

Management Discussion and Analysis

The following Management Discussion and Analysis of our results of operations during 2005 is to be read in conjunction with our audited consolidated financial statements for financial year ending December 31, 2004, and December 31, 2005. The audited consolidated financial statements and financial information discussed below have been prepared in accordance with Indonesia's GAAP, which differs in certain aspects from US GAAP and/ or IFRS.

Exchange rate used in this report are Rp. 9290/ \$US and Rp. 9830/ \$US for the years ending December 31, 2004 and December 31, 2005, respectively.

P.T. Excelcomindo Pratama (the Company/ XL) had closed the year 2005 with an upbeat sentiment and remarkable growth in gross operating revenue and subscriber base.

Innovative marketing, distribution expansion, wider network coverage, augmented with smart branding and more importantly, the strong financial foundation and technologies of Telekom Malaysia (TM), established a robust platform for the Company to capitalize on the opportunities and level the playing field.

There were a number of key events that took place during 2005, as described below:

- From January to October 2005, TM through Telekom Malaysia International (L) Limited (TMIL) and Indocell Holdings Sdn. Bhd. acquired 56.92% of XL's issued share capital on a fully diluted basis. Accordingly, TM had controlled our day-to-day business and operations since January 2005.
- On July 4, 2005, XL held Bondholders General Meeting (RUPO), the purpose of which was to obtain the bondholders' approval of amending certain articles in the Company's Rupiah Bond Trustee Agreement, in relation to our plan to issue new bonds.

The amendment was approved and in return, the Company was instructed to buyback the rupiah bonds at 105% of the nominal value. The buyback took place on July 21, 2005.

- On September 29, 2005, XL carried out initial public offering (IPO), listing 1,427,500,000 of shares on Jakarta Stock Exchange for initial price of Rp. 2,000. The amount of shares listed represented 20% of our issued share capital on a fully diluted basis.
- On October 27, 2005, XL officially became a consolidated subsidiary of TM, following its acquisition of indirect majority interest in our issued share capital from P.T. Telekomindo Primabhakti. As of December 31, 2005, TM owns 56.92% of total XL shares through its wholly owned subsidiaries TMIL and Indocell.

Review on operation performance – Strong start to the new year

For the year ending December 31, 2005, the Company registered a 21% increase in gross operating revenue to Rp. 3,790 billion, in comparison with 2004 result of Rp. 3,133 billion. EBITDA for 2005 increased by 7.3% to Rp. 1,744 billion from Rp. 1,626 billion in 2004.

The rise in gross operating revenue was attributed to the 83% growth in our total subscribers, which numbered 6.98 million as of December 31, 2005. Approximately 97% of the total subscribers or 6.77 million were pre-paid customers, while the rest 3% or 209 thousand were post-paid users. With regard to the post-paid base, the Company recorded a remarkable growth of 267% from 48 thousand in 2004 to 176 thousand by the end of 2005.

Such increase resulted mainly from marketing programs implemented during the year, which included customer-loyalty programs that rewarded bonus for receiving calls from other operators' customers, XL and Bebas ambassadors, as well as joint promotion with pop icon Peter Pan.

Other driving factor was wider distribution outlets and network coverage: The number of XL Kita outlets increased by 162% to 19366 by the end of December 2005, and Base Transceiver Stations (BTSs) multiplied by 80% to 4324 from 2357 in 2004. The distribution was also enhanced by 130 exclusive XL Centers, 498 OKE Shops, 467 branded stores, and 59 thousand M-Wallet subscribers.

Meanwhile, operating income decreased to Rp. 579.1 billion from Rp. 662.4 billion in the previous year, due to higher operating expenses.

Net loss for 2005 was Rp. 215.3 billion, a drastic jump of 375% from 2004 figure of Rp. 45.3 billion. Such increase was attributed to higher foreign exchange loss that resulted from depreciation of rupiah against US dollar, redemption premium paid on the buyback of Rp. 1.25 trillion rupiah bonds, and consent fee paid to the holders of 8% Guaranteed Notes due in 2009.

Review on sales and marketing – From 'expensive' to 'young, hip, and dynamic'

The Company's marketing strategy aimed to overhaul the corporate image persisting for years – from 'expensive' provider to one that was young, dynamic, hip, and fully understood customers' needs. Whether the customer wanted basic, cut-rate service or value-added benefits, XL offered complete offerings to fulfill that need. And with a rapidly expanding distribution channels and wide, robust, reliable network coverage, XL was fully equipped and capable to deliver customers' demand.

Distribution

In line with the grand objective of capturing the growth opportunity, in 2005 the Company expanded the distribution channels by opening new XL Center and XL Kita outlets not only in major cities such as Jakarta, Bandung, Bali, Surabaya, Medan, Padang, but also in small counties such as South Tapanuli in North Sumatra.

As a result, by the end of 2005 XL Kita outlets had increased by 162% to 19366 from 7381 in 2004, while XL Centers numbered 130.

Marketing and promotion

Augmenting the 2004 introduction of 3 new brands – jempol, bebas, Xplor – in 2005 XL stepped up the gear by launching promotional programs to boost market awareness of the brands and enhance customer satisfaction. The programs centered on offering new features and discounted rate.

To optimize the results, the programs were supported by a series of media advertising and sponsorship, such as the Kring-Kring Sring-Sring program targeted at bebas users. Launched in April 2005, the program rewarded bebas subscribers with discounted rates for every call to 5 pre-registered XL numbers.

Kring-Kring Sring-Sring was followed in the same month with the introduction of bebasx – targeted at young adults with more practical mobile telecommunication

needs – and in August by launching new bebas service of international SMS roaming capability.

The campaign for pre-paid users continued in September with the debut of XL Klub VIBE loyalty program for bebas prepaid card and SAPA (Sangat Panjang) for bebas and jempol customers, which rewarded customers with up to 63% discount off regular rate for calls placed to XL numbers.

Not less importantly were Motobebas Quiz in collaboration with Motorola; free tickets to watch 'Alexandria' for Klub Vibe members; sponsoring pop icon Peter Pan concerts in Pekanbaru, Yogyakarta, Manado, and Bali; as well as various TV, radio, and print ads including 'Mudik' program and 'Pesta Bonus Pulsa'.

On the post-paid front, in an effort to increase the number of pre-paid users The Company introduced a new feature of Xplor in June 2005: Outgoing call rate calculated on per-second basis. The promotion was then augmented with product road show from October to November in offices and malls, and Jazz Event in collaboration with DiscTarra.

Furthermore, adhering to 2005 strategy of concerted corporate solution under Business Solutions segment, XL also enrolled new corporate clients, namely P.T. Asuransi Jiwa Sequis Life, ITC Multi Finance, and P.T. Kalbe Farma, Tbk.

Review on financial performance

Revenue

XL recorded a 21% growth in 2005 gross operating revenue – from Rp. 3,133 billion in 2004 to Rp. 3,790 billion. The increase was attributed to 83% growth in total subscribers, which was 6.98 million as of December 31, 2005.

Revenue from GSM telecommunication service

The total revenue obtained from GSM telecommunication service for 2005 was Rp. 2,760 billion, or an increase by 20.3% from that of 2004. Such increase was attributed to the launch of new product – jempol – realignment of existing proXL brand to new brands bebas and Xplor in the second half of 2004, as well as introduction of new features in reload vouchers.

Revenue from prepaid service was Rp. 2,456 billion, or a growth of 16.9% from Rp. 2,100 billion in 2004. The rise was driven by the increase in voice and SMS usage as the Company gained more customers.

Meanwhile, the revenue from post-paid business registered a growth of 56.7% to Rp. 303.5 billion from Rp. 193.6 billion in 2004. Primarily, the growth was the result of the increase in subscriber base as well as in voice and SMS usage, in addition to realignment of Xplor with the new feature – outgoing call rate calculated on per-second basis.

Revenue from GSM interconnection service

The total revenue obtained from GSM interconnection service for 2005 was Rp. 914.7 billion, or an increase by 19% from 2004 figure of Rp. 768.4 billion. Such increase was driven by the growth in our customer base during 2005.

Domestic interconnection revenue for 2005 was Rp. 671.6 billion or 10% above Rp. 609.9 billion in 2004. Similarly, the rise was driven by the increase in customer base during 2005.

Meanwhile, international roaming revenue was recorded at Rp. 234.6 billion or 48.3% higher than 2004 figure of Rp. 158.2 billion. The increase was attributed principally to the increased usage of international roaming and the depreciation of rupiah to US dollar. As of December 31, 2005, the exchange rate was Rp. 9830/ \$US, in comparison to Rp. 9290/ US\$ in 2004.

Revenue from other telecommunication services

The total revenue obtained from other telecommunication services for 2005 was Rp. 114.9 billion or 63.7% above Rp. 70.2 billion in 2004. This was due to the significant rise in the number of leased-line and ISP customers.

Costs and expenses

For 2005 financial year, XL recorded total costs and expenses of Rp. 3,210 billion or a 29.8% increase from Rp. 2,474 billion in the previous year. The rise was mainly attributed to the increase in interconnection charges, other GSM telecommunication service cost, depreciation expenses, general and administrative expenses, as well as salaries and employee benefits.

Interconnection charges

The Company incurred Rp. 546.7 billion in interconnection charges for 2005, which was 51.9% higher than 2004 figure of Rp. 359.8 billion. The increase was in line with the growth in voice revenue.

Other GSM telecommunication services costs

In terms of other GSM telecommunication services costs, XL incurred Rp. 172 billion in expenses or a 1.5% decrease from Rp. 174.7 billion in 2004. The slight drop was due to the negative adjustment related to the reversal of over-accrual of USO fee obligation in 2004.

Other telecommunication services costs

Cost of other telecommunication services in 2005 was recorded at Rp. 12.2 billion, increasing by 54.4% from 2004 figure of Rp. 7.9 billion. The increase was in proportion to the growth in revenue from other telecommunication services, which was driven by the growth in the number of leased-line and ISP users.

Depreciation expense

Depreciation expense in 2005 was recorded at Rp. 1,163 billion or rising by 20.9% from Rp. 962.4 billion in 2004. The rise was attributed to the acquisition of network and other non-network equipment.

General and administrative expense

General and administrative expense in 2005 was Rp. 289.2 billion, registering a rise of 38.2% from Rp. 209.3 billion in 2004. The increase was contributed by higher accrual for frequency fees and utilities expenses related to a rise in estimated number of BTSs to install.