REVENUE AND EXPENSE RECOGNITION, MEASUREMENT AND REPORTING IN A TELECOMMUNICATION COMPANY CASE STUDY: PT. EXCELCOMINDO PRATAMA

A THESIS

By

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Presented as Partial Fulfillment of the Requirements
to Obtain the Bachelor Degree in Accounting Department

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STATEMENT OF FREE PLAGIARISM

Herein I declare the originality of this thesis; there is no other work which has ever presented to obtain any university degree, and in my concern there is neither one else's opinion nor published written work, except acknowledgement quotation relevant to the topic of this thesis which have been stated or listed on the thesis bibliography.

If in the future this statement is not proven as it supposed to be, I am willing to accept any sanction complying to the determinated regulation for its consequence.

Yogyakarta, July 28th, 2006

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Abstract

This study is aimed to describe the way PT. Excelcomindo Pratama recognizes, measures, and reports its revenues and expenses under the formal business financial accounting procedure. In this study the researcher employs an appropriate problem seeking procedure in order to identify correctly the real and actual problem being faced by the Company in the area of financial accounting by choosing two sub-focuses: (1) revenue recognition, measurement, and reporting; and (2) expense recognition, measurement, and reporting. Moreover, the qualitative study method with a case study approach had been considered as the most appropriate way to answer correctly the research questions raised during the preliminary field observation. Based on the reseach questions, the major purposes of this study include (1) to know how PT. Excelcomindo Pratama recognizes, measures, and reports its existing revenue and expense, and (2) to reveal how the company's treatment of revenue and expense compares to how revenue and expense are treated in the Indonesian Financial Accounting Standards. The study may contribute both practical and academic settings where human needs exist and develop over time.

Furthermore, some Company's relevant persons and current documents had been selected as the study's major data resources. To collect the required data from those data resources, both interview and document guides as the main study instruments had been employed to gather the empirical data and information needed for the study analysis. The domain analysis had been employed as the data analysis technique suitable to run from the very general and huge data arrive on some factual and relevant sub themes and compiled into a theme as the study title: "Revenue and expense recognition, measurement, and reporting . . . . ".

Finally, some crucial study findings derived from the field data analysis completely answer the research questions, include (1) the empirical description on the way the Company recognizes, measures, and reports its revenue and expense, and (2) the Company's compliance to the Indonesian Financial Accounting Standard (PSAK) in financial accounting management.

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In the name of the almighty Allah, the most merciful, I would like to express my gratefulness solely to Allah for the blessing and guidance that have enlightened me to face every single challenge throughout my life. Finally, I could finish and present this thesis as a partial requirement to obtain the degree in Bachelor of Economics at Faculty of Economics, Universitas Islam Indonesia.

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Yogyakarta, July 28th, 2006

Rizki Sisindra

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CHAPTER I

INTRODUCTION

1.1. Study Background

Nowadays, the discipline of financial accounting both in the application and academic settings is becoming a very crucial determinant for the business world. Revenue and expense, as the two major factors of financial accounting, serve very important role in any private organization; they have been developing significantly over time to meet the needs development. Revenue on the one hand is a very important substance for any private organization's sustainability; it has a positive influence for the private organization's survival and development, while expense on the other hand may have a negative impact for the owners' equity; however, both revenue and expense become the two required factors that should be existed and be taken carefully into account. This means that to get revenue, any private organization should have expense as a required and logical consequence, because expense is an occurred cost that must be sacrificed to generate revenue. Sometimes the relationship between revenue and expense is very hard to determine. The expense is usually measured either by historical price or by exchange price; while revenue is believed to be the sole of company's life. It is strongly believed that there is no revenue without expense.

Moreover, problems existing in determining recognition of revenue and expense may be very common to any business organization. They may exist hierarchically in the financial accounting activities when a business organization determines the following:

(1) the nature of components suitable for its revenue or expense,

(2) the measurement used for its revenue or expense, and

(3) the timing of recognition employed for its revenue or expense.

In a practical setting, it is assumed that those three facts might potentially generate some problems in application that the organization is required to solve.

According to the revenue principle, it is generally acknowledged that revenue is earned throughout all stages of the operating cycle (that is, during receipt of order, production, sale, and collection). Given the difficulties in allocating revenue to the different stages of the operating cycle, accountants apply the realization principle to determine a 'critical event' in the operation cycle for the timing of revenue recognition to indicate when certain changes in assets and liabilities may be accounted for appropriately. The essential meaning of the realization principle is that a change in asset or liability has become sufficiently definite and objective to warrant recognition in the accounts.

The matching principle holds that expense should be recognized in the same period as its associated revenue; that is, revenue is recognized in a given period according to the revenue principle, and the related expense are then recognized in the same period.

The association between revenue and expense would be best achieved when it reflects the cause and effect relationship between revenues and expenses.

In this study, the researcher intends to describe and explore the way in which PT. Excelcomindo Pratama recognizes its revenues and expenses transactions by promoting the following study title: "Recognition, Measurement and Reporting of Revenue and Expense in a Telecommunication Company: Case study of PT. Excelcomindo Pratama."

1.2. Problem Identification

Generally, problem may exist in various forms:

(1) the existence of a gap between what should be and what it actually is or what really happens,

(2) the existence of a gap between theory (in book) and practice (in action),

(3) the existence of gap between rules and implementation,

(4) the existence of gap between past experience and current situation. (Sugiyono, 2005).

For instance, the expected financial accounting management is consistent but the actual financial accounting management is inconsistent.

There are some differences that might exist in the area of financial accounting in any business organization due to the difference in operation and business type, especially in the way in which it recognizes and reports its assets, liabilities, revenues, expenses, etc. In the case of PT. Excelcomindo Pratama, the problem might lay in the recognition, reporting, and measurement of revenues and expenses.

In revenue itself, PT. Excelcomindo Pratama offers three main products consisting of *GSM Telecommunication Services*, *GSM Interconnection Services*, and *Other Telecommunication Services*. The empirical problem appeared in the recognition and measurement of the Company revenues and when they were recorded and reported; also how the process meets the Indonesian Financial Accounting Standards and the standards of the company itself. There may be another problem in the treatment of expenses where production costs may not be directly related to services sold. This may be due to the significant interaction of third party sellers, especially in the case of prepaid transactions.

1.3. Problem Formulation

When analyzing the different levels of explanatory phenomena, generally there are three types of problem formulations, they are descriptive, comparative, and associative problem formulations. In this study, the researcher employed the descriptive problem formulation, that is, a problem formulation aiming to describe or photograph a social situation (e.g., revenue & expense recognition and reporting) that will be investigated deeply.

Based on the problem background and formulation described above, the research questions are formulated as follows:

1) How does the PT. Excelcomindo Pratama recognize, measure and report its existing revenue and expenses?

2) How does the company's treatment of revenue and expenses compare to the Indonesian Financial Accounting Standards on the treatment of revenue and expenses?

1.4. Problem Limitation

In this study, the researcher has limited the problem in order to make it focused, specific, and feasible due to the human resource, time, and budget constraints faced by the researcher. In the analysis of revenue, the researcher will make limitations in the category level which is not to include *Other Telecommunication Services* in the study. While in the analysis of expense, only categories of expense directly related to revenue will be included.

1.5. Research Title

Generally, the title in qualitative research is developed based on the selected problem. Therefore, the study or research title must be specific and reflect the problem that will be studied. Qualitative research title serves as a guideline to a researcher for determining the problem to be studied, the theory to be used, the data collection instrument to be developed, the data analysis methodology, and study conclusion. In a qualitative study, the title is usually contemporary due to the contemporary status of the problem. Therefore, the title is also usually changed many times following the social situation found in the field. In this study, the researcher experienced title changes as follows: the first research title chosen was "Revenue and Expense Recognition in PT Excelcomindo Pratama"; the second title chosen was "Revenue and Expense Recognition and Reporting in PT Excelcomindo Pratama"; and the third or final proposed research title was "Revenue and Expense Recognition, Measurement, and Reporting in PT Excelcomindo Pratama". These changes of study title indicate that the study focus was dynamic.

1.6. Research Objectives

1) To know how PT. Excelcomindo Pratama recognizes, measures and reports its existing revenue and expense.
2) To reveal how the company's treatment of revenue and expense compares to how revenue and expense are treated in the Indonesian Financial Accounting Standards.

1.7. Research Contribution

A study without any contribution to human life is useless and meaningless. Therefore, this qualitative study has been designed by the researcher to provide a contribution that will satisfy both practical and academic settings where human needs exist and develop over time.

Normally, this study is expected to be beneficial for:

1) Practical setting: here the findings could be utilized by the PT. Excelcomindo Pratama and other similar companies for their Financial Accounting Process Refinement particularly in the areas of revenue and expense treatments;
2) Academic Setting: here the findings could enrich the scope and content of the research and learning materials in the area of financial accounting, especially in the revenue and expense perspectives for the academic development.

1.8. Research Method

1.8.1. Type of Research

Spadley (1980) defined "a focus refers to a single cultural domain or a few related domains". This means that focus may serve as a single domain or several domains related to a social situation. Furthermore, Spadley in Faisal (1988) promoted four alternatives for determining focus:

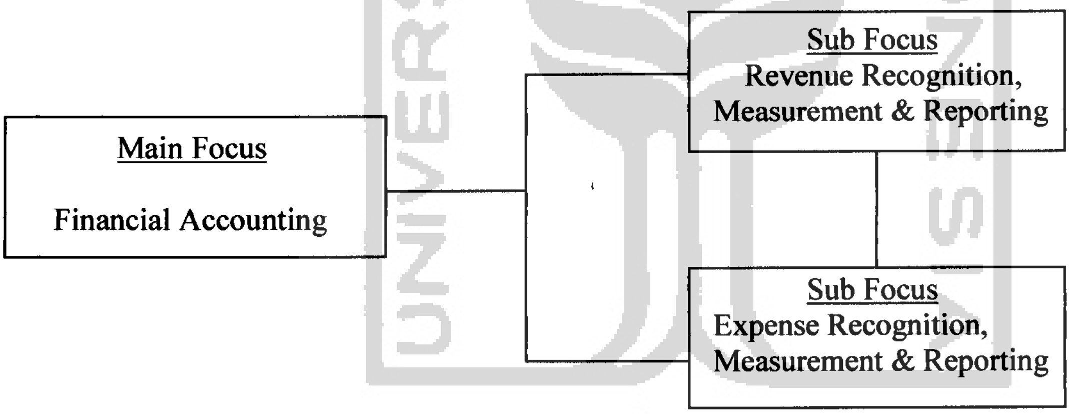
(1) determine the focus on a problem suggested by the informant;

(2) determine the focus based on certain domains (organizing domain);

(3) determine the focus that is of value on science & technology development;

(4) determine the focus based on a problem related to existing theories.

The Main Focus in this study is Financial Accounting comprised of several sub focuses, where two of them are (1) Sub Focus of Revenue Recognition, Measurement, and Reporting and (2) Sub Focus of Expense Recognition, Measurement, and Reporting that had been described completely in this study using empirical and qualitative data / facts collected from the study object. In addition, both Sub Focuses (e.g., Revenue Recognition, Measurement & Reporting and Expense Recognition, Measurement & Reporting) are also related, especially when they are compared to measure profit.



1.8.2. Research Subject

This study is conducted in the PT. Excelcomindo Pratama with the activity of the Financial Accounting Department as the main study object focusing on revenue and expense recognition, measurement, and reporting transactions. Some resource persons experienced in the research focus and working for the Company will be purposively selected as the research subjects. The purposeful selection technique is imposed to a on a number of the Company's employees who were then treated as informants or research subjects in this study.

1.8.3. Research Setting and Time Span

This research had been conducted in the places where PT Excelcomindo Pratama's data is available. Its Headquarter office address is on Mega Kuningan Street, Lot I - VII #1, Southern Jakarta.

The duration or time span of the study was a four-month period from February to May 2006. It included a series of steps as follows:

1. Preliminary / first round:
   (1) identify and select the research problem,
   (2) determine the research focus (es),
   (3) draft the problem formulation,
   (4) determine the research purposes,
   (5) determine the expected research benefits;
2. Second round:
   (1) prepare the research theoretical & conceptual references through literature review;
   (2) develop the conceptual framework and formulate the basic assumptions
3. Third round:
   (1) choose the most suitable research approach;

(2) determine the data resources and data gathering techniques;

(3) construct the suitable study instruments;

(4) determine and choose the most suitable data analysis technique.

4. Fourth / final round:

(1) gather the relevant data and information;

(2) manage and analyze the data into a meaningful information;

(5) interpret the study findings into a useful conclusions, implications, and suggestions

(6) complete the final study report.

The study duration is based upon the length and width of the study focus. Stainback (1998) stated that "there is no way to guess how long it will take to do a qualitative research study. The "typical" study probably last about a year. But the actual length or duration depends on the resources, interest, and purposes of the investigators. It also depends on the size of the study and how much time the researcher devotes to the study each day or week."

1.8.4. Research Instrument

The quality of a research instrument plays a crucial role in determining the quality of a qualitative study. In a qualitative study, the researcher acts as an instrument, meaning that he or she must be ready to handle the major research tasks in the field. The qualification of qualitative researcher is that he or she understands correctly and completely the study method, the scope of the study object, and his or her readiness to enter study object and start the study academically and logistically. This Qualification is determined and evaluated by the researcher himself.

In addition, Lincoln and Guba (1986) stated that "The instrument of choice in naturalistic inquiry is the human. We shall see that other forms of instrumentation may be used in later phases of the inquiry, but the human is the initial and continuing mainstay. But if the human instrument has been used extensively in earlier stages of inquiry, so that an instrument can be constructed that is grounded in the data that the human instrument has produced". Based on this statement, it can be understood that in the qualitative study at the time where problem is still unclear and uncertain, the researcher himself should act as the study instrument. When the problem has been made clear and certain, he or she may develop required instruments.

The instrument for this study is comprised of:

a) *Interview Guide:* this instrument will be used to guide the data and information collection process through in depth interview conducted between researcher and relevant resource persons (informants) from the study object, in order to gather explanations on technical terms which are unfamiliar to the researcher;

b) *Document Observation Guide:* This instrument will be used to guide the data and information collection through the relevant documents of PT. Excelcomindo Pratama;

1.8.5. Research Data Resource

Data resources in qualitative research may include persons, documents, and events; in this study, however, researcher only employed:

a) *Persons:* here the data resource will be some relevant persons who are believed to be the authorized resource persons of the PT. Excelcomindo Pratama that will provide data and information concerning their knowledge and experiences about the study focus using an in depth interview technique;

b) *Documents:* here the data resource will be some relevant documents of PT. Excelcomindo Pratama concerning the study focus collected through the document observation technique;

1.8.6. Data Gathering Technique

Data gathering is a very strategic step in the study, because the main purpose of research is to collect data. Without knowing the appropriate data gathering technique, researcher will be unable to collect the intended data. Data gathering can be conducted in various settings, resources, and ways or modes. When looking at the setting, data can be gathered in a natural setting, in laboratories, in houses, in a seminar, etc. When looking at the resources, the data gathering technique may employ primary resources (a direct way) and secondary resources.(an indirect way). Finally when looking at the method or technique, data gathering can be conducted through observations, interviews, questionnaires, and documents, or a combination of the four.

The data collection process at each stage (e.g., description, reduction, and selection) is conducted cyclically and repeatedly by employing various methods and targeting various resources. In each process, data collection gathering is conducted though five stages. After the researcher enters the research object (social contact: place, actor, activity/event), here researcher thinks about the following:

(1) what and whom to be asked,

(2) collect data & information needed,

(3) verify the accuracy of data and information, (4) formulate a conclusion, and (5) recheck the conclusion to data resources ensuring whether the conclusion attainable. (Sugiyono, 2005).

The scope of a qualitative research usually covers a social unit of study from macro into micro level comprising of the following:

(1) complex society,

(2) multiple communities,

(3) a single community study,

(4) multiple social institutions,

(5) a single social institution,

(6) multi social situation, and

(7) single social situation.

Therefore, qualitative method can be employed for researching a micro level (single social situation) until a complex society (a macro level) (Sugiyono, 2005). Furthermore, Stainback (2003) mentioned that "An investigation might be simple or complex, dealing with a single event or multiple event, might be small or large". In this study, researcher only involved a micro level (a single event: financial accounting management).

In terms of data gathering technique for this study, the researcher employed only interview and document observation techniques. The first technique was aimed at collecting primary data through selected resource persons; while the second technique was intended to gather secondary data through documents observation.

1.8.6. Technique of Data Analysis

In a qualitative study, data is gathered from various resources by using multiple data collecting techniques (triangulation), and conducted non stop until the data become obsolete. Observing the data continuously caused the data to increase in variety and complex. Sometimes the pattern of data analysis to be employed is still unknown causing difficulty in performing data analysis completely. This is mentioned by Miles & Huberman (1984) that "The most serious and central difficulty in the use of qualitative data is that methods of analysis are not well formulated". Moreover, Stainback (1988) mentioned that "There are no guidelines in qualitative research for determining how much data and data analysis are necessary to support an assertion, conclusion, or theory".

In addition, Bogdan (1982) stated that "Data analysis is the process of systematically searching and arranging the interview transcripts, field notes, and other materials that you accumulate to increase your own understanding of them and to enable you to present what you have discovered to others". Stainback (1988) also mentioned that "Data analysis is critical to the qualitative research process. It is to recognize, study, and understand interrelationship and concept in your data that hypotheses and assertions can be developed and evaluated"; Spredley (1980) also mentioned that "Analysis of any kind involves a way of thinking. It refers to the systematic examination of something to determine its parts, the relation among parts, and the relationship to the whole. Analysis is a search for patterns".

The data analysis process in a qualitative study involve several phases:

(1) data analysis conducted before entering the filed,

(2) data analysis conducted during or in the field, and

(3) data analysis conducted after leaving the field.

In this case, Nasution (1988) mentioned that "Data analysis has been conducted at the time when the problem is being described and formulated, before entering the field, and continue going until the study report completion."

To analyze the data and information collected in this study, the researcher employed domain analysis technique that breaks down the data / information from the domain (very general) level into category (more specific) level and then into theme (very specific) level. This type of qualitative analysis technique ensured the researcher to come up with the themes such as finding conclusions derived from the bulk of data and information collected from the study object. Finally, the researcher compared the outcome with the standards proposed by the Indonesian Financial Accounting Standard (PSAK).

1.9. Thesis Outline

CHAPTER I: INTRODUCTION

1.1. Study Background

In this part, the researcher illustrated the background of the problem comprising of problem description, problem causes, problem importance level, empirical facts about the problem, and relevant theories & concepts for solving the problem.

1.2. Problem Identification

In this part, the researcher illustrated a number of problems observed and identified during the identification process conducted in the research object.

1.3. Problem Limitation

In this part, the researcher selected and limited the number of research problems to be studied (especially time and budget) in order to sharpen the study focus based on the resource available.

1.4. Problem Formulation

In this part, the researcher drafted a number of research questions based on the number of problems selected. These research questions then to be answered through the data collected in the study setting.

1.5. Research Objectives

In this part, the researcher describes the objectives of this study that have to be performed during the field visits to find the empirical answers of the research questions formulated above .

1.6. Research Contributions

In this part, the researcher illustrates expected study contributions that may beneficial to all parties who interested in the study.

1.7. Research Method

In this part, the researcher determines the method most suitable for the study in order to guide the researcher in some activities such as data collection technique and procedure, data analysis technique and procedure, etc.

1.8. Type of Research

In this part, types of the study are illustrated completely following the relevantly available scientific references.

1.9. Research Subject

This part presents study subjects involving in the study and their profile.

1.10. Research Setting

This part describes places involving in the study including their major characteristics.

1.11. Research Instrument

This part explains the study instruments that will be employed to gather data in the research setting.

1.12. Data Resource and Gathering Technique

This part draws all data resources and gathering techniques available and suitable for the study for the optimal research findings.

1.13. Technique of Data Analysis

This part describes certain data analysis techniques and its procedure suitable for the study.

CHAPTER II: REVIEW OF RELATED LITERATURE

This part illustrates all relevant theories and concepts related to the focus and sub-focus of the study. Conclusions and opinions of the writer on theoretical and conceptual bases related to the study focus references. The conceptual framework is drawn including its diagram. Finally, basic assumptions of the study are also presented. The completed outlines of this chapter are as follows:

2.1. Theoretical Review

2.1.1. Definition and Unique Features

2.1.1.1. Revenue

2.1.1.2. Expense

2.1.2. Principles of Recognition

2.1.2.1. Revenue

2.1.2.2. Expense

2.1.3. Measurement of Revenue and Expense

2.1.4. Standard of Auditing

2.2. Theoretical Framework and Study Model

CHAPTER III: COMPANY PROFILE

In this chapter, some information concerning the Company's profiles is completely presented, such as:

3.1. History of the Company

3.2. Profile of PT. Excelcomindo Pratama

3.3. Company's Shareholders

3.4. Types of Products and Services Offered

3.5. Financial Highlights

3.5.1. Result of Operations

3.5.1.1. Revenue from Operations

3.5.1.2. Operating Expense

3.6. Organizational Structure of the Company

3.7. Company Policy on Revenue and Expense Recognition

CHAPTER IV: PRESENTATION AND DISCUSSION ON STUDY FINDINGS

In this part, study findings concerning the focus and sub focus are presented and completed with the discussion of study findings

4.1. Description of Study Findings

4.1.1. Revenue and Expense Recognition in the Consolidated Financial Statements

4.1.2. Revenue and Expense Measurement in the Consolidated Financial Statements

4.1.3. Revenue and Expense Reporting in the Consolidated Financial Statements

4.2. Indonesian Financial Accounting Standards (PSAK) on Revenue and Expense Treatment (Recognizing and Reporting) for Telecommunication Services

4.2.1. Revenue Recognition on Telecommunication Services

4.2.2. Revenue Reporting on Telecommunication Services

4.3. Discussion of Study Findings

CHAPTER V: CLOSING REMARK

In this part, the researcher discusses the study conclusions, implications, and presents suggestions based upon the study findings. The completed outlines are as follows:

5.1. Conclusions

5.2. Implications

5.3. Suggestions

BIBLIOGRAPHY

ATTACHMENTS

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Theoretical Review

Every researcher always employs theories or concepts relevant to his or her study focus (es). Kerlinger (1978) stated that "theory is a set of interrelated construct (concepts), definitions, and proposition that present a systematic view of phenomena by specifying relations among variables, with purpose of explaining and predicting the phenomena. Moreover, Wiersma (1986) stated that " a theory is a generalization or series of generalization by which we attempt to explain some phenomena in a systematic manner. Furthermore, Cooper & Schindler (2003) proposed that "a theory is a set of systematically interrelated concepts, definition and proposition that are advanced to explain and predict phenomena (fact). Haditono (1999) also stated that "a theory will have a crucial meaning, if it is able to make more illustration, explanation, and forecasting on existing phenomena.

Mark (1963) and Haditono (1999) differed in perspective and grouped theory into three major types related to the empirical data, they include:

1. Deductive theory: provides information starting from a prediction or certain speculative thoughts towards the observed data;

2. Inductive theory: provides information starting from the observed data to theory; and

3. Functional theory: shows interacting influence between data and theoretical prediction, that is, data influences on theory formation and the theory formation influences the data.

2.1.1. Definitions and Unique Features

2.1.1.1. Revenue

Fees & Warren (1993) defined that revenue is the amount of assets received by rendering services to customers or selling merchandize to them. This means that revenue may be produced or generated by firms who render services to other parties (e.g., customers, selling merchandizes, etc.).

Hendriksen & Breda (2000) generally defined revenue as a company's outcome measured in an existing exchange price unit. Revenue normally has to be recognized after a selling process completed. In the practical setting, revenue usually is recognized at the time when the selling event occurred.

Moreover, Meigs, Williams, Haka, & Bettner (2001: 98) stated that "revenue is the price of goods sold and services rendered during a given accounting period. Earning revenue causes owners' equity to increase. When a business renders services or sells merchandise to its customers, it usually receives cash or acquires an account receivable from the customer. The inflow of cash and receivables from customers increases the total assets of the company; on the other side of the accounting equation, the liabilities do not change, but owners' equity increases to match the increase in total assets. Thus revenue is the *gross increase in owners' equity* resulting from operation of the business."

Meigs et al (2001) explains and provide examples that different types of revenue can be clearly described through the use of various account titles, like a business selling merchandise rather than services uses the term *Sales* to describe it revenue such as Giant or K-Mart. Revenue may also be called *Fees Earned* by the professional practices (e.g., medical doctors, lawyers, etc.), others however might call its revenue *Commissions Earned* (e.g., real estates, travel agencies, etc.). Other types of revenue common to many businesses are *Repair Service Revenue & Rent Revenue Earned (e.g., overnight auto services); Ticket Sales, Concession Revenue, and Revenue from Television Contracts (e.g., a professional sports team); Interest Revenue or Interest Earned (e.g., banks).* .

Furthermore, Meigs et al (2001: 98) stated that "in most cases, the *realization principle* indicates that revenue should be recognized *at the time goods are sold or services are rendered.* At this point, the business has essentially completed the earning process and the sales value of the goods or services can be measured objectively. At any time prior to the sale, the ultimate value of the goods or services sold can only be estimated. After sale, the only step that remains is to collect from the customer, usually a relatively certain event."

In addition, Weygandt, Kieso, & Kimmel (2002) introduced a type of *unearned revenue* that could also exist in any business world. For examples, a magazine publisher, such as Sports Illustrated, receives a customer's check when magazines are ordered; an airline company, such as American Airlines, receives cash when it sells tickets for future flights. Through these types of transactions, both companies have incurred revenues received before goods are delivered or services are rendered. Finally, they explain the way how companies account for their unearned revenues:

1. When the advance payment is received, where Cash is debited, and a current liability account identifying the source of the unearned revenue is credited.
2. When the revenue is earned, the Unearned Revenue account is debited, and an earned revenue account is credited.

Weygandt, Kieso, & Kell (1996) stated that sales revenues are earned when the goods are transferred from the seller to the buyers. At this point, the sales transaction is completed and the sales price is established. Like service revenues, sales revenues are also recorded when earned. This is in accordance with the revenue recognition principle. They further defined that accrued revenue is a revenue earned but not yet received in cash or recorded; moreover unearned revenue is a revenue received in cash and recorded as liabilities before they are earned.

In addition, accrued revenues may accumulate (accrue) with the passing of time, as in the case of interest revenue and rent revenue. Or they may result from services that have been performed but neither billed nor collected, as in the case of commissions and fees. The former are unrecorded because the earning of interest and rent does not involve daily transactions; the latter may be unrecorded because only a portion of the total service has been provided. An adjusting entry is required to show the receivable existing at the balance sheet date and to record the revenue that has been earned during the period. An asset – revenue account relationship exists with accrued revenues. Prior to adjustment both assets and revenues are understated. Accordingly, an adjusting entry for accrued revenues result in a debit (increase) to an asset account and a credit (increase) to a revenue account.

Moreover, unearned revenues become earned either through the passage of time, as in the case of unearned rent, or through rendering the service, as in the case of unearned fees. Like prepaid expenses, a revenue account may be credited when cash is received for future services and a different adjusting entry may be necessary. To illustrate, assume that when Pioneer Advertising received $1,200 in fees for future services on October 2 the services were expected to be performed before October 31. In such a case, Fees Earned would be credited, If these are in fact earned before October 31, no adjustment is needed. However, if at the statement date , $800 of the services have not been provided, an adjusting entry is required. Prior to adjustment, the revenue account, Fees Earned, is overstated $800, and the liability account, Unearned Fees, is understated $800. Finally, the liability account, Unearned Fees, shows a balance of $800, which is equal to the services that will be rendered in the future. In addition, the balance in Fees Earned equals the services rendered in October. If the adjusting entry is not made both revenues and net income will be overstated by $800 in the October income statement. While liabilities will be understated by $800, and owner's equity will be overstated by

$800 on the October 31 balance sheet. Alternative adjusting entries do not apply to accrued revenues and accrued expenses because no entries occur before these types of adjusting entries are made.

Furthermore, Revenue occurred during the implementation of company activities that are usually acknowledged with different terminologies such as sales, fees, interests, dividends, royalties, and rents (Financial Accounting Standard, Para 74).

Finally, Belkaoui & Jones (1996: 220): revenue, which encompasses gains and losses, is defined as increases in the assets or decreases in the liabilities that do not affect capital. According to the revenue view, revenues encompassing gains and losses, result from the sale of goods and services and include gains from the sale and exchange of assets other than inventories, interest and dividends earned on investment, and other increases in owners' equity during a period other than capital contributions and adjustments. If however, gains and losses are defined as a separate element of income, revenues are defined as measures of an entity's outputs resulting from the production or delivery of goods and the rendering of services during a period.

From many definitions promoted by some theorists described above, it can be concluded that revenue has some specific features as follows:

1. Revenue is one of the Five Major Financial Accounting Factors;
2. Revenue is a very crucial factor in determining gains or losses for a firm;

3. Revenue has a significant relationship with expenses in generating gains or losses for a firm;
4. Revenue has a positive impact on owners' equity increase;
5. Revenue is the gross increase in owners' equity resulting from operation of the business;
6. Revenue has various account titles to differentiate the types that are common in business world;
7. Revenue should be recognized at the time goods are sold or services are rendered;

2.1.1.2. Expenses

Hendriksen & Breda (2000) defined that expense is cost incurred in order to generate the revenue. Therefore, expense should also be recognized at the same time when the revenue is gained. The relationship between expense and revenue is frequently very hard to determine, this situation therefore causes the existence of various arbitrary regulations to determine the recognition of expense.

Meigs et al (2001: 99) defined that *"expenses are the costs of goods and services used up in the process of earning revenue.* Examples include the cost of employees' salaries, advertising, rent, utilities, and the depreciation of buildings, automobiles, and office equipment. All these costs are necessary to attract and serve customers and thereby earn revenue. Expenses are often called the "cost of doing business," that is, the cost of various activities necessary to carry on a business. An expense always causes *a decrease* *in owners' equity.* The related changes in the accounting equation can be either (1) a decrease in assets or (2) an increase in liabilities. An expense reduces assets if payment occurs at the time that the expense is incurred. If the expense will not be paid until later, as, for example, the purchase of advertising services on account, the recording of the expense will be accompanied by an increase in liability."

Meigs et al (2001) promoted the Matching Principle: When to record Expenses. This principle determines that there is a significant relationship existing between revenue and expenses in which expenses are incurred for the *purpose of producing revenue.* They further explain that in order to measure net income for a period, revenue, should be offset by *all the expenses incurred in producing that revenue,* called the matching principle that offsets expenses against revenue on a basis of "cause and effect".. Furthermore, timing serves as a crucial factor in matching or offsetting revenue with the related expenses. For instance, in order to prepare monthly income statements, the important way to conduct is to offset or match this month's expenses against this month's revenue, so we should not offset this month's expenses against last month's revenue because there is no cause and effect relationship between the two.

In addition, Belkaoui & Jones (1996: 222): "expense, which encompasses gains and losses, is defined as decreases in the assets or increases in the liabilities arising from the use of economic resources and services during a given period." According to the expense view, expense comprises all of the expired costs that correspond to the revenues of the period. If however, gains and losses are defined as a separate element of income, expenses are the expired costs corresponding to the revenues of the period.

Expense is comprised of both losses and expenses occurred from the implementation of usual business activities. Expenses occurred from usual business activities may include, for example, selling principal expenses, salaries and depreciations. Those expenses are usually in the forms of outflow or asset decreasing such as cash (and equivalent to cash), inventories and fixed assets (Financial Accounting Standard, Para 78). Moreover, loss reflects to other post meeting the definition of expense possibly occurred or not occurred from usual business activities. Those losses reflect the decrease of economic benefit, and it is actually dissimilar from other expenses. Therefore, loss is not viewed as a separate component in this basic frame (Financial Accounting Standard, Para 79). Finally, loss may occur, for example from a fire disaster, flood, including losses incurred from the release of passive assets. The expense definition also covers losses that have been realized, such as losses incurred from the influence of exchange value increase of foreign currencies due to company's loan under those currencies. If loss is recognized in the income (Gain & Loss) statement, it is usually presented separately because knowledge concerning those posts are useful for economic decision making. Loss is frequently reported at the net amount after it is reduced by the related income (Financial Accounting Standard, Para 80).

Weygandt, Kieso, & Kell (1996) defined a prepaid expense may become expired costs either through the passage of time, as in the case of insurance, or through consumption, as in the case of advertising supplies. If, at the time of purchase, the company expect to consume the supplies before the next financial statement date, it may be more convenient initially to debit (increase) an expense account rather than an asset account. Assume, for example, that Pioneer Advertising expects that all of the supplies purchased on October 5 will be used before October 31. A debit of $ 2,500 to Advertising Supplies Expense rather than to the asset account, Advertising Supplies, on October 5 will eliminate the need for an adjusting entry on October 31, if all the supplies are used. At October 31, the Advertising Supplies Expense account will show a balance of $2,500, which is equal to the cost of supplies used between October 5 and October 31. Assume, however that the company does not use all the supplies, and an inventory of $1,000 of advertising supplies remains on October 31. They further defined that prepaid expense is an expense paid in cash and recorded as assets before they are used or consumed; while accrued expense is an expense incurred but not yet paid in cash or recorded.

In addition, prepayments often occur in regard to insurance, supplies, advertising, and rent; they are usually made when buildings and equipment are purchased Prepaid expenses expire either with the passage of time (e.g., rent and insurance)or through use and consumption (e.g., supplies). An asset-expense relationship exists with prepaid expenses. Prior to adjustment, assets are overstated and expenses are understated. Thus the prepaid expense adjusting entry results in a debit to an expense account and a credit to an asset account. Furthermore, interest, rent, taxes, and salaries can be accrued expenses. Accrued expenses result from the same causes as accrued revenues. In fact, an accrued expense on the books of one company is accrued revenue to another company. For example, the $200 accrual of fees by Pioneer is an accrued expense to the client that received the service.

Adjustments for accrued expenses are necessary to record the obligations existing at the balance sheet date and to recognize the expenses that apply to the current accounting period. A liability – expense relationship exists with accrued expenses. Prior to adjustment both liabilities and expenses are understated. Therefore, the adjusting entry for accrued expenses results in a debit (increase) to an expense account and a credit (increase) to a liability account..

From the many definitions described by several theorists described above, it can be concluded that expense has some specific features as follows:

1. Expense is one of the Five Main Financial Accounting Substances;
2. Expense is a very important substance in determining gains and losses for an enterprise;
3. Expense has significant relationship with revenue in generating gains or losses for an enterprise;
4. Expense has a negative impact (always causes a decrease) in owners' equity;
5. Expense is often called the "costs of doing business";
6. Expense is incurred for the purpose of producing revenue;
7. Expense may reduce assets when payment occurs at the time that the expense is incurred;

8. Expense has always be offset or matched against revenue on a basis of "cause and effect";

2.1.2. Principles of Recognition

Recognition is a process to develop a post that meets definition of component and criteria of recognition stated in Para 83 in a balance sheet or income (gain & loss) statement. Recognition is conducted by stating those posts both in words and monetary amount and posting them in a balance sheet and income (gain & loss) statement. Posts meeting the criteria should be recognized in a balance sheet or income (gain & loss) statement. Ignorance to recognize such post cannot be revised through accounting policy report used or through explanation notes or materials (Financial Accounting Standard, Para 82).

Moreover, post meeting the definition of component should be recognized when: (a) there is a possibility that economic benefit related to the post will flow from or to a company, and (b) the post whose value or cost that can be measured accurately (Para 83). In analyzing whether a post meeting this criteria and therefore meeting the condition to be recognized in the income (gain & loss) statement, attention should be directed on the materialistic consideration described in Para 29 and 30. Relationship between components meaning that a post meeting the definition and criteria of recognition for certain component, for example, an asset, automatically requires recognition of other component, for example, income of obligation (Financial Accounting Standard, Para 84).

2.1.2.1. Revenue

Weygandt et al (2002) described the revenue recognition principle as dictating companies must recognize revenue in the accounting period in which it is earned. In practice, however, it seems very difficult to apply this general principle. For instance, some companies can improperly recognize revenue on good that have not been shipped to customers. Similarly, financial institutions immediately record a large portion of their fees for granting a loan as revenue rather than spreading those fees over the life of the loan.

They further mentioned that when a sale is involved, revenue is recognized at the point of sale. This *sales basis* involves an exchange transaction between the seller and buyer. The sale price is an objective measure of the revenue amount realized. However there are two expectations to the sales basis for revenue recognition that have become generally accepted. They are the percentage-of-completion method and the installment method. The first method tells us that in long-term construction contracts, revenue recognition is usually required before the contract is completed. This method recognizes revenue on a long-term project on the basis of reasonable estimates of progress toward completion. Progress toward completion is measured by comparing the costs incurred in a year to the total estimated costs for the entire project. That percentage is multiplied by the total revenue for the project. That percentage is multiplied by the total revenue for the project. The result is then recognized as revenue for the period.

Formula to recognize revenue in the percentage-of-completion method:

Costs Incurred (Current Period)	:	Total Estimated Cost	=	Percent Complete (Current Period)
Percent Complete (Current Period)	X	Total Revenue	=	Revenue Recognized (Current Period)

Formula to compute gross profit in current period:

Revenue Recognized (Current Period)	-	Costs Incurred (Current Period)	=	Gross Profit Recognized (Current Period)

Moreover, the second method shows that each cash collection from a customer consists of (1) a partial recovery of the cost of the goods sold, and (2) partial gross profit from the sale. Under the installment method of accounting, gross profit is therefore recognized *in the period in which the cash is collected.* The installment method is used when there is risk of not collecting an account receivable. In that case, the sale itself is not sufficient evidence for revenue to be recognized.

Gross profit formula for installment method:

Cash Collection from Customer	X	Gross Profit Percentage	=	Gross Profit Recognized during the Period

Belkaoui & Jones (1996: 288-289) described that the revenue principle specifies the three facts including (1) the nature of the revenue components, (2) the revenue measurement; and (3) the timing of revenue recognition."

The first (nature of revenue components), revenue has been interpreted as (a) an inflow of net assets resulting from the sale of goods or services; (b) an outflow of goods or services from the firm to its customers; and (c) a product of the firm resulting from the mere creation of goods or services by an enterprise during a given period of time.

The second (revenue measurement), revenue is measured in terms of the value of the goods or services exchanged in an 'arms-length' transaction. This value represents either the net cash equivalent or the present discounted value of the money received or to be received in exchange for the goods or services that the enterprise transfers to its customers.

Two primary interpretations that arise from the above concept of revenue are :
(a) Cash discounts and any reductions in the fixed price, such as bad debt losses, are adjustments necessary to compute the true net cash equivalent of the present discounted value of the money claims and consequently should be deducted when computing revenue. (This interpretation conflicts with the view that cash discounts and bad debt losses should be considered expenses); and

(b) For non-cash transactions, the exchange value is set equal to the fair market value of the consideration given or received, whichever is more easily and clearly computed.

The third (timing of revenue recognition), it is generally admitted that revenue and income are earned throughout all stages of the operating cycle (that is, during reception of order, production, sale, and collection). Given the difficulties of allocating revenue and income to the different stages of the operating cycle, accountants employ the realization principle to select a 'critical event' in the cycle for the timing of revenue and recognition of income. The critical event is chosen to indicate when certain changes in assets and liabilities may be accounted for appropriately.

The essential meaning of realization is that a change in asset or liability has become sufficiently definite and objective to warrant recognition in the accounts. This recognition may rest on an exchange transaction between independent parties, or on established trade practices, or on the terms of a contract performance which is considered to be virtually certain.

Revenue is generally recognized during production in the following five situations: (1) Rent, interest, and commission revenue are recognized as earned, given the existence of a prior agreement or a contract specifying the gradual increase in the claim against the customers; (2) An individual or a group rendering professional or similar services might better use an accrual basis for the recognition of revenue, given that the nature of the claim against the customer is a function of the proportion of services rendered; (3) Revenues on long-term contracts are recognized on the basis of progress of construction or the 'percentage of completion'. The percentage of completion is computed as either (a) the engineering estimates of the work performed to date compared with the total work to be completed in terms of the contract, or (b) the total costs incurred to date compared with the total costs estimated for the total project in the contract; (4) Revenues on 'cost plus fixed-fee contracts' are better recognized on the accrual basis; (5) Asset changes due to accretion give rise to revenue (for example, when liquor or wines age, timber grows, livestock matures). Although a transaction must occur before revenue is recognized in these examples, accretion revenue is based on comparative inventory valuations.

The *critical event basis* for revenue recognition is triggered by a crucial event in the operating cycle. That event may be one of three things: the time of sale; the completion of production; or the receipt of payment subsequent to sale.

1) The *sales basis* for the recognition of revenue is justified because:

   a. the price of the product is then known with certainty;

   b. the exchange has been finalized by delivery of goods, leading to an objective knowledge of the costs incurred; and

   c. in terms of realization, a sale constitutes a crucial event.

2) The *completion of production basis* for the recognition of revenue is justified when a stable market and a stable price exist for a standard commodity. The production process

rather than the sale therefore constitutes the crucial event for the recognition of revenue. This rule is primarily applicable to 'precious metals that have a fixed selling price and insignificant market prices'. "The completion of production treatment is appropriate for gold, silver and other precious metals and may also be appropriate for agricultural and mineral products that meet the required criteria.

3). The *payment basis* for the recognition of revenue is justified when the sale will be transferred. This method, which amount to a mere deferral of revenue, is primarily identified with the 'installment method' of recognizing revenue.

According to the Financial Accounting Standards, Revenue is recognized on a financial (gain & loss) statement when an increase of future economic benefit will be conducted for completion of obligation related to assets increase or obligations decrease have been occurred and can be measured accurately. This means that revenue recognition occurs along with recognition of asset increase or obligations decrease (example, net assets increase derived from sale of goods or service or obligations derived from debit release that still have to be paid (Financial Accounting Standard, Para 92).

Procedure usually employed in the practice for revenue recognition, such as regulation that revenues have been received, as application of recognition criteria in this basic frame. Such procedure is generally intended to limit revenue recognition on measurable posts accurately and having appropriate degree of certainty.

The concepts concerning principles of revenue recognition mentioned above embed some crucial points as follow:

1. Revenue is always earned throughout all stages of the operating cycle (during order reception, production, sale and collection);
2. Revenue is always considered to be earned at the time the service is performed especially in a service enterprise;
3. The amount of revenues determined to be reported in a given accounting period can be a difficult task, therefore, accountants have developed two principles as part of generally accepted accounting principles (GAAP) helping in this determination: the revenue recognition principle and the matching principle;
4. Timing of revenue recognition is determined by employing the realization principle that selects a 'critical event' in the operating cycle;
5. Revenue recognition using the 'critical event basis' is triggered by a crucial event (may be one of three things: the sale time, the production completion, or the receipt payment subsequent to sale) in the operating cycle;
6. Revenue is generally recognized during production in the five situations, such as: (1) rent, interest, an commission are recognized as earned; (2) an individual or a group rendering professional or similar services is recognized using an accrual basis; (3) long-term contract is recognized on the basis of the percentage of completion; (4) cost plus fixed-fee contract is recognized on the accrual basis; (5) asset changes due to accretion give rise to revenue is recognized based on comparative inventory valuations.

7. Revenue recognition holds seven specific criteria (1) earned, in some sense or another, (2) in distributable form, (3)the result of a conversion brought about in a transaction between the enterprise and someone external to it; (4) the result of a legal sale or similar process; (5) severed from capital; (6) in the form of liquid assets; and (7) both its gross and net effects on stakeholder equity must be estimable with a high degree of reliability;
8. Unearned revenues are always received in cash and recorded as liabilities before they are earned;
9. Accrued revenues are always earned but not yet received in cash or recorded.

2.1.2.2. Expense

Fees & Warren (1993) stated that each expense must be matched against its related revenue in order to properly determine the amount of net income or net loss for the period. The concepts and methods used to record expenses can be illustrated through the following example, the recording of salaries in the period where they helped generate revenue that often involved the use of adjusting entries at the end of the period to properly match revenues and expenses. Also, the allocation of the cost of plant assets to expense that require the use of adjusting entries for depreciation expense at the end of the period to properly match expenses with related revenues.

Belkaoui & Jones (1996: 291): The matching principle holds that expenses should be recognized in the same period as the associated revenues; that is, revenues are recognized in a given period according to the revenue principle, and the related expenses effect relationship between costs and revenues. Operationally, it consists of a two-stage process for accounting for expenses. First, costs are capitalized as assets representing bundles of service potentials or benefits. Second, each asset is written off as an expense to recognize the proportion of the assets' service potential that has expired in the generation of the revenue during this period. Thus, accrual accounting rather than cash accounting is implied by the matching principle in terms of capitalization and allocation

The association between revenues and expenses depends on one of four criteria:

1. direct matching of expired costs with a revenue (for example, cost of goods sold matched with related sale);
2. direct matching of expired cost with the period (for example, president's salary for the period);
3. allocation of costs over periods benefited (for example, depreciation); and
4. expensing all other costs in the period incurred, unless it can be shown that they have future benefits (for example, advertising expense).

Unexpired costs (assets) are not meeting one of the above four criteria for expensing the current period are chargeable to future periods and may be classified under different categories according to their different uses in the firm. Such varying uses may justify differences in the application of the matching principle.

Furthermore, they described that the cost of producing finished goods for sale generally include raw materials, direct labor, and factory overhead; and a two-stage process is usually employed to account for these costs:

1. inventory valuation, or the determination of the product costs attached to the product; and
2. income determination, or the matching of product costs with revenues.

The problem that exists when determining the amount of inventory valuation is to decide which costs are product costs benefiting future periods and should be inventoried and which costs are period costs benefiting only the current period and should be charged against current income. The absorption (full) costing method and the direct (variable) costing method produce different answers.

The *absorption costing* method treats all production costs as product costs that are attached to the product, carried forward, and only released as period costs at the time of sale; while the *direct costing* method treats only the variable production costs as product costs and all of the fixed manufacturing overhead costs as period costs. It is generally admitted, however, that direct costing method is more relevant to internal decision making. The separate reporting of fixed and variable costs is assumed to facilitate incremental profit analysis and to remove the impact of inventory changes from income.

Moreover, depreciable operating assets are also referred to as *wasting capital assets.* Since a depreciable operating asset is assumed to benefit more than one period, the asset is capitalized at its acquisition cost, which is then allocated on some logical basis over the asset's useful life. This allocation process is known as:

a. *depreciation* for tangible assets (such as buildings, equipment, tools, and furniture);
b. *depletion* for assets represented by a natural resource (such as mineral deposits and timber tracts); and
c. *amortization* for such intangible assets as special rights or benefits (examples are patents, copyrights, franchises, trademarks, goodwill, deferred charges, research and development costs, organizational costs, and leaseholds).

Depreciation accounting has been defined as a system of accounting intending to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit, which may be a group of assets in a systematic and rational manner. It is a process of allocation, not of valuation. *Depreciation for the year* is the portion of the total charge under such a system that is allocated during the year. Although the allocation may properly take into account occurrences during the year, it is not aimed to be a measurement of the effect of all such occurrences. Each depreciation method has been developed based on a different pattern of depreciation charges over the life of the tangible assets. Therefore, a depreciation method may be based on (a) *time,* such as the straight-line method; (b) *output,* such as the service-hours and the unit-of-output method; (c) *reducing depreciation charge,* such as the sum-of-the-years' digits method, the fixed percentage on declining base amount method, the declining rate on cost method, and the double-declining balance method; or (d) *investment and interest concepts,* such as the annuity method and the sinking-fund method.

The third major asset and cost category consist of non-depreciable operating assets, which are also referred to as *permanent capital assets,* because it is assumed that they are not consumed while the operations of the business are being conducted. Their value is not affected by productive activities, and they have no impact on income determination until they are sold or revalued. Accordingly, the matching principle is not applicable to non-depreciable operating assets.

In addition, the costs of selling and administration are all of the non-manufacturing costs necessary to maintain a basic selling and administrative organization. They are treated as period costs in the period in which they are incurred, under either the direct or absorption costing method.

Weygandt et al (2002:497): Expense recognition is traditionally tied to revenue recognition: "Let the expense follow the revenue." This practice is referred to as the matching principle. It dictates that expenses be matched with revenues in the period in which efforts are made to generate revenues. Expenses are not recognized when cash is paid, or when the work is performed, or when the product is produced. Rather, they are recognized when the labor (service) or the product actually makes its contribution to revenue. But, it is sometimes difficult to determine the accounting period in which the expense contributed to revenues.

Several approaches have therefore been devised for matching expenses and revenues on the income statement. To understand these approaches, we need to understand the nature of expenses. Costs are the source of expenses. Costs that will generate revenues only in the current accounting period are expensed immediately. They are reported as operating expenses in the income statement. Examples include costs for advertising, sales salaries, and repairs. These expenses are often called expired costs. Costs that will generate revenues in future accounting periods are recognized as assets. Examples include merchandise inventory, prepaid expense, and plant assets. The costs represent unexpired costs. Unexpired costs become expenses in two ways: (1) Cost of goods sold. Costs carried as merchandise inventory become expenses when the inventory is sold. They are expensed as cost of goods sold in the period when the sale occurs. Thus, there is a direct matching of expenses with revenues. (2) Operating Expenses. Other unexpired costs become operating expenses through use or consumption (as in the case of store supplies) or through the passage of time (as in the case of prepaid insurance). The costs of plant assets and other long-lived resources are expensed through rational and systematic allocation methods – periodic depreciation or amortization. Operating expenses contribute to the revenues for the period, but their association with revenues is less direct than for cost of goods sold.

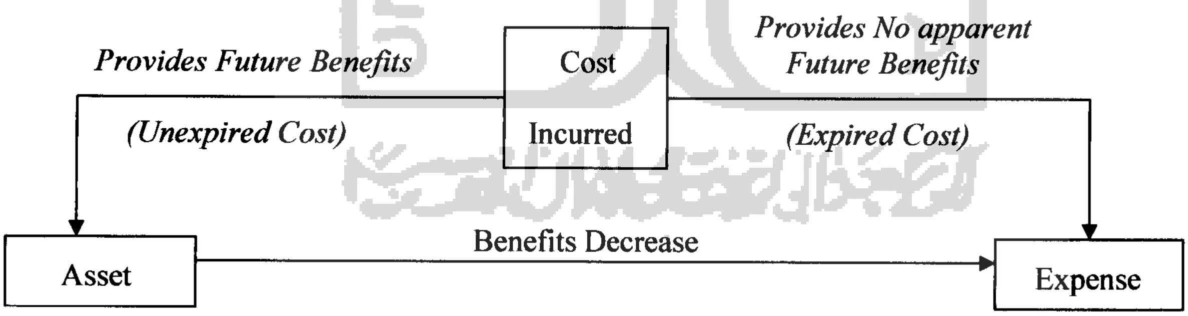
According to the Financial Accounting Standard, expense is recognized on income (gain & loss) statement when future economic benefit decrease related to assets decrease or obligation increase have been occurred and can be measured accurately. This means that expense recognition occurred along with obligation increase recognition or assets decrease (example, employee right accrual or fixed assets decrease). (Financial Accounting Standard, Para 94).

Expense is recognized on an income (gain & loss) statement based on direct relation between costs occurred and certain revenue post received. A process usually called matching of costs with revenues involves revenue and expense recognition jointly generated directly and together from transactions or other similar events, for example, various expense components formed costs of expense of goods sold) recognized at the same time as revenue received from good sold. However, matching concept application under this basic frame does not allow post recognition in the balance sheet does not meet the definition of assets or obligations (Financial Accounting Standard, Para 95).

If economic benefit is expected to occur during several accounting periods and its relationship to revenues can only be determined widely or indirectly, expense is recognized on an income (gain & loss) statement based on a rational and systematic allocation procedure. This case is frequently needed in expense recognition related to assets use such as fixed assets, goodwill, patent, and trademark. In such a case, this expense is called depreciation or amortization. This allocating procedure is aimed to recognize expense during an accounting period having related assets of economic benefit (Financial Accounting Standard, Para 96).

Expense is immediately recognized in the income (gain & loss) statement when an expense does not generate a future economic benefit or when a future economic benefit does not meet requirements, or no longer meet requirements, to be recognized in the balance sheet as assets (Financial Accounting Standard, Para 97). Expense is also recognized in a financial (gain & loss) statement at a time obligations occur without any assets recognition, such as when obligations occur caused by product warranty (Financial Accounting Standard, Para 98).

These points about expense recognition are illustrated in the following Flow Chart of Expense Recognition Pattern:



From the theories and concepts concerning expense recognition principles described above, the researcher developed some concluding opinions as follows:

1. It is understandable that determining the amount of expenses to be reported in a given accounting period can be a hard task to do. Therefore, accountants have promoted two crucial principles as part of generally accepted accounting principles (GAAP) that are expected to provide assistance in this determination: the revenue recognition principle and the matching principle (a particular principle for recognizing expenses);
2. Accountants agree to follow the approach of "let the expenses follow the revenues" meaning that the most critical issue in expense recognition is when the expense makes its contribution directly to revenue. This may or may not be the same period where the expense is paid;
3. The practice of expense recognition is always consistently referred to as the *matching principle* consequently it dictates that efforts (expenses) be matched with accomplishments (revenues);
4. Once the assumption is made that a business's economic life can be grouped or divided into artificial time periods, it follows that the revenue recognition and matching principles (particular expense recognition) can be applied;
5. When revenue and expenses are reported it should always follow guidelines provided by the above assumption and principles;
6. Adjusting entries are always required in order to ensure that the revenue recognition and matching principles (for expense recognition) are followed;
7. Prepaid expenses are always paid in cash and recorded as assets before they are used or consumed;
8. Accrued expenses are always incurred but not yet paid in cash or recorded.

2.1.3. Measurement of Revenue and Expense

Measurement is a process of monetary amount determination it is conducted in order to recognize and enter every point or component of financial statement in the balance sheet and gain & loss statement. This process concerns with certain basic measurement option (Financial Accounting Standard, Para 99). Furthermore, a number of different measurement bases are used in different degree and combination of financial statement (Financial Accounting Standard, Para 100) Para. Those various measurement bases are as follows:

(a) *Historical cost.* Asset is recorded as the amount of cash expenditure (or equivalent to cash) paid or the amount of appropriate value from consideration given to acquire the asset at the time of acquirement. Obligation is recorded as its amount received as exchange from obligation, or under a certain condition (for example, income tax), in the amount of cash (or equivalent to cash) expected will be paid to meet obligation under the implementation of normal business;

(b) *Current cost.* An asset is valued at the amount of cash (or equivalent to cash) that should be paid when the same asset or equivalent to asset received now. Obligation is stated in the amount of cash (or equivalent to cash) that is undiscounted and may be needed to complete current obligation;

(c) *Realizable or settlement value.* An asset is stated in the amount of cash (or equivalent to cash) that can be acquired now by selling assets under orderly disposal. Obligation is stated at the amount of realizable or settlement value; that is, amount of cash (or equivalent to cash) that is undiscounted and is expected to be paid to meet obligation under the implementation of normal business;

(d) *Present value*. An asset is stated as the amount of net cash inflow in the future discounted into present value from posts expected to provide revenue under normal business. Obligation is stated as the amount of net cash outflow in the future discounted into present value that is expected to be needed to meet obligation under the normal business.

The measurement base usually used by a company in the arrangement of a financial statement is historical cost. This thing is usually combined with other measurement bases. For example, provision is usually stated as an amount of lower value of historical cost or net realizable value, accounting for pension fund values certain assets based on fair value (Financial Accounting Standard, Para 101).

The accuracy of measurement is an important thing should be met. The criteria of recognition to a post, for instance, is the existence of cost or value that can be measured under certain reliable level such as discussed in Para 31 until Para 38 of this basic frame. In many cases, cost or value should be estimated; the use of appropriate estimation becomes an essential part in arranging a financial statement without harming or reducing the level of reliability or consistency. If appropriate estimation is impossible to conduct, the post is not recognized in a balance sheet or income (gain & loss) statement. For example, income expected from a legal claim can meet the definition of both assets and income as well as the criteria of probability to be recognized; however, if it is unable to be measured at a certain reliable level, the claim can not be recognized as asset or as income; but, the existence of a claim should be reported in a note, explanation material, or additional schedule (Financial Accounting Standard, Para 86)

Moreover, a post at a certain time cannot meet recognition criteria in Para 83 can meet condition to be recognized in the future as a consequence of an event or condition that will occur in the future (Para 87). A post that has the essential characteristics of a component but can not meet the recognition criteria has still to be reported in a note, explanation material or additional schedule. This reporting or statement can be accepted if the knowledge concerning the post is relevantly viewed to evaluate (assess) the financial position, performance and financial position changes of a company by financial statement users (Financial Accounting Standard, Para 88).

Revenue should be measured at the fair value of the consideration received or receivable. The amount of revenue arising from a transaction is usually determined by an agreement between the enterprise and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the enterprise. While for expense, it simply follows the revenue, meaning that expense occurs during the proses of acquiring revenue.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. For example, an enterprise may provide interest free credit to the buyer or accept a note receivable bearing a below-market interest rate from the buyer as consideration for the sale of goods. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

1. the prevailing rate for a similar instrument of an issuer with a similar credit rating;
2. a rate of interest that discounts the nominal amount of the instruments to the current cash sales price of the goods or services.

All business transactions are always recorded in dollar as a standard unit of measurement. Other relevant, non-financial data may also be recorded, such as terms of contracts and the purpose, amount, and term of insurance policies. However, it is only through the use of dollar amount that diverse transactions and activities of a business may be measured, summarized, reported, and compared. Money is common to all business transactions and thus is a unit of measurement allowing for the reporting of uniform financial data. The use of monetary unit for recording and reporting the activities of an enterprise has two major limitations. First, it limits the scope of accounting reports; secondly, it assumes a stable unit of measure (Fees & Warren, 1993).

In term of accounting report scope, generally, accounting does not attempt to report such factors that affect the activities and the future prospects of an enterprise that can not be expressed in monetary terms. For example, information regarding the abilitie of management, the fairness of an employee health program, and the strengths and weaknesses of competitors can not be expressed in monetary terms. Although such matters may be crucial to investors or other interested parties, accounting does not report such data in the financial data (Fees & Warren, 1993).

2.1.4. Standard of Auditing

According to the Professional Standard of Public Accountant (2001: 150.1), an auditing standard is different from auditing procedure. Auditing procedure is related with the actions that have to be performed in auditing activity; while an auditing standard is primarily concerned with the criteria or performance quality of those auditing actions and the goals or purposes to be attained through the implementation of the procedure. Thus, auditing standard is primarily concerned not only with the professional quality of auditor but also with the consideration taken for the auditing implementation and report.

The Auditing Standard approved by the Indonesian Accountant Association includes:

a) General Standard

1. Auditing has to be conducted by one person or more having relevant professional expertise and adequate technical training as an auditor.
2. All things concerning the association and independence of mental attitude have to be maintained by auditor.
3. In the auditing process and the report arrangement, an auditor is mandated to perform with professional expertise carefully and consistently.

b) Field Work Standard

1. Work should be prepared properly and when assistant is employed the supervision should be adequately conducted.
2. Adequate understanding on internal control must be acquired in order to prepare auditing event and to determine condition, time, and scope of testing that will be performed.
3. Adequately competent auditing evident should be received through inspection, observation, information request, and confirmation as a validity consideration to express opinion on financial report audited.

c) Report Standard

1. Auditor's report has to state whether financial report has been arranged based on the accounting principle generally existing in Indonesia.

2. Auditor's report has to cover or state, inconsistent application of accounting principle, if any, during current period of financial report arrangement compared to the accounting principle application in previous period.
3. Informative expression in financial report has to be viewed adequate, unless stated otherwise.
4. Auditor's report has to cover statement of opinion on the overall financial report or any

assertion that the statement of opinion can not be provided. If the overall opinion cannot be provided, the reason should be included. In case auditor is related to financial report, therefore, auditor's report has to cover clear direction concerning the auditing work condition conducted, if any, and level of responsibility the auditor have.

2.1.5. Standard of Reporting (Statement)

The preparation and presentation of a financial report or statement by many enterprises around the world should be conducted in a proper manner for the satisfaction of external users. Although such financial statements may appear similar from country to country, there are differences that have probably been caused by a variety of social, economic and legal circumstances and by different countries having in mind the needs of different users of financial statements when setting national requirements. These different circumstances have led to the use of various terminologies concerning the elements or components of financial statements, such as, assets, liabilities, equity, income, and expenses. They also affect in the use of distinctive criteria for recognizing items in the financial reports or statements and in an option of various measurement bases.

Fees & Warren (1993) mentioned that preparation of periodic financial statements creates an issue of timing; that is, at what point is the revenue recorded? When revenue is recorded, it is to be realized. For a given accounting period, the question is whether revenue items should be realized and reported in the current period or whether they should be realized and reported in a future period. When revenue is realized should be determined by various acceptable criteria. Generally, the acceptable criteria applied should meet or comply with any contractual terms with the customer and should be supported by objective evidence. The criteria most acceptable are as follows:

1. Revenue from the sale of merchandize is ordinarily determined using the point-of-sale method. Under this method, revenue is realized at the time the title passes to the buyer. At the point of sale, the sale price has been agreed upon, the buyer acquires the ownership right of the merchandize, and the seller has a legal claim against the buyer;
2. The revenue from the services sale is normally realized in the same manner. That is, revenue is realized when the services have been performed. For example, assume that a contract for repair services has been signed. The price agreed to in the contract does not become revenue until the work has been performed;
3. In theory, revenue from producing and selling goods and rendering services is earned as the effort is expended;

4. As a practical matter, however, it is usually not possible to objectively determine the amount of revenue earned until (1) a contract has been signed and (2) the seller's portion of the contract has been completed;

In some cases, the realization of revenue may be delayed until payment is received. That is, revenue is realized at the time the cash is collected, regardless of when the sale was made. This method of realizing revenue is referred to as the cash basis. The basis is widely used by physicians, attorneys, and other enterprises where professional services are rendered. Theoretically, this method has little justification. However, it is so simple, and losses from bad debts do not have to be estimated. Its popular use in practice is affected by the fact that it may be easily used in determining federal income tax. It is not, however, a proper method of realizing revenue from the sale of merchandize;

Fees & Warren (1993) further mentioned that both revenue and expense may be reported on the income statement, using either (1) the cash basis of accounting or (2) the accrual basis of accounting. When the cash basis is used, revenues are reported in the period where cash is received and expenses are reported in the period in which cash is paid. For example, fees are recorded when cash is received from clients and wages expense is recorded when cash is paid to employees. The net income (or net loss) is the difference between the cash receipts (revenues) and the cash payments (expenses).

Furthermore, small service enterprises that have few receivables and payables often use the cash basis of accounting. For example, accountants, attorneys, physicians, and real estate agents often use the cash basis. Also most individuals use the cash basis of accounting in their personal financial records. For most businesses, however, the cash basis will not provide accurate financial statements for user needs. When the accrual basis of accounting is used, revenues are reported in the period where they are earned. Expenses are reported in the period in which they are incurred in producing revenues. For example, revenue is recorded as services are provided to customers. Cash may be received from customers at this time or at a later date if the services are provided on account. Likewise, wages expense is recorded in the period when the employees work and not when the cash is paid.

The generally accepted accounting principles require the use of the accrual basis. This basis ensures that the expenses incurred are properly *matched* with the revenues they generate. In this way, the income statement will properly report the revenues earned, the expenses incurred, and the resulting income or loss for the period. The accounting principle requiring the matching of revenues and expenses is called the *matching concept* or *matching principle.* The matching principle requires an analysis and updating of some accounts at the end of an accounting period. This process of analyzing and updating accounts in the ledger is called the *adjusting process.*

Fees & Warren (1993) further mentioned that at the end of an accounting period, many of the balances of accounts in the ledger can be reported, without change, in the financial statements. For example, the cash account balance is normally the amount reported on the balance sheet as the cash on hand at the end of the accounting period.

Some accounts in ledger, however, require updating. For example, the balances listed for prepaid expenses are normally overstated because the use of these assets is not recorded on a day-to day basis. The balance of the supplies account usually represents the cost of supplies at the beginning of the period plus the cost of supplies acquired during the period. The day-to day use of supplies is not recorded, since to do so would require many entries with small amounts. In addition, the total amount of supplies is small relative to other assets, and managers usually do not require day-to-day information on the amount of supplies on hand.

Another example of a prepaid expense account requiring updating is prepaid insurance. The balance in Prepaid Insurance represents the beginning balance plus the cost of insurance policies acquired during the period. Journal entries are not made daily for the premiums as they expire. To make such entries would be costly and unnecessary.

The journal entries at the end of an accounting period to bring the accounts up to date and to properly match revenues and expenses are called adjusting entries. By their nature, all adjusting entries affect at least one income statement account and one balance sheet account. Thus, an adjusting entry will always involve a revenue or an expense account and an asset or a liability account. Two basic classifications of items give rise to adjusting entries. The first class of items, deferrals, is created by recording a transaction in a way delaying or deferring the recognition of an expense or a revenue. Deferrals may be either deferred expenses or deferred revenues, as described below.

- Deferred expenses are items that have been initially recorded as assets but are expected to become expenses over time or through the normal operations of the enterprise. The supplies become an expense as they are used, and the prepaid insurance becomes an expense as time passes and the insurance expires. Deferred expenses are often called *prepaid expense*.

- Deferred revenues are items that have been initially recorded as liabilities but are expected to become revenues over time or through the normal operations of the enterprise. Example of deferred revenues include tuition received by a college at the beginning of a term and magazine subscriptions received in advance by a publisher. The tuition is earned throughout the term as students attend class. The subscriptions are earned as the magazines are published and distributed. Deferred revenues are often called *unearned revenues*.

The second class of items giving rise to adjusting entries is accruals. Accruals are created by the failure to record an expense that has been incurred or revenue that has been earned. Accrual may be either accrued expenses or accrued revenues, as described below.

- Accrued expenses. Expenses that have been incurred but have not been recorded in the accounts. Examples of accrued expenses include unrecorded wages owed to employees at the end of a period and unrecorded interest owed on loans. Accrued expenses are often called *accrued liabilities;*

- Accrued revenues. Revenues that have been earned but have not been recorded in the accounts. Examples of accrued revenues include unrecorded fees earned by an attorney or unrecorded commissions earned by a real estate agent. Accrued revenues are often called *accrued assets.*

The primary distinction between deferrals and accruals is that deferrals have been recorded while accruals have not been recorded (Fees & Warren, 1993:85).

Moreover, the International Accounting Standards Committee (IASC) is influenced to narrow the distinctions by formulating and promoting harmonious regulations, accounting standards and procedures concerning both the preparation and presentation of financial statement / reports. It strongly believes that further struggle of harmonization can best be handled through a concentrating focus on financial statements prepared for the purpose of providing accurate information provision useful and beneficial in economic decision making process.

In order to meet the objectives of financial statements especially for revenues and expenses, they should be prepared on the accrual basis of accounting. Under this basis, the transactions' and other events' effects are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they related. Financial statements particularly revenues and expenses prepared on the accrual basis inform users about not only past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources presenting cash to be received in the future. Hence they provide the type of information about past transaction and other events that is most useful to users in making economic decisions.

The financial statement, particularly for revenues and expenses, is normally prepared on the assumption that an enterprise is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the enterprise has neither the intention nor the need to liquidate or curtail materially the scale of its operations; if such an intention or need exist, the financial statement may have to be prepared on a different basis and, if so, the basis used is disclosed. Moreover, the financial statements should hold qualitative characteristics as its attributes that make the information provided useful to users. The four major qualitative characteristics are understandability, relevance, reliability and comparability.

The first, understandability requires that an essential quality of the information provided in financial statements is that is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex mattes that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded only on the grounds that it may be too difficult for certain users to understand. The second, to be useful, information have to be *relevant* to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.

The predictive and confirmatory roles of information are interrelated. For example, information about the current level and structure of asset holdings has value to users when they endeavor to predict the ability of the enterprise to take advantage of opportunities and its ability to react to adverse situation. The same information plays a confirmatory role in respect of past predictions about, for example, the way in which the enterprise would be structure or the outcome of planned operations. Information about financial position and past performance is frequently used as the basis for predicting future financial position and performance and other matters in which users are directly interested, such as dividend and wage payments, security price movements and the ability of the enterprise to meet its commitments as they fall due. To have predictive value, information need not be in the form of an explicit forecast. The ability to make predictions from financial statements is enhanced, however, by the manner in which information on past transactions and events is displayed. For example, the predictive value of the income statement is enhanced if unusual, abnormal and infrequent items of income and expense are separately disclosed.

Other qualitative characteristics may include (1) materiality, (2) reliability, (3) faithful representation, (4) substance over form, (5) neutrality, (6) prudence, (7) completeness, (8) comparability, (9) constraints on relevant and reliability information (timelines and balance between benefit and cost), (10) balance between qualitative characteristics, (11) true and fair view / fair presentation

Furthermore, Weygandt, Kieso, & Kell (1996) promoted that after transactions are identified, recorded, and summarized, then a company may prepare four types of financial statements from the summarized accounting data as follows:

1. An *income statement* presenting the company's revenues and expenses and resulting net income or net loss of a company for a specific period of time;
2. An *owner's equity statement* summarizing the changes in owner's equity for a specific period of time;
3. A *balance sheet* reporting the company's assets, liabilities, and owner's equity of a business company at a specific date; and
4. A *statement of cash flows* summarizing information concerning the cash inflows (receipts) and outflows (payments) for a specific period of time.

Each statement usually provides management, owners, and other interested parties with relevant financial data." The financial statement of Softbyte and their interrelationships are interrelated (1) Net income of $2,750 shown on the income statement is added to the beginning balance of owner's capital in the owner's equity statement. (2) Owner's capital of $16,450 at the end of the reporting period shown in the owner's equity statement is reported on the balance sheet. (3) Cash of $8,050 on the balance sheet is reported on the statement of cash flow" (Weygandt et.al., 1996: 22). Additionally, every set of financial statements is accompanied by explanatory notes and supporting schedules that are an integral part of the statement.

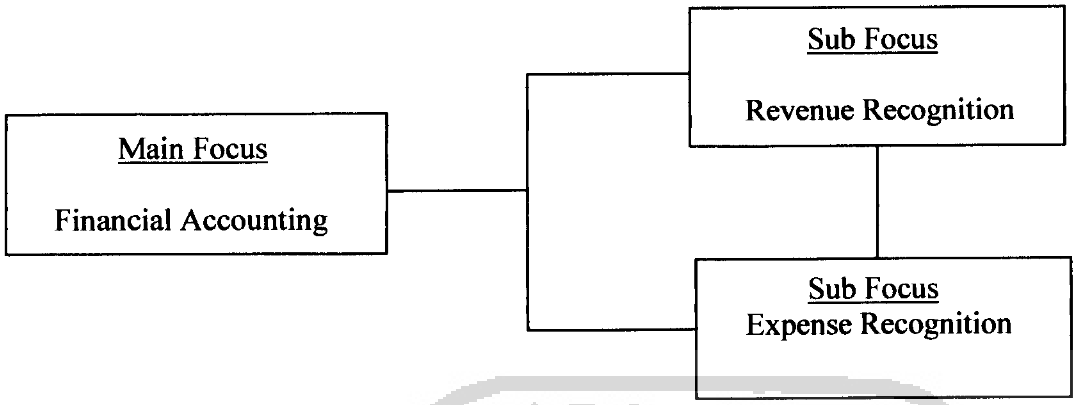
In addition, the primary focus of income statement prepared by a company is an reporting the success or profitability of the company's operations over a specified period of time. To indicate that it applies for a specific period of time, the income statement is dated "For the Month Ended September 30, 2005." On the income statement, revenues are listed first, followed by expenses. Finally, net income (or net loss) is determined. Note that investment and withdrawal transactions between the owner and the business are not included in the measurement of net income.

The information provided by owner's equity statement indicates the reasons why owner's equity has increased or decreased during the period. The time period is the same as that covered by the income statement and therefore is dated "For the Month Ended September 30, 2005. Moreover, the balance sheet is like a snapshot of the company's financial condition at a specific moment in time (usually the month-end or year-end). While the primary purpose of a statement of cash flows is to provide financial information concerning the cash receipts and cash payments of an enterprise for a specific period of time. To attain this purpose and to assist investors, creditors, and other interested parties in their analysis of cash, the statement of cash flows reports (1) the cash effects of a company's operations during a period, (2) its investing transactions, (3) its financing transactions, (4) the net increase or decrease in cash during the period, and (5) the cash amount at the end of the period. Reporting the sources, uses and net increase or decrease in cash is useful because investors, creditors, and other interested parties want to know what is happening to a company's most liquid assets. The statement of cash flows, therefore, provides answers to the following simple but crucial questions:

1. Where did the cash come from during the intended period?;
2. What was the cash used for during the period?; and
3. What was the change in the cash balance during the period?

2.2. Theoretical Framework

The Main Focus in this study is Financial Accounting comprising several sub focuses, where two of them are (1) Sub Focus of Revenue Recognition and (2) Sub Focus of Expense Recognition that will be described completely in this study using empirical and qualitative data / facts collected from the study object. In addition, both Sub Focuses (e.g., Revenue Recognition and Expense Recognition) are also related, especially when they are compared to measure profit.


Sub Focus
Revenue Recognition
Main Focus
Financial Accounting
Sub Focus
Expense Recognition

CHAPTER III

COMPANY PROFILE

3.1. History of the Company

PT. Excelcomindo Pratama Ltd. (the XL) was established in November 1995 based on the official license for GSM 900 in September 1995 and commercially launched on October 8, 1996. It has been known nationwide as a network service provider for GSM cellular in Indonesia through GSM 900 and 1800 technology application. Since then, XL became the first private company providing a mobile telephone service in the country.

Within a short period of time, XL Company has been successful in developing a powerful collaboration agreement involving several local and foreign companies in telecommunication industry. Moreover, XL consistently strengthens and improves the scope business consisting of Consumer Solutions as dual band cellular network provider through the existence of *jempol* and *bebas* prepaid and *Xplor* postpaid cards and Business Solutions as corporate service provider based on Leased Line and Internet Protocol (IP).

In the late December 2004, XL had developed 130 XL centers and further increased the number to 22,006 XL centers throughout the country by November 2005. The number of retailers jointing in the XL business have also been growing up by offering the refill and prime vouchers. CL facilitates its prepaid customers easily to get access in the electronically refill services, at each XL center and outlet, Big Banks' ATM, and through the call centers. XL also offers Leased Line and Corporate Service including Internet Service Provider (ISP) and Voice over Internet Protocol (VoIP) services.

The overall chronologically steps of development and social contributions made by XL are illustrated in the following table:

Table 1: The Significant Events of Excelcomindo

Year	Crucial Development Event
1996	- Obtained GSM 900 operating license and began commercial operation
1998	- Launched *ProXL* brand for prepaid services
2001	- Completed construction of *fiber-optic* backbone along Java island
	- Received allocation for GSM 1800 spectrum
	- Customer exceeds 1,000,000
2002	- Extended network coverage to Kalimantan, Sumatra, and Sulawesi
2003	- Launched Regional Pricing program
	- Completed the new integrated billing system which enables integration of prepaid and postpaid billing
	- Successful launch of "paket hemat" to stimulate usage and customer retention
	- Completion of national coverage rollout
	- Launch of high speed data bearer GPRS (General Packet Radio Service) and MMS (Multimedia Messaging Service)
	- Completed Rp.1.25 trillion bond issue. $70 million of the net proceeds was prepaid to the existing lenders under secured syndicated credit facility

3.2. Profile of PT. Excelcomindo Pratama

PT Excelcomindo Pratama has been widely known as the largest privately owned cellular provider in the country. Its unique vision is *"to be the premier provider of wireless telecommunication products and services in Indonesia"*, moreover as a service company, XL's mission is *"to provide quality services in the wireless telecommunication industry"* and XL also holds a number of values such as *straightforward, trustworthy, progressive, and Responsive.*

XL core products and services include *voice provision, data, and cellular services.* It maintains the business relationship tightly with the customers through the provision of *consumer solutions* as dual band cellular network through *jempol* and *bebas* prepaid and *Xplor* postpaid cards and *business solutions* through the provision of corporate service based on leased line and internet protocol (IP). Its revenue, operating income, and operating expense have been rapidly growing over time following its core business development: (1) the increase in gross revenue is usually supported by subscriber growth during the year; while (2) most of the increase in operating expense is usually related to selling expenses, especially for brand revitalization and new product launch exercises during the year. XL always concerns very seriously in increasing the capacity and coverage as well as in improving the quality through BTS building by launching new corporate brand and logo in order to serve as a powerful *"master brand endorsement"* for all XL's products launched to cater to different market segments.

XL is the third cellular telephone operator adopting the GSM (Global System for Mobile Communication) standard in Indonesia, established in November 1995. we commenced commercial operations in October 1996, providing GSM cellular network service in Indonesia by using GSM 900 base which was subsequently complemented with a GSM 1800 base.

XL is a joint venture resulting from the collaboration between several local and foreign companies, all of which are reputable firms having experience in the telecommunication industry. Thus, XL benefits from the synergy of its shareholders skills and technical specialties.

XL has invested considerable resources in developing its products as the leading telecommunication brands in Indonesia. We focus on providing our customers with quality service and competitive pricing though various service packages and innovative offerings. Significant capital expenditure has been incurred in order to continuously improve network quality and expand network coverage. With these, we believe we have positioned ourselves as a leading consumer focused wireless telecommunications service provider.

3.3. Shareholders

XL's shareholders are major companies in several countries, experienced and skill full in the telecommunications industry.

At 31 December 2004 the Company's shareholder were:

Telekomindo Primabhakti	60.0%
Nynex Indocel Holding Sdn	23.1%
AIF (Indonesia) Limited	2.7%
Mitsui Co. Ltd	4.2%

PT. Telekomindo Primabhakti

Was incorporated in the Republic of Indonesia in 1990 and is a limited liability company. Telekomindo is a subsidiary of Rajawali Corporation, which is controlled by Mr. Peter Sondakh. Rajawali Coproration and is one of the largest private companies in Indonesia with businesses in telecommunications, hotels, consumer goods and retail. Telekomindo's principal investment is its 60.0% shareholding in XL.

Nynex Indocel Holding Sdn

Nynex Indocel Holding Sdn (23,10%) was incorporated in Malaysia in 1995 and is a subsidiary of Verizon Communications inc. Verizon is one of the world's leading providers of communications service. Verizon companies are the largest providers of fixed-line and celluler communications in the United States and the third largest long distance carrier for U.S. consumers.

AIF (Indonesia) Limited

AIF (Indonesia) Limited (12.70%) was incorporated in 1995 in British Virgin Island, and operates under the management of AIF Capital. AIF Capital is headquartered in Hong Kong and advises one of the largest private funds in Asia.

Mitsui & Company Limited

Was incorporated in 1947 in Japan and is one of the largest trading companies in the world. It is involved in numerous businesses including real estate, insurance, construction, telecommunication, media and data services.

On 9 December 2004, Telekom Malaysia Berhad, though its subsidiary. TM International (L) Limited (TMIL), signed Share Sale and Purchase Agreement (SPA) in order to purchase 27,3% shares of the company, which was structured in two steps.

On 11 Januari 2005, Telekom Malaysia Berhad, through its wholly owned investment arm, TMIL, signed SPA to purchase 23,1% interest in the company by the acquisition of all shares previously owned by Nynex Indocel Holding Sdn, which name after the acquisition by TMIL, has changed to Indocel Holding Sdn.

On 1 April 2005, there was a share sale and purchase transaction between Mitsui & Co., Ltd (the Seller) with Rogan Partners Inc (the Buter), so that the shareholders composition of the Company as of 1 April 2005 becomes as follows :

Telekomindo Primabhakti	60.0%
Indocel Holding Sdn*	23.1%
AIF (Indonesia) Limited	12.7%
Rogan Partner Inc	4.2%

* Previously named Nynex Indocel Holding

About TM International (L) Limited

TM International (L) Limited is one of the leading regional investors in mobile companies with interests in Sri Lanka, Bangladesh, Thailand, Cambodia, Malawi, Guinea and Ghana. It has a track record of adding value to its investments and an approach.

3.4. Types of Products and Services Offered

XL's product portfolio is centered on two main products: postpaid and prepaid cards with three different brands which are jempol, *bebas*, and Xplor, intended to cater to different income segments of the market. The jempol prepaid service is developed in order to reach the more price sensitive income segment of the market which requires basic voice and SMS services at competitive price without additional value added services. The *bebas* prepaid service is actually a re-brand of our previously known proXL prepaid service, which is specifically targeted at prepaid customers who require value added services in addition to basic voice and SMS services. The proXL postpaid service is also re-branded as Xplor postpaid service to make it more attractive compared to those offered by other cellular operators.

XL offers a wide array of voice and non-voice cellular telecommunication services to its customers on either a prepaid or postpaid basis. The company's service includes basic cellular voice services, SMS, value added services and roaming services.

XL offers postpaid services principally to corporate customers and high ARPU users where credit risk is generally low. However, even as the company continues to focus on prepaid services, the company intends to increase its postpaid customers by offering customized packages to attract mid-high end customers from the competition.

In addition to the usual voice service, XL also offer a number of data and other value added services including a short messaging service (SMS). SMS allows our customers to send up to 160 characters on cellular handsets which support this function. Our customers can send SMS to other cellular customers in Indonesia or overseas to cellular service providers with which they have a roaming agreement.

Aside from the SMS service, XL also provides value added services where additional charges apply. These services include:

- *Data and fax mobile service.* Enables customers to download news onto their cellular phones.
- *Voicemail.* Enables customers to retrieve voice messages.
- *Mobile Fun.* Enables customers to chat individually or in groups.
- *AQS (Cellular Al Qur'an).* Enables customers to receive interpretations of Al Qur'an, Hadits, or even Praying times. This service is available through SMS or a fixed line.
- *MQ Time.* Enables customers to get moral messages from KH. Abdullah Gymnastiar, a reputable Islamic Scholar.
- *Mobile Banking.* Enables customers to conduct banking transactions through the use of cellular phones. This service is available in cooperation with banks such as PT. Bank Central Asia and PT. Bank Mandiri.
- *Sim Tools Kit (STK).* Allows customers to receive information as well as other interactive services through their cellular phones. This service includes Ring Tone Downloads, Picture Messages, Horoscope, News Update, etc.
- *Location Based Service.* Assists customers in locating nearby public services and the whereabouts of family members or friends who also subscribe to this service.
- *Multimedia Messaging Service* (MMS and General Packet Radio Service (GPRS). Enables customers to transmit graphics, video clips,

sound clips and short text messages over a wireless network through their GPRS platform.

They also offer prepaid and postpaid customers with a number of enhanced features on a complimentary basis such as caller identification, call holding, call waiting as well as call forwarding.

Other than providing cellular services, XL also provide non GSM services to meet communication needs of corporate customers, such as:

- *Leased Line*, which allows customers to build their WAN (Wide Area Network), performs effective communications and run bandwidth demanding applications.
- *International Private Leased Circuit (IPLC).* Provides international leased circuit (network of leased line) through XL's partners worldwide.
- *Internet Service Provider (ISP).* Allows corporate customers to have high speed internet access through local area network.
- *Voice over Internet Protocol (VoIP).* Allows international (SLI) and national (SLJJ) direct dialing from the corporate phone system (PABX) with very competitive rates.
- *Office Zones.* This eases internal communication by facilitating cellular phones as mobile extensions.

- *GSM PABX Integration.* Lets corporate customers to treat their GSM Cellular as a corporate private network.
- *GPRS on demand.* Enables corporate customers to connect to a centralized data center system on ad-hoc basis with data transmission below 1KB.
- *Vehicle and Personal Tracking Systems.* Allows corporate customers to obtain registered vehicles' and individuals' position on a pre-set interval set by the user.
- *Corporate SMS.* Allows customers to perform SMS broadcast to its employees using XL SIM card.

3.5. Financial Highlights

3.5.1. Result of Operations

3.5.1.1. Revenue from Operations

Operating Revenue	Year ended December 31			
	2003		2004	
	Rp. Billion, except percentage			
Revenue from GSM Telecommunication Service :				
Prepaid Voice	1,245.1	47.4%	1,390.3	44.4%
SMS	446.1	17.0%	647.8	20.7%
Others	51.8	2.0%	61.6	1.9%
Total Revenue from Prepaid Voice	1,743.0	66.4%	2,099.7	67.0%
Postpaid Voice	130.	5.0%	146.3	4.7%
SMS	14.6	0.6%	17.2	0.5%
Other	39.0	1.4%	31.6	1.0%
Total Revenue from Postpaid Service	183.6	7.0%	195.1	6.2%
Total Revenue from GSM Telecommunication Service	1,926.6	73.4%	2,294.8	73.2%
Revenue from GSM interconnection services :				
Interconnection	542.9	20.7%	609.9	19.5%

International roaming	120.0	4.6%	158.2	5.0%
Total Revenue from GSM interconnection service	662.9	25.3%	768.1	24.5%
Revenue form other telecommunication service :				
Leased lines	28.6	1.0%	56.0	1.8%
Internet service provider	6.9	0.3%	14.0	0.4%
Others	-	-	0.2	0.0%
Total Revenue from other telecommunication service	35.5	1.3%	70.2	2.2%
Gross operating revenue	2,625.0	100.0%	31,133.1	100.0%

Below are further explanations of the facts above (2004):

a) Total Gross Operating Revenue

XL's total gross operating revenue was Rp 3,133.1 billion, 19.4% above the 2003 figure of Rp 2,625.0 billion. The increase in revenue was from GSM telecommunication service, GSM interconnection services and other telecommunication service.

b) Revenue from GSM Telecommunication service

Revenue from XL's GSM telecommunication service was Rp 2,294.8 billion, 19.1% above 2003 of Rp.1,926.6 billion, due to increase in revenue from prepaid and postpaid services. Total customers increased by 26.8%, from approximately 2.9 million as of 31 December 2003 to approximately 3.8 million as of 31 December 2004. The realignment of the previous prepaid and postpaid proXL to bebas dan Xplor services and attractive features of reload vouchers played a major role in acquiring and retaining subscribers and stimulating usage.

Revenue from XL's prepaid service was Rp 2,099.7 billion, 20.5% above 2003 of Rp 1,743,0 billion, principally due to increases in our voice and SMA usage in line with the increase in the number of customers. The number of prepaid customers increased to approximately 3.8 million customers as of 31 December 2004, from approximately 2.9 million customers as of 31st of December 2003, mainly due to the launching of jempol and the realignment of proXL to bebas.

Revenue from XL's postpaid service was Rp 195,1 billion 8,3% above 2003 of Rp 183.6 billion due to the increase in subscriber base and voice and SMS usage. The number of postpaid customers increased by 34.0% from 36 thousand as of 31 December 2003 to 48 thousand as of 31 December 2004. The realignment of previous postpaid proXL, to Xplor in October 2004 contributed a significant in this increment.

c) Revenue from GSM Interconnection Service

In 2004, revenue from XL's GSM interconnection service was Rp 768.1 billion, 15,9% above 2003 of Rp. 662.9 billion due to the increase in our customer base in 2004. The domestic interconnection revenue was Rp.609.0 billion, 12.3% above 2003 of rp.542.9 billion primarily due to the increase in customer base.

International roaming revenue was Rp.158.2 billion, 31.8% above 2003 of Rp.120.0 billion. They attribute this increase principally to the increased usage of international roaming and the weakening of the Indonesian Rupiah to US Dollar during 2004, compared to 2003. As at 31 December 2004, the exchange rate was Rp.9,290/USD, compared to Rp.8,465/USD as at 31 December 2003.

d) Revenue from other telecommunication service

XL's revenue from other telecommunication service was Rp.70,2 billion, 97.7% above 2003 of Rp.35.5 billion due to the substantial increase in the numbers of our leased line and ISP customers.

3.5.1.2. Operating Expenses

Cost & Expenses	Year ended December 31			
	2003		2004	
	Rp. Billion, except percentage			
Interconnection Charges	305.7	15.0%	359.8	14.5%
Other GSM telecommunication service cost	85.8	4.2%	174.7	7.1%
Other telecommunication service cost	4.9	0.2%	7.9	0.3%
Operating Expenses				
Depreciation Expenses	872.7	42.8%	962.4	38.9%
General & administration expenses	205.9	10.1%	209.3	8.5%
Salaries & employee benefits	162.7	8.0%	214.0	8.6%
Selling expenses	184.5	9.0%	280.8	11.3%
Satellite Rental expenses	69.7	3.4%	84.4	3.4%
Repair & maintenance expenses	108.1	5.3%	128.2	5.2%

Professional fees	22.8	1.1%	32.9	1.3%
Other expenses	19.0	0.9%	19.9	0.8%
Total Operating Expenses	1,645.3	80.5%	.1,931.9	78.1%
Total Cost and Expenses	2,041.8	100.0%	2,474.3	100.0%

Below are further explanations of the facts above (2004):

a) Cost and Expenses

XL's costs and expenses were Rp.2,474.3 billion, 21,2% above 2003 of Rp 2,041.8 billion, principally due to the increase in interconnection charges, other GSM telecommunication service cost, depreciation expenses, salaries and employee benefits and selling experiences.

b) Interconnection charges

XL's interconnection charges were Rp 359.8 billion, 17,7% above 2003 of Rp.305,7 billion, following the increase in voice revenue.

c) Other GSM Telecommunication service cost

Other GSM telecommunication service cost was Rp 174.7 billion, 103,6% above of Rp 85.8 billion. This increase was primarily attributable to the increase in the cost of starter packs in line with the increased number of started packs sold and higher Biaya Hak Pengelolaan (BHP).

d) Other Telecommunication service cost

Other telecommunication service cost was rp 7.9 billion, 62.6% above 2003 of Rp 4.9 billion. This increase was in line with the increase in revenue from other telecommunication service, contributes by the increase in the number of leased line and ISP customers.

e) Depreciation Expenses

Depreciation expenses were Rp.962.4 billion, 10.3% above 2003. This increase was probably attributed by the acquisition of network and other non-network equipments.

f) General and Administrative Expenses

XL's general and administrative expenses were Rp.209.3 billion, 1.7% above 2003 of the Rp 205.9 billion. The increase was mostly contributed by the higher utilities expenses which were partially offset with lower frequency fee. Also, in 2004, we made a positive adjustment of Rp 15.6 billion related to the reversal of over accrual of 2003 frequency fee.

g) Salaries and Employee Benefits

Salaries and employee benefit were Rp 214.0 billion, 31.5% above 2003 of Rp 162.7 billion. This increase was primarily attributable to the regular annual salary increases and the increase in headcount.

h) Selling Expenses

Selling expenses were Rp 280.8 billion, 52.2% above 2003 of Rp 184.5 billion due to an increase in advertising and promotion expenses and sales commission. Higher advertising and promotion expenses were due to brand revitalization and new products launching programs. Sales commissions also increased in line with the increase in gross revenue.

i) Rental Expenses

Rental expenses were Rp 84.4 billion, 21.1% above 2003 of Rp 69.7 billion. The increase was in line with the increase in number of BTS, offices and retail outlets

j) Repair and Maintenance Expenses

Repair and maintenance expenses were Rp.128.2 billion, 18.6% above 2003 of Rp.108.1 billion primarily due to the increase in number of BTS, offices and retail outlets, and also to cover repair and maintenance for network equipments which warranty period was expired in 2004 and other IT equipments.

k) Professional Fees

Professional fees were Rp 32.9 billion, 44.3% above 2003 of Rp 22.8 billion mostly due to one-time consultancy fees to develop the Company's mid and long term strategy and other fee in relation to he USD Notes issuance and fully repayment of secured syndicated credit facility.

l) Other (Expenses)

XL's other expenses were Rp 709.0 billion, against 2003 other income of Rp.6.5 billion due to foreign exchange loss due to the weakening of Indonesian Rupiah against US dollar (Exchange rates as at 31 December 2003 and 2004 were Rp 8,465/USD and Rp. 9,290/USD, respectively and higher interest expenses in relation to IDR Bonds and USD Notes issuance.

m) Income Tax (Expanse) Benefit

Income tax benefit was Rp 52.8 million, against 2003 income tax expenses of Rp 189.2 billion, mainly due to taxable losses.

n) Net Income

Net loss was Rp 50.1 billion, against 2003 net income of Rp. 400.7 billion, due to foreign exchange loss resulting from the weakening of Rupiah against US Dollar and higher interest expenses in line with debt balance.

d) Finance:

- Finance and Control
- Corporate Finance
- Treasury
- Management Accounting
- Procurement
- Asset Management
- Risk Management

e) Corporate Strategy Business Development:

- New Products and Technology
- Broadband Services and Leased Lines
- Inter Carrier Relations
- Corporate Planning

f) Human Capital Development

- Human Capital Planning and Development
- Human Capital Management
- Learning and Development
- Facilities and Security Services

g) Corporate Affairs:

- Corporate Secretary
- Legal
- Corporate Communications
- Government Relations

- Regulatory
- Investor Relations

3.7. Company Policy on Revenue and Expense Recognition.

Revenues are recognized from the sale of starter packs for prepaid services, which consists principally of SIM cards, upon sale to distributors and dealers or directly to customers net of value added taxes. Revenues are not recognized from sales of vouchers for prepaid services at the time of sale. When a voucher is sold, the full amount of airtime sold is credited without deduction for any commissions, to the "Deferred Revenue" account. As prepaid customers use the prepaid airtime or upon expiration of the voucher, the charges are debited from the "Deferred Revenue" account and the amount used or expired is recognized as GSM telecommunication revenues in the income statement.

Non-usage revenues, such as monthly service charges and value added services, are recognized on a monthly basis upon billing. Revenues from activation fees are recognized at the time of delivery of the SIM cards to customers.

Revenues from interconnection with other operators are recognized at the time when the service is rendered on the basis of actual recorded traffic.

Inbound roaming revenues from overseas telecommunication providers for calls made and received by their customers on the company's network is recognized at the time the service is rendered based upon applicable tariffs.

Revenues from leased lines and internet service provider revenues are recognized on a monthly basis upon billing based on prices agreed with customers. When advance payments are received, the amount received are recorded as deferred revenue and recognized as revenue when the services are provided.

CHAPTER IV

STUDY FINDINGS AND DISCUSSION

4.1. Description on Study Findings

Generally, the degree of compliment performed by the company in following the Indonesian Financial Accounting Standards (PSAK) especially in recognizing, measuring, and reporting the revenues and expenses generated from its daily business was likely be highly consistent. This means that the implementation of the company's internal policies in recognizing, measuring, and reporting the revenues and expenses were strongly complied with the Indonesian Financial Accounting Standard (PSAK) imposed officially in this country; thus, the company's daily accounting practices seemed to be highly consistent with the officially existing standard of financial accounting. The above empirical facts had been traced thoroughly and carefully through the observations on the relevant empirical documents provided by the Company on the related objects (e.g., revenues and expenses recognition, measurement, and reporting).

In detailed, the empirical facts as the study findings derived from the related documents observation can be described as follows:

4.1.1. Revenue and expenses recognition in the consolidated financial statements:

a) Revenues had been recognized from the sale of starter packs for prepaid services, consisting principally of SIM cards, upon sale to distributors and dealers or directly to customers net of value added taxes. Revenues are not recognized from sales of vouchers for prepaid services at the time of sale. When a voucher is sold, the full amount of airtime sold is credited, without deduction for any commission, to the "Deferred Revenue" account. As prepaid customers use the prepaid airtime or upon expiration of the voucher, the charges are debited from the "Deferred Revenue" account and the amount used or expired is recognized as GSM telecommunication revenues in the income statement;

b) Revenues for the use of the Company's network by postpaid customers, including chargers for airtime, local interconnection, domestic long distance, international long distance and roaming, had been recognized based on applicable tariffs and the duration of successful calls made through the network. Revenues had been recognized at the time when the service is rendered based on the actual usage of the network by customers during each period;

c) Non-usage revenues, such as monthly service charges and value added services, had been recognized on a monthly basis upon billing. Revenues from activation fees have been recognized at the time of delivery of the SIM cards to customers;

d) Revenues from interconnection with other operators had been recognized at the time when the service is rendered on the basis of actual recorded traffic;

e) Inbound roaming revenues from overseas telecommunication providers for calls made and received by their customers on the Company's network had been recognized at the time when the service is rendered based on applicable tariffs;

f) Revenues from leased lines and internet service provider revenues had been recognized on a monthly basis upon billing based on prices agreed with customers. When advance payments are received, the amount received are recorded as deferred revenue and recognized as revenue when the services are provided;

g) Revenues from VOIP services had been recognized at the time when the service is rendered based upon applicable tariffs;

h) Finally, all expenses had been recognized at the same time when the revenues are received following the revenue and expense matching principles. This is a common principle used by each business institution in its financial accounting process activities.

4.1.2. Revenues and expenses measurement in the consolidated financial statements

4.1.2.1. Simulation of revenue and expense measurement

To explain about the measurement of revenue and the matching of expenses, the researcher conducted a small simulation which will further illustrate the uniqueness of the company's policy on revenue treatment.

First, four characters were created, namely A, B, C, and D. Then, each are placed into a scenario where three of the characters (A, B, and C) uses a certain product line from XL and the fourth character (D) uses a non-XL product. Specifically, A uses the Xplor (post-paid), B uses Bebas (pre-paid) while C uses Jempol (a pre-paid service specializing in SMS). This scenario took place during the month of June, 2004.

The following conditions apply to the customers during the scenario:

- Calls made within the XL network costs Rp.600/30 seconds.
- Calls toward outside provider costs Rp.800/30 seconds.
- Calls made within the XL network during 23:00-07:00 costs Rp.150/30 seconds.
- Standard SMS tariff applies (Rp.350/SMS) except for Jempol users (Rp.100/SMS) to any other XL product line.
- Internet and GPRS costs Rp.3/kilobyte.
- All calls in excess of 30 seconds are rounded to the following 30 seconds.

The following conditions apply to the provider (XL)*:

- Calls connected costs Rp.100/30 seconds regardless of the destination and time.
- Cost of one SMS sent (regardless whether it is delivered or not) is Rp.90.
- Cost of establishing internet and GPRS connection is Rp.2/kilobyte.

* In compliance with the revenue expense matching principle, costs are journalized at the time service is rendered and within the same period revenue is recognized. Later on, expense will be deducted from the revenue in the income statement.

The following facts occur in the beginning of this scenario (1st of June, 2004):

- A applies for membership of Xplor with a fee of Rp.10,100 (Rp.10,000 is the cost of the SIM card while Rp.100 is 10% tax). A monthly service charge of Rp.20,000 will be billed at the end of each month.
- B purchases a Bebas starter pack from a third party dealer for Rp.15,150 with Rp.5,000 pulse included (cost of SIM card is Rp.7,500, and tax is Rp.150. The profit for the dealer is Rp.2,500).
- C purchases a Jempol starter pack from a third party dealer for Rp.15,150 with 50 SMS included (cost of SIM card is Rp.7,500 while the cost of one SMS for the provider is Rp.50, tax is Rp.150. The profit for the dealer is Rp.2,500).

The following occur during the month of June, 2004:

Date	Occurrences
03	1. A made 1 successful call to D at 08:00 (duration of 10 minutes). 2. A sends 4 SMS to C and all are delivered.

	3. C replied A's SMS with 4 SMS as well. All are delivered.
11	1. C sends 6 SMS to B and all are delivered. 2. B replies to C with 7 SMS. All are delivered. 3. B made 1 successful call to A at 23.30 (5 minutes duration)
13	1. B buys pulse recharge of Rp.10,000 for 11,100 from a dealer. 2. B made 1 successful call to D at 13:00 (duration of 5 minutes).
15	1. A received a call from D at 10:00 (duration of 30 minutes).
20	1. A made 1 successful call to B at 08.00 (duration of 20 minutes).
28	1. A made 1 successful call to C at 02.00 (duration of 15 minutes) 2. C sends 2 SMS to A, one delivered, one pending. 3. C sends an MMS to A through GPRS service (150 kilobyte in size)

The transactions will be recorded as follows:

June 1st, 2004

- the sale of the Xplor starter pack to Character A is as follows:

Cash *	Rp.7,600	
Inventory, post-paid SIM card **		Rp.7,500
Tax payable		Rp.100

* Cash paid by customers for the purchase of starter packs are accounted for.

** The Inventory account refers to the physical stock of SIM cards.

- the sale of the Bebas starter pack to character B is as follows:

Cash	Rp.12,650	
Inventory, pre-paid SIM card		Rp.7,500
Deferred Revenue *		Rp.5,000
Tax Payable		Rp.150

* The Deferred Revenue account refers to the available pulse before the actual service is rendered.

- the sale of the Jempol starter pack to character C is as follows:

Cash	Rp.12,650	
Inventory, pre-paid SIM card		Rp.7,500
Deferred Revenue (2500 pulse, 50 SMS @Rp.50)		Rp.5,000
Tax Payable		Rp.150

June 3rd, 2004

1.	Account Receivable *	Rp.16,000	
	Deferred Revenue (10 minutes call to non-XL)		Rp.16,000
	Deferred GSM Telecom. Service Cost **	Rp.2,000	
	Account Payable		Rp.2,000

* For the post-paid service, Cash is not accounted for until payment is done by the customer prior to billing.

** GSM Telecommunication Service Cost refers to the variable costs

2.	Account Receivable	Rp.1,400	

	Deferred Revenue (4 SMS @Rp.350)		Rp.1,400
	Deferred GSM Telecom. Service cost	Rp.360	
	Account Payable		Rp.360
3.	Deferred Revenue (4 SMS @Rp.100) *	Rp.400	
	Revenue from GSM Telecom. Service		Rp.400
	GSM Telecom. Service cost	Rp.360	
	Account Payable		Rp.360

* Upon rendition of service, Deferred Revenue is debited while Revenue is credited (recognized).

June 11th, 2004

1.	Deferred Revenue (6 SMS @Rp.100)	Rp.600	
	Revenue from GSM Telecom. Service		Rp.600
	GSM Telecom. Service cost	Rp.540	
	Account Payable		Rp.540
2.	Deferred Revenue (7 SMS @Rp.350)	Rp.2,450	
	Revenue from GSM Telecom. Service		Rp.2,450
	GSM Telecom. Service cost	Rp.630	
	Account Payable		Rp.630
3.	Deferred Revenue (5 min. call @Rp.150/30 sec.)	Rp.1,500	
	Revenue from GSM Telecom. Service		Rp.1,500
	GSM Telecom. Service cost	Rp.1,000	
	Account Payable		Rp.1,000

June 13th, 2004

1.	Cash	Rp.10,100	
	Deferred Revenue (Rp.10,000 pulse credited)		Rp.10,000
	Tax Payable		Rp.100
2.	Deferred Revenue (5 min. call to non-XL)	Rp.8,000	
	<u>Revenue from GSM Telecom. Service</u>		Rp.8,000
	GSM Telecom. Service cost	Rp.1,000	
	Account Payable		Rp.1,000

June 15th, 2004

1. -none-

June 20th, 2004

1.	Account Receivable	Rp.24,000	
	Deferred Revenue (20 min. call to non-XL)		Rp.24,000
	Deferred GSM Telecom. Service cost	Rp.4,000	
	Account Payable		Rp.4,000

June 28th, 2004

1.	Account Receivable	Rp.4,500	
	Deferred Revenue (15 min. call @Rp.150/30 sec.)		Rp4,500
	Deferred GSM Telecom. Service cost	Rp.3,000	

	Account Payable		Rp.3,000
2.	Deferred Revenue (2 SMS @Rp.100)	Rp.200	
	<u>Revenue from GSM Telecom. Service</u>		Rp.200
	GSM Telecom. Service cost	Rp.180	
	Account Payable		Rp.180
3.	Deferred Revenue (150 kb MMS @Rp.3/kb)	Rp.450	
	<u>Revenue from GSM Telecom. Service</u>		Rp.450
	GSM Telecom. Service cost	Rp.300	
	Account Payable		Rp.300

At the beginning of the next month, character A will be billed to pay for the services rendered. The billing letter itself will be as follows:

Bill for July 4th, 2004

Fixed Charges:		
Monthly Service Charge		Rp.20,000
Usage Charges:		
Local (within XL network)	RP.4,500	
Interlocal (outside of XL network)	Rp.40,000	
Short Message Service	Rp.1,400	
GPRS	Rp.0	
Total Usage Charges:		<u>Rp.45,900</u>
Subtotal:		Rp.55,900

10% Govt.Tax	Rp.5,590
Stamp Duty Fee	Rp.6,000
Amount due for June, 2004:	Rp.77,490

Upon billing, XL will recognize revenue and expense (in accordance to the matching principle) from the post-paid service (Xplor). In this case, the accounting treatment would be:

July 4th, 2004

Deferred Revenue	Rp.55,900	
Revenue from GSM Telecom. Service		Rp.55,900
GSM Telecom. Service Cost	Rp.9,360	
Deferred GSM Telecom. Service Cost		Rp.9,360

When the payment is received from the customer (i.e. on July 10th, 2004), XL will apply the following accounting treatment:

July 10th, 2004

Cash	Rp.77,490	
Account Receivable		Rp.55,900
Tax Payable		Rp.5,590
Stamp Duty Fee		Rp.6,000

Due to this uniqueness, there is a need to further elaborate the measurement of revenue for the post-paid service. The researcher creates a new scenario by putting character A in a new time period, which is the month of December, 2004. By doing so, a new question arises:

"How will XL recognize revenue when the pulse usage is through the month of December, 2004, while the bill issuance and the payment by customer is done on January, 2005?" (Billing on January 4^{th}, 2005 and payment on January 10^{th}, 2005).

The answer would be to make adjustments as follows:

Adjustments for year ended December 31^{st}, 2004

January 4^{th}, 2005			
Deferred Revenue		Rp.55,900	
	<u>Revenue from GSM Telecom. Service</u>		Rp.55,900
July 10^{th}, 2004			
Cash		Rp.77,490	
	Account Receivable		Rp.55,900
	Tax Payable		Rp.5,590
	Stamp Duty Fee		Rp.6,000

4.1.2.2. Revenue and expense matching process

To further illustrate the revenue and expense treatment, matching principle should be applied. Its purpose is to allocate the right amount of expense towards the revenue at the right time. Thus, net operating revenue will be found.

The data used below is taken from the 2004 consolidated financial statement of PT.Excelcomindo Pratama (in billions Rupiah).

Operating Revenue	Year ended December 31			
	2003		2004	
	Rp. Billion, except percentage			
Revenue from GSM Telecommunication Service :				
Prepaid Voice	1,245.1	47.4%	1,390.3	44.4%
SMS	446.1	17.0%	647.8	20.7%
Others	51.8	2.0%	61.6	1.9%
Total Revenue from Prepaid Voice	1,743.0	66.4%	2,099.7	67.0%
Postpaid Voice	130.	5.0%	146.3	4.7%
SMS	14.6	0.6%	17.2	0.5%
Other	39.0	1.4%	31.6	1.0%
Total Revenue from Postpaid Service	183.6	7.0%	195.1	6.2%
Total Revenue from GSM Telecommunication Service	1,926.6	73.4%	2,294.8	73.2%
Revenue from GSM interconnection services :				
Interconnection	542.9	20.7%	609.9	19.5%
International roaming	120.0	4.6%	158.2	5.0%
Total Revenue from GSM interconnection service	662.9	25.3%	768.1	24.5%
Revenue form other telecommunication service :				
Leased lines	28.6	1.0%	56.0	1.8%
Internet service provider	6.9	0.3%	14.0	0.4%
Others	-	-	0.2	0.0%
Total Revenue from other telecommunication service	35.5	1.3%	70.2	2.2%
Gross operating revenue	2,625.0	100.0%	31,133.1	100.0%

Cost & Expenses	Year ended December 31			
	2003		2004	
	Rp. Billion, except percentage			
Interconnection Charges	305.7	15.0%	359.8	14.5%
Other GSM telecommunication service cost	85.8	4.2%	174.7	7.1%
Other telecommunication service cost	4.9	0.2%	7.9	0.3%
Operating Expenses				
Depreciation Expenses	872.7	42.8%	962.4	38.9%
General & administration expenses	205.9	10.1%	209.3	8.5%
Salaries & employee benefits	162.7	8.0%	214.0	8.6%
Selling expenses	184.5	9.0%	280.8	11.3%
Satellite Rental expenses	69.7	3.4%	84.4	3.4%
Repair & maintenance expenses	108.1	5.3%	128.2	5.2%
Professional fees	22.8	1.1%	32.9	1.3%
Other expenses	19.0	0.9%	19.9	0.8%
Total Operating Expenses	1,645.3	80.5%	.1,931.9	78.1%
Total Cost and Expenses	2,041.8	100.0%	2,474.3	100.0%

By subtracting total costs and expenses towards gross operating revenue, the net operating revenue for 2003 is Rp.583.2 billion, and Rp.28,658.8 billion for 2004

4.1.3. Revenues and expenses reporting in the financial statements

The financial statements of PT Excelcomindo Pratama and its subsidiaries (collectively "the Group") had been completed by external auditors and approved by the Board of Directors on 28 February 2005. The significant accounting policies adopted in preparing the financial statements of the Group, which are inconformity with the Generally Accepted Accounting Principles (GAAP). A Summary of Significant Accounting Policies includes the following components:

a) Basis for preparation of the consolidated financial statements:

1. The consolidated financial statements have been prepared on the basis of historical costs and the accrual concept except for the consolidated statements of cash flows;

2. The consolidated statements of cash flows present the source and uses of cash and cash equivalents according to operating, investing and financing activities. The Group considers short-term time deposits with original maturities of three months or less to be cash equivalents net of overdrafts. The consolidated statements of cash flows are prepared using the direct method. The use of the direct method represents a change in classification as a result of the application of the Capital Market Supervisory Board (BAPEPAM). Regulation No. Kep-06/PM/2000 dated 13 March 2000 and No. SE-02/PM/2002 dated 27 December 2002. Prior to 2003, the group prepared the consolidated cash flows using the indirect method;

3. Figures in the consolidated financial statements are rounded to and stated in thousand of Rupiah unless otherwise stated.

b) Principles of consolidation

1. The consolidated financial statements include the accounts of entities controlled by the Company and in which the Company directly or indirectly has ownership of more than 50% of the voting rights. The subsidiaries are consolidated from the date on which effective control was transferred to the company.

2. The effect of all transactions and balances between companies in the Group have been eliminated in preparing the consolidated financial statements;

3. The accounts of the subsidiaries domiciled outside Indonesia are translated into Rupiah amounts on the following basis:

   a. Balance sheet accounts are translated using the export draft transaction rate of the Bank of Indonesia prevailing at the balance sheet;
   b. Statement of income accounts are translated using the average rate during the period (in full Rupiah amount).

4. The resulting difference arising from the translation of balance sheets and statements of income accounts of the subsidiaries are recognized in the current period consolidated statement of income, on the basis that the operations of the foreign subsidiaries formed an integral part of the Company and as a result, the

transactions of the foreign operations have been considered as if they had been carried out by the Company;

5. The accounting policies adopted in preparing the consolidated financial statements have been consistently applied by the subsidiaries unless otherwise stated;

c) Inventory

Inventories, comprising primarily of vouchers and SIM cards, are valued at the lower of cost or net realizable value. Cost is computed using the moving average method;

d) Fixed assets and depreciation

1. Fixed assets are stated at acquisition cost, including any applicable import taxes, custom duties, freight costs, handling and costs, storage costs, site preparation costs, installation costs, and internal labor costs less accumulated depreciation, except land which is not depreciated. Depreciation is applied from the date the assets are placed into service or when the assets are ready for service using the straight line method over the estimated useful lives resulting the annual percentages of cost;

2. Normal maintenance expenses are charged to income of the current period, while repairs, renovations and betterment that increase the useful life of assets are capitalized;

3. Management conducts regular reviews and ensures that the carrying amount of the Company's assets are at all times lower than their estimated recoverable amounts;

4. The accumulated costs of network equipment are firstly capitalized as Assets Under Construction. These costs are then reclassified to fixed asset accounts when the assets are commissioned into service;

5. The cost of upgrading software is capitalized and the previously recorded balance is written off at the time the software upgrade is performed;

6. When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are eliminated from the consolidated financial statements, and the resulting gains and losses on the disposal of fixed assets are recognized in the current period statements of income.

e) Taxation

1. In accordance with Indonesian Taxation Law, corporate income tax is calculated for the Company and each of its subsidiaries as separate legal entities (considerate financial statements are not permitted for computing the corporate income tax);

2. Deferred income tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax;

3. Deferred tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized;

f) Employee compensation

Employee entitlements to compensation in relation to the current manpower regulation are recognized when the employees meet the criteria set out in the regulation. A provision for employee compensation is made for the estimated liability as a result of past services rendered by employees up to the balance sheet date and is calculated based on the existing Manpower regulation.

g) Management's use of estimates

The presentation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates;

Consistently, Exelcomindo Pratama Company prepared, recorded, and published periodically financial statements covering its revenues and expenses and other financial components. After transactions (especially revenues and expenses) are identified, recorded and summarized, the Company then prepared the four types of financial statements from the summarized accounting data included:

1. An income statement presented its revenues and expenses as well as resulting net income or net loss of the Company for a specific period of time (2002-2004);

2. An owner's equity statement summarized the changes in owner's equity for a specific period of time (2002-2004);

3. A balance sheet as of 31st December 2002, 2003, and 2004 reported the assets, liabilities, and owner's equity of the Company;

4. A statement of cash flows summarized information concerning the cash inflows (receipts) and outflows (payments) for a specific period of time (2002-2004).

Each statement the Exelcomindo Pratama Company prepared above, provided management, owners, and other interested parties with relevant financial data. The Company's financial statements and their interrelationship are attached. Additionally, every set of the Company's financial statements is accompanied by explanatory notes and supporting schedules that are an integral part of the statements.

4.2. Indonesian Financial Accounting Standards (PSAK) on Revenue and Expense Treatment (Recognizing and Reporting) for Telecommunication Services

4.2.1. Revenue Recognition on Telecommunication Services

Para 11: Judging from the nature and characteristics of telecommunication service providers, the revenue recognition must use *accrual basis* except for certain services that due to its nature can not be done through the use of pure accrual basis. Thus, revenue recognition in telecommunication services is regulated by the paragraphs 12-14 below;

Para 12: Revenue recognition from interconnection telecommunication service is regulated as follows:

a) Revenue from telecommunication service that arise from interconnection for local & long distance and transit is acknowledged in the amount agreed by each parties in accordance to an earlier contract;

b) Revenue from telecommunication service generated from interconnection for international calls including transit is acknowledged in the amount in accordance to the international convention on interconnection distribution;

c) If information on the distributable amount for the period is unknown, then the amount must be fixed according to proper estimation.

Para 13: Revenue recognition of telecommunication service that is done alone is regulated as follows:

a) Revenue for new installation service and mutation is recognized when the customer's terminal is ready for use;

b) Revenue for the use of telecommunication facility based on tariff and usage measuring units, such as pulse minute, word, and other measuring units is acknowledged as its actual amount of usage during ongoing period;

c) Revenue from services related to telecommunication facility usage, such as circuit usage service, satellite transponder usage, and other facility usage, is acknowledged as actual amount of usage during ongoing period;

d) Revenue from public telephone coin usage is acknowledged at a time when coins taken;

e) Revenue from phone card selling is acknowledged at a time when cards are collected, except there is a more reliable method of estimation can be used;

Para 14: Revenue recognition of telecommunication service implemented through cooperation with investor is regulated as follows:

a) Revenue of telecommunication service from cooperation is acknowledged as actual amount for ongoing period according to contractual agreement;
b) If based on a contractual agreement:
   1. Should be an agreement that provider will gain any asset, where the delivery of its ownership will be conducted at the end of cooperation period;
   2. provider is freed from any legal claim made by the third party concerning the asset provider gained;
   3. The agreement is irrevocable.

4.2.2 Revenue and expense reporting on telecommunication service

Para 15: The following issues related to the revenue recognition must be reported through Notes of Financial Statement:

(a) method of revenue recognition of telecommunication service acquired through cooperation and interconnection;
(b) detail of revenue from telecommunication service acquired from sole operation, cooperation and interconnection

4.3. Discussion on Study Findings

By comparing the above Company's policies in recognizing and reporting its revenues and expenses from the Indonesian Financial Accounting Standard (PSAK), it can be stated here that empirically the Company performs its policies in accordance or consistent with the Indonesian Financial Accounting Standard (PSAK). These situations of consistency may have some useful and positive consequences to the Company's future development:

1. Under the consistent application on the Indonesian Financial Accounting Standard (PSAK), the Company would likely be more credible and trusted to the public especially the shareholders;
2. The consistent application on the Indonesian Financial Accounting Standard (PSAK) may increase the interest of other parties to join in the Company 's operations either as a cooperating company or only as a shareholder;
3. By applying consistently the PSAK, the company will be able to show the degrees of appropriateness, accuracy, and accountability to the public concerning its financial accounting management process as guaranteed by the PSAK;
4. Although normatively, the more consistent to the standards the better, however, sometimes a company may deliberately misstate the financial figures to improve the status of the company. Thus making the company more "attractive" to interested parties;

5. Some logical reasons held by all users as their common needs on financial reports or statements, which is consistent with the Financial Accounting Standard, especially in making economic decision may include, for example, to:

   (1) decide when to buy, hold or sell an equity investment;

   (2) assess the stewardship or accountability of management;

   (3) assess the ability of the enterprise to pay and provide other benefits to its employees;

   (4) assess the security for amounts lent to the enterprise;

   (5) determine taxation policies;

   (6) determine distributable profits and dividends;

   (7) prepare and use national income statistics; or

   (8) regulate the activities of enterprise

Some consideration should also be taken into account by enterprises in making the most accountable financial reports / statements to the public is that government in particular, may also specify distinctive or additional requirements for their own purposes. These requirements should not, however, influence financial statements / reports published officially by for the benefit of other users unless they also meet the needs of those other users. In addition, company's financial statement is most commonly prepared in accordance with an accounting model based on recoverable historical cost and the nominal financial capital maintenance concepts. Other models and concepts may be more appropriate in order to meet the objective information provision useful for making economic decisions although there is presently no consensus for change. This kind of framework has been developed and introduced so that it is applicable to arrange of accounting models and concepts of capital maintenance.

It is understandable that the Excelcomindo Pratama Company should always pay attention to its users of the financial statements that may include present and potential investors, employees, lenders, suppliers, and other trade creditors, customers, government, and their agencies and the public. They carefully observe and use the financial statements prepared and published by the Exelcomindo Pratama Company to satisfy some of their distinctive needs for financial information. These needs may usually include the following:

1. *Investors of the Exelcomindo Pratama Company.* The providers of risk capital and their advisers are very concerned with the risk inherent in, and return provided by, their investments. They need information to help them determine whether they should buy, hold or sell. Shareholders are also interested in information enabling them to assess the ability of the Company to pay dividends;

2. *Employees of the Exelcomindo Pratama Company.* Its Employees and their representative groups are interested in information concerning the stability of profitability of their employers. They are also interested in information enabling them to assess the ability of the Company to provide remuneration, retirement benefits and employment opportunities;

3. *Lenders of the Exelcomindo Pratama Company.* Its lenders are interested in information enabling them to determine whether their loans, and the interest attaching to them, will be paid by the Company consistently when due;

4. *Suppliers and other trade creditors of the Exelcomindo Pratama Company.* Its suppliers and other creditors are also interested in information, provided by the Company, enabling them to determine whether amounts owing to them will be paid on time when due. Moreover, trade creditors are likely to be interested in the Company over a shorter period than lenders unless they are dependent on the continuation of the Company as a major costumer;
5. *Customers of the Exelcomindo Pratama Company.* Its customers have an interest in information concerning the continuance of the Company especially when they have a long-term involvement with, or are dependent on, the Company;
6. *Government and their agencies.* Government and their agencies related to the Company are interested in the allocation of required resources and, therefore, the Company's activities. They also require information in order to: (1) regulate the Company's activities, (2) determine taxation policies and as the basis for national income and similar statistics;
7. *Public of the Exelcomindo Pratama Company.* The Company affects members of the public in a variety of ways. For example, the Company may make a substantial contribution to the local economy in many ways including the number of people the Company employs and its patronage of local suppliers.

Furthermore, the Exelcomindo Pratama Company's objectives in implementing consistently its financial policies (e.g., Revenue and Expense Recognition, Measurement, and Reporting) to the Financial Accounting Standard (PSAK) among others are:

1. to provide information concerning the financial position, performance and changes in financial position, especially in revenue and expense recognition, measurement, and reporting, of the Company that is useful to a wide range of users in making economic decision;
2. to meet the common needs of most users on consistent financial statement; however, it does not provide all the information that users may need to make economic decision since they largely portray the financial effects of past events and does not necessary provide non-financial information; and
3. to also show the results of the stewardship of the Company's management, or the accountability of management for the resources entrusted to it. Those users wishing to assess the stewardship or accountability of the Company's management do so in order that they may make economic decisions. These decisions may include, for example, whether to hold or sell their investments in the Company or whether to reappoint or replace the management.

The Exelcomindo Pratama Company's financial statements (especially in its treatment on revenues and expenses) are always prepared, presented, and published at least annually and are directed toward the common information needs of a wide range of users. Some of these users may require and have the power to obtain, information in addition to that contained in the financial statements. Many users, however, have to rely on the financial statements as their major source of financial information and such financial statements should, therefore, be prepared, presented and published with the users' needs in view.

CHAPTER V

CONCLUSION

The operational characteristics of a telecommunication service provider are unique in many ways, especially its policies on revenue and expense treatment. Therefore, as an accountant, one must be aware of this uniqueness. The accountant must keep his or her company's policies consistent with that of the Financial Accounting Standards in order for it to be considered legal and acceptable. In conclusion, the researcher enclosed implications and suggestions considering the matter of this research.

5.1. Conclusion

Based on the study findings described in the previous chapter, the researcher generally concludes that the Company's policies concerning the recognition, measurement, and reporting practices on both revenues and expenses in 2003 and 2004 were ***in compliance*** with the Indonesian Financial Accounting Standard (PSAK) officially imposed.

In more detailed:

1. all revenues and expenses had been recognized consistently with the Indonesian Financial Accounting Standard (PSAK) concerning the revenue recognition;
2. all revenues and expenses had been measured consistently with the Indonesian Financial Accounting Standard (PSAK) concerning the revenue measurement;
3. all revenues and expenses had also been reported consistently with the Indonesian Financial Accounting Standard (PSAK) concerning the revenue reporting;

5.2. Implication

a) The revenue

It is implied that the Company's tendency in maintaining the compliant level to the Indonesian Financial Accounting Standard (PSAK) in revenue recognition, measurement, and reporting is due to the optimal safety of recognition, measurement, and reporting process guaranteed the official PSAK;

b) The Expense

The Company's compliance to the Indonesian Financial Accounting Standards (PSAK) in expense recognition, measurement, and reporting can be affected by the optimal safety of expense recognition, measurement and reporting procedure guaranteed by the official PSAK;

5.3. Suggestions

1. In order to maintain the degree of appropriateness on the revenue and expense recognition process, it is suggested that the Company should always keep the policies application on revenue and expense recognition consistently with the Indonesian Financial Accounting Standard (PSAK) imposed officially;
2. The degree of accuracy in measuring the revenues and expenses should also be maintained by the Company through the consistent implementation of the policies

in revenue and expense measurement with the Indonesian Financial Accounting Standard (PSAK);

3. The level of shareholders' acceptance on the financial statement (in terms of revenues and expenses) would likely be optimum when the Company performs the revenue and expense reporting policies consistently with the Indonesian Financial Accounting Standard (PSAK), because the official PSAK is likely always guaranteed the degree of appropriateness, accuracy, and accountability of the reporting process to the public including the shareholders.
4. To further increase the usefulness of the financial report, the researcher suggests the company include segmentation of specific products in the income statement. By doing so, it will be clear as to how much each product has contributed to the company's income. As a result, potential shareholders can see which product is more beneficial for the company. It will also give the users a better ability to foresee the products future potential. A sample of the segmented Income Statement is included in the Appendix

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APPENDIX

PRODUCT SEGMENTED
INCOME STATEMENT

Income Statement
PT. Excelcomindo Pratama
Per December 31st, 20XX

	Xplor	XL Bebas	XL Jempol
Revenue from GSM Telecommunication Service :			
Prepaid Voice	XXXX	XXXX	XXXX
SMS	XXXX	XXXX	XXXX
Others	XXXX	XXXX	XXXX
Total Revenue from Prepaid Voice	XXXX	XXXX	XXXX
Postpaid Voice	XXXX	XXXX	XXXX
SMS	XXXX	XXXX	XXXX
Other	XXXX	XXXX	XXXX
Total Revenue from Postpaid Service	XXXX	XXXX	XXXX
Total Revenue from GSM Telecommunication Service	XXXX	XXXX	XXXX
Revenue from GSM interconnection services :			
Interconnection	XXXX	XXXX	XXXX
International roaming	XXXX	XXXX	XXXX
Total Revenue from GSM interconnection service	XXXX	XXXX	XXXX
Revenue form other telecommunication service :			
Leased lines	XXXX	XXXX	XXXX
Internet service provider	XXXX	XXXX	XXXX
Others	XXXX	XXXX	XXXX
Total Revenue from other telecommunication service	XXXX	XXXX	XXXX
Gross operating revenue	XXXX	XXXX	XXXX
Interconnection Charges	XXXX	XXXX	XXXX
Other GSM telecommunication service cost	XXXX	XXXX	XXXX
Other telecommunication service cost	XXXX	XXXX	XXXX
Operating Expenses	XXXX	XXXX	XXXX

Depreciation Expenses	XXXX	XXXX	XXXX
General & administration expenses	XXXX	XXXX	XXXX
Salaries & employee benefits	XXXX	XXXX	XXXX
Selling expenses	XXXX	XXXX	XXXX
Satellite Rental expenses	XXXX	XXXX	XXXX
Repair & maintenance expenses	XXXX	XXXX	XXXX
Professional fees	XXXX	XXXX	XXXX
Other expenses	XXXX	XXXX	XXXX
Total Operating Expenses	XXXX	XXXX	XXXX
Total Cost and Expenses	XXXX	XXXX	XXXX
Net Operating Revenue	XXXX	XXXX	XXXX

PT.EXCELCOMINDO PRATAMA AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2002, 2003, AND 2004

PT EXCELCOMINDO PRATAMA AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF 31 DECEMBER 2004, 2003 AND 2002
(Expressed in thousand Rupiah, except par value per share)

	Notes	2004	2003	2002
CURRENT ASSETS				
Cash and cash equivalents	2a, 3	420,886,773	608,145,479	198,646,332
Trade receivables (net of allowance for doubtful accounts Rp 9,725,902 at 31/12/2004, Rp 5,593,440 at 31/12/2003 and Rp 2,070,380 at 31/12/2002)	2e, 4	117,349,021	143,057,822	127,811,103
Other receivables – third parties		1,498,409	651,134	1,431,291
Inventories	2f	57,677,148	31,571,189	12,121,047
Prepaid taxes	2j, 15a	88,970,854	13,875,133	20,380,325
Advances and other prepayments		66,869,006	46,282,394	40,733,475
Other asset	5	44,531,250	44,531,250	-
Total current assets		802,780,461	888,114,401	401,123,573
NON-CURRENT ASSETS				
Other receivables – related parties	2c, 16b			124,366
Fixed assets (net of accumulated depreciation of Rp 3,749,013,740 at 31/12/2004, Rp 2,816,760,184 at 31/12/2003 and Rp 1,947,629,183 at 31/12/2002)	2g, 2i, 6	5,273,119,855	4,413,352,916	4,173,127,554
Other assets	5	398,559,116	212,671,532	172,199,018
Total non-current assets		5,671,678,971	4,626,024,448	4,345,450,938
TOTAL ASSETS		6,474,459,432	5,514,138,849	4,746,574,511
CURRENT LIABILITIES				
Trade payables	7	609,943,831	401,133,958	476,492,966
Taxes payable	2j, 15b	22,087,586	61,460,916	92,236,419
Other payables and accruals – third parties	8	204,425,224	115,185,106	44,527,910
Deferred revenue	2d	59,407,330	45,881,322	132,593,714
Current maturities of long term lenders loan	9	-	465,575,000	134,100,000
Total current liabilities		895,863,971	1,089,236,300	879,951,009
NON-CURRENT LIABILITIES				
Other payables and accruals – related parties	2c, 16c	198,661	4,021,960	8,925,162
Deferred tax liabilities	2j, 15d	98,170,240	99,467,416	20,548,150
Long term lenders loan net of current maturities	9	-	2,006,130,836	3,140,833,820
Long term bond	2h, 10	4,430,519,788	1,224,132,082	-
Provision for employee compensation	2k, 11a	11,151,333	3,492,548	8,382,314
Total non current liabilities		4,540,040,022	3,336,244,842	3,178,689,446
EQUITY				
Share capital authorised, issued and fully paid 2,265,000 shares, with par value Rp 250,000 per share	12	566,250,000	566,250,000	566,250,000
Capital surplus	12	11,730,000	11,730,000	11,730,000
Retained earnings		460,575,439	510,677,707	109,954,056
Total equity		1,038,555,439	1,088,657,707	687,934,056
TOTAL LIABILITIES AND EQUITY		6,474,459,432	5,514,138,849	4,746,574,511

The accompanying notes form an integral part of these consolidated financial statements

PT EXCELCOMINDO PRATAMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002
(Expressed in thousand Rupiah, except basic (loss)/earnings per share)

	Notes	2004	2003	2002
REVENUE	2d, 14			
GSM				
GSM telecommunication service	2n	2,294,667,262	1,926,575,102	1,826,667,121
GSM interconnection service		768,926,711	662,927,658	644,437,036
Gross GSM revenue		3,063,593,973	2,589,502,760	2,471,104,157
Other GSM telecommunication charges	2n	(174,684,585)	(85,785,581)	(52,851,370)
Interconnection charges		(359,825,616)	(305,653,881)	(287,844,400)
GSM revenue net of interconnection charges and other GSM telecommunication charges		2,529,083,772	2,198,063,298	2,130,408,387
Other				
Gross revenue from other telecommunication services	2n	69,545,230	35,533,000	12,676,873
Other telecommunication services cost	2n	(7,925,349)	(4,873,220)	(4,312,421)
Revenue from other telecommunication services net of other telecommunication services cost		61,619,881	30,659,780	8,364,452
NET REVENUE		2,590,703,653	2,228,723,078	2,138,772,839
OPERATING EXPENSES	2d			
Depreciation expenses	2g, 6	962,352,273	872,735,284	689,419,026
General and administration expenses	2n	209,298,095	205,851,798	101,515,416
Salaries and employee benefits	2k, 2l, 11	214,032,971	162,682,955	144,055,988
Selling expenses		280,761,169	184,547,323	221,613,071
Rental expenses		84,381,690	69,657,792	60,312,326
Repair and maintenance expenses		128,170,818	108,063,150	91,608,430
Professional fees		32,936,468	27,804,632	57,821,819
Others		19,943,452	18,958,009	19,382,681
		1,931,876,936	1,645,300,943	1,385,728,759
OPERATING INCOME		658,826,717	583,422,135	753,044,080
OTHER (EXPENSE)/INCOME				
Interest expense		(419,898,140)	(171,340,091)	(142,705,776)
Interest income		27,230,763	7,691,517	11,125,484
Foreign exchange (loss)/gain - net	2i	(273,890,441)	190,767,579	483,460,352
Others		(42,423,944)	(20,583,668)	(37,762,972)
		(708,981,762)	6,535,337	314,117,088
(LOSS)/INCOME BEFORE INCOME TAX BENEFIT/(EXPENSE)		(50,155,045)	589,957,472	1,067,161,166
INCOME TAX BENEFIT/(EXPENSE)				
Current	2j, 15c	(1,244,399)	(110,314,555)	(79,062,672)
Deferred	2j, 15c	1,297,176	(78,919,266)	(244,812,269)
		52,777	(189,233,821)	(323,874,941)
NET (LOSS)/INCOME		(50,102,268)	400,723,651	743,286,225
BASIC (LOSS)/EARNINGS PER SHARE	2m, 13	(22,120)	176,920	328,162

The accompanying notes form an integral part of these consolidated financial statements

PT EXCELCOMINDO PRATAMA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002
(Expressed in thousand Rupiah)

	Share capital	Capital surplus	Retained earnings	Total
Balance at 1 January 2002	566,250,000	11,730,000	(633,332,169)	(55,352,169)
Net income for the year	-	-	743,286,225	743,286,225
Balance at 31 December 2002	566,250,000	11,730,000	109,954,056	687,934,056
Net income for the year	-	-	400,723,651	400,723,651
Balance at 31 December 2003	566,250,000	11,730,000	510,677,707	1,088,657,707
Net loss for the year	-	-	(50,102,268)	(50,102,268)
Balance at 31 December 2004	566,250,000	11,730,000	460,575,439	1,038,555,439

The accompanying notes form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004, 2003 AND 2002
(Expressed in thousand Rupiah)

	Notes	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and other operators		3,172,374,014	2,523,076,649	2,503,260,415
Interest income received		26,133,508	8,015,773	10,654,246
Payments for suppliers and operating expenses		(1,331,433,864)	(1,022,853,451)	(953,612,977)
Payments of corporate income tax		(77,532,214)	(165,710,417)	(10,377,626)
Payments to employees		(206,374,187)	(167,572,721)	(142,113,511)
Net cash flows provided from operating activities		1,583,167,257	1,174,955,833	1,407,810,549
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of fixed assets		(1,706,194,597)	(1,044,532,248)	(1,053,529,516)
(Additions)/realisation of other assets		(193,006,823)	(85,543,314)	63,293,036
Proceeds from sale of fixed assets and insurance claims	6	10,831,962	226,740	6,457,890
Net cash flows used in investing activities		(1,887,369,458)	(1,129,848,822)	(983,778,590)
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of long term lenders loan interest		(9,218,947)	(134,839,952)	(233,096,678)
Bond issuance cost		(48,286,189)	(27,233,292)	-
Payment of bond interest		(300,938,444)	-	-
Repayment of long term lenders loan	9	(2,470,705,836)	(720,770,000)	(26,928,000)
Proceeds from long term bond		2,947,788,113	1,250,000,000	-
Net cash flows provided from/(used in) financing activities		118,638,697	367,156,756	(260,024,678)
Net (decrease)/ increase in cash and cash equivalents		(185,563,504)	412,263,767	164,007,281
Cash and cash equivalents at the beginning of the year		608,145,479	198,646,332	35,081,856
Effect of exchange rate changes on cash and cash equivalents		4,304,798	(2,764,620)	(442,805)
Cash and cash equivalents at the end of the year	3	426,886,773	608,145,479	198,646,332
Consisting of				
- Cash		879,748	820,629	846,710
- Bank		158,107,025	607,324,850	58,399,622
- Time deposits maturity within three months		267,900,000	-	139,400,000
		426,886,773	608,145,479	198,646,332
ACTIVITIES NOT AFFECTING CASH FLOWS				
- Purchase of fixed assets by means of long term lenders loan		-	84,440,343	611,499,013
- Purchase of fixed assets by means of trade payables		144,205,667	-	46,690,926

The accompanying notes form an integral part of these consolidated financial statements

1. GENERAL

a. Establishment

PT Excelcomindo Pratama ("the Company"), previously PT Grahametropolitan Lestari, a limited liability company, was established by Deed No. 55, made before Mr. Rachmat Santoso SH, Notary in Jakarta, dated 6 October 1989, subsequently amended by Deed No. 79 of the same notary dated 17 January 1991. These deeds were approved by the Ministry of Justice of the Republic of Indonesia in its decree letter No. C2-515.HT 01.01.TH.91 dated 19 February 1991, registered at the South Jakarta Court of Justice under No 670/Not/1991/PN.JKT.SEL and No 671/Not/1991/PN.JKT.SEL dated 21 August 1991, and published in Supplement No. 4070 to State Gazette No. 90 on 8 November 1991. The Company changed its status to a foreign investment company (PMA) by Deed No. 10 dated 20 November 1995, made before Mrs. Endang Sugiharti Antariksa, SH, Notary in Jakarta. This deed was approved by the Minister of Justice of the Republic of Indonesia in its decision letter No.C2-15.601.HT.01.04.TH.95 dated 30 November 1995, registered at the Central Jakarta Court of Justice under No. 1373/1995 dated 18 December 1995 and published in Supplement No. 1141 to State Gazette No. 9 on 30 January 1996.

The Company's Articles of Association were amended to comply with Limited Liability Company Law (Law No. 1 of 1995). The revised Articles of Association have been notarised under Deed No. 20 dated 5 February 1999, made before Mr. Irawan Soerodjo, SH, Notary in Jakarta, and were approved by the Ministry of Justice of the Republic of Indonesia in its decree letter No. C-11478 HT.01.04.TH.99 dated 21 June 1999, registered at the South Jakarta Company Registration Office No. 252/RUB.09.03/III/2000 dated 14 March 2000, and published in Supplement No. 2187 to State Gazette No. 35 on 2 May 2000.

The Company's Articles of Association were amended under Deed No. 63 dated 18 April 2002, made before Mr. Aulia Taufani SH, substitution of Mr. Sutjipto SH, Notary in Jakarta. This deed was reported to the Ministry of Justice and Human Rights of the Republic of Indonesia and was accepted as evidenced by the Report Acceptance letter No. C-06817.HT.01.04.TH.2002 dated 23 April 2002, registered at the South Jakarta Company Registration Office No. 540/RUB.09.03/IV/2002 dated 30 April 2002 and published in Supplement No. 562 to State Gazette No. 65 on 13 August 2002.

The Company's Articles of Association for reappointment of the board of directors and board of commissioners were last amended under Deed No. 56 dated 10 November 2004, made before Doctor Irawan Soerodjo, SH, Msi, Notary in Jakarta. This deed was reported to the Ministry of Justice and Human Rights of the Republic of Indonesia and was accepted as evidenced by the Report Acceptance letter no. C-UM.02.01.15182 dated 20 December 2004. As of the consolidated financial statements date, the registration of this deed to Company Registration Office was still in the process.

The Company's Articles of Association for appointment of the board of directors and board of commissioners were last amended under Deed No. 24 dated 4 February 2005, made before Mercy Mareta SH, MKn., substitution of Harun Kamil SH, Notary in Jakarta. As of the consolidated financial statement date, the reporting of this deed to the Ministry of Justice and Human Rights of the Republic of Indonesia was still in the process. Please refer to Note 23.

The Company commenced its commercial operations in 1996.

1. **GENERAL** (continued)

b. Investment License

The Company operates within the framework of Law No.1 of 1967 and Law No. 11 of 1970 concerning Foreign Capital Investment.

In accordance with its Articles of Association and Decree Letter from the Capital Investment Coordination Board ("BKPM") No. 48/V/PMA/1995 dated 12 October 1995, the Company's objective is to provide facilities for and operate a mobile telecommunications network.

The Company obtained *Ijin Usaha Tetap* (IUT) to provide basic telecommunication service based on Decree Letter from the Capital Investment Coordination Board ("BKPM") No. 437/T/PERHUBUNGAN/2003 dated 20 November 2003.

In connection with the expansion of investment with respect to facilities supply and operation of telecommunication network, the Company obtained approval from BKPM based on the approval letter for project expansion within the framework of foreign capital investment No. 243/11/PMA/2003 dated 20 November 2003.

On 7 December 2004, the Company obtained an approval from BKPM with regard to the changes in service and production area pursuant to the approval letter No. 933/B.1/A.6/2004, the changes of which was made with regard to the service area modification as provided by the Law No. 36 of 1999 regarding Telecommunication.

c. Operating license

The Company previously held a principal license as a telecommunication services operator of STBS (*Sambungan Telepon Bergerak Selular*)-GSM based on a Decree Letter of the Minister of Tourism, Post and Telecommunications No. PB-301/I/24/MPPT-95, dated 28 April 1995. This license was assigned to PT Telekomindo Primabhakti, which was established as a joint venture with PT Telkom to operate telecommunication services STBS-GSM with national coverage area.

Based on a decision letter of the Minister of Tourism, Post and Telecommunications No. PB.103/7/7/MPPT-95, dated 6 September 1995 regarding the transfer of the principal license as a telecommunication services operator of STBS-GSM, the principal license was transferred from PT Telekomindo Primabhakti to the Company.

On 7 October 1996, the Minister of Tourism, Post and Telecommunications granted the Company an Operating License for Basic Telecommunications Services, as stipulated in the Decree of the Minister of Tourism, Post and Telecommunications No. KM.86/PT.102/MPPT-96. This license was replaced with the Modern License to operate a cellular mobile network in compliance with the Decree of the Minister Communications No. 158 of 2003 dated 7 May 2003. This license was granted for operating (i) a cellular mobile network-GSM system and was allocated radio frequency bands 907.5 – 915 MHz combined with 952.5 – 960 MHz and 1710 – 1717.5 MHz combined with 1805 – 1812.5 MHz; and (ii) basic telecommunications services. The validity period of the license is unlimited as long as the Company comply with the current telecommunication laws and regulations, which is subject to comprehensive evaluation every 5 years.

1. **GENERAL** (continued)

   c. **Operating license** (continued)

      Following a principal license obtained by the Company for Internet Services Operation based on the Letter of the Directorate General of Post and Telecommunications No. 345/PT.003/TEL/DJPT-2000 dated 24 February 2000, the Company obtained a license for Internet Services Operation based on the Letter of the Directorate General of Post and Telecommunications No. 235/DIRJEN/2000, dated 1 December 2000 which was then amended by Decree of the Directorate General of Post and Telecommunications No. 114/DIRJEN/2002 dated 24 May 2002.

      The Company previously obtained a principal license for terrestrial leased line operations based on the Letter of Ministry of Communication No PT.003/6/11 PHB-2000 dated 8 September 2000. The Operating Licenses for Terrestrial Leased Line Services were granted on 19 March 2001 based on the Decree of the Ministry of Communications No KP.78 of 2001 which was then amended by Decree of the Ministry of Communications No. KP.166 of 2002 dated 27 May 2002. The Licenses were replaced by a Modern License for operating a Fixed Closed Network based on the Decree of the Ministry of Communication No. 159 of 2003, dated 7 May 2003. The license was granted for operating a fixed closed network with fibre optic and microwave radio transmission systems with the access network comprising wireless, wireline and other technologies

      With reference to Telecommunications Law No. 36/1999, the Modern Licenses mentioned above were obtained to replace the existing operating licenses. These new licenses stipulate the rights and obligations of the operator, including sanctions. The validity period of these licenses is unlimited but subject to evaluation every 5 years through annual progress reports (viz revenue, network, performance, and development).

      Based on the letter of the Directorate General of Post and Telecommunications No 1117/PT.003/Tel/DJPT-2003 dated 21 July 2003, the Company obtained a Principal License for Operation of Voice Over Internet Protocol ("VOIP"), which is valid for 1 year starting on 1 September 2003. Based on the letter of the Directorate General of Post and Telecommunications No 207/Dirjen/2004 dated 29 June 2004, the Company obtained a license to provide VOIP service which cover single stage and double stage VOIP. The validity period of the license is unlimited but subject to comprehensive evaluation every 5 years.

      Based on the letter of the Directorate General of Post and Telecommunications No 328/IV.1.2/DITFREK/III/2003 dated 11 March 2004, the Company was allocated additional frequency bands 1910 – 1920 Mhz, to be used for broadband wireless access.

      Based on the decision letter of the Minister of Telecommunication No. PT 003/4/24 PHB 2004 dated 18 October 2004, the Company obtained a Principal License to extend the operation of a mobile telecommunications network based on a third generation technology (3-G).

   d. Based on the deed No. 56 dated 10 November 2004 made before Doctor Irawan Soerodjo SH, Msi, Notary in Jakarta, the composition of the Company's Board of Directors and Board of Commissioners as at 31 December 2004 were as follows:

1. **GENERAL (continued)**

d. Board of Directors

President Director:	Gerald Francis Rossi
Directors:	Rudiantara
	Kusnadi Sukarja
	Navin Sonthalia
	Werner A. Noz
	Joris de Fretes
	Arsono Putranto

Board of Commissioners

President Commissioner:	Peter Sondakh
Commissioners:	Yaya W. Junardy
	Sugianto Himawan
	Tan Tjoe Liang
	John Noel Doherty
	Dr. Lim Lek Suan
	Shigeru Dohi
	John Paul Dodson

Following the acquisition of Nynex Indocel Holding Sdn. (the Company's shareholder) by TM International (L) Limited on 11 January 2005, on 13 January 2005 the Company held an Extraordinary Shareholders' Meeting with an agenda to appoint a new composition of the board of directors and the board of commissioners of the Company (refer to Note 23).

The Company's head office is currently located at grhaXL, Jalan Mega Kuningan Lot. E4-7 No.1 Kawasan Mega Kuningan, Jakarta 12950, Indonesia, and its subsidiaries are located in Labuan, Malaysia and Amsterdam, Netherlands.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements of PT Excelcomindo Pratama and its subsidiaries (collectively "the Group") were completed by the Board of Directors on 28 February 2005.

Presented below are the significant accounting policies adopted in preparing the consolidated financial statements of the Group, which are in conformity with generally accepted accounting principles in Indonesia.

a. **Basis for preparation of the consolidated financial statements**

The consolidated financial statements have been prepared on the basis of historical costs and the accrual concept except for the consolidated statements of cash flows.

The consolidated statements of cash flows present the source and uses of cash and cash equivalents according to operating, investing and financing activities. The Group considers short-term time deposits with original maturities of three months or less to be cash equivalents net of overdrafts. The consolidated statements of cash flows are prepared using the direct method. The use of the direct method represents a change in classification as a result of the application of the Capital Market Supervisory Board (BAPEPAM) Regulation No. Kep-06/PM/2000 dated 13 March 2000 and No. SE-02/PM/2002 dated 27 December 2002. Prior to 2003, the Group prepared the consolidated cash flows using the indirect method.

Figures in the consolidated financial statements are rounded to and stated in thousand of Rupiah unless otherwise stated.

(Expressed in thousand Rupiah)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Principles of consolidation

The consolidated financial statements include the accounts of entities controlled by the Company and in which the Company directly or indirectly has ownership of more than 50% of the voting rights. The subsidiaries are consolidated from the date on which effective control was transferred to the Company.

	Percentage of ownership	Country of domicile	Business activities
Excel Phoneloan 818 B.V.	100%	Netherlands	Financing company
GSM One (L) Limited	100%	Malaysia	Financing company
GSM Two (L) Limited	100%	Malaysia	Financing company
Excelcomindo Finance Company B.V.	100%	Netherlands	Financing company

Total subsidiaries' assets before elimination are as follows.

	2004	2003	2002
Excel Phoneloan 818 B.V.	20,527,686	2,488,581,592	3,288,352,454
GSM One (L) Limited	9	173,246,873	203,930,631
GSM Two (L) Limited	9	173,246,873	203,930,631
Excelcomindo Finance Company B.V.	3,392,452,321	201,543	-

The effect of all transactions and balances between companies in the Group have been eliminated in preparing the consolidated financial statements.

The accounts of the subsidiaries domiciled outside Indonesia are translated into Rupiah amounts on the following basis.

- Balance sheet accounts are translated using the export draft transaction rate of the Bank of Indonesia prevailing at the balance sheet date as mentioned in note 2i.
- Statement of income accounts are translated using the average rate during the period as follows (in full Rupiah amount):

	2004	2003	2002
United States Dollar (USD)	8,916.67	8,610.75	9,383.00
Euro (EUR)	11,021.07	9,646.68	8,771.32

The resulting difference arising from the translation of balance sheets and statement of income accounts of the subsidiaries are recognised in the current period consolidated statement of income, on the basis that the operations of the foreign subsidiaries formed an integral part of the Company and as a result, the transactions of the foreign operations have been considered as if they had been carried out by the Company.

The accounting policies adopted in preparing the consolidated financial statements have been consistently applied by the subsidiaries unless otherwise stated.

c. Related party transactions

The Company and its subsidiaries have transactions with related parties. The definition of related parties used is in accordance with SFAS No. 7 "Related Party Disclosures".

All material transactions with related parties that have not been eliminated on consolidation are disclosed in the notes to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Revenues and expenses recognition

Revenues are recognised from the sale of starter packs for prepaid services, which consists principally of SIM cards, upon sale to distributors and dealers or directly to customers net of value added taxes. Revenues are not recognised from sales of vouchers for prepaid services at the time of sale. When a voucher is sold, the full amount of airtime sold is credited, without deduction for any commissions, to the "Deferred Revenue" account. As prepaid customers use the prepaid airtime or upon expiration of the voucher, the charges are debited from the "Deferred Revenue" account and the amount used or expired is recognised as GSM telecommunication revenues in the income statement.

Revenues for the use of the Company's network by postpaid customers, including charges for airtime, local interconnection, domestic long distance, international long distance and roaming, are recognised based on applicable tariffs and the duration of successful calls made through the network. Revenues are recognised at the time when the service is rendered based on the actual usage of the network by customers during each period.

Non-usage revenues, such as monthly service charges and value added services, are recognised on a monthly basis upon billing. Revenues from activation fees are recognised at the time of delivery of the SIM cards to customers.

Revenues from interconnection with other operators are recognised at the time when the service is rendered on the basis of actual recorded traffic.

Inbound roaming revenues from overseas telecommunication providers for calls made and received by their customers on the Company's network is recognised at the time when the service is rendered based upon applicable tariffs.

Revenues from leased lines and internet service provider revenues are recognised on a monthly basis upon billing based on prices agreed with customers. When advance payments are received, the amounts received are recorded as deferred revenue and recognised as revenue when the services are provided.

Revenues from VOIP services are recognised at the time when the service is rendered based upon applicable tariffs.

e. Trade receivables

Trade receivables are presented at their estimated recoverable amount after an allowance for doubtful accounts. An allowance for doubtful accounts is made based on management's evaluation of the status of the accounts at each balance sheet date. Accounts are written-off in the period in which they are determined to be uncollectible.

f. Inventory

Inventories, comprising primarily of vouchers and SIM cards, are valued at the lower of cost or net realisable value. Cost is computed using the moving average method.

A provision for obsolete and slow moving inventory is determined on the basis of the estimated future sales of individual inventory items.

(Expressed in thousand Rupiah)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Fixed assets and depreciation

Fixed assets are stated at acquisition cost, which includes any applicable import taxes, custom duties, freight costs, handling and costs, storage costs, site preparation costs, installation costs, and internal labour costs less accumulated depreciation, except land which is not depreciated. Depreciation is applied from the date the assets are placed into service or when the assets are ready for service using the straight line method over the estimated useful lives resulting in the following annual percentages of cost:

Buildings	:	5%, 12.5%
Network equipment	:	6.25%, 12.5%, 25%, 50%
Leasehold improvements	:	25%
Office machinery and equipment	:	25%
Furniture and fixtures	:	25%
Support systems	:	25%
Motor vehicles	:	25%

Normal maintenance expenses are charged to income of the current period, while repairs, renovations and betterment which increase the useful life of assets are capitalised.

Management conducts regular reviews and ensures that the carrying amount of the Company's assets are at all times lower than their estimated recoverable amounts.

The accumulated costs of network equipment are firstly capitalised as Assets Under Construction. These costs are then reclassified to fixed asset accounts when the assets are commissioned into service.

The cost of upgrading software is capitalised and the previously recorded balance is written off at the time the software upgrade is performed.

When assets are retired or otherwise disposed of, their carrying values and the related accumulated depreciation are eliminated from the consolidated financial statements, and the resulting gains and losses on the disposal of fixed assets are recognised in the current period statements of income.

h. Bond issuance costs

Bond issuance costs are directly deducted from the issuance proceeds in the consolidated balance sheets as discount and are amortised over the period of the bonds.

i. Foreign currency translation

Transactions denominated in foreign currencies are translated into Rupiah at the rates prevailing at the date of the transaction.

At the balance sheet date, monetary assets and monetary liabilities denominated in foreign currencies are translated into Rupiah using the export draft transaction rate of the Bank of Indonesia prevailing at that date. The exchange rates of the major foreign currencies used, are as follows (in full Rupiah amount):

(Expressed in thousand Rupiah)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Foreign currency translation (continued)

	2004	2003	2002
United States Dollar (USD)	9,290.00	8,465.00	8,940.00
Euro (EUR)	12,652.06	10,643.06	9,369.58

Realised and unrealised foreign exchange gains or losses, arising on transactions in foreign currency and on the translation of foreign currency monetary assets and liabilities, are recognised in the current year statements of income.

In 1997 and 1998, as permitted under Interpretation of Statement of Financial Accounting Standard (ISFAS) No. 4 "Interpretation of Paragraph 32 of Statement of Financial Accounting Standard No. 10 on the Allowed Alternative Treatment for Exchange Difference", certain foreign exchange losses are capitalised into the cost of fixed assets, in recognition of the severe depreciation in the value of the Rupiah against the US Dollar. The statement has been revoked effective 1 January 1999 and all foreign exchange differences in 1999 and subsequent years have been charged/(credited) to the statement of income.

j. Taxation

In accordance with Indonesian Taxation Law, corporate income tax is calculated for the Company and each of its subsidiaries as separate legal entities (consolidated financial statements are not permitted for computing the corporate income tax).

Deferred income tax is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Amendments to taxation obligations are recorded when an assessment is received or, if appealed against, when the results of the appeal are determined.

k. Employee compensation

Employee entitlements to compensation in relation to the current manpower regulation are recognised when the employees meet the criteria set out in the regulation. A provision for employee compensation is made for the estimated liability as a result of past services rendered by employees up to the balance sheet date and is calculated based on the existing Manpower regulation.

l. Retirement benefits

The Company's contributions to a defined contribution employee pension plan are recognised as expenses when the contributions are paid or become payable.

(Expressed in thousand Rupiah)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Basic earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of ordinary shares outstanding during the year.

n. Management's use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

In 2002, the Company reversed certain accruals made in previous years as the actual charges were lower than the original estimates made. The reversal, amounting to Rp 111 billion (full Rupiah), was credited to the 2002 consolidated operating income.

In 2004, the Company also reversed an accrual made in the previous year as the actual charge was lower than the original estimate made. The reversal amounting to Rp 16 billion (full Rupiah) was credited to the 2004 consolidated operating income.

3. CASH AND CASH EQUIVALENTS

	2004	2003	2002
Cash on hand	879,748	820,629	846,710
Cash in bank			
Rupiah			
Third parties			
- JP Morgan Chase Bank	62,083,793	248,386,086	25,569,617
- Bank Central Asia	34,158,572	26,506,589	8,053,520
- Bank Danamon Indonesia	2,608,451	4,318,701	2,397,864
- Bank Lippo	2,169,164	2,025,140	1,990,506
- Others	2,959,163	1,063,676	1,824,943
US Dollar			
Third party			
- JP Morgan Chase Bank	54,127,882	325,034,658	20,563,173
	158,107,025	607,324,850	58,399,622
Time deposits			
(maturity within 3 months)			
Rupiah			
Third parties			
- JP Morgan Chase Bank	150,000,000	-	50,000,000
- Bank Danamon Indonesia	25,000,000	-	-
US Dollar			
Third party			
- JP Morgan Chase Bank	92,900,000		89,400,000
	267,900,000	-	139,400,000
	426,886,773	608,145,479	198,646,332

(Expressed in thousand Rupiah)

3. CASH AND CASH EQUIVALENTS (continued)

The annual interest rates of the above time deposits are as follows:

	2004	2003	2002
Rupiah deposit	6.5% - 6.75%	-	11%
US Dollar deposit	1.25%	-	1%

4. TRADE RECEIVABLES – THIRD PARTIES

	2004	2003	2002
Domestic partners			
- PT Telekomunikasi Indonesia, Tbk	32,727,481	68,921,041	70,256,397
- PT Telekomunikasi Selular	9,473,632	13,356,905	13,475,308
- PT Satelit Palapa Indonesia	8,866,524	7,799,870	5,968,953
- PT Radio Telepon Indonesia	1,041,957	970,436	1,602,164
- PT Indosat Multimedia Mobile	3,718,924	414,108	929,301
- PT Telemaya Asia (in USD and Rupiah)	354,849	2,295,499	1,824,880
- PT Gerbang Data Lintas Benua (in USD and Rupiah)	2,071,782	2,429,557	3,242,355
- Others (in USD and Rupiah)	49,048,715	37,020,464	21,046,014
	107,303,844	133,207,680	118,345,372
International partners			
US Dollar			
- Singapore Telecommunications Limited	1,831,031	2,398,969	2,541,433
- Maxis Mobile Sdn. Bhd. - Malaysia	912,137	579,699	535,654
- StarHub Pte. Ltd. - Singapore	518,925	618,406	433,096
- Telstra Corporation Ltd. - Australia	1,525,883	725,500	540,307
- T-Mobile Deutchland GmbH - Germany	530,815	671,238	456,389
- Others	14,452,288	10,449,770	7,029,232
	19,771,079	15,443,582	11,536,111
	127,074,923	148,651,262	129,881,483
Allowance for doubtful accounts	(9,725,902)	(5,593,440)	(2,070,380)
	117,349,021	143,057,822	127,811,103

Trade receivables were pledged as collateral until 27 January 2004 as described in Note 9.

Aging analysis of trade receivables is as follows:

	2004	2003	2002
Current	103,027,429	135,959,405	123,132,645
Overdue 1 - 30 days	10,139,389	1,174,061	1,870,389
Overdue 31 - 60 days	3,789,993	888,312	674,913
Overdue > 61 days	10,118,112	10,629,484	4,203,536
	127,074,923	148,651,262	129,881,483

(Expressed in thousand Rupiah)

4. TRADE RECEIVABLES – THIRD PARTIES (continued)

Changes in the amounts of the allowance for doubtful accounts are detailed as follows:

	2004	2003	2002
Allowance for doubtful accounts – beginning	5,593,440	2,070,380	4,704,330
Bad debt expenses	5,002,875	3,533,000	2,042,902
Doubtful debts written off	(870,413)	(9,940)	(4,676,852)
Allowance for doubtful accounts – ending	9,725,902	5,593,440	2,070,380

Based on a review of the status of the individual receivable accounts at the balance sheet date, management believes that the allowance for doubtful accounts is sufficient to cover losses from the non-collection of the accounts

5. OTHER ASSETS

	2004	2003	2002
Restricted bank deposits	95,062,500	50,831,250	8,950,000
Downpayment to suppliers	171,165,677	68,790,620	61,965,668
Prepayments – long term portion	166,852,681	117,364,735	94,543,350
Deferred charges	4,468,922	6,604,737	2,158,875
Goods in transit	-	9,368,034	-
Others	5,542,586	4,443,406	4,581,125
	443,090,366	257,202,782	172,199,018
Deducted by:			
Restricted bank deposits – current	(44,531,250)	(44,531,250)	-
Other assets - non current	398,559,116	212,671,531	172,199,018

Restricted short term bank deposits for the years ended 31 December 2004 include the sinking fund for the bond interest payments amounted to Rp 44,531,250.

6. FIXED ASSETS

	31/12/2004				
	Opening balance (1/1/2004)	Additions	(Disposals)	Transfers	Ending balance (31/12/2004)
Direct ownership					
Cost					
Land	72,508,025	8,930,632	-	1,026,542	82,465,199
Buildings	30,746,572	335,417	-	289,839	31,371,828
Network equipment	6,222,794,968	1,457,748,722	(21,084,245)	247,861,917	7,937,321,362
Leasehold improvements	67,154,046	9,739,281	(2,962,311)	780,128	74,711,144
Office machinery and equipment	147,809,648	28,300,957	(10,137,665)	5,993,435	171,966,375
Furniture and fixtures	13,091,828	3,172,558	(5,337,131)	541,728	11,468,983
Support systems	71,622,161	14,385,547	-	3,810,135	89,817,843
Motor vehicles	30,904,211	5,230,400	(100,000)	-	36,034,671
	6,656,631,459	1,557,843,574	(39,621,355)	260,303,727	8,435,157,405
Assets under construction	573,481,641	291,556,890	(17,758,608)	(260,303,727)	586,976,196
	7,230,113,100	1,849,400,464	(57,379,963)	-	9,022,133,601

(Expressed in thousand Rupiah)

6. FIXED ASSETS (continued)

	31/12/2004				
	Opening balance (1/1/2004)	Additions	(Disposals)	Transfers	Ending balance (31/12/2004)
Accumulated depreciation					
Buildings	(6,004,652)	(2,797,426)	-	-	(8,802,078)
Network equipment	(2,609,497,625)	(891,032,339)	19,074,922	-	(3,481,455,042)
Leasehold improvements	(43,762,088)	(12,334,311)	1,107,455	-	(54,988,944)
Office machinery and equipment	(92,751,348)	(29,857,095)	7,901,288	-	(114,807,155)
Furniture and fixtures	(5,584,522)	(2,570,794)	2,015,046	-	(6,140,270)
Support systems	(42,146,897)	(16,301,365)	-	-	(58,448,262)
Motor vehicles	(17,013,052)	(7,458,943)	100,000	-	(24,371,995)
	(2,819,760,194)	(962,352,273)	30,098,711		(3,749,313,748)
Net book value	4,413,352,916				5,272,119,055

	31/12/2003				
	Opening balance (1/1/2003)	Additions	(Disposals)	Transfers	Ending balance (31/12/2003)
Direct ownership					
Cost					
Land	52,295,417	18,370,045	(2,460)	1,845,032	72,508,025
Buildings	19,653,856	9,367,111		1,725,605	30,746,572
Network equipment	4,943,195,944	798,247,156	(18,476,945)	500,828,713	6,222,794,868
Leasehold improvements	55,571,724	10,667,272	-	915,050	67,154,046
Office machinery and equipment	119,712,841	24,665,441	(2,136,464)	5,367,830	147,609,648
Furniture and fixtures	8,274,042	4,412,858	(996,000)	1,399,926	13,091,826
Support systems	57,871,385	11,665,383		2,085,393	71,622,161
Motor vehicles	27,339,398	3,212,672	(4,450)	296,400	30,904,211
	5,260,974,597	850,809,139	(19,616,228)	514,463,951	6,656,631,459
Assets under construction	839,782,140	248,162,452	-	(514,463,951)	573,481,641
	6,120,756,737	1,128,972,591	(19,616,228)	-	7,230,113,100
Accumulated depreciation					
Buildings	(3,632,763)	(2,371,889)	-	-	(6,004,652)
Network equipment	(1,800,859,064)	(809,070,183)	467,369	(35,747)	(2,609,497,625)
Leasehold improvements	(29,358,420)	(14,439,415)	-	35,747	(43,762,088)
Office machinery and equipment	(69,888,538)	(24,934,307)	2,136,464	(64,967)	(92,751,348)
Furniture and fixtures	(4,168,223)	(2,414,299)	998,000		(5,584,522)
Support systems	(29,638,543)	(12,572,321)		64,967	(42,146,897)
Motor vehicles	(10,085,632)	(6,931,870)	4,450		(17,013,052)
	(1,947,629,183)	(872,735,204)	3,604,203		(2,816,760,184)
Net book value	4,173,127,554				4,413,352,916

(Expressed in thousand Rupiah)

6. FIXED ASSETS (continued)

	31/12/2002				
	Opening balance (1/1/2002)	Additions	(Disposals)	Transfers	Ending balance (31/12/2002)
Direct ownership					
Cost					
Land	32,097,701	20,197,716	-	-	52,295,417
Buildings	18,922,805	644,329	-	86,722	19,653,856
Network equipment	3,490,605,188	1,230,046,986	(73,734,767)	293,278,537	4,940,195,944
Leasehold improvements	44,814,552	8,461,083	(7,257)	2,303,346	55,571,724
Office machinery and equipment	100,705,596	17,110,418	(1,063,595)	2,960,422	119,712,841
Furniture and fixtures	4,116,904	3,042,253	-	1,114,885	8,274,042
Support systems	44,285,473	13,027,080	-	558,832	57,871,385
Motor vehicles	15,014,369	13,707,537	(1,322,518)		27,399,388
	3,750,562,588	1,306,237,402	(76,128,137)	300,302,744	5,280,974,597
Assets under construction	734,602,831	405,482,053	-	(300,302,744)	839,782,140
	4,485,165,419	1,711,719,455	(76,128,137)	-	6,120,756,737
Accumulated depreciation					
Buildings	(1,999,404)	(1,633,359)	-	-	(3,632,763)
Network equipment	(1,211,328,976)	(642,090,895)	52,560,807	-	(1,800,859,064)
Leasehold improvements	(18,802,427)	(10,736,450)	7,257	173,200	(29,358,420)
Office machinery and equipment	(52,474,801)	(18,458,974)	1,045,237	-	(69,888,538)
Furniture and fixtures	(2,689,276)	(1,303,747)	-	(173,200)	(4,166,223)
Support systems	(19,919,676)	(9,718,867)	-	-	(29,638,543)
Motor vehicles	(5,845,403)	(5,476,734)	1,236,505	-	(10,085,632)
	(1,313,059,963)	(689,419,026)	54,849,806	-	(1,947,629,183)
Net book value	3,172,105,456				4,173,127,554

The Company owns several pieces of land located throughout Indonesia with Building Use Rights (*Hak Guna Bangunan* or "HGB") for periods of 20-30 years which will expire between 2009-2033.

Management believes that there will be no difficulty in the extension of the land rights.

Assets under construction

Assets under construction consist of:

	2004	2003	2002
Network equipment	581,406,937	571,086,042	832,813,925
Non network equipment	5,569,259	2,395,599	6,968,215
	586,976,196	573,481,641	839,782,140

Assets under construction mainly represents new equipment comprising Base Transceiver Stations (BTS) and other equipment which is still to be installed and are being installed. When the equipment units are finally installed, their carrying values are reclassified to fixed assets (network equipment).

Management believes that there are no significant obstacles to impede the completion of assets under construction mentioned above.

(Expressed in thousand Rupiah)

6. FIXED ASSETS (continued)

The calculation of the loss on sale and write off of fixed assets is as follows:

	2004	2003	2002
Cost	57,379,963	19,616,228	76,128,137
Accumulated depreciation	(30,098,711)	(9,604,283)	(54,849,806)
Net book value	27,281,252	10,011,945	21,278,331
Sales and insurance proceeds	(10,831,962)	(226,740)	(6,457,890)
Loss on sale and write off of fixed assets	16,449,290	15,785,205	14,820,441

Fixed assets were pledged as collateral until 27 January 2004 as described in Note 9.

As at 31 December 2004, fixed assets of the Company and subsidiaries are insured by insurance policies covering "property and all risks and business interruption losses" for USD 920.6 million which management believes is adequate to cover possible losses.

In 1997 and 1998 the Company capitalised foreign exchange losses into the cost of fixed assets amounting to Rp 147,949 million (full Rupiah) and Rp 492,751 million (full Rupiah), respectively (Refer to Note 2i).

Included in the fixed assets net book value of the Company as at 31 December 2004, 2003 and 2002 were the remaining balance of foreign exchange losses capitalised as mentioned above amounting to Rp 81,653 million, Rp 156,948 million, and Rp 240,324 million (full Rupiah), respectively.

7. TRADE PAYABLES – THIRD PARTIES

	2004	2003	2002
Rupiah	160,543,626	137,124,281	141,352,502
Foreign currencies (refer to Note 20)	449,400,205	264,009,675	335,140,464
	609,943,831	401,133,956	476,492,966

8. OTHER PAYABLES AND ACCRUALS – THIRD PARTIES

	2004	2003	2002
Interest payable	157,660,127	45,343,008	12,416,147
Customer deposits and telecommunication services	45,173,722	69,177,999	27,880,865
Others	1,591,375	664,099	4,230,898
	204,425,224	115,185,106	44,527,910

(Expressed in thousand Rupiah)

9. LONG TERM LENDERS LOAN

	2004	2003	2002
Long term lenders loan	-	2,470,705,830	3,274,933,820
Less: current maturities	-	465,575,000	134,100,000
Long term portion	-	2,005,130,830	3,140,833,820

In 1997, the Group entered into a loan agreement with a syndication of foreign banks for a secured, senior debt, multi-credit facility of USD 400,000,000 to finance its network construction.

On 21 May 2002, the Group restructured all of its obligations with the banks and its major network equipment vendors involving modification of the term without transferring assets or shares and with no change to the carrying amount of the liabilities. There is no gain and related income tax effect arising from the restructuring.

Details of long term lenders loan facilities as at 31 December 2003 and 2002 are as follows:

The Lenders	US Dollar
Syndicated banks	
Old loan principal	175,000,000
Capitalised interest	39,864,398
Major vendors	
Outstanding old payables	35,750,981
Capitalised interest	5,982,726
New facility	120,000,000
Swap costs	3,275,000
	379,873,105

During 2003, the Company draw down USD 10,549,411 and repaid the following amount of the long term lenders loan:

Month	Amount in USD	Amount in Rupiah
June 2003	USD 7,500,000	Rp 62,092,500
November 2003	USD 70,000,000	Rp 594,650,000
December 2003	USD 7,500,000	Rp 64,027,500
		Rp 720,770,000

The interest is payable quarterly at a certain interest rate margin (as shown in the table below) over 3 months USD LIBOR.

	2000	2001	2002	2003	2004	2005	2006	2007
New Money	NA	2.75%	2.75%	2.75%	3.75%	4.75%	5.75%	-
Existing Debt	2.50%	2.50%	2.50%	2.50%	3.50%	4.50%	5.50%	5.50%

9. LONG TERM LENDERS LOAN (continued)

In 2003, the restructured credit facilities were collateralised by assignments of all the Group's assets and a pledge of 51% of the shares of the Company by the shareholders (2002: 82%).

On 27 January 2004, the Group repaid the entire balance of the loan amounting to USD 291,873,105.21 (Rp 2,470,705,836) to the lenders using the proceeds of its USD bond (refer to Note 10) and the entire security/collateral on the Group's assets was released.

10. LONG TERM BOND

On 23 October 2003, the Company issued a bond known as Obligasi Excelcom I Tahun 2003 (the "Excelcom Bond") with a nominal amount of Rp 1.25 trillion (full Rupiah). The Excelcom Bond is divided into series A bonds with a fixed interest rate of 14.25% p.a and series B bonds with a fixed interest rate of 14.25% p.a for the first and second year and with a floating interest rate for the third until the fifth year, which is calculated based on SBI (Sertifikat Bank Indonesia) interest rate for a period of 3 months and includes a fixed premium of 5% each year, provided that such floating interest rate shall not be lower than 11% nor higher than 17% p.a.

The interest is payable on a quarterly basis commencing on 21 January 2004, and the Company is obliged to make payment of interest 45 days in advance of the last day of each interest period. The Excelcom Bond is unsecured and ranks pari passu with the Company's other unsecured creditors. The Excelcom Bond is listed on the Surabaya Stock Exchange and matures on 21 October 2008. The Company is required to comply with all covenants or restrictions including maintaining consolidated financial ratios as follows:

1. EBITDA to net interest ratio should be at least 4 times for 2003 – 2005 and 5 times for 2006 – 2008
2. Debt to EBITDA ratio should not exceed 3.75 times for 2003, 3.5 times for 2004 – 2005 and 3 times for 2006 – 2008.

As of 31 December 2004, the Company was in compliance with the covenants.

According to a letter from PT Pemeringkat Indonesia ("PT Pefindo") No. 510/PEF-Dir/VIII/2003 dated 28 August 2003, the credit rating of the Excelcom Bond is idA.

Following the repayment of the entire balance of the long term lenders loan in January 2004, PT Pefindo upgraded the credit rating of the Excelcom Bond to idA+.

PT Bank Permata Tbk is the trustee for the Excelcom Bond issuance in accordance with the conditions set in the Trustee Agreement between the Company and PT Bank Permata Tbk.

The Company applied USD 70 million (Rp 594,650,000) of the net proceeds of the Excelcom Bond to repay a portion of the long term lenders loan on 17 November 2003 (see Note 9).

On 27 January 2004, the Company's wholly owned subsidiary, Excelcom Finance Company B.V. issued USD 350 million of 5 year notes (the "Notes"). The Notes are listed on the Singapore Exchange Securities Trading, Ltd. The offering was priced at 99.495% with a coupon of 8% and yield of 8.125%. The difference between the nominal principal and the issuance price was deferred as bond discount and is being amortised over 5 years.

(Expressed in thousand Rupiah)

10. LONG TERM BOND (continued)

Interest is payable semi-annually in arrears on 27 January and 27 July of each year, commencing on 27 July 2004. The Notes mature on 27 January 2009.

The Notes are unsecured senior obligations and guaranteed by the Company on a senior unsecured basis. The notes have been rated B+ by Standard and Poor's Ratings Services and B2 by Moody's Investors Service, Inc.

The Company is required to comply with certain conditions, such as limitations on assets sale/leaseback transactions.

As of 31 December 2004 and 2003, the amounts outstanding were as follows:

		2004		2003
Excelcom Bond - IDR	Rp	1,250,000,000	Rp	1,250,000,000
Excelcom Notes - USD	Rp	3,251,500,000	Rp	-
	Rp	4,501,500,000	Rp	1,250,000,000
Unamortised discount	Rp	(70,980,212)	Rp	(25,867,918)
	Rp	4,430,519,788	Rp	1,224,132,082

11. PROVISION FOR EMPLOYEE COMPENSATION AND EMPLOYEE COSTS

a. Provision for employee compensation

	2004	2003	2002
Provision for employee compensation - beginning balance	3,492,548	8,382,314	6,439,837
Employee compensation expense	8,180,180	3,968,165	2,641,121
Provision reversal	-	(8,382,314)	-
Payment to employees	(521,395)	(475,617)	(698,644)
Provision for employee compensation - ending balance	11,151,333	3,492,548	8,382,314

Management calculated its obligations for the 2002 and 2003 employee compensation in accordance with the Ministry of Manpower regulation No. Kep-150/Men/2000 (for 2002) and Law No. 13 of 2003 relating to manpower (for 2003).

Management calculated its obligation for the 2004 employee compensation using an assistance of an independent actuary, Watson Wyatt Worldwide - PT Watson Wyatt Purbajaga, using a Projected Unit Credit method and with reference to Law No. 13 of 2003 relating to manpower, and the Company's Collective Work Agreement (*Kontrak Kerja Bersama*) and taking into account the employee compensation available from the Company's contribution to the Pension Plan

Actuarial assumptions used are as follows:

a.	Discount rate	10% p.a.
b.	Salary increase rate	8% p.a.
c.	Interest rate accumulation	8% p.a. on DC account
d.	Mortality table	Commissioner's Standard Ordinary 1980 (CSO '80)
e.	Normal pension age	56 years

11. PROVISION FOR EMPLOYEE COMPENSATION AND EMPLOYEE COSTS (continued)

b. Defined Contribution Pension Plan

Starting April 2002, the Company entered into a defined contribution pension plan organised by PT Asuransi Jiwa Manulife Indonesia. This program is provided for all permanent employees who were under 50 years of age at the commencement of the program in April 2002. Contributions to the plan are 10% of the net base salary comprising 7% from the Company and 3% from the employee.

c. Employee numbers and costs

	2004	2003	2002
Number of employees (employees)	1,543	1,515	1,355
Total employee costs (in thousand Rupiah)			
Salaries and allowances	207,356,516	157,423,140	141,056,515
Company's contribution to Pension Plan	6,678,455	5,259,809	2,999,473
Internal labour cost capitalised as part of the fixed assets costs	15,018,921	10,101,771	20,524
Total employee costs (in thousand Rupiah)	229,049,892	172,784,720	144,076,512

12. SHARE CAPITAL AND CAPITAL SURPLUS

The Company's shareholders composition as at 31 December 2004, 2003 and 2002 is as follows:

	Number of shares	Amount in Rp	%
PT Telekomindo Primabhakti	1,359,000	339,750,000	60.0
Nynex Indocel Holding Sdn	523,215	130,803,750	23.1
AIF (Indonesia) Ltd	287,655	71,913,750	12.7
Mitsui & Co. Ltd	95,130	23,782,500	4.2
	2,265,000	566,250,000	100.0

In 1995 and 1996, the shareholders subscribed for an aggregate of 453,000 shares, par value Rp 250,000 each (full Rupiah), at a total subscription price of USD 250 million (full USD). The subscription price was converted to Indonesian Rupiah at USD 1.00 = Rp 2,265 (full Rupiah), the exchange rate mandated by the shareholders agreement, and issued the shares at Rp 1,250,000 (full Rupiah) each for an aggregate price of Rp 566.25 billion (full Rupiah). In [illegible], the Company declared a three to one stock dividend resulting in the issuance of an additional 1,812,000 shares and the transfer of Rp 453 billion (full Rupiah) from the capital surplus account to the share capital account.

The remaining Rp 11,730,000 in the capital surplus account represents the aggregate difference between the Indonesian Rupiah/USD exchange rate on the date the payment of the subscription price was received and the exchange rate mandated by the shareholders agreement.

Following the acquisition of Nynex Indocel Holding Sdn by TM International (L) Limited on 11 January 2005 (refer to Note 23), the name of Nynex Indocel Holding Sdn was changed to Indocel Holding Sdn.

(Expressed in thousand Rupiah)

12. SHARE CAPITAL AND CAPITAL SURPLUS (continued)

Starting 11 January 2005 the Company's shareholders composition is as follows:

	Number of shares	Amount in Rp	%
PT Telekomindo Primabhakti	1,359,000	339,750,000	60.0
Indocel Holding Sdn	523,215	130,803,750	23.1
AIF (Indonesia) Ltd	287,655	71,913,750	12.7
Mitsui & Co. Ltd	95,130	23,782,500	4.2
	2,265,000	566,250,000	100.0

13. BASIC (LOSS)/EARNINGS PER SHARE

	2004	2003	2002
Net (loss)/income attributable to the shareholders	(50,102,269)	400,723,651	743,286,225
Weighted average number of ordinary shares outstanding	2,265,000	2,265,000	2,265,000
Basic (loss)/earnings per share (full Rupiah)	(22,120)	176,920	328,162

14. REVENUE

	2004	2003	2002
GSM Telecommunication service			
Usage	1,536,330,717	1,375,182,077	1,385,400,904
Monthly service charge	20,415,076	26,485,504	27,075,444
Others	737,921,469	524,907,521	414,190,773
	2,294,667,262	1,926,575,102	1,826,667,121
GSM Interconnection service			
Domestic interconnection	609,945,189	542,906,318	498,657,294
International roaming	158,981,522	120,021,340	145,779,742
	768,926,711	662,927,658	644,437,036
Gross GSM revenue	3,063,593,973	2,589,502,760	2,471,104,157
Other GSM telecommunication charges	(174,684,585)	(85,785,581)	(52,851,370)
Interconnection charges	(359,825,616)	(305,653,881)	(287,844,400)
GSM revenue net of interconnection charges and other GSM telecommunication charges	2,529,083,772	2,198,063,298	2,130,408,387
Other telecommunication services revenue			
Leased lines	55,556,293	28,619,684	9,703,825
Internet service provider	13,955,397	6,889,316	2,973,048
Others	33,600	24,000	-
Gross revenue from other telecommunication services	69,545,290	35,533,000	12,676,873
Other telecommunication services cost	(7,925,349)	(4,873,220)	(4,312,421)

(Expressed in thousand Rupiah)

14. REVENUE (continued)

	2004	2003	2002
Revenue from other telecommunication services net of other telecommunication services cost	61,619,881	30,659,780	8,364,452
Net revenue	2,590,703,653	2,228,723,078	2,136,772,639

15. TAXATION

a. Prepaid taxes

	2004	2003	2002
Valued added tax – net	21,107,684		20,380,325
Income taxes			
- Article 25	28,991,934	-	-
- Article 23	26,547,899	13,875,133	-
- Article 22	12,323,337	-	-
	88,970,854	13,875,133	20,380,325

b. Taxes payable

	2004	2003	2002
Corporate income tax	1,023,970	109,510,411	78,417,350
Income tax payable article 25	-	5,569,510	
Less: prepaid tax	-	(86,690,647)	(14,076,857)
Corporate income tax payable	1,023,970	28,389,274	64,340,493
Consist of			
Corporate income tax payable			
- The Company	-	28,068,283	63,808,086
- The Subsidiaries	1,023,970	320,991	532,407
Employee income tax (article 21)	4,718,740	3,387,357	1,958,739
Withholding tax on rent and other services (article 23/20)	16,344,876	17,044,796	25,937,187
Tax payable in relation to the 2002 corporate income tax adjustment	-	6,655,998	-
Value added tax – net	-	5,403,491	-
	22,087,586	61,460,916	92,236,419

c. Corporate income tax benefit/(expense)

	2004	2003	2002
Current	(1,244,399)	(110,314,555)	(79,062,672)
Deferred	1,297,176	(78,919,266)	(244,812,269)
	52,777	(189,233,821)	(323,874,941)

(Expressed in thousand Rupiah)

15. TAXATION (continued)

c. Corporate income tax benefit/(expense) (continued)

	2004	2003	2002
Consist of			
The Company			
- Current	-	(109,189,420)	(77,884,943)
- Deferred	1,297,176	(78,919,266)	(244,812,269)
The Subsidiaries			
- Current	(1,244,399)	(1,125,135)	(1,177,729)
- Deferred	-	-	-
	52,777	(189,233,821)	(323,874,941)

The reconciliation between the Company's income tax benefit/(expense) and the theoretical tax amount on the Company's (loss)/income before income tax is as follows:

	2004	2003	2002
Consolidated (loss)/income before income tax	(50,155,045)	589,957,472	1,067,161,166
Less: net income before tax - subsidiaries	(4,236,099)	(3,414,845)	(2,966,740)
(Loss)/income before income tax - the Company	(54,391,144)	586,542,627	1,064,194,426
Tax calculated at progressive rates	16,317,343	(175,945,288)	(319,240,828)
Income subject to final tax	7,813,827	2,047,885	3,070,920
Non deductible expenses	(22,833,994)	(14,211,283)	(7,696,547)
Prior year tax adjustment	-	-	1,169,243
Income tax benefit/(expense)			
- The Company	1,297,176	(188,108,686)	(322,697,212)
- Subsidiaries	(1,244,399)	(1,125,135)	(1,177,729)
	52,777	(189,233,821)	(323,874,941)

A reconciliation between the Company's (loss)/income before income tax as shown in the consolidated financial statements and the estimated taxable (loss)/income for the years ended 31 December 2004, 2003, and 2002 are as follows:

	2004	2003	2002
(Loss)/income before income tax	(54,391,144)	586,542,627	1,064,194,426
Temporary differences			
Difference between commercial and fiscal depreciation and amortisation	(206,663,906)	(263,165,973)	(265,914,570)
Difference between commercial and fiscal (gain)/loss on disposal of assets and assets write off	(11,064,073)	101,754	(13,578,786)
	(217,727,979)	(263,064,219)	(279,493,356)
Permanent differences			
Non-deductible expenses	76,113,324	47,370,943	25,655,157
Interest income subject to final tax	(26,046,085)	(6,826,283)	(10,236,396)
	50,067,239	40,544,660	15,418,761
	(221,051,884)	364,023,068	800,119,829

(Expressed in thousand Rupiah)

15. TAXATION (continued)

c. Corporate income tax benefit/(expense) (continued)

	2004	2003	2002
Accumulated tax losses			
1997			(21,182,663)
1998	-	-	(549,043,053)
2000	-	-	(381,393,180)
2001			416,193,556
	-	-	(535,425,340)
Prior year adjustment	-	-	(5,019,678)
Taxable (loss)/income	(221,051,884)	364,023,068	259,674,811

The Company's 2004 annual tax return will be reported in the beginning of 2005 in accordance with the existing regulation

d. Deferred tax liabilities

	31/12/2003	Charged to consolidated statement of income	31/12/2004
Difference between commercial and fiscal depreciation & amortisation	(99,467,416)	(65,018,389)	(164,485,805)
Tax losses		66,315,565	66,315,565
	(99,467,416)	1,297,176	(98,170,240)

	31/12/2002	Charged to consolidated statement of income	31/12/2003
Difference between commercial and fiscal depreciation & amortisation	(20,548,150)	(78,919,266)	(99,467,416)

	31/12/2001	Prior year adjustment charged to the current year consolidated statement of income	Charged to consolidated statement of income	31/12/2002
Difference between commercial and fiscal depreciation & amortisation	63,636,517	(336,660)	(83,848,007)	(20,548,150)
Tax losses carried-forward	160,627,602	1,505,903	(162,133,505)	-
	224,264,119	1,169,243	(245,981,512)	(20,548,150)

15. TAXATION (continued)

e. Tax assessments

1998 Fiscal Year
On 22 October 2003, the Directorate General of Taxation (DGT) issued a nil tax assessment for the 1998 corporate income tax year. This assessment confirmed the 1998 tax loss of Rp 518,095,590.

The difference between the tax loss confirmed by the DGT and the tax loss per the Company's books amounting to Rp 30,947,463 was adjusted in the 2002 Annual Income Tax Return resulting in an additional payment for 2002 corporate income tax article 29 amounting to Rp 6,655,998. This was charged to the 2003 consolidated statement of income and was paid on 15 January 2004.

2000 Fiscal Year
On 15 April 2002, the DGT issued a tax assessment confirming an overpayment of the Company's corporate income tax in the amount of Rp 215,106. This overpayment was then compensated with underpayments of various tax assessments for the same fiscal year, i.e withholding income tax article 21, article 23/26, and final income tax article 4(2) payable totalling Rp 334,829. The Company paid the underpayment of Rp 119,723 on 17 April 2002 and charged it to the 2002 consolidated statement of income.

2001 Fiscal Year

a. On 26 May 2003, the DGT issued tax assessments for withholding income tax articles 21, 23/26, and final income tax article 4(2) which resulted in underpayments totalling Rp 24,803,577. The Company paid Rp 9,775,794 of these underpayments on 25 June 2003 and 22 July 2003. The remaining balance was offset with the 2002 withholding tax payments. Included in this tax assessment letter was an assessment for the withholding tax article 26 on international roaming amounting to Rp 855,360. On 12 August 2003, the Company submitted an objection letter to the DGT for this assessment letter, and was rejected by the tax office on 21 April 2004. On 20 July 2004, the Company submitted an appeal letter to the Tax Court. At the date of this report, there has been no response from the Tax Court yet.
b. On 22 October 2003, the DGT approved the Company's application for a reduction of the interest penalties stated in the assessment for withholding income tax article 23 amounting to Rp 2,510,090. On 27 October 2003, the DGT issued an assessment confirming an overpayment of corporate income tax in the amount of Rp 4,070,195. This overpayment, however, was offset with various VAT assessments totalling Rp 6,706,445. The remaining balance of the VAT underpayment of Rp 126,160 was paid on 20 November 2003 and was charged to the 2003 consolidated statement of income.
c. On 26 January 2004, the Company submitted an objection letter to the DGT to reconsider the calculation of interest penalties in certain VAT assessments amounting to Rp 4,575,511, which has been rejected by DGT. On 27 December 2004, 30 December 2004, and 17 January 2005, the Company submitted appeal letters to the Tax Court. At the date of this report, there has been no response from the Tax Court yet.
d. On 12 May 2004, the DGT approved the Company's application to reduce the interest penalties in the assessment for withholding income tax article 26 amounting to Rp 1,559,961. This reduction was used to offset the May 2004 withholding tax article 21 payable of Rp 1,556,098 and the remaining balance was compensated against late payment penalties for several fiscal years' withholding tax article 21, article 23 and VAT.

(Expressed in thousand Rupiah)

15. TAXATION (continued)

e. Tax assessments (continued)

2002 Fiscal Year
The tax authorities commenced an audit of the 2002 fiscal year on 26 May 2004. Until the date of this report, management has not received any result on this tax audit.

Under the taxation laws of Indonesia, the Company submits tax returns on a self-assessment basis. The tax authorities may assess or amend tax obligations within ten years after the tax is due.

16. RELATED PARTY INFORMATION

a. Nature of transaction and relationship with related parties

Nature of transaction and relationships with related parties are as follows:

Related parties	Nature of the relationship with related parties	Nature of transaction
PT Telekomindo Primabhakti	Major shareholder	Reimbursement of expenses and building rental
PT Rajawali Corporation	Major shareholder of PT Telekomindo Primabhakti	Reimbursement of expenses
PT Nynex Indonesia	Affiliates of Nynex Indoce Holding Sdn	Technical service fee

b. Other receivables

	2004	2003	2002
PT Rajawali Corporation			124,366

c. Other payables and accruals

	2004	2003	2002
PT Telekomindo Primabhakti	-	-	444,772
PT Rajawali Corporation			269,203
PT Nynex Indonesia	198,661	4,021,960	8,211,187
	198,661	4,021,960	8,925,162

d. Rental expense

	2004	2003	2002
PT Telekomindo Primabhakti	5,324,968	4,820,934	4,928,812
(As a percentage of operating expenses)	0.28%	0.29%	0.36%

16. RELATED PARTY INFORMATION (continued)

e. Technical service fee

	2004	2003	2002
PT Nynex Indonesia	1,914,492	1,813,754	2,112,613
(As a percentage of operating expenses)	0.10%	0.11%	0.15%

Based on a technical service agreement, PT Nynex Indonesia provides the Company with technical services regarding the development, construction, operation and maintenance of the Company's network equipment and also provides related technical consulting services.

f. Salaries and allowances for board of commissioners and directors

	2004	2003	2002
Salaries and allowances for board of commissioners and directors	14,949,508	13,587,107	11,514,560
(As a percentage of salaries and employee benefits)	6.53%	7.86%	7.99%

The transactions with related parties are made under terms and conditions as if the transactions were made with third parties.

17. COMMITMENTS

a. Capital commitments

The Company had various purchase commitments related to the expansion of the network against which the Company has made down payments, as follows (amount in million USD):

	2004	2003	2002
Purchase commitments	101	55.7	18
Down payments	(21)	(6.2)	(1)
	80	49.5	17

The down payments have been classified as other assets in the consolidated balance sheet (refer to Note 5).

The above commitment includes certain guarantees to the customs authorities that are collateralised by bank deposits. The deposits are classified as restricted short term bank deposits, as follows (amount in billion Rupiah):

	2004	2003	2002
Bank deposit	6	-	6.9

(Expressed in thousand Rupiah)

17. COMMITMENTS

b. Operating lease commitments

In 1999 the Company entered into an office rental agreement denominated in Rupiah with PT Caraka Citra Sekar Lestari (third party) for a term of 10 years, with a total commitment as follows:

	2004	2003	2002
Payable within one year	10,560,000	10,560,000	10,560,000
Payable within one and two years	21,120,000	21,120,000	21,120,000
Payable within two and five years	29,920,000	31,680,000	31,680,000
Payable after five years	-	8,800,000	19,360,000
	61,600,000	72,160,000	82,720,000

On 17 January 2000 the Company also entered into a warehouse rental agreement with PT Telekomindo Primabhakti (the majority shareholder) for a term of 15 years commencing 1 July 1997, with a total commitment as follows (amount in USD):

	2004	2003	2002
Payable within one year	635,379	596,600	560,187
Payable within one and two years	1,397,340	1,312,057	1,231,978
Payable within two and five years	2,455,422	2,305,560	2,164,845
Payable after five years	1,405,253	2,275,776	3,093,169
	5,893,394	6,489,993	7,050,179

18. TARIFF SYSTEM

The service rates ("tariff") for cellular providers are set on the basis of the decree No. KM27/PR.301/MPPT-98 dated 23 February 1998 of the Ministry of Tourism, Posts and Telecommunications (subsequently renamed "Ministry of Communications"). Under this regulation, the cellular tariff consists of the following:

- Activation fee
- Monthly charges
- Usage charges

The maximum tariff for the activation fee is Rp 200,000 per new subscriber number. The maximum tariff for the monthly charge is Rp 65,000. Usage charges consist of the following:

a. Airtime

The basic airtime tariff charged to the originating cellular subscriber is Rp 325/minute. The details of the tariff system are as follows:

Cellular to cellular	2 times airtime rate
Cellular to Public Switched Telephone Network ("PSTN")	1 times airtime rate

18. TARIFF SYSTEM (continued)

b. Usage tariff

1. Usage tariff charged to a cellular subscriber who makes a call to another subscriber using the PSTN network is similar to the usage tariff for PSTN subscribers. For the use of the local PSTN network, the tariff is computed at 50% of the prevailing local PSTN tariff.

2. The long-distance usage tariff between two different service areas is similar to the prevailing tariff for a domestic long-distance call (SLJJ) for a PSTN subscriber.

Based on the decree No. KM 79 of 1998 of the Ministry of Communications the maximum tariff for prepaid customers may not exceed 140% of the peak time tariffs for postpaid subscribers.

INTERCONNECTION TARIFF

The Company entered into several bilateral agreements with other domestic telecommunication operators regarding interconnection tariff sharing for each call sent from or terminated on the Company's network. These agreements are in accordance with the prevailing regulation.

Based on decree No. KM 32 of 2004 of the Ministry of Communications dated 11 March 2004, the interconnection tariff will be charged based on cost starting on 1 January 2005.

19. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES

The Company entered into several significant contract agreements with third parties as follows:

a. General purchase agreement with Ericsson AB

The agreement with Ericsson AB is for the supply of network equipment and various network related services. This agreement is valid until 31 December 2006, unless terminated earlier by both parties. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Ericsson AB from time to time, by issuance of one or more purchase orders by the Company.

b. General purchase agreement and maintenance agreement with Siemens AG

The agreement with Siemens AG is for the supply of network equipment and various network related services. This agreement is valid until 31 December 2004, and has been further extended until 30 June 2005, unless terminated earlier by both parties. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Siemens AG from time to time, by issuance of one or more purchase orders by the Company.

c. General purchase agreement and installation agreement with Tomen Corporation

The agreement with Tomen Corporation is for the supply of equipment and installation services of microwave radio systems, and fibre optic transmission systems. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Tomen Corporation from time to time, by issuance of one or more purchase orders by the Company. The agreement is for an unlimited period unless terminated by one of the parties.

19. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES (continued)

d. Maintenance agreement with PT Ericsson Indonesia

The contract with PT Ericsson Indonesia is for the supply of maintenance services of the Company's telecommunications network. The agreement is valid until 31 December 2004. At the date of this report, the amendment of this agreement is still in the process

e. System implementation and integration agreement with AMDOCS

The agreement with AMDOCS is for the supply, implementation, installation, and integration of a convergent billing platform that supports prepaid and postpaid subscribers. The agreement commences with effect from the agreement signing date, and unless extended, ends on the later of 60 days after final acceptance and the date on which all material defects are corrected or when terminated earlier by either party in accordance with the agreement.

f. Equipment supply agreement with Huawei Tech. Investment Co., Ltd.

The agreement with Huawei is for the supply of network equipment and various network related services. This contract sets out terms and conditions of purchase for various products and services which may be supplied by Huawei Tech. Investments Co., Ltd. from time to time, by issuance of one or more purchase orders by the Company. The agreement is valid from 12 June 2003 for an unlimited period unless terminated by one of the parties.

g. Cable installation agreement with Norddeutche Seekabelwerke Gmbh Co. KG. ("NS")

The agreement with NS is for developing a fibre optic cable system, which is known as a submarine cable system, to support the existing network capacity. Based on this agreement, the Company will own the whole system infrastructure at the end of the project. This agreement is valid from 21 February 2003 until the end of the warranty period which is 5 years after the date of final acceptance of the system.

h. System implementation and integration agreement with Agilent Technologies

The agreement with Agilent is for supplying, implementing, installing and integrating a Network Management System ("NMS") that will be used for managing the Company's computer and telecommunication system. This agreement is valid from 6 March 2003 until the end of warranty period for the last phase or until terminated earlier by either party in accordance with this agreement.

i. Repair and maintenance agreement with PT Nusa Sakti Waskita

The contract with PT Nusa Sakti Waskita is for the repair and maintenance of a fibre optic cable system, which is known as Excelcomindo Optical Fibre Submarine Cable System, which will be used to provide service between Kalimantan, Sulawesi, Sumbawa, Lombok, Bali, Java, Belitung and Bangka. The agreement is valid from 12 November 2004 until 3 years after or until terminated earlier by either party in accordance with the agreement. The parties may renew the contract for additional maintenance periods by a mutual written agreement.

(Expressed in thousand Rupiah)

19. SIGNIFICANT AGREEMENTS WITH THIRD PARTIES (continued)

j. **Equipment supply and installation agreement with PT Alita Praya Mitra**

The agreement with PT Alita Praya Mitra is for:

1. procurement of products to provide and support a mobile telecommunications system throughout Indonesia. This agreement is valid from 24 July 2003 and continues until the earlier of the first date on which the purchase period has ended and the warranty period for all products delivered under the agreement has expired, or the date on which the agreement is terminated by notice by either party in accordance with the terms of the agreement.
2. the supply of mobile telecommunications equipment installation services. This agreement commences with effect from 24 July 2003 and continues until the end of the warranty period for the last service item delivered under this agreement, or until this agreement is terminated earlier by either party in accordance with the terms of the agreement.

k. Interconnection agreements and sharing of facilities with PT Telekomunikasi Indonesia Tbk. (Telkom), PT Telekomunikasi Selular (Telkomsel), PT Satelit Palapa Indonesia (Satelindo) and PT Indosat

l. International roaming agreements with several international roaming partners (approximately 189 partners as of 31 December 2004).

m. Agreements with distributors and several banks for distribution of the Company's products.

n. Agreements with Value Added Service providers, such as: PT Boleh Net Indonesia, PT Antar Mitra Prakarsa, PT Indika Telemedia, PT Code Jawa, PT Trikomsel Yahoh Communication, and PT Agramulticitra Siberkom

20. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

	31/12/2004		
	Foreign currencies		Equivalent to Million Rupiah
Assets			
Cash and cash equivalents	USD	15,826,467	147,028
Trade receivables	USD	3,288,934	30,554
Total Assets			177,582
Liabilities			
Trade payables	USD	37,316,560	346,671
	EUR	8,067,648	102,072
	SGD	115,558	657
Other payables	USD	13,242,703	123,025
Long term bond - principal	USD	350,000,000	3,251,500
Total Liabilities			3,823,925
Net Liabilities			3,646,343

(Expressed in thousand Rupiah)

20. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (continued)

	31/12/2003		
	Foreign currencies		Equivalent to Million Rupiah
Assets			
Cash and cash equivalents	USD	38,397,479	325,035
Trade receivables	USD	2,815,116	23,830
Total Assets			348,865
Liabilities			
Trade payables	USD	23,011,841	194,795
	EUR	6,469,570	68,856
	SGD	72,023	359
Other payables	USD	1,264,925	10,708
Current maturities of long term loan	USD	55,000,000	465,575
Long term lenders loan net of current maturities	USD	236,873,105	2,005,131
Total Liabilities			2,745,424
Net Liabilities			2,396,559

	31/12/2002		
	Foreign currencies		Equivalent to Million Rupiah
Assets			
Cash and cash equivalents	USD	12,300,131	109,963
Trade receivables	USD	2,045,396	18,286
Total Assets			128,249
Liabilities			
Trade payables	USD	35,501,235	317,381
	AUD	261,714	1,326
	EUR	1,650,675	15,466
	SGD	89,145	459
	GBP	35,455	508
Other payables	USD	1,388,831	12,416
Current maturities of long term loan	USD	15,000,000	134,100
Long term lenders loan net of current maturities	USD	351,323,694	3,140,834
Total Liabilities			3,622,490
Net Liabilities			3,494,241

20. MONETARY ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (continued)

While the Company's revenues are denominated in Rupiah and the Company's liabilities are mainly denominated in US Dollars, the Company is exposed to fluctuations in foreign exchange rates resulting mainly from its debt denominated in US Dollars. Most of the liabilities denominated in US Dollars are long-term and management is continually evaluating feasible long term hedging structures.

The Company did, in 2002 enter into an "interest rate hedge" contract to reduce exposures to interest rate movements affecting existing foreign currency denominated borrowings. The Company purchased an interest rate cap that is indexed to USD-LIBOR-BBA with a USD 223 million notional amount for the first period declining gradually to USD 88 million by the end of the contract, the cost of which was expensed in December 2002. This contract will expire on 31 March 2006.

21. SEGMENT INFORMATION

The Group operates and manages the business under one segment which provides GSM mobile and telecommunication network services to its customers. Management allocates resources and assesses performance at the Group level.

22. RECLASSIFICATION OF ACCOUNTS

Some accounts in the consolidated financial statements as at 31 December 2003 and 2002 have been reclassified to conform with the consolidated financial statements as at 31 December 2004. The details are as follows:

a. Tax expenses based on the tax audit results for the 2002 fiscal year amounting to Rp 334,829 have been reclassified from the general and administration expenses account to other expenses account.

b. The 2002 gross revenue from other telecommunication services arising from the sale of starter packs amounting to Rp 81,441,671 was reclassified to GSM telecommunication service revenue and the related expenses amounting to Rp 48,657,560 was reclassified to other GSM telecommunication and interconnection charges.

c. The 2003 cash flows used in financing activities amounting to Rp 35,923,152 was reclassified to cash flows used in operating activities.

d. The 2003 other non-current assets amounting to Rp 44,531,250 was reclassified to other current asset.

e. The 2003 bond issuance cost amounting to Rp 25,867,918 was reclassified from other assets account to long term bond account.

(Expressed in thousand Rupiah)

23. SUBSEQUENT EVENTS

On 11 January 2005, TM International (L) Limited acquired all of the shares of Indocel Holding Sdn. (formerly known as Nynex Indocel Holding Sdn.) which holds 523,215 ordinary shares (representing 23.1% equity interest) of PT Excelcomindo Pratama

As stated in Notary Deed No 24 dated 4 February 2005, made before Mercy Mareta SH, MKn., substitution of Harun Kamil SH, Notary in Jakarta, on 13 January 2005, the Extraordinary Shareholders' Meeting has appointed new composition of the Company's Board of Directors and Board of Commissioners as follows:

Board of Directors	
President Director:	Christian Manuel de Faria
Directors.	Rudiantara
	Kusnadi Sukarja
	Navin Sonthalia
	Werner A Noz
	Joris de Fretes
	Arsono Putranto
	Mohamad Idris bin Ahmad
Board of Commissioners	
President Commissioner:	Peter Sondakh
Commissioners.	Dato' Abdul Wahid bin Omar
	YB Dato' Nur Jazlan bin Tan Sri Mohamed
	Rosli bin Man
	Bazlan bin Osman
	Gerald Francis Rossi
	Dr Lim Lek Suan
	Shigeru Dohi

24. NEW ACCOUNTING STANDARDS

In 2004, the Indonesian Institute of Accountants has issued the following accounting standards.

SFAS No.		Effective
SFAS 24 (Revised 2004)	- Employee compensation	For financial statements covering periods beginning on or after 1 July 2004.
SFAS 38 (Revised 2004)	- Accounting for restructuring of entity under common control	For financial statements covering periods beginning on or after 1 January 2005.

The Group's management is in the process of determining the effects of the new pronouncement on their consolidated financial position and results of operations.