

CHAPTER III

COMPANY PROFILE

3.1. HISTORY OF COMPANY

Perusahaan Perseroan (Persero) P.T. Indonesian Satellite Corporation Tbk. (Indosat Company) is the primary provider of international telecommunications services in Indonesia, directly linking Indonesia to approximately 257 countries and destinations worldwide. The Company's principal business is to provide international switched telecommunications services, including telephone, telex, telegram, packet switched data networks, Internet services and Inmarsat services for mobile communications. "Inmarsat" means the International Mobile Satellite Organization (formerly the International Maritime Satellite Organization) that provides mobile communications to ships at sea, aircraft in flight and land users and which owns and operates a number of the telecommunication and distress satellites. International telephone services constitute the largest portion of the Company's business, accounting for approximately 84.6% of the Company's revenue in 1999. The Company also provides a variety of non-switched international telecommunications services, such as low- and high-speed leased lines, video conferencing, telecast services, internet services and other services that typically involve the transmission of data or video rather than voice traffic. Switched services require routing through the domestic telephone networks and non-switched service customers are generally connected directly to Indosat. The Company currently owns and operates international gateways in Jakarta, Surabaya, Medan and Batam which route international traffic to and from the domestic telecommunications networks using satellite, submarine cable and microwave links.

Indosat is the primary provider of international telecommunications services in Indonesia, holding an estimated market share of approximately 86.4% of total international paid minutes for all calls from fixed telephone lines and cellular telephones for the year ended December 31, 1999, compared to 86.8% for the year ended December 31, 1998. In 1993, the Indonesian Government granted a license to P.T. Satelit Palapa Indonesia ("Satelindo"), a company in which Indosat has a 7.5% interest, to provide international telecommunications services in Indonesia. Satelindo began offering international telecommunications services in August 1994. The Ministry of Tourism, Posts and Telecommunications (the "MTPT"), the principal regulator of the telecommunications sector in Indonesia until March 1998, stated in MTPT Decree No. 6/ 1995 that no other licenses for basic international telecommunications services will be granted prior to December 31, 2004, Indosat and Satelindo are obligated to charge identical tariffs to end users, as determined by the MTPT, and that competition between the two companies is to be based solely on quality of service.

From the time the Company commenced commercial operations in 1969, it has managed the rapid introduction of new telecommunications technologies and greatly expanded the scope of its services in Indonesia. During the period 1990 to mid-1997, the business of the Company grew rapidly, reflecting both the overall economic growth of Indonesia and the increased emphasis placed by the Indonesian Government on expanding and improving the national telecommunications network. However, since mid-1997, the business of the Company has been adversely affected by unfavourable economic and social conditions in Indonesia.

The total volume of telephone traffic transmitted over the Company's network has risen from 492.5 million paid minutes for the year ended December 31, 1995 to 644.7 million paid minutes for the year ended December 31, 1999, a compound annual growth rate of approximately 7.0%, which was lower than the compound annual growth rate from 1994 to 1998 of 13.6%. The available capacity on international circuits operated by the Company increased from 369.5 Mbps to 624.1 Mbps during the period 1995-1999, a compound annual growth rate of approximately 14%; the available capacity increased at an annual rate of approximately 10.2% during the year ended December 31, 1999. In addition, the Company has made significant enhancements to the quality of its network, in particular through opening additional gateways and investing in digital switching and transmission equipment. Since 1989, all of the Company's switching equipment has been digital, and since 1999, all of the Company's transmission equipment has been digital.

In July 1999, the Government released its Blue Print on Indonesian Telecommunications Sector Reform (the "Blue Print"), which outlined its proposed policy changes with respect to liberalization of telecommunications in Indonesia. As the first step towards implementing its new policy, in September 1999, the Indonesian Government announced the New Telecommunications Law No. 39 of 1999 (the "New Telecommunications Law"). Once effective, in September 2000, this new law will regulate the telecommunications industry in Indonesia replacing the existing regulatory framework under the Telecommunications Law No. 3/1989 (the "Current Telecommunications Law"). The Indonesian Government has announced that it is currently preparing the regulatory framework for the implementation of the New Telecommunications Law, and that it expects to announce these new regulations in 2000. The Company anticipates that the New Telecommunications Law will

eventually increase the number of players in the industry, alter the competitive landscape of the industry and introduce a new independent body that regulates the industry.

In 1967, Indosat was established as an indirect wholly-owned subsidiary of International Telephone and Telegraph Corporation ("ITT") and was selected by the Indonesian Government to build, transfer and operate for a period of 20 years an Intelsat earth station in Indonesia to access use of Intelsat's capacity on Indian Ocean Region ("IOR") satellites. Intelsat is a worldwide consortium for global international satellite communications organizations which owns and operates a number of telecommunications satellites. Indosat began commercial operations in September 1969. In 1979, Indosat completed a second Intelsat earth station which provided access to Intelsat's Pacific Ocean Region ("POR") satellites. Due to restrictions on foreign ownership of telecommunications facilities, Indosat built the Intelsat earth stations, transferred them to the Indonesian Government upon completion, and leased them back. By 1980, Indosat began operating its first submarine cable link: the ASEAN Indonesia-Singapore ("I-S") submarine cable. Indosat's ownership interest in the I-S cable was transferred to Perusahaan Umum Telekomunikasi ("Perumtel"), a public service organization and the predecessor of the current provider of domestic Indonesian fixed line telecommunications services, Telkom, upon completion and leased back. Indosat also provides mobile communications to ships at sea, aircraft in flight and land users through Inmarsat, an international mobile satellite communications consortium which owns and operates a number of telecommunications and distress satellites.

Indosat has been the Indonesian representative for Intelsat since 1985 and for Inmarsat since 1986. As the Indonesian representative for Intelsat and

Inmarsat, the Company authorizes all use of Intelsat and Inmarsat satellite systems by Indonesian customers and international telecommunications providers, including competitors of the Company. Indosat cannot preclude Indonesian competitors from accessing Intelsat's capacity. The Company's shareholding in Intelsat is linked to the use of Intelsat's capacity by all Indonesian international telecommunications providers, including usage by competitors. The Company's shareholding in Inmarsat is linked to usage by all Indonesian customers and usage by all Inmarsat customers to and from Indonesia. Indosat's ownership in Intelsat and Inmarsat have changed from time to time due to the admission/withdrawal of new/existing members into/from both organizations and/or the annual investment share predetermination as stipulated in the agreements of both organizations.

In 1980, ITT sold Indosat to the Indonesian Government for approximately US\$43.8 million. After the sale, Indosat became a persero, or state-owned limited liability corporation, and the sole provider of international telecommunications in Indonesia. At that time, the Indonesian Government transferred its ownership in Indosat's facilities to Indosat. In 1982, in order to separate effectively the domestic and international telecommunications networks, all of Perumtel's ownership in international submarine cables and its international operators and gateway in Jakarta were transferred to Indosat and Indosat transferred certain assets related to the domestic telecommunications system to Perumtel.

In 1983, the Company introduced international direct dialing ("IDD"), which is its most important service, accounting for an estimated 89.2% of the Company's outgoing international telephone volume in 1999. Indosat expanded its operations by opening gateways in Medan in 1985, in Batam in 1992 and in Surabaya in 1995.

In October 1994 the Company completed an initial global public offering of shares (the "Initial Public Offering") pursuant to which: (i) 103,550,000 Series B shares were sold to the public in Indonesia by the Company and (ii) 258,875,000 Series B shares, represented by 25,887,500 American Depositary Shares ("ADSs") were sold to non-Indonesian persons outside of Indonesia by the Indonesian Government. The Series B shares began trading on the Jakarta Stock Exchange ("JSX") and the Surabaya Stock Exchange ("SSX") on October 19, 1994. The ADSs began trading on the New York Exchange ("NYSE") on October 18, 1994. In anticipation of the Initial Public Offering, the Company amended its Articles of Association at an extraordinary general meeting of shareholders on July 11, 1994 and adopted certain resolutions to: (i) increase the authorized capital to Rp. 2 trillion, consisting of 3,999,999,999 Series B shares, par value Rp. 500 per share ("Common Stock"), and one Series A share, par value Rp. 500 (the "Special Share"); (ii) eliminate the Company's then outstanding shares of capital stock; (iii) reclassify Rp. 346.0 billion of retained earnings to paid-up capital in conformity with Indonesian GAAP; and (iv) issue 931,949,999 shares of Common Stock and the Special Share to the Indonesian Government. The actions set forth in (i) through (iv) above constitute the "Recapitalization". The material rights and restrictions which are applicable to the Common Stock are also applicable to the Special Share, except that the Indonesian Government may not transfer the Special Share and the holder of the Special Share has a veto right with respect to (i) election and removal of Executive Directors; (ii) election and removal of Commissioners; and (iii) amendments to the Articles of Association.

The Indonesian Government, as the Company's principal shareholder, invited international telecommunications operators to become strategic investors in

Indosat, and announced its intention to reduce its ownership in the Company in July 1998. At the extraordinary general meeting of shareholders on December 14, 1998 (the "EGM"), the Company's shareholders approved by resolution management's proposal to issue up to 54,500,000 shares of Common Stock (representing approximately 5% of the outstanding shares on a diluted basis) and the issuance of convertible bonds which can be converted into 54,500,000 shares of Common Stock, which must be conducted in compliance with capital market regulations.

3.2. COMPANY VISION AND MISSION

3.2.1. COMPANY VISION

As a company that already go public, Indosat has a vision that can bring them to the better performance. Their visions are:

- a. Remain the market leader in Indonesian international telecommunications services.
- b. Strengthen its position as a world-class telecommunications company.
- c. Become a global player in the world telecommunications industry.

3.2.2. COMPANY MISSION

To bring Indosat become a good company, they should has mission to compete with other company. Their missions are:

- a. Provide the best services to the customers.
- b. Give the best result to the shareholders.
- c. Maintain and improve the best image of the company.

3.3. COMPANY FACILITIES

Indosat, as one of big telecommunication company in Indonesia plans to continue to invest in several key projects to expand international telecommunications infrastructure. The Company believes that these projects will offer stable sources of revenue in addition to increasing the use of the Company's international network due to the increased penetration of the domestic telephone market. The Company plans to invest approximately Rp. 214.5 billion and US\$167.5 million in the Indonesian domestic telecommunications projects in the period 2000-2001 for additional capital increases in existing affiliates. To support the plan, Indosat also upgrades International Network Management Systems. To upgrade the systems needs a good facility. Facilities that are needed by the company are Satellite Earth Station, Microwave Link, Submarine Cable, and Bandwidth capacity.

1. Satellite Earth Station

Indosat's satellite earth station are currently linked to Intelsat Indian Ocean Region (IOR), Pacific Ocean Region (POR) and the Asia Pacific Region (APR) and to Inmarsat IOR. The link will soon include the Inmarsat POR and, eventually, the Inmarsat ICO-GC. Satellite circuits are unaffected by distance and offer broadcast services which make them flexible with regard to destinations. Satellites are ideal for long routes with little traffic. Submarine cables, especially fibre optic digital cables, can offer less expensive high-quality services. However, cable costs increase with distance, and destinations are fixed. Satellite circuits can be degraded by atmospheric conditions while submarine cables can suffer cable breaks.

As of December 31, 1998, the Company's available satellite bandwidth was 116.4 Mbps for voice and 4.7 Mbps for data circuits through earth stations at its

Jakarta, Surabaya, Medan and Batam gateways. Satellite capacity is currently obtained principally from Intelsat and, to a lesser extent, from Inmarsat. The Company reduced its satellite bandwidth capacity, including the termination of the Batam earth station, in order to reduce circuit costs of US\$1.44 million during 1998 by utilizing more submarine cables, and as a result its satellite bandwidth capacity declined 20% compared with the bandwidth capacity in 1997.

2. Microwave Link

Digital Microwave system links one Indosat facility to another, and between Indosat and certain customers of non-switched services such as IBS. The Company operates a microwave transmission system between its Batam gateway and Singapore and Johor, Malaysia. These systems have a combined capacity of 25 Mbps and 2 Mbps for voice and data, respectively.

3. Submarine Cable

Submarine Cable has long been part of Indosat's Network, and remains a key link of Indonesia with the rest of the world. To enhance transmission quality between gateways, Indosat has constructed fibre optic link between Jakarta and Surabaya and plans to do the same for all its earth stations and nearest gateways links.

In general, the Company uses submarine cables with satellite backup for medium distance links in Asia and primarily satellite links for longer distance links. The Company uses microwave links only for connections between gateways and earth stations, except for the Batam gateway which has microwave links to Singapore and Malaysia. It is the Company's policy to have 100% redundancy for its entire links (which may require routing through a third country). With the recent increase in

available fibre optic submarine cable capacity in the region, the Company has increased the proportion of bandwidth capacity provided by submarine cable. This has enhanced the Company's ability to offer high-quality, high-capacity digital data transmission services. At December 31, 1998 submarine bandwidth capacity represented approximately 74%, while satellite and microwave bandwidth represented 21% and 5%, respectively, of the Company's total available bandwidth capacity.

The Company has ownership interests and access to capacity in submarine cables interconnecting the Southeast Asia region, as well as those linking the region with Europe, North America and Asia/Pacific, including the Australia-Indonesia-Singapore ("AIS") cable and the Southeast Asia-Middle East-Western Europe ("SEA-ME-WE 1") cable. All of these cables land in Indonesia and offer analogue services. Indosat has 2.4 Mbps and 1.0 Mbps of capacity, respectively, in these cables. The Company enhances the quality of transmission by transferring the circuits in AIS and SEA-ME-WE 1 cables to digital ones. The Company expects that the usage of analogue cables will be retired by 2000.

The Company also has an ownership interest and access to 160.7 Mbps of capacity on the SEA-ME-WE 2 fibre optic cable, which lands in 13 countries between Singapore and France, including Indonesia. SEA-ME-WE 2 currently is the Company's primary link to neighbouring fibre optic digital cables. The Company has an ownership interest in the Asian Pacific Cable Network ("APCN") submarine cable which commenced service in January 1997. The cable, which, together with the APCN-A extension, links Indonesia with Hong Kong, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand and Australia, uses advanced transmission technology of 4.8 Gbps SDH fibre optic systems. The Company has 964,699 MIU Km of available capacity on this cable including 692,770 MIU Km of capacity which

has not yet been assigned. The Company also has an interest in Trans-Pacific Cable-5 ("TPC-5"), a submarine fibre optic cable which links Japan and the United States.

The Company is taking part with 93 other telecommunications entities in the SEA-ME-WE 3 fibre optic submarine cable project, which will be the first submarine project to implement SDH 20 Gbps technology. Indosat invested Rp. 193.8 billion (or US\$21.5 million) in this project in 1998 and plans to invest approximately US\$22.3 million and ¥837.3 million in this project during the period 1999-2000, of which approximately US\$17.5 million and ¥837.3 million is expected to be invested during 1999.

Indosat anticipates that this cable will be ready for service in September 1999. In addition, Indosat has taken part in the China-U.S. Cable Network, which will form an 80 Gbps link among China, Taiwan, South Korea, Japan and the United States. Indosat has invested US\$1.7 million in this cable in 1998, and plans to invest approximately US\$4.8 million in 1999 in this project.

4. Bandwidth Capacity

As of December 31, 1998, the Company had available bandwidth capacity of 566.3 Mbps, an increase of 8.1% over the available bandwidth of 523.7 Mbps as of December 31, 1997. Of the total available bandwidth at December 31, 1998, 518.5 Mbps was for voice and 47.8 Mbps for data transmission. As of December 31, 1998, all of the Company's top 20 destinations (representing approximately 94.1% of the Company's total international telephone traffic by minutes) were digitally connected. Usage of the Company's available bandwidth capacity varies between 60,000 and 140,000 minutes per year per available 64 Kbps capacity, depending on the destination. In the year ended December 31, 1998, the

Company recorded an average of 87,000 minutes per year per available 64 Kbps capacity. It is the Company's policy to maintain average utilization at less than 80% of capacity to allow for increased usage during peak hours.

As of December 31, 1999, the Company had available bandwidth capacity of 548.5 Mbps for voice, an increase of 5.8% over the available voice bandwidth as of December 31, 1998, and 75.5 Mbps for data transmission, an increase of 57.4% over the available data bandwidth of 47.8 Mbps of December 31, 1998. Approximately 2.3% of the Company's available bandwidth utilizes analogue technology; the Company expects that by 2000 all of its bandwidth will be digital.

3.4. ORGANIZATIONAL STRUCTURE

Organizational structure is an important tool from one company to perform all the business activity. The better organizational structure of the company will lead the easier for the management to places all the staff based on their own skilled. The appropriate organizational structure will also make a good relationship among the company's staff. A good relationship among the company's staff will lead a conducive situation in the company. If company's staffs feel comfort work in one company, they will work to achieve the company's objectives. In performing the work efficiency, commonly it needs a guideline in dividing the jobs. In general, the job description is described in the form of organizational structure. Indosat, as one of big company in Indonesia also has an organizational structure. The organizational structure from PT. INDOSAT Tbk will be shown in the next page.

Organization Structure

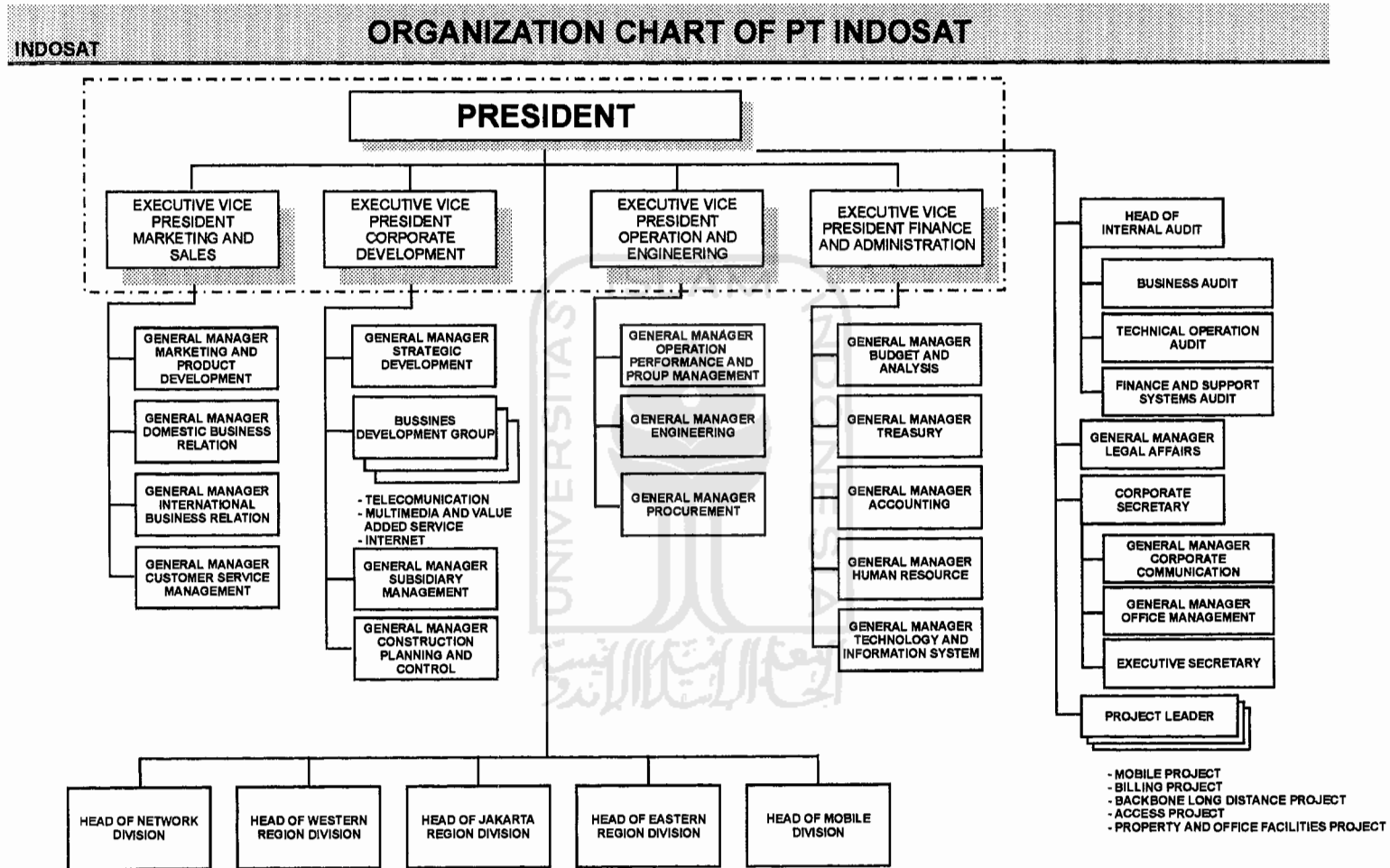


Figure 3.1 : PT. Indonesian Satellite Corporation Tbk Organizational Structure

The duty and responsibility of the board Director in PT. INDOSAT Tbk

are:

1. President
 - a. Deciding the company's policy.
 - b. Coordinating the whole company's activities.
 - c. Leading the monthly or annually meeting to estimate budget.
 - d. Signing the entire letter on behalf of the company.
2. Executive Vice President Marketing and Sales
 - a. Coordinating the marketing staff.
 - b. Deciding the marketing policy.
 - c. Deciding the product selling volume.
 - d. Deciding the production budget.
3. Executive Vice President Corporate Development
 - a. Coordinating the corporate development staff.
 - b. Controlling the development activities.
 - c. Deciding the development policy.
4. Executive Vice President Operation and Engineering
 - a. Controlling operation and engineering staff.
 - b. Managing the operational activities within the company.
 - c. Deciding the operation and engineering policy.
5. Executive Vice President Finance and Administration
 - a. Controlling finance and administration staff.
 - b. Deciding finance and administration policy.
 - c. Asking the staff to make a report.
 - d. Signing the receipt in the name of company.

3.5. HUMAN RESOURCES

Human resources determine every organization's success. Human resource actions contribute to improved productivity directly by finding better and more efficient ways to meet objectives and indirectly by improving the quality of work life for employees. Admittedly, managers must deal with tradeoffs between employee satisfaction and economic. At the same time, quality of work life must be achieved in ways that support the company's strategies, are ethical for the parties involved, and are socially responsible to the larger society.

At December 31, 1999, the Company had 1,706 permanent employees, including 163 managerial-level employees (employees with the rank of manager or higher) and 1,544 non-manager employees, compared to 156 manager and 1,564 non-manager employees, respectively, at December 31, 1998. The Company's turnover rate for employees is less than 1.0% per annum. As a result, employees have been with the Company for an average of 14.02 years. The Company provides numerous benefits to its employees, including a pension plan, medical benefits, housing allowance, transportation allowances, income tax allowance and access to a cooperative established by the employees. While there are no restrictions on hiring, the Company, like all Indonesian companies, is required to obtain the Ministry of Manpower's approval to lay-off ten or more employees in one month.

In 1998 and 1999, the Company employed 631 and 628 temporary employees, respectively, on a contract basis. Contract employees are regularly employed on terms generally limited to one-year appointments, which can be renewed annually for up to a total of five years. Such employees generally receive salaries, transport and medical benefits. In the past, the majority of the Company's employees were automatically registered as members of Korps Pegawai Republik Indonesia

(KORPRI), the Indonesian civil servants corps. However, as a result of Indonesia's ratification of certain International Labour Organization conventions, employees in Indonesia are now allowed to freely join any union or association of workers. As a result, Indosat's employees have recently established a new union and an employee forum, in addition to KORPRI. The Company has never had a strike or other labour action and believes its relations with its employees, unions and associations are good.

Employees are entitled to a pension under a defined benefit plan, pursuant to which they receive both a lump sum payment and a monthly benefit through an insurance program managed by Jiwasraya, a state-owned insurance company. The Company's employees have established a cooperative, Koperasi Pegawai Indosat ("Kopindosat"). Kopindosat engages in various activities, such as providing housing, transportation and other consumer loans principally to the Company's employees, and providing car, house and equipment rental and other services principally to the Company.

Management of Kopindosat is elected by the Company's employees every three years at an annual members' meeting. Kopindosat and certain of its subsidiaries are under supervision of the Company's management. Kopindosat has minority stakes in some of the Company's affiliates. The Company has also seconded several of its employees on a temporary basis to support Kopindosat and its subsidiaries in conducting their business as well as to provide job training for those employees.

The Company's employees have also established an employee welfare foundation, Yayasan Kesejahteraan Karyawan Indosat ("Yakindosat"). Yakindosat was created to provide a fund to improve the welfare of Indosat's employees. Management personnel of Yakindosat are appointed by the Company's management.

Yakindosat and certain of its subsidiaries are managed by and are under supervision of the Company's management. Yakindosat has investments in certain of the Company's affiliates. The Company has also seconded several of its employees on a temporary basis to support Yakindosat's subsidiaries in conducting their business.

3.6. MARKETING

3.6.1. MARKETING STRATEGIES

Adapting to the fast changing environments in telecommunications has become a critical factor for Indosat. Increased competition, converging technologies and strategic global alliances, among other things, are shaping the telecommunication markets of tomorrow. In response to these new challenges Indosat has developed a blueprint for growth, dubbed as the Grand Strategy: Indosat 2000. This strategy envisions key business lines in which Indosat will be intensely involved in up to the year 2000 and beyond.

Indosat strives to remain the market leader for international telecommunications services in Indonesia, position itself as a world-class telecommunications company, and become a global player in the world telecommunications industry. This is achieved through a "1-plus-3" Business Strategy which seeks:

"1". To Build Around a Central Core Business of International Telecommunications Services.

1. Participation in The Domestic Telecommunications Infrastructure Development.
2. Increasing its role in regional and international telecommunications.
3. Undertaking limited diversification into complementary businesses.

"1". To Build Around a Central Core Business of International

Telecommunications Services

Indosat continues to increase the number of international circuits to meet increasing demand. A total of 884 additional circuits were activated in 1996, 15,3% more than were employed on 1995. In addition, Indosat is constantly improving the quality of its services, launching new services and enhancing its relationship with major customers. Indosat international telecommunications traffic is transmitted through international satellites, submarine cable systems and microwave links, all of which use the latest digital technology including advanced multi media protocols. Indosat operates four international gateways in Jakarta, Surabaya, Medan and Batam through which traffic passes from Indonesia to the rest of the world, and vice-versa.

Having developed sufficient access to satellites through nine earth station in four gateway locations across Indonesia, Indosat is now expanding its access to digital fibre optic submarine cables by joining regional and worldwide cable consortia. This is all part of an expansion programme designed to increase capacity, improve quality and provide new services to meet changing customer needs.

1. Participation in The Domestic Telecommunications Infrastructure

Development

Indosat views its investments in the domestic telecommunications infrastructure as both a means to expand the market for international telecommunications services and a source of new revenues for the company. Indosat's two major ventures in this field are PT Mitra Global Telekomunikasi Indonesia (MGTI) as the licensed telecommunications operator of the Central Java region, PT

Pramindo Ikat Nusantara in Sumatra and PT Telekomunikasi Selular (Telkomsel), a joint venture GSM mobile cellular services.

2. Increasing its role in regional and international telecommunications

Indosat embarks on international projects, involving joint ventures with established as well as developing foreign telecommunications carriers. The primary goals are to increase international traffic via the company's gateways, earn revenues directly from such projects and gain additional expertise from the international exposure. To date, Indosat engaged in various telecommunications projects including joint ventures with the respective telecommunication entities of Cambodia and Kazakhstan and equity in investment in a PHS-based cellular service in Japan as well as in USA Global Link and Alphanet Telecom Inc. both are major global telecommunication carrier. In addition, Indosat has joined international alliances such as Concert and World Partners and has been appointed gateway for the Inmarsat Global Mobile System, SAN ICO to serve the South East Asia Region.

3. Undertaking limited diversification into complementary businesses.

Indosat also seeks to diversify into areas in which the Company's expertise in telecommunications can be used to optimum effects such as in value-added services which complement the company's core business. These services are provided through subsidiary companies and currently include such services a electronic data interchange, electronic banking, multimedia and the Internet.

With "1+3" corporate strategy, Indosat will be a company with "a full service provider and leading multimedia business".

In light of the introduction of the New Telecommunications Law and the Blue Print, the Company is restating its intention to remain competitively positioned within the industry through a business strategy known as "4-in-1". The strategy contemplates the Company's business development of four business platforms, namely, (i) the "backbone" of the Company (telecommunications network), (ii) cellular services, (iii) internet services and (iv) multimedia services, with the Internet Protocol ("IP") as a common technology platform. Using this strategy, the Company is seeking to become a fully integrated telecommunications provider in Indonesia within the next five years.

3.6.2. PRODUCT

3.6.2.1. International Telephone Services

International telephone services, which include voice, and facsimile traffic, generated revenues of Rp. 2,315.8 billion in the year ended December 31, 1999, or approximately 84.6% of the Company's total operating revenues in 1999. For the year ended December 31, 1999, approximately 95.4% and 89.2% of the number and volume (by minutes) of outgoing international telephone calls from Indonesia, respectively, were made using IDD (International Direct Dialling). Rates for IDD calls are the same as for operator-assisted calls but are charged on six-second multiples with no minimum charge while operator-assisted calls are charged on one-minute multiples with a three-minute minimum. Indosat also offers IDD customers discounts for night, national holiday and weekend calls to spread demand more evenly, and since November 25, 1998 Indosat has implemented premium charges during peak hours. All Indonesian telephone customers may subscribe for IDD free of charge.

In addition, all mobile and fixed cellular operators in Indonesia currently provide their customers with IDD access free of charge. The use of IDD in Indonesia has increased steadily and the Company estimates that there were more than 419,500 active subscribers in Indonesia which made at least one call through Indosat during 1999. The Company has taken several steps to improve the quality and usage of its international telephone network, including the introduction of additional services to its IDD service, such as expansion of Credit Phone Terminals, the introduction of pre-paid card services, credit card calling services (in collaboration with Citibank) and the implementation of various value-added services such as Fax Plus, Toll-Free Service, International Virtual Private Network ("IVPN"), which allows subscribers to establish the equivalent of an international PABX system. Credit card calling services are a means of communications for Citibank Visa and Mastercard holders in Indonesia which can be used at any touch tone telephone terminal with a tariff which is equal to the IDD service.

3.6.2.2. International Telex and Telegram Services

The volume of telex and telegram traffic has declined in recent years, consistent with global trends, as users switch to facsimile, e-mail and other data transmission services. The Company expects this trend to continue, but without any adverse impact on the Company since international facsimile calls generate revenue for the Company through increased telephone traffic. Similarly, international e-mail generates revenues for the Company and the Company believes a portion of international e-mail communications may represent international calls which might not have been made if the e-mail medium were not available. The Company received revenues of Rp. 14.6 billion from international telex and telegram services in 1999.

3.6.2.3. Global Corporate Services

High speed leased lines (IWL and IDL). Indosat World Link ("IWL", formerly known as "IBS"), an international leased line service which provides high-speed, high-quality digital data circuits on a point-to-point basis, offers line speeds from 64 Kbps and multiples thereof up to 2 Mbps. Most of Indosat's IWL customers are multinational corporations and Internet access providers who require dedicated high-speed international data links. Indosat Direct Link ("IDL", formerly known as "VSAT" or Very Small Aperture Terminal, which is a relatively small antenna, typically 1.5 to 3.0 meters in diameter, used for transmitting and receiving one channel of data communications) connections are used for IWL and other leased line users located in areas that are not fully served by the domestic network. IWL and international VSAT generated revenues of Rp. 225.0 billion in 1999. Since 1995, the number of IWL circuits has grown at a compound annual growth rate of 39.8%, from 198 in 1995 to 756 in 1999, and has grown at an annual rate of 23.3% during 1999.

3.6.2.4. Packet Switched Data Network ("PSDN")

The Company does not provide PSDN services directly to end-users. However, it provides international telecommunications services to Indonesia's packet switched data network. The Company's affiliate, P.T. Aplikanusa Lintasarta ("Lintasarta"), provides PSDN services in Indonesia in cooperation with Telkom. The Company received revenues of Rp. 4.6 billion in respect of PSDN services in 1999.

3.6.2.5. Frame Relay

Frame Relay Services, a high-speed leased packet technology, provide customers with multilateral connectivity, reliable local area network interconnections

and the power to support complex distributed computing applications without the need for dedicated point-to-point leased lines. The Company received revenues of Rp. 32.5 billion from this service in 1999. Since its initial launch in 1996, Frame Relay's number of ports has grown at a compound annual growth rate of 93.0% from 21 ports in 1996 to 151 ports in 1999, and has grown at an annual rate of 55.7% during 1999.

3.6.2.6. Multimedia services

The Company believes that multimedia services will become an increasingly important part of the telecommunications industry and plans to develop these services in Indonesia through, among other things, direct investment in existing providers of multimedia services and development of expertise in these services through investments in Indonesian and foreign content providers.

3.6.2.7. Internet Services

INDOSATnet which is the Company's Internet Service Provider (or "ISP") has grown rapidly since its launch in 1996; the Company has achieved compound growth rates of 355% for revenues received from INDOSATnet and 161% for subscriber growth, respectively. In line with the Company's strategy for INDOSATnet to diversify the devices through which Internet users can access the Internet, in December 1999, INDOSATnet introduced Internet Access via Cable TV Network under the name iDirect. This new facility was introduced in cooperation with P.T. Tanjung Bangun Semesta Tbk., a local Cable TV Operator currently passing 50,000 homes with approximately 15,000 subscribers providing "always on" connections for users at home. In December 1999 in cooperation with P.T. Ratelindo,

a wireless data operator, the Company also introduced Wireless Internet Access using cellular digital packet data technology for business people with high mobility.

INDOSATnet also continues to provide database applications, under the name Indonesia Interactive (or "I-2"), that feature local Indonesian content including travel, business, entertainment, gaming, e-commerce/ on-line shopping and community information. I-2 is a leading consumer interactive services in Indonesia, and INDOSATnet remains focussed on strengthening the positioning of I-2 as "The Indonesian Content" site. The Company believes that the I-2 brand character and brand positioning uniquely supports INDOSATnet's ability to explore most consumer and small business markets. For example, I-2 is cooperating with the largest "brick and mortar" bookstore in Indonesia, Gramedia and several merchants such as Dagadu, a souvenir store, Office One, an office supplies merchant, Precision, a computer hardware and software supplier, an online auction site called Balindo, and Merpati, a domestic Indonesian airline for online ticketing. With strategic alliances such as these, the Company believes that I-2 is well positioned to further capture the emerging growing online commerce market. The Company received revenues of Rp. 56.6 billion from Internet services in 1999, a 157% increase over 1998.

3.6.2.8. Telecast

The Company's telecast services have been widely used by national TV programs in broadcasting international events, such as World Cup and European Soccer league matches. The Company uses its ownership right to use Intelsat satellite to transmit such events. The Company received revenues of Rp. 19.9 billion from this service in 1999.

3.6.2.9. Global Mobile Services

The Company launched the Global Express Phone 7 or GEO-7 in 1997, another name for the latest Inmarsat Mini M global mobile telecommunications system that uses an Inmarsat terminal with the size and format of a notebook computer. Indonesia was the third country in Asia/Oceania, after Japan and Australia, where Inmarsat Mini M was offered. Inmarsat Mini M is currently also offered in Singapore, India, Malaysia and South Korea. The Company received revenues of Rp. 5.1 billion from this service in 1999.

3.7. FINANCIAL CONDITION

The Indonesian economy has been affected by tight liquidity, high interest rates and high inflation during 1997 and 1998 and fluctuations in the Rupiah, reduced economic activity and difficulties in the banking sector during all three years. Although during 1999, the Rupiah was significantly more stable than in 1997 and 1998, and interest rates and inflation declined during 1999, economic activity overall did not increase significantly during the period. As a result of such economic conditions, as well as social conditions in Indonesia during 1998 and 1999, several of the principal drivers of the Company's international telecommunications business have been adversely affected, including: operating expenses; the levels of business activity; and development of the domestic network. In the event that economic conditions stagnate or do not improve, such factors may continue to be adversely affected, which may have an adverse impact on the Company's results of operation and financial condition.

Financial conditions from PT. INDOSAT Tbk on the period 1996-1999 are depicted to the next page.

le 3.1. Balance Sheet of PT INDOSAT Tbk

PERUSAHAAN PERSEROAN (PERSERO) PT INDOAN SATELLITE CORPORATION TBK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997, 1998, AND 1999
(In Millions of Indonesian Rupiah, except for Share Data)

	1996	1997	1998	1999
NET ASSETS				
and cash equivalents	42,744			
Invested parties	-	332,582	1,251,312	1,736,398
Uninvested parties	-	178,777	159,295	46,158
- Dana	-	25,084	-	-
Term investment	-	1,499	99	99
Invested parties	240,748	-	-	-
Uninvested parties	424,981	-	-	-
Accounts Receivables				
- Related parties				
PT TELKOM	146,748	204,604	340,365	312,940
Others	12,824	28,450	29,742	27,089
Uninvested parties	206,067	380,757	453,015	509,742
Prepaid expenses				
- Related parties	3,042	8,967	31,016	15,835
- Unrelated parties	75,744	36,142	36,214	60,823
Prepaid expenses	5,565	17,490	2,684	1,008
Prepaid expenses and other current assets	8,921	19,592	20,396	22,016
Current asset	1,167,384	1,233,944	2,324,138	2,732,108
DEFERRED TAX ASSETS	-	-	10,008	40,823
LONG-TERM INVESTMENTS	813,199	1,389,184	1,394,919	1,533,856
PROPERTY AND EQUIPMENT				
- Original value	1,021,209	1,112,758	1,483,559	1,819,148
- Accumulated depreciation	(247,035)	(301,891)	(400,195)	(485,647)
Book Value	774,174	810,867	1,083,364	1,333,501
OTHER ASSETS				
- Accounts receivables				
- Related parties	21,454	28,145	32,430	25,916
- Unrelated parties	35,012	22,740	7,685	70,313
- Net	1,344	10,328	7,848	5,368
- Pension assets	8,386	2,325	-	9,397
- Post stock issuance cost-net	19,739	12,772	5,805	-
- Other	3,235	22,161	12,844	4,138
Other Assets	89,170	98,471	66,612	115,132
TOTAL ASSETS	2,843,927	3,532,466	4,879,041	5,755,420

	1996	1997	1998	1999
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Short-term loan	4,990	153,940	-	440
Amount payable				
Trade	40,732	114,000	277,540	269,732
Others				
Related parties	6,881	1,920	1,331	2,022
Third parties	98,745	69,196	243,279	146,037
Accrued and payable	-	-	898	1,447
Dividends payable	37,104	72,129	250,657	225,134
Accrued expenses	47,381	76,687	96,485	95,699
Contract maturities of long-term debt				
Related parties				
Government of the Republic of Indonesia	5,010	5,010	5,010	5,010
Others	-	142	142	67
Current Liabilities	240,843	493,024	875,342	745,588
DEFERRED TAX LIABILITIES	-	-	153,785	215,326
UNDETERMINED ACCUMULATED PENSION				
PROVISION	8,386	2,325	-	9,397
LONG-TERM DEBT- Net of Current Maturities				
Related parties				
Government of the Republic of Indonesia	32,788	27,840	22,776	17,766
Others	-	1,216	861	821
Long-term Debt	32,788	29,056	23,637	18,587
MINORITY INTEREST IN SUBSIDIARIES	4,487	8,974	8,883	7,176
STOCKHOLDERS EQUITY				
Common stock - Rp 500 par value per A share and B share				
Authorized - 1 A share and 3,999,999,999 B shares				
Issued and fully paid - 1 A share and 1,035,499,999 B shares	517,750	517,750	517,750	517,750
Unpaid	673,075	673,075	673,075	673,075
Retained earnings of the changes from equity transactions of associated				
Companies	391,106	391,106	295,687	298,565
Adjustment in foreign currency translation	-	2,674	9,761	9,667
Accumulated earnings				
Appropriated	422	422	422	422
Unappropriated	975,070	1,414,060	2,320,699	3,259,867
Retained earnings	975,492	1,414,482	2,321,121	3,360,289
Stockholder equity	2,557,423	2,999,087	3,817,394	4,759,346
LIABILITIES AND STOCKHOLDERS EQUITY	2,843,927	3,532,466	4,879,041	5,755,420

Source: <http://www.indosat.com/investor/annual/assets.html>

3.2. Income Statement of PT INDOSAT Tbk.

PERUSAHAAN PERSEROAN (PERSERO) PT INDONESIAN SATELLITE CORPORATION TBK AND SUBSIDIARIES				
CONSOLIDATED STATEMENTS OF INCOME				
FOR THE YEARS ENDED DECEMBER 31, 1996, 1997, 1998, AND 1999				
(In Millions of Indonesian Rupiah, except Share Data)				
	1996	1997	1998	1999
OPERATING REVENUES				
Telephone	1,116,958	1,289,103	1,762,588	2,315,837
Other services	106,289	167,703	345,657	422,976
Operating Revenues	1,223,247	1,456,806	2,108,245	2,738,813
OPERATING EXPENSES				
Compensation to telecommunication carriers and service providers	303,581	337,675	345,729	519,279
Facility costs	111,512	141,164	164,472	198,396
Depreciation	55,297	66,942	98,501	113,161
Administration and general	44,050	64,529	95,442	100,991
Finance	25,955	39,597	88,560	65,359
Marketing	25,248	29,675	35,008	53,425
Cost of services	70,908	81,904	173,439	167,960
Operating Expense	636,551	761,486	1,001,151	1,218,571
OPERATING INCOME	586,696	695,320	1,107,094	1,520,242
OTHER INCOME (EXPENSES)				
Interest income - net	17,815	16,188	89,336	369,595
Dividend income - net	86,273	94,036	245,400	212,665
Gain for decline in value of long-term investments	(25)	-	(108,000)	(193,232)
Gain (loss) on foreign exchange - net	4,836	89,854	182,880	(59,981)
Gain for doubtful accounts receivable - others	-	-	-	(55,329)
Loss for doubtful long-term receivables	-	-	-	(15,078)
- net	8,278	(22,578)	17,134	81,274
Income - Net	117,177	177,500	426,750	339,914
INCOME BEFORE PROVISION FOR INCOME TAX	703,873	872,820	1,533,844	1,860,156
PROVISION FOR INCOME TAX				
Current	183,244	232,994	436,971	453,029
Deferred	-	3,718	(45,363)	29,493
INCOME BEFORE MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	520,629	636,108	1,142,236	1,377,634
MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	1,056	419	167	1,707
INCOME	521,685	636,527	1,142,403	1,379,341
OPERATING INCOME PER SHARE	566.58	671.48	1,069.14	1,468.12
INCOME PER SHARE	503.80	614.70	1,103.24	1,332.05
INCOME PER ADS	5,038.00	6,147.05	11,032.38	13,320.53

<http://www.indosat.com/investor/annual/assets.html>