital Expenditure Committee and the Remuneration Committee.

In addition to the above, the BoC also assisted the BoD in:

- Formulating the Company's Business Plan for 2009-2013.
- Formulating the Company's Budget of 2009.
- Compiling the Company's Annual Report.
- Executing the Annual General Meeting of Shareholders.

BOARD OF DIRECTORS

The Board of Directors is collectively and individually responsible for promoting the success of the Company by directing and supervising the Company's policy and strategy and is responsible to shareholders for the Company's financial and operational performance. 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 representatives of TELKOM.

Meetings of the BoD must be held at least once every two months or 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 whom must be a Director nominated by SingTel Mobile.

Resolutions of meetings of the BoD shall be adopted by affirmative vote of a majority of the members of the Board. In the event of a tie, the matter shall refer to a meeting of the BoC.

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 2008 the aggregate compensation paid by Telkomsel to all Commissioners and Directors as a group was approximately Rp31.6 billion.

CONFLICT OF INTERESTS

Members of the BoD are prohibited from assuming other positions outside Telkomsel which may directly or indirectly raise conflicts of interests 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 BoD would require the permission of the BoC and shall be reported to the General Meeting of Shareholders. Members of the BoC shall not assume any position outside Telkomsel that either directly or indirectly raises conflicts of interests unless determined otherwise by the General Meeting of Shareholders.

FAMILY RELATIONSHIPS

None of the Directors are related to each other.

COMMITTEES

The 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 is headed by Arief Yahya, with Lim Chuan Poh and Agus Suryono as committee members. The committee 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 is responsible for determining the remuneration of the BoD, subject to the unanimous approval of the BoC. The Remuneration Committee is headed by Loso Judijanto, with Lim Chuan Poh and Arief Yahya as committee members.

- **Capital Expenditures, Investment and Finance Management Committee**

This committee is responsible for reviewing the Company's investment plans and the way in which such plans are implemented by the management. The Committee is headed by Rinaldi Firmansyah, with Ng Kwon Kee and Herfini Haryono as members.

BUSINESS PLANNING AND BUDGET PREPARATION

The BoD 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 review and update the Business Plan.

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

TRANSPARENCY AND DISCLOSURE

Telkomsel reports its operational and financial performance to the BoC and its shareholders on a monthly basis.



On a quarterly basis, Telkomsel reports its operational and financial performance through the issue of "quarterly highlights". These highlights are available on the company website (www.telkomsel.com) and 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 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 material information that the company proactively discloses to interested stakeholders.

AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

To comply with the new Company Law and to address Telkomsel's new business requirements, on June 26, 2008, Telkomsel's Annual General Meeting of Shareholders (the "Annual GMS") agreed on several changes to Telkomsel's Article of Association, as follows:

- Telkomsel's scope and line of business shall be expanded: in addition to providing mobile telecommunication networks and services, Telkomsel shall also provide multimedia services, internet access services, internet telephony services, and electronic financial transactions including payment services by card and electronic money remittance services.
- The term of office for members of the Board of Directors and Board of Commissioners, which was previously 4 (four) years from their date of appointment, now runs until the third Annual GMS after the date of their appointment.
- A new regulation on company decision making was agreed, related to each decision level (General Meeting of Shareholders, the Board of Directors, and the Board of Commissioners) related to loans and writing-off assets.

ISSUES REGARDING COMPETITION, REGULATION, AND COMPLIANCE

Cross-monopoly Ownership Case

Komisi Pengawas Persaingan Usaha / KPPU ("Commission for the Supervision of Business Competition") in its letter dated December 5, 2007 notified Telkomsel had violated certain provisions of Law No. 5/1999, "Prohibition of Monopolistic Practice and Unfair Business Competition" (the "Law"), related to cross-ownership by Temasek Holdings and monopoly practices by Telkomsel.

On May 9, 2008, the District Court pronounced its verdict and concluded among other things:

- Telkomsel had not been proven to violate article 25.1.b of the Law.
- Telkomsel had violated article 17.1 of the Law.
- Temasek Holdings and certain affiliated companies were instructed to release their ownership in either PT Indosat or Telkomsel or to decrease its ownership by 50% in each of those companies within twelve months from the date of the decision becoming final and legally binding with the following conditions:
 - Maximum 10% of total shares for each buyer.
 - The buyer is not associated with Temasek Holdings.
- Telkomsel was charged a penalty of Rp15 billion.
- The court revoked the decision of the Commission for the Supervision of Business Competition on the instruction to reduce the tariffs because the Commission for the Supervision of Business Competition did not have authority to determine the tariffs.

On May 22, 2008, Telkomsel filed an appeal to the Supreme Court ("SC"). On September 9, 2008, the SC pronounced its verdict which revoked the court's verdict on the instruction to Temasek Holdings and certain affiliated companies to release their ownership in either PT Indosat or Telkomsel. Currently, Telkomsel is still reviewing the result to determine a favorable action to be taken including the option for a civil review.

SMS Price Fixing Case

Following a series of investigations and hearings, on June 18, 2008, the KPPU issued a ruling on the allegation that Telkomsel and five other cellular operators had violated Article 5 of Law No 5/1999 regarding the "Prohibition of Monopolistic Practices and Unfair Business Competition" (the Law). According to the ruling, Telkomsel and five other cellular operators had engaged in SMS price fixing during the period of examination.

The ruling stated, among other things, that:

- Telkomsel had violated article 5 of the Law, and
- Telkomsel was charged a penalty of Rp25 billion.

On July 11, 2008, Telkomsel filed an appeal to the District Court. The District Court is currently examining the case.

Class Action Case

Following the KPPU ruling on the Cross-monopoly Ownership Case, three class action suits were filed against Telkomsel and certain other wireless operators in the District Courts of Bekasi, Central Jakarta, and Tangerang, claiming consumer losses arising from the KPPU's statement in the consideration of its ruling on the Cross-monopoly Ownership Case.

As of the date of this Annual Report, the status of each of the cases was as follows:

- The Bekasi Class Action suit had been revoked by the plaintiffs.
- The Central Jakarta District Court had released a verdict stating that the case shall be consolidated with the Tangerang case. The plaintiffs had filed an appeal to the Supreme Court. In January 21, 2009, in its verdict No. 01K/Pdt.Sus/2009, the Supreme Court approved the subscribers' appeal, accordingly, the class action lawsuits are processed separately in respective court.
- The Tangerang District Court had released a temporary decision to suspend the trial due to the appeal against the verdict in the Central Jakarta case until the issuance of the Supreme Court's verdict regarding the Central Jakarta Class Action case.

INTERNAL CONTROL SYSTEM

Telkomsel's Management has overall responsibility for the system of internal control. A sound system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The system and procedures of internal controls, which are subject to regular review, provide an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives.



Management is required to apply judgment in evaluating the risks facing the Company in achieving its objectives, in determining the risks that are considered acceptable to bear, in assessing the likelihood of the risks concerned materializing, in identifying the Company's ability to reduce the incidence and impact on the business of risks that do materialize and in ensuring that the costs of operating particular controls are proportionate to the benefit.

There are clear processes for monitoring the system of internal control and reporting any significant control failings or weaknesses together with details of corrective actions. These include:

- a formal annual confirmation provided by the President Director and Finance Director of the Company certifying the operations of the internal control systems and highlighting any weaknesses.
- periodic examination of business processes on a risk basis including reports on controls throughout the Company undertaken by the Risk Management Sub Directorate, who report directly to the President Director.
- periodic self-assessment made through an on-line CSA (Control Self Assessment) tool which covers key indicators of the control effectiveness of each operating unit.
- reports from the independent auditors and Internal Audit Sub Directorate on certain internal controls and relevant financial reporting matters, presented to the Audit Committee and Management.

INTERNAL AUDIT ACTIVITIES IN 2008

In response to the more competitive market environment, the internal audit function as a provider of business assurance to the Management, became more critical as the need for controls to ensure the effectiveness and efficiency of the business operations emerged. Therefore, the internal audit approach in 2008 became more intensely focused on assurance and consultative services while the methodology continued to follow a risk-based approach.

Highlights of assurance and consultative activities held in 2008 were as follows:

- **Compliance**

Pursuant to the requirements of complying with the Sarbanes Oxley Act (SOA) as required by TELKOM as parent company, the internal controls over Financial Reporting (ICoFR) of Telkomsel were also audited by our independent auditor. The SOA ICoFR audit assessed both design and the operational effectiveness of the internal control developed by the Company. Telkomsel has carried out a top-down risk based analysis so that the ICoFR audit can be undertaken in more efficient and effective manner.

During 2008 tests of the controls performed by the Internal Audit Sub Directorate achieved a 97% compliance level while the control self-assessment (CSA) achieved a 99.97% compliance level. A series of quarterly financial statement reviews was also undertaken to ensure the conformity of the Company's consolidated financial statements to the accounting principles generally accepted in Indonesia.

- **Business Effectiveness & Efficiency**

During 2008 a series of revenue assurance process audits were performed to ensure the effectiveness of the Company's revenue generating process. An operational cost review was done to provide better controls over the procurement process and the process of media selection and marketing; an IT infrastructure audit was performed to ensure that storage capacity is being properly managed; and IT general controls testing was undertaken to ensure the effectiveness of controls related to program development and changes, computer operations and computer access controls.

- **Whistleblower and Special Audit**

The company has established a whistleblower protocol to allow employees or other parties to give feedback directly to Telkomsel's Audit Committee. Any complaint received in regard to of this protocol will be followed up by the Special Audit Division. The Internal Audit Sub Directorate has conducted several special/investigative audits and the TPTA (the Disciplinary and Administrative Action team) meeting decides the penalties to be imposed on those whose are found guilty of being involved.



- **Consultative Services**

Beside assurance-related works, the Internal Audit Sub Directorate has also rendered consultancy services to various operating units with the aim of making business process improvements as well as reducing the business risks.

Risk Management

Managing a broad portfolio of products and services that involve highly diverse resources, Telkomsel places risk management as a priority. With 4,129 employees, 26,872 BTS and 65.3 million customers spread right across the country, and earning revenue Rp37.20 trillion, Telkomsel recognizes that prudential risk management is critical to its operation. However, it is recognized that even the most stringent risk management can only manage, rather than eliminate, the risk of business failure in future.

ANTICIPATING UNCERTAIN CONDITIONS TO IMPROVE BUSINESS PERFORMANCE

Recently, Enterprise Risk Management (ERM) has been taking on an increasingly important role in the business operation, particularly given the fierce competition in the cellular business, regulatory adjustment, new technology challenges, and the rapid growth of enterprises. As a consequence, business risks, both short-term and long-term, are arising with greater frequency and require intensive and thorough mitigation. Telkomsel's ERM system is designed to mitigate, rather than eliminate, the risk of failure in both strategic and operational objectives. Risk assessment, mitigation and monitoring practices are conducted as an integral part of the Company's annual strategic planning cycle, as was done in 2008.

A thorough assessment was performed for critical risks and the proposed mitigation plan. Following this, mitigation actions such as business process and control and solution improvements were implemented. Telkomsel's risk management activities cover risk assessment, risk response and risk monitoring. Among those subjects are:

1. Corporate-Wide Risk Assessment to identify and assess 60 major risks, summarize them and prioritize them to identify 20 main risks along with a mitigation plan.
2. Risk Assessment on Financial Reporting to ensure compliance with ICoFR, which requires a top down risk-based audit.
3. Assessment of operational risks that could affect business effectiveness and efficiency—a necessary action given the rapid growth of the Company. The mitigation plan and priorities were formulated and some mitigation actions have been taken.
4. Mitigation of Risk Management to critical business activities: Revenue Management System, Fixed Asset System Improvement, Market Risk, Regulation Risk and new business risks related to Budgetary Plan 2008 and 2009.

Other activities during the year included improving Fraud Risk Management: fraud risk assessment, fraud scenario, and control system for ICoFR were all updated. A Preliminary Corporate Fraud Risk Assessment was implemented as well, in order to identify Fraud Risks. Revenue assurance process activities were monitored to minimize revenue leakage and to detect fraud-related activity, as well as to improve employee compliance. Various aspects of performance, such as attendance and facility usage, were monitored.

Various Risk Governance activities are underway, such as communication with significant Risk Owners, training and dissemination for staff at managerial level and the development of Risk Management procedures.

Corporate Social Responsibility

As part of our commitment to sustainable growth, we recognize our social responsibilities and aim to proactively play a leading role within our sphere of influence. In a belief that our business operation is a part of and dependent on society and nature, we are keen to place the social side of our business operation, the economic side, and the environmental side, in harmony. This is our Corporate Social Responsibility (CSR) strategy.

By demonstrating the Company's commitment to certain ethical values we recognize that CSR can also play a role in building customer loyalty. In 2008, we implemented a wide range of social and educational programs that reflect the spirit of Telkomsel in this respect.



Business, social life, and
environment need to be in
harmony



EDUCATION

We recognize that education is one of the keys to creating a better future for Indonesia. In 2008, Telkomsel organized several events aimed at enhancing students' access to the skills and understanding they need to engage with the world:

- **Student Visits**

The student visit program provides an opportunity for Telkomsel to share knowledge and knowhow on the telecommunication business and engineering. Students from a number of colleges visited Telkomsel, including Padjadjaran University and the Surabaya Institute of Technology in March 2008, and the Bandung School of Management (STMB) in April 2008.

- **Telkomsel Goes to Campus**

Through this program, Telkomsel visits colleges, universities and high schools to enrich the students' understanding of cellular communication and management practice issues. It also provides a chance for Telkomsel to contribute in the form of donations. Among the campuses visited in 2008 were Universitas Nasional (UNAS) in March 2008, PAUD Bratasena in Bogor (August 2008), and SD Cipageran in Cimahi in October 2008.

- **On-the-Job Training**

Through this program, Telkomsel offers students the chance to gain real experience of a working environment. Hundreds of students from several universities took part in the program during the past year.

- **High School Final Exam Try-Out**

This program is designed to help students in the final grade of high school to prepare for the national final exam (UAN). In 2008 the program involved hundreds of thousands of students.

- **IT-Based School**

In line with the extension of our network deployment to isolated regions, Telkomsel supported the National Education "IT-Based School" program through donating the hardware and software required for the program. In 2008, the program was implemented in several schools in isolated parts of West Java.



“Toward sustainability:
Telkomsel strives for
economic growth,
environmental
preservation, and
community development.”

»» CSR



- **Game-Based Learning**

Game-based learning is designed to enrich teaching methodology fun, interactive applications. In 2008, Telkomsel donated a number of packages of game-based learning applications for Physics and Mathematics to several schools in Balikpapan.

Telkomsel believes that attitude is as important as knowledge and skills in developing the nation's human resources. To this end, several programs focusing on personal development and responsibility were delivered throughout the year:

- **Health and Clean Environment**

This program is intended to support schools to create a healthier and cleaner environment in their surroundings. Attention is paid to schools' sanitation and their facilities such as sport grounds, etc. Telkomsel, together with its parent company (PT Telkom Indonesia Tbk) implemented the program in several elementary schools and pesantren in Banda Aceh and the Greater Jakarta area in 2008.

- **Anti Drug Campaign Goes to School and Campus**

Telkomsel and BNN (the National Narcotics Agency) cooperated on the development of this program to raise awareness and prevent young people from abusing drugs. Telkomsel donated 33 operational cars for the Drug Prevention Unit.

- **Fostering Creativity**

Telkomsel encouraged and supported youths to access their potential using art, creative tools and technology through the "Teknologi Kami Kamu" (Our Technology is Your Technology) program. One thousand junior high school students took part in the program in 2008.

- **Entrepreneurship**

Improving entrepreneurial skills is another channel through which Telkomsel can contribute to a better future for Indonesia. In 2008, as part of the synergy program with parent company (PT Telkom Indonesia Tbk), Telkomsel organized "mobile phone technician-training" for young and disadvantaged people in Lhokseumawe and Banda Aceh.

SOCIAL AND RELIGIOUS ACTIVITIES

We recognize that CSR can play a role in building customer loyalty by demonstrating the Company's commitment to certain ethical values. It also brings blessings from God. During the year we provided support for various spiritual and philanthropic activities:

- **Ramadhan Rallies**

Telkomsel organized a series of events to encourage employees and communities to promote and uphold Islamic culture and values. This program was implemented by all regional offices of Telkomsel with the objective of building closer relationships with the community.

- **Christmas Rallies**

In a similar spirit, Telkomsel organized Christmas rallies in several regions such as North Sumatera (Pematang-Siantar) and Papua (Timika).

- **Ngaben**

In 2008, Telkomsel gave support for Ngaben (traditional cremation) ceremonies in 3 different locations in Bali. This was a joint effort with the provincial government of Bali, and ASITA (Association of the Indonesia Tours and Travel). The objective was to integrate three aspects of life: religion, cultural conservation, and tourism.

Social Support to the Disadvantaged

- **Donations**

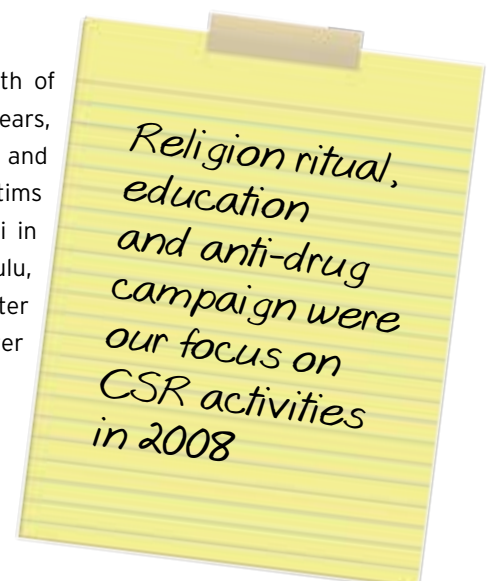
In 2008, Telkomsel made donations to hundreds of social institutions that care for orphans, elderly people and others in need. The donations were made in conjunction with the commemoration of important events during the year, such as the anniversary of the Company, opening ceremonies, national days, etc. Hundreds of thousands of people in need benefited from the donations.

- **Mass Circumcision and Medical Treatment**

Every year, Telkomsel facilitates circumcision for orphans and poor families in the communities in which we put our infrastructure—a service that has both a health and a religious function. Furthermore, in cooperation with the Indonesian Armed Forces (TNI), Telkomsel organized a free medical treatment program for disadvantaged people. Thousand of participants were able to benefit from free consultations and medical treatment for their health problems.

- **Emergency Care**

Getting emergency care to people in the aftermath of a disaster is crucial to be organized. In recent years, Telkomsel has made substantial contributions and coordinated the provision of assistance to help victims of disasters such as the earthquakes and tsunami in Aceh and Nias, earthquakes in West Sumatra, Bengkulu, Pangandaran and Yogyakarta, and floods in Greater Jakarta. Telkomsel also facilitates free calls in disaster locations, and emergency needs to the survivors.



In the spirit
of satisfying
customers and
maximize the
shareholders values



Management Discussion and Analysis

INTRODUCTION

In 2008, competition in the cellular business reached its peak. Following the new interconnection rates introduced in April 2008, we adjusted our tariffs accordingly. Due to the fierce competition, however, tariffs went down even further, falling from around US\$ 10 cents to as low as US\$ 3 cents per minute. These low tariffs stimulated a significant increase in minutes of use (MOU) which grew 257% to 90.2 billion minutes, and we responded by focusing on expanding our network capacity to cope with the situation. At the beginning of Q4 2008, competition eased off and the situation has been relatively stable since.

We maintained our strong customer base growth during the year. The Company added 17.41 million new customers in 2008, which was 42% higher than the 12.29 million net-add in 2008. We ended the year with 65.30 million customers, representing 36% year-on-year (YoY) customer base growth. Our share of the mobile cellular market is 47%.



Our operating revenues grew 1.4% to Rp37.20 trillion in 2008. Operating expenses (including depreciation) growth in 2008 was relatively manageable, increasing by 22% to Rp20.40 trillion (compared to 31% YoY increase in 2007).

FINANCIAL RESULTS

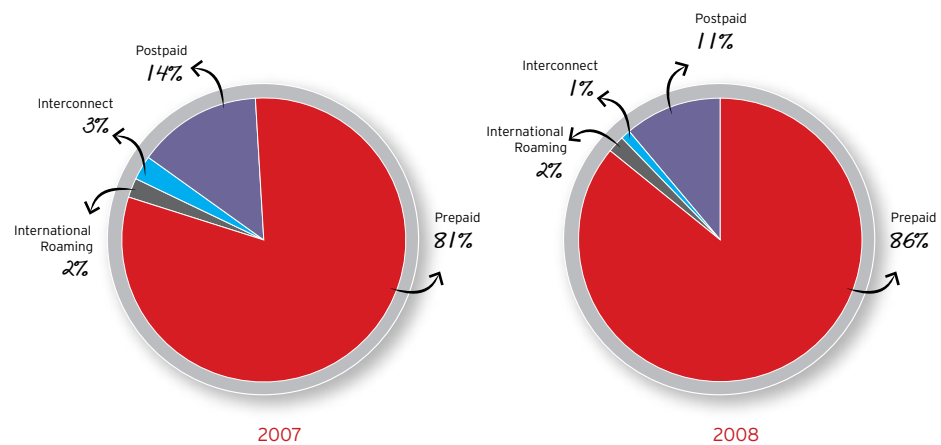
Operating Revenues

in billion Rupiah	2008	2007	Growth (%)
Prepaid	31,888	29,838	6.9%
Postpaid	4,243	5,086	-16.6%
International Roaming	652	579	12.6%
Interconnection (net)	372	1,147	-67.6%
Other (network lease)	44	21	105.1%
Operating Revenue	37,199	36,671	1.4%

Operating revenues increased 1.4% YoY to Rp37.20 trillion. The relatively small increase was due to the drop in tariffs as a result of tight competition in 2008. The strong customer base growth and MOU growth were not sufficient to stimulate equal revenue growth.

Our prepaid products, which accounted for 97% of the total customer base 2008, were the main revenue contributor, accounting for 86% of revenues in 2008. Prepaid products also contributed 133% of the YoY growth in operating revenues.

Operating Revenues



- Prepaid revenues grew 7% to Rp31.89 trillion on the back of a 38% growth in our prepaid customer base and traffic growth, which mainly came from *simPATI* prepaid product.
- Postpaid revenues decreased 17% to Rp4.24 trillion. The tariff cut was not able to generate sufficient traffic growth to stimulate revenue.
- International roaming revenues increased 13% to Rp0.65 trillion, which was mainly contributed by an increase in revenues from inbound roamers.
- Interconnection revenue decreased 8% to Rp3.01 trillion YoY due to tariff decline in April 2008, while interconnection expense increased 24% YoY to Rp2.64 trillion. The increase is a result of promo on off-net calls which further stimulated off-net traffic which explained the 68% decrease in net interconnection YoY from Rp1.15 trillion in 2007 to Rp0.37 trillion in 2008.
- Other (Network lease) increased 105% from Rp21 billion in 2007 to Rp44 billion in 2008. It refers to usage of Telkomsel's telecommunication facilities. Previously, it was recorded under Interconnection Revenue.

Telkomsel's prepaid products, 97% of the total customer base 2008, the main revenue contributor, 86% of total revenues in 2008

Non-voice/data revenues (net) decreased 14% to Rp10.10 trillion due to the drop in the SMS tariff. SMS traffic increased 58% year on year; however, as with voice calls, the growth in traffic was not sufficient to offset the impact on SMS revenue of the lower tariffs. In 2008, non-voice revenue contributed 27% to net revenues.

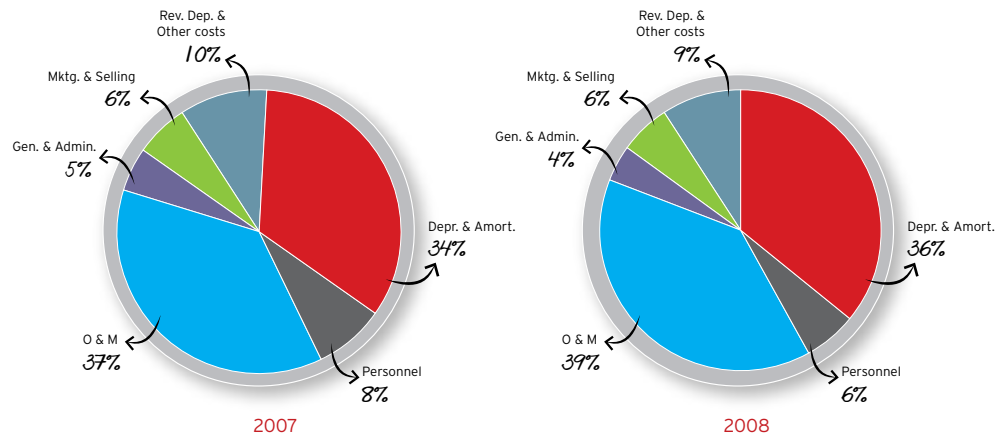
Although non-voice/data revenues were still largely dominated by SMS revenues (approximately 85%), revenues from mobile data services indicated steady growth, particularly in content download and ring-back tones.

Operating Expenses

Operating expenses increased 22% to Rp20.40 trillion, mainly due to the increase in operation & maintenance costs and depreciation expenses as a result of network infrastructure growth.

in billion Rupiah	2008	2007	Growth (%)
Personnel	1,345	1,397	-4%
Operation & Maintenance	7,944	6,236	27%
General & Administrative	740	761	-3%
Marketing	1,208	923	31%
Other operating expenses	1,900	1,750	9%
Depreciation	7,264	5,725	27%
Total Operating Expenses	20,401	16,792	22%

Breakdown Expenses



- Personnel expenses decreased 4% YoY to Rp1.34 trillion due to lower employee incentive in 2008.
- Operation & maintenance expenses rose 27% to Rp7.94 trillion, mainly due to network infrastructure growth (the number of BTS increased by 29% and overall network capacity increased by 33%), which affected frequency fees, repair & maintenance costs and power supply for the network equipment.

in billion Rupiah	2008	2007	Growth (%)
Transmission	2,502	2,432	3%
Frequency BTS	2,319	1,090	113%
Repairs & Maintenance	1,464	1,397	5%
Power Supply	1,196	956	25%
Other	463	361	28%
Total Operation & Maintenance Expenses	7,944	6,236	27%

- General & administration expenses decreased 3% YoY to Rp0.74 trillion, which was mainly from lower rental expenses.
- Marketing expenses grew 31% YoY to Rp1.21 trillion, due to higher advertising and sales support costs following tight competition in the course of 2008.
- Other operating expenses consist of the cost of cards, concession fees & USO charges, accounts receivable collection costs and provision for bad debt, all of which increase in line with sales/customer base growth. In 2008, these expenses increased 9% to Rp1.90 trillion, which was largely the result of higher concession and USO fees (in line with revenue growth) and the higher cost of cards.

in billion Rupiah	2008	2007	Growth (%)
Concession & USO Fees	691	612	13%
Cost of Cards	615	528	17%
A/R Collection	308	307	0%
Others	286	303	-6%
Total Other Operating Expenses	1,900	1,750	9%

- Depreciation expenses increased 27% to Rp7.26 trillion due to network infrastructure growth (BTS grew by 29%, while overall network capacity expanded by 33%).

Other Income/(Expenses)

Other income/(expenses) increased from net expenses of Rp479 billion to net expenses of Rp979 billion, largely due to:

- Higher interest expenses resulting from a higher average outstanding loans balance in 2008. It increased 85% from Rp472 billion in 2007 to Rp873 billion in 2008.
- Foreign exchange loss following the rupiah depreciation against foreign currencies (USD and EUR) in the 4th quarter of 2008. The rupiah depreciated 22% against USD and 11% against EUR in Q4 2008 compared to Q4 2007. From the amount of Rp468 billion in 2008, mostly was booked as accounting loss.

in billion Rupiah	2008	2007	Growth (%)
Interest Income	221	142	56%
Financing Charges	(873)	(472)	85%
Forex Loss	(468)	(57)	714%
Others - net	139	(92)	-252%
Other Income/(Expenses)	(979)	(479)	104%

EBITDA and Net Income

EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) reached Rp24.06 trillion in 2008, a 6% decrease over the 2007 figure. The EBITDA margin declined from 70% in 2007 to 65% in 2008.

Net Income decreased by 16% to Rp11.42 trillion. The net income margin was 31%, down from 37% in 2007.

Balance Sheet

As a result of investment expansion and business activities, total assets increased 16% to Rp51.93 trillion. Total liabilities increased 35% to Rp24.90 trillion. Total equity, meanwhile, increased 3% to Rp27.03 trillion.

- Current assets decreased 16% to Rp4.26 trillion, mainly due to the decrease in cash and cash equivalent.
- Fixed assets rose 21% to Rp46.36 trillion as a result of network infrastructure growth (the number of BTS grew by 29% and overall network capacity grew 33%).
- Current liabilities grew 43% to Rp17.76 trillion, largely because of increases in accrued liabilities and current maturities of medium-term loans.
- Non-current liabilities increased 17% to Rp7.14 trillion mainly from medium-term loans.

OPERATIONAL RESULTS

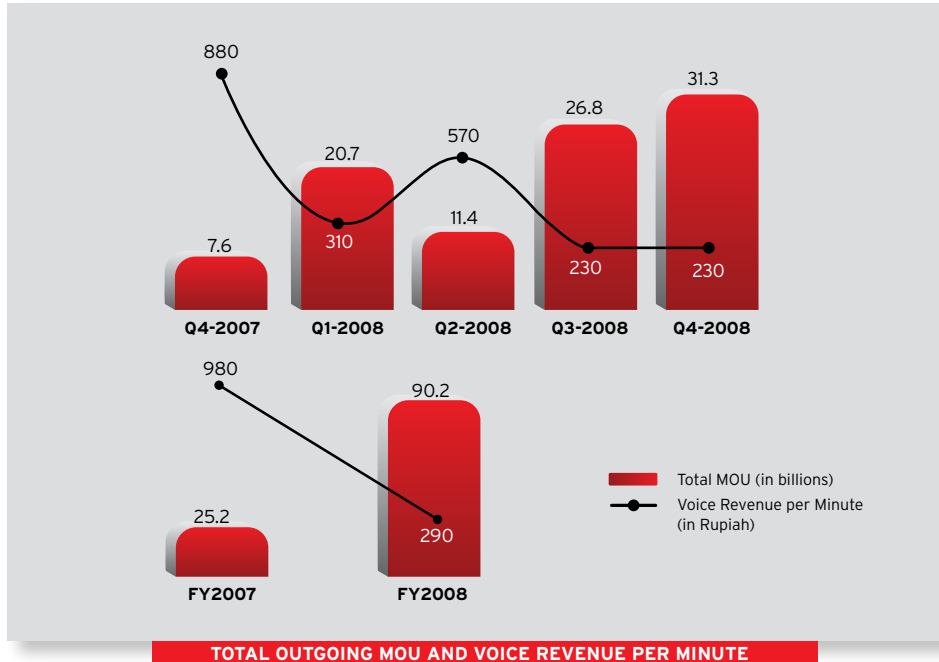
Customer Base

Amid the intense competition and fierce price war, we managed to win a higher number of new customers in 2008 than in the previous year. We added 17.41 million new customers in 2008, which was 42% higher than the 2007 net add. With this strong result, our customer base reached 65.30 million customers in 2008, a 36% increase compared to the prior year, consisting of 1.94 million *kartuHALO* customers (1% growth), 43.03 million *simPATI* customers (79% growth) and 20.33 million Kartu As customers (-8% growth). The Company maintained its leadership in the industry with approximately 47% share of customers (full-mobility).

The Indonesian mobile cellular market is dominated by prepaid customers. Our customer base comprises 97% prepaid and 3% postpaid customers. In 2008, *simPATI* was the main growth contributor with 19.05 million customers (or 109% of total net-adds). The *simPATI* product featured prominently in the market in July 2008 with its Rp0.5 per second campaign supported by higher capacity and better network quality. Our Kartu As prepaid product experienced some pressure with negative growth of 1.66 million new customers (or -10% of total net-adds). The *kartuHALO* postpaid product contributed 27K new customers, 89% lower than the 2007 *kartuHALO* net-adds.

ARPU

Due to a decline of more than 60% in tariffs and the penetration to lower market segments, blended ARPU fell 27% YoY from Rp80K in 2007 to Rp59K in 2008. ARPU of *kartuHALO*, *simPATI* and Kartu As in 2008 stood at Rp216K, Rp63K and Rp37K respectively, compared to the previous year's ARPU of Rp264K, Rp84K and Rp57K respectively.



Minutes of Use (MOU) and SMS

As part of the effort to maintain our leadership position, the Company continued to deliver high network quality to support the increase in MOU and SMS. MOU grew with the tariff decline and aggressive promotion. Total chargeable outgoing MOU increased 257% to 90.2 billion minutes in 2008 from 25.2 billion minutes in 2007. *simPATI* MOU was the main contributor to this significant boost, growing almost fourfold compared to last year. Revenue per minute declined around 70% from Rp980 per minute in 2007 to Rp290 in 2008.

SMS traffic grew 58% from 49.5 billion SMS in 2007 to 78.0 billion in 2008. SMS from *simPATI* alone grew 114% year on year. However, revenue per SMS declined from Rp180 in 2007 to Rp110 in 2008.

CAPITAL EXPENDITURES AND CASH FLOWS

Despite the weakening economic situation, the Company financed most of its capital expenditures from internal sources of funds. Net cash generated from operations in 2008 amounted to Rp18.78 trillion, a 9% decrease compared to 2007.

Cash flow for investment activities decreased slightly (-6%) to Rp12.33 trillion (approximately USD 1.3 billion), which was mostly accounted for acquisition of network infrastructures. The Company capitalized Rp15.37 trillion (USD 1.5 billion) to additional assets in 2008. A total of 6,014 new BTS (including 1,278 3G-BTS) were installed and capacity for 16.8 million subscriber added in 2008.



We maintain an optimal level of liquidity.

Net cash used for financing activities decreased 36% to Rp2.14 trillion due to the higher loan repayment. In 2008, Telkomsel declared a dividend amounting to Rp11.58 trillion (85% of the 2007 net income), of which Rp1 trillion was paid as interim dividend in December 2007, Rp7.93 trillion was paid in July 2008 and the remainder was paid in October 2008.

in billion Rupiah	FY07	FY08	Growth (%)
Cash Flow from Operating Activities ^{*)}	20,660	18,780	-9%
Cash Flow for Investing Activities	(13,180)	(12,333)	-6%
Cash Flow from Financing Activities	3,349	2,142	-36%
Dividend	(10,137)	(10,210)	1%
Net Decrease in Cash and Cash Equivalents	692	(1,621)	-334%
Cash and Cash Equivalents at Beginning of Year	2,084	2,776	33%
Cash and Cash Equivalents at End of Year	2,776	1,155	-58%
Addition to Fixed Assets (incl. CIP)	12,367	15,373	24%
New Contracts Issued during the Period	13,329	15,915	19%

^{*)} Included effect of exchange rate changes

LOAN/DEBT

During the year of 2008, Telkomsel signed Rp5.3 trillion worth of new loan facilities from local banks, all medium-term. As of December 31, 2008 Rp5.0 trillion of these new facilities had been drawn down. The remaining amount was drawn down in January 2009.

At the end of December 2008, the outstanding medium-term loans was Rp9.38 trillion. The following table shows the company's loan breakdown:

	FY07	FY08
Loan per currency		
IDR	6.85 trillion	9.38 trillion
USD	9.7 million	-
EUR	7.3 million	-
Loan per maturity (in IDR)		
2008	3.16 trillion	-
2009	2.54 trillion	4.74 trillion
2010	1.04 trillion	3.44 trillion
2011	300 billion	1.20 trillion
Total	7.04 trillion	9.38 trillion

Telkomsel has to observe certain agreed financial covenants related to its loan/debt. As of the end of 2008 these covenants were as follows:

	Covenants t/b maintained	Required	Actual
ECA facilities	Debt to equity ratio	≤ 2	0.35
	Debt service coverage ratio	> 1.25	4.77
	Permitted indebtedness	≤ IDR48.11 Trillion	IDR9.38 Trillion
Bank Loans	EBITDA to debt service	≥ 1.25	5.27
	Debt to tangible net worth	≤ 2.00	0.35

Telkomsel's latest credit ratings, as issued by a number of recognized institutions, are as follows:

	Local Currency	Foreign Currency	Outlook
Moody's	Baa2		stable
S&P	BB+	BB-	stable
Fitch	BBB-	BB+	stable

Responsibility for the Annual Reporting

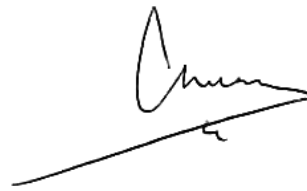
The Management of PT Telekomunikasi Selular is responsible for this Annual Report including the accompanying financial statements and related financial information which have been approved by member of the Board of Commissioners and the Board of Directors whose signatures appear belows.

Jakarta, April 20, 2009

BOARD OF COMMISSIONERS



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PRESIDENT COMMISSIONER



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COMMISSIONER



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BOARD OF DIRECTORS



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Syarif Syarial Ahmad
DIRECTOR OF PLANNING
AND DEVELOPMENT



Triwahyusari
DIRECTOR OF FINANCE



FINANCIAL STATEMENTS

PT TELEKOMUNIKASI SELULAR AND SUBSIDIARIES

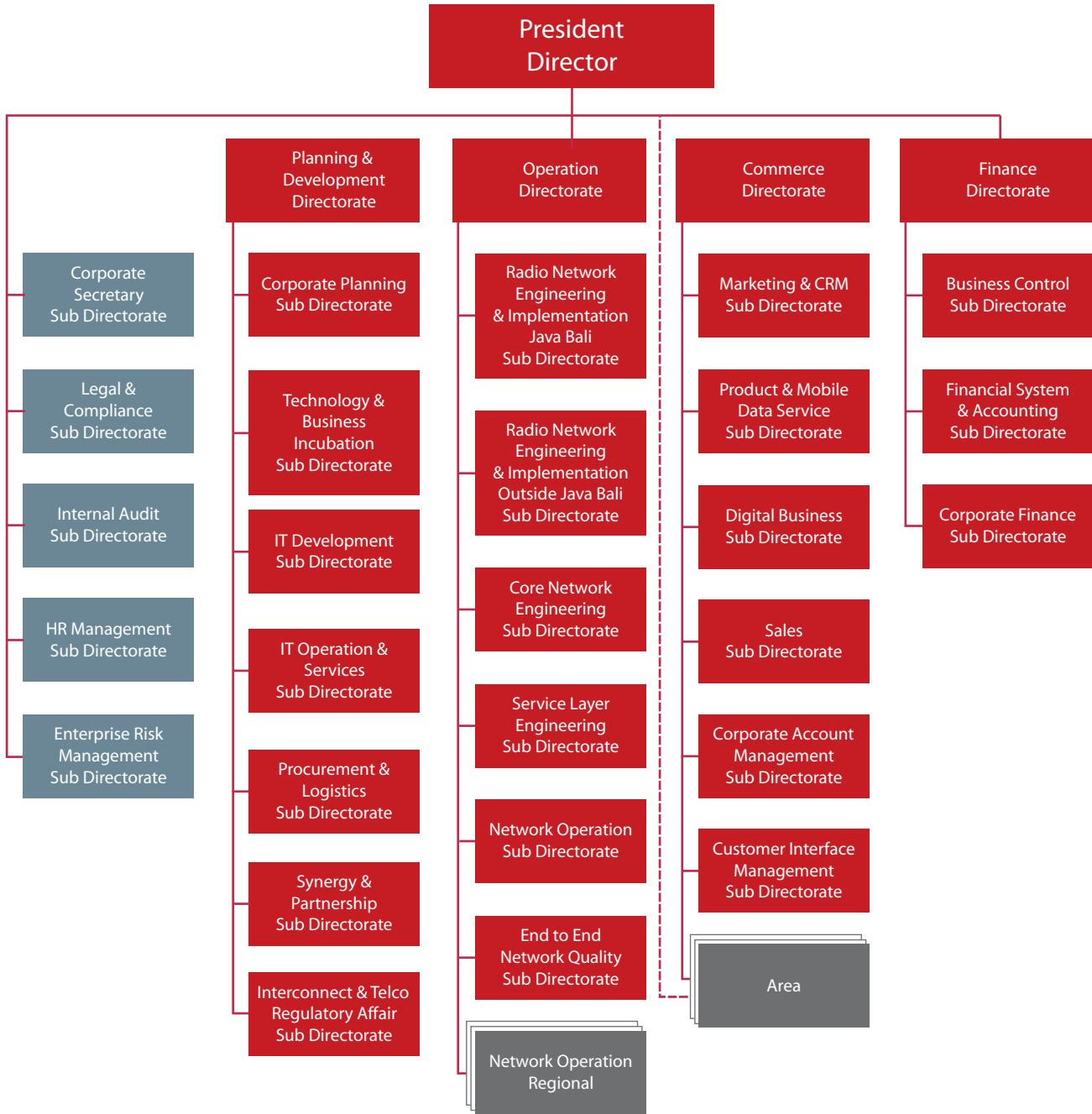
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2008 AND 2007

CORPORATE DATA



Organization Structure



Bridge Alliance



Forging global partnerships is an essential strategy in this highly competitive global economy, and certainly in the cellular industry. In the fast-growing Asia Pacific region, cellular operators are facing several strategic issues. The region comprises highly diversified cultures and economies, as well as varying degrees of mobile market maturity and technological development. The Bridge Alliance is a clear response to such strategic issues. The Bridge Alliance is a commercial vehicle in which the eleven operators jointly invest to build regional mobile infrastructure and a common service platform. This will enable the creation and seamless delivery of regional mobile services across geographical borders, and enhance the service experience of their mobile customers when they roam from one country to another.

Incorporated in November 2004 by leading operators in the Asia Pacific region, the Bridge Alliance currently delivers a competitive advantage to its members with its seamless roaming service connecting the 225 million customers of the 11 operator members. It spans eleven countries across Asia and Australia, represented by leading operators Bharti Airtel (India), Globe Telecom (Philippines), Maxis (Malaysia), Optus (Australia), SingTel (Singapore), Taiwan Cellular Corporation (Taiwan), Telkomsel (Indonesia), Hongkong CSL (Hongkong), CTM (Macau), SK Telecom (South Korea), and Advanced Info Service (Thailand). Four major technology players are alliance associate members: Ericsson, Nokia, Nokia Siemens and Qualcomm.

Through membership of the Bridge Alliance, Telkomsel maintains its competitiveness, enhances the customer experience, and commands significant commercial benefits and economies of scale.



Shareholders Information



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 Indonesia Stock Exchange ("IDX": 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 wholly-owned subsidiary of Singapore Telecommunications Limited ("SingTel"). SingTel is Asia's leading communications group with a network of 37 offices in 19 countries and territories around the world. SingTel is listed on the Singapore Exchange ("SGX":ST) and the Australian Stock Exchange ("ASX":SGT)

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