

**Perusahaan Perseroan (Persero)
PT Telekomunikasi Indonesia Tbk and its subsidiaries**

**Consolidated financial statements as of September 30, 2014 and
for the nine months period then ended (unaudited)**



PREFACE

We are pleased to submit the Unaudited Consolidated Financial Statements of Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk ("TELKOM") as of September 30, 2014 (Unaudited) which consists of Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Stockholders' Equity, Consolidated Statement of Cash Flows and Consolidated Notes to Financial Statements prepared in accordance with Indonesian Financial Accounting Standards.

As of September 30, 2014, TELKOM recorded total Revenue at Rp65,841 billion or increased by 7.0% as compared with the same period last year. The increase was contributed by increase in Data, Internet and Information Technology Services Revenue and Cellular Revenue by Rp3,582 billion or 15.4% and Rp1,367 billion or 5.8%, respectively.

Meanwhile TELKOM recorded total Expenses at Rp43,709 billion or increased by Rp3,512 billion or 8.7% that contributed by increase in Operation & Maintenance Expense and Depreciation & Amortization Expenses by Rp2,491 billion and Rp964 billion respectively compared with the same period last year.

As a result, TELKOM recorded Profit for the period at Rp16,280 billion, increased by 4.2% which is attributable to owners of the Parent Company amounted to Rp11,446 billion, increased by 3.5% compared with the same period last year.

Finally, on behalf of the Board of Directors of TELKOM, we would like to thank and appreciate all of TELKOM Group partners, who have supported TELKOM in achieving the result as presented in the Consolidated Financial Statements and improving better performance in the next period.

Jakarta, October 24, 2014



ARIEF YAHYA

President Director



**Statement of the Board of Directors
regarding the Board of Director's Responsibility for**

**Consolidated financial statements as of September 30, 2014 and
for the nine months period then ended (unaudited)
Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk and its subsidiaries**

On behalf of the Board of Directors, we undersigned:

1. Name : Arief Yahya
Business address : Jl. Japati No. 1 Bandung 40133
Address as indicated in ID : Jl. Bongo No. 1 Turangga Lengkong, Bandung
Phone : (022) 452 7101
Position : President Director

2. Name : Honesti Basyir
Business address : Jl. Japati No. 1 Bandung 40133
Address as indicated in ID : Komplek Dai-ichi Kav. 26 Antapani, Bandung
Phone : (022) 452 7201
Position : Director of Finance

We hereby state as follows:

1. We are responsible for the preparation and presentation of the consolidated financial statement of Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk (the "Company") and its subsidiaries;
2. The Company and its subsidiaries' consolidated financial statement have been prepared and presented in accordance with Indonesian Financial Accounting Standards;
3. All information has been fully and correctly disclosed in the Company and its subsidiaries' consolidated financial statement;
4. The Company and its subsidiaries' consolidated financial statement do not contain false material information or facts, nor do they omit any material information or facts;
5. We are responsible for the Company and its subsidiaries' internal control system.

This statement is considered to be true and correct.

Jakarta, October 24, 2014



Arief Yahya
President Director

Honesti Basyir
Director of Finance



These consolidated financial statements are originally issued in Indonesian language.

**PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2014 AND
FOR THE NINE MONTHS PERIOD THEN ENDED (UNAUDITED)**

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These consolidated financial statements are originally issued in Indonesian language.

PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of September 30, 2014 (unaudited) and December 31, 2013 (audited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

	Notes	September 30, 2014	December 31, 2013
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	2c,2e,2u, 4,37,44	17,834	14,696
Other current financial assets	2c,2d,2e,2u, 3,5,37,44	1,584	6,872
Trade receivables - net of provision for impairment of receivables	2g,2u, 6,29,44,		
Related parties	2c,37	816	900
Third parties		6,900	5,126
Other receivables - net of provision for impairment of receivables	2g,2u,44	344	395
Inventories - net of provision for obsolescence	2h,7,17, 21	676	509
Advances and prepaid expenses	2c,2i,2t,8, 31,37	4,214	3,947
Prepaid taxes	2t,31	961	525
Asset held for sale	2j,9	82	105
Total Current Assets		33,411	33,075
NON-CURRENT ASSETS			
Long-term investments	2f,2u,10,44	1,716	304
Property and equipment - net of accumulated depreciation	2l,2m,11 17,20,21,39	93,779	86,761
Prepaid pension benefit costs	2s,34	908	927
Advances and other non-current assets	2c,2i,2l,2n,2u 12,37,41,44	6,612	5,294
Intangible assets - net of accumulated amortization	2d,2k,2n,13	1,751	1,508
Deferred tax assets - net	2t,31	98	82
Total Non-current Assets		104,864	94,876
TOTAL ASSETS		138,275	127,951

The accompanying notes to the consolidated financial statements form an integral part of these consolidated financial statements taken as a whole.

PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of September 30, 2014 (unaudited) and December 31, 2013 (audited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

	Notes	September 30, 2014	December 31, 2013
LIABILITIES AND EQUITIES			
CURRENT LIABILITIES			
Trade payables	2o,2r,2u, 14,44		
Related parties	2c,37	506	826
Third parties		11,323	10,774
Other payables	2u,44	639	388
Taxes payable	2t,31	1,832	1,698
Accrued expenses	2c,2r,2u,15, 27,34,37,44	6,598	5,264
Unearned income	2r,16	2,720	3,490
Advances from customers and suppliers	2c,37	1,616	472
Short-term bank loans	2c,2p,2u, 17,37,44	2,627	432
Current maturities of long-term liabilities	2c,2m,2p,2u, 18,37,44	5,504	5,093
Total Current Liabilities		33,365	28,437
NON-CURRENT LIABILITIES			
Deferred tax liabilities - net	2t,31	2,949	3,004
Other liabilities	2r	399	472
Long service award provisions	2s,35	352	336
Post-retirement health care benefit costs provisions	2s,36	604	752
Retirement benefits obligation and other post- retirement benefits	2s,34	2,983	2,795
Long-term liabilities - net of current maturities	2u,18,44		
Obligations under finance leases	2m,11	4,191	4,321
Two-step loans	2c,2p,19,37	1,532	1,702
Bonds and notes	2c,2p,20,37	2,029	3,073
Bank loans	2c,2p,21,37	9,007	5,635
Total Non-current Liabilities		24,046	22,090
TOTAL LIABILITIES		57,411	50,527

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PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As of September 30, 2014 (unaudited) and December 31, 2013 (audited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

	Notes	September 30, 2014	December 31, 2013
EQUITY			
Capital stock - Rp50 par value per Series A Dwiwarna share and Series B share Authorized - 1 Series A Dwiwarna share and 399,999,999,999 Series B shares Issued and fully paid - 1 Series A Dwiwarna share and 100,799,996,399 Series B shares	1c,23	5,040	5,040
Additional paid-in capital	2d,2v,24	2,899	2,323
Treasury stock	2v,25	(3,836)	(5,805)
Effect of change in equity of associated companies	2f	386	386
Unrealized holding gain on available-for-sale securities	2u	39	38
Translation adjustment	2f	378	391
Difference due to acquisition of non-controlling interests in subsidiaries	1d,2d	(508)	(508)
Other reserves	1d	49	49
Retained earnings			
Appropriated	33	15,337	15,337
Unappropriated		44,794	43,291
Net Equity Attributable to Owners of the parent company		64,578	60,542
Non-controlling Interests	2b,22	16,286	16,882
TOTAL EQUITY		80,864	77,424
TOTAL LIABILITIES AND EQUITY		138,275	127,951

The accompanying notes to the consolidated financial statements form an integral part of these consolidated financial statements taken as a whole.

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PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Nine months Ended September 30, 2014 and 2013 (Unaudited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

	Notes	2014	2013
REVENUES	2c,2r,26,37	65,841	61,499
Operations, maintenance and telecommunication service expenses	2c,2r,28,37	(16,606)	(14,115)
Depreciation and amortization	2k,2l,2m,2r,11,12,13	(12,036)	(11,072)
Personnel expenses	2c,2r,2s,15,27,34,35,36,37	(7,215)	(6,967)
Interconnection expenses	2c,2r,30,37	(3,680)	(3,636)
General and administrative expenses	2c,2g,2h,2r,2t,6,7,29,37	(2,390)	(2,398)
Marketing expenses	2r	(2,314)	(2,105)
Loss on foreign exchange - net	2q	(203)	(265)
Other income	2r,3,11c	1,292	671
Other expenses	2r,11c	(557)	(310)
OPERATING PROFIT		22,132	21,302
Finance income	2c,37	928	571
Finance costs	2c,2r,37	(1,333)	(1,116)
Share of loss of associated companies	2f,10	(12)	(9)
PROFIT BEFORE INCOME TAX		21,715	20,748
INCOME TAX (EXPENSE) BENEFIT	2t,31		
Current		(5,505)	(5,321)
Deferred		70	201
		(5,435)	(5,120)
PROFIT FOR THE YEAR		16,280	15,628
OTHER COMPREHENSIVE (LOSS) INCOME			
Foreign currency translation	1d,2b,2f	(13)	96
Change in fair value of available-for-sale financial assets	2u	1	1
Other Comprehensive (Loss) Income - net		(12)	97
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		16,268	15,725
Profit for the period attributable to:			
Owners of the parent company	2b,22	11,446	11,057
Non-controlling interests		4,834	4,571
		16,280	15,628
Total comprehensive income for the period attributable to:			
Owners of the parent company		11,434	11,154
Non-controlling interests	2b,22	4,834	4,571
		16,268	15,725
BASIC AND DILUTED EARNINGS PER SHARE (in full amount)			
Net income per share	2x,32	117.36	115.05
Net income per ADS (200 Series B shares per ADS)		23,471.75	23,010.00

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PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Nine months Ended September 30, 2014 and 2013 (Unaudited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

		Attributable to owners of the parent company												
Descriptions	Notes	Capital stock	Additional paid-in capital	Treasury stock	Effect of change in equity of associated companies	Unrealized holding gain on available-for-sale securities	Translation adjustment	Difference due to acquisition of non-controlling interest in subsidiaries	Other reserves	Retained earnings		Net	Non-controlling interests	Total equity
										Appropriated	Unappropriated			
Balance, December 31, 2013		5,040	2,323	(5,805)	386	38	391	(508)	49	15,337	43,291	60,542	16,882	77,424
Paid in capital for associated companies		-	-	-	-	-	-	-	-	-	-	-	55	55
Cash dividends	1d,2w,33	-	-	-	-	-	-	-	-	-	(9,943)	(9,943)	(5,485)	(15,428)
Proceeds from sales of treasury stock	25	-	576	1,969	-	-	-	-	-	-	-	2,545	-	2,545
Comprehensive income (loss) for the year	1d,2b,2f, 2q,2u,10	-	-	-	-	1	(13)	-	-	-	11,446	11,434	4,834	16,268
Balance, September 30, 2014		5,040	2,899	(3,836)	386	39	378	(508)	49	15,337	44,794	64,578	16,286	80,864

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PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Nine months Ended September 30, 2014 and 2013 (Unaudited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

		Attributable to owners of the parent company													
Descriptions	Notes	Capital stock	Additional paid-in capital	Treasury stock	Difference due to restructuring and other transactions of entities under common control	Effect of change in equity of associated companies	Unrealized holding gain (loss) on available-for-sale securities	Translation adjustment	Difference due to acquisition of non-controlling interest in subsidiaries	Other reserves	Retained earnings		Net	Non-controlling interests	Total equity
											Appropriated	Unappropriated			
Balance, December 31, 2012		5,040	1,073	(8,067)	478	386	42	271	(508)	49	15,337	37,440	51,541	15,437	66,978
Adjustment in relation to implementation of Statement of Financial Accounting Standards (PSAK) No. 38 (Revised 2012)	2d, 24	-	478	-	(478)	-	-	-	-	-	-	-	-	-	-
Balance, January 1, 2013- after adjustment		5,040	1,551	(8,067)	-	386	42	271	(508)	49	15,337	37,440	51,541	15,437	66,978
Paid in capital for associated companies		-	-	-	-	-	-	-	-	-	-	-	-	32	32
Business acquisition		-	-	-	-	-	-	-	-	3	-	-	3	30	33
Cash dividends	1d,2w	-	-	-	-	-	-	-	-	-	-	(8,357)	(8,357)	(4,685)	(13,042)
Proceeds from sales of treasury stock	25	-	752	2,262	-	-	-	-	-	-	-	-	3,014	-	3,014
Comprehensive income (loss) for the year	1d,2b,2f, 2q,2u,10	-	-	-	-	-	1	96	-	-	-	11,057	11,154	4,571	15,725
Balance, September 30, 2013		5,040	2,303	(5,805)	-	386	43	367	(508)	52	15,337	40,140	57,355	15,385	72,740

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PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Nine months Ended September 30, 2014 and 2013 (unaudited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from:			
Customers		59,361	55,621
Other operators		3,690	3,772
Total cash receipts from revenues		63,051	59,393
Advance receipts from customers		1,118	61
Interest income received		924	578
Cash receipts others - net		604	-
Cash payments for expenses		(24,342)	(23,988)
Cash payments to employees		(7,381)	(7,462)
Payments for income taxes		(5,317)	(5,367)
Payments for interest costs		(1,293)	(1,094)
Net cash provided by operating activities		27,364	22,121
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from settlement of time deposit		6,200	3,924
Proceeds from sale of property and equipment	11	154	55
Increase (decrease) in advances and other non current assets	12	126	(286)
Proceeds from insurance claims	11	62	-
Divestation of associated company	3	-	153
Acquisition of property and equipment	11	(17,446)	(8,806)
Increase in advances for purchases of property and equipment	12	(1,774)	(353)
Increase in longterm investment	10	(1,431)	83
Placement in time deposit and assets available for sale	5	(909)	-
Acquisition of intangible assets	13	(608)	(567)
Payment of acquisition, net of cash acquired	3	(100)	(12)
Net cash used in investing activities		(15,726)	(5,809)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank loans	21	5,982	2,131
Proceeds from short-term bank loans	17	3,080	416
Proceeds from sale of treasury stock	25	2,546	2,409
Capital contribution of non-controlling interests in associated companies		55	-
Proceeds from promissory notes	20	21	21
Cash dividends paid to the Company's stockholder	33	(9,943)	(8,353)
Cash dividends paid to non-controlling interests of subsidiaries		(5,485)	(4,685)
Repayments of two-step loans and bank loans	19,21	(3,119)	(3,823)
Repayments of short-term bank loans	17	(909)	(102)
Payments of obligations under finance leases	11	(514)	(237)
Repayments of promissory notes	20	(213)	(302)
Repayments of medium-term notes	20	-	(8)
Net cash used in financing activities		(8,499)	(12,533)
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,139	3,779
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(1)	765
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4	14,696	13,118
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4	17,834	17,662

The accompanying notes to the consolidated financial statements form an integral part of these consolidated financial statements taken as a whole.

PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of September 30, 2014 and the for the Nine months Period Then Ended (unaudited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

1. GENERAL

a. Establishment and general information

Perusahaan Perseroan (Persero) PT Telekomunikasi Indonesia Tbk (the "Company") was originally part of "*Post en Telegraafdienst*", which was established and operated commercially in 1884 under the framework of Decree No. 7 dated March 27, 1884 of the Governor General of the Dutch Indies and was published in State Gazette No. 52 dated April 3, 1884.

In 1991, the status of the Company was changed into a state-owned limited liability corporation ("Persero") based on Government Regulation No. 25/1991. The ultimate parent of the Company is the Government of the Republic of Indonesia (the "Government") (Notes 1c and 23).

The Company was established based on notarial deed No. 128 dated September 24, 1991 of Imas Fatimah, S.H. Its deed of establishment was approved by the Ministry of Justice of the Republic of Indonesia in its Decision Letter No. C2-6870.HT.01.01.Th.1991 dated November 19, 1991 and was published in State Gazette No. 5 dated January 17, 1992, Supplement No. 210. The Articles of Association has been amended several times, the latest amendment of which was about, among others, the change of capital structure through the Company's 5-for-1 stock split whereby each share with par value of Rp250 would be split into Rp50 per share, and the Partnership and Community Development Programme (PKBL) was excluded from the Work Plan and Company Budgets, based on notarial deed No. 11 dated May 8, 2013 of Ashoya Ratam, S.H., MKn. The latest amendment was accepted and approved by the Ministry of Law and Human Rights of the Republic of Indonesia ("MoLHR") in its Letter No. AHU-AH.01.10-22500 dated June 7, 2013 and was published in State Gazette of the Republic of Indonesia No. 26 dated April 1, 2014, Supplement of the Republic of Indonesia No. 2990/L.

In accordance with Article 3 of the Company's Articles of Association, the scope of its activities is to provide telecommunication network and services and informatics, and to optimize the Company's resources in accordance with prevailing regulations. To achieve this objective, the Company is involved in the following activities:

a. Main business:

- i. Planning, building, providing, developing, operating, marketing or selling, leasing and maintaining telecommunications and information networks in accordance with prevailing regulations.
- ii. Planning, developing, providing, marketing or selling and improving telecommunications and information services in accordance with prevailing regulations.

b. Supporting business:

- i. Providing payment transactions and money transferring services through telecommunications and information networks.
- ii. Performing activities and other undertakings in connection with the optimization of the Company's resources, which, among others, include the utilization of the Company's property and equipment and moving assets, information systems, education and training, and repairs and maintenance facilities.

The Company's head office is located at Jalan Japati No. 1, Bandung, West Java.

The Company was granted several telecommunications licenses by the government of the Republic of Indonesia which are valid for an unlimited period of time as long as the Company complies with prevailing laws and telecommunications regulations and fulfills the obligation stated in those licenses. For every license, an evaluation is performed annually and an overall evaluation is performed every 5 (five) years.

PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of September 30, 2014 and for the Nine months Period Then Ended (unaudited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

1. GENERAL (continued)

a. Establishment and general information (continued)

The Company is obliged to submit reports of services annually to the Indonesian Directorate General of Post and Informatics ("DGPI"), which replaced the previous Indonesian Directorate General of Post and Telecommunications ("DGPT"). The reports comprise information such as network development progress, service quality standard achievement, total customers, license payment and universal service contribution, while for internet telephone services for public purpose ("ITKP"), Internet Interconnection Service, and Internet Access Service, there is additional information required such as operational performance, customer segmentation, traffic, and gross revenue.

Details of these licenses are as follows:

License	License No.	Type of services	Grant date/latest renewal date
License to operate local, fixed line and basic telephone services network	381/KEP/M.KOMINFO/10/2010	Local fixed line and basic telephone services network	October 28, 2010
License to operate fixed domestic long distance and basic telephone services network	382/KEP/M.KOMINFO/10/2010	Fixed domestic long distance and basic telephone services network	October 28, 2010
License to operate fixed international and basic telephone services network	383/KEP/M.KOMINFO/10/2010	Fixed international and basic telephone services network	October 28, 2010
License to operate fixed closed network	398/KEP/M.KOMINFO/11/2010	Fixed closed network	November 12, 2010
License to operate internet telephone services for public purpose	384/KEP/DJPT/M.KOMINFO/11/2010	ITKP	November 29, 2010
License to operate as internet service provider	83/KEP/DJPPI/KOMINFO/4/2011	Internet service provider	April 7, 2011
License to operate data communication system services	169/KEP/DJPPI/KOMINFO/6/2011	Data communication system services	June 6, 2011
License to operate packet switched based local fixed line network	331/KEP/M.KOMINFO/07/2011	Packet switched based local fixed line network	July 27, 2011
License to operate network access point	331/KEP/M.KOMINFO/09/2013	Network Access Point ("NAP")	September 24, 2013

PERUSAHAAN PERSEROAN (PERSERO)
PT TELEKOMUNIKASI INDONESIA Tbk AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of September 30, 2014 and for the Nine months Period Then Ended (unaudited)
(Figures in tables are expressed in billions of rupiah, unless otherwise stated)

1. GENERAL (continued)

b. Company's Board of Commissioners, Board of Directors, Audit Committee, Corporate Secretary and employees

1. Boards of Commissioners and Directors

Based on resolutions made at the Annual General Meeting ("AGM") of Stockholders of the Company held on May 8, 2013 as covered by notarial deed No. 11 of Ashoya Ratam, S.H., MKn and the AGM of Stockholders of the Company held on April 4, 2014 as covered by notarial deed No. 4 of Ashoya Ratam, S.H., MKn., the composition of the Company's Boards of Commissioners and Directors as of September 30, 2014 and December 31, 2013, respectively, was as follows:

	September 30, 2014	December 31, 2013*
President Commissioner	Jusman Syafii Djamal	Jusman Syafii Djamal
Commissioner	Parikesit Suprpto	Parikesit Suprpto
Commissioner	Hadiyanto	Hadiyanto
Commissioner	Imam Apriyanto Putro	Gatot Trihargo
Independent Commissioner	Virano Gazi Nasution	Virano Gazi Nasution
Independent Commissioner	Johnny Swandi Sjam	Johnny Swandi Sjam
President Director	Arief Yahya	Arief Yahya
Director of Finance	Honesti Basyir	Honesti Basyir
Director of Innovation and Strategic Portfolio	Indra Utoyo	Indra Utoyo
Director of Enterprise and Business Service	Muhamad Awaluddin	Muhamad Awaluddin
Director of Wholesale and International Services	Ririek Adriansyah	Ririek Adriansyah
Director of Human Capital Management	Priyantono Rudito	Priyantono Rudito
Director of Network, Information Technology and Solution	Rizkan Chandra	Rizkan Chandra
Director of Consumer Services	Sukardi Silalahi	Sukardi Silalahi

* The change of Director's title is based on Director's Regulation No.202.11/r.00/HK.200/COP-B0400000/2013 dated June 25, 2013 and Director's Decree No. SK.2287/PS320/HCC-10/2013 dated June 28, 2013.

2. Audit Committee and Corporate Secretary

The composition of the Company's Audit Committee and the Corporate Secretary as of September 30, 2014 and December 31, 2013, were as follows:

	September 30, 2014*	December 31, 2013
Chair	Johnny Swandi Sjam	Johnny Swandi Sjam
Secretary	Tjatur Purwadi	Agus Yulianto
Member	Parikesit Suprpto	Parikesit Suprpto
Member	Agus Yulianto	Sahat Pardede
Member	Virano Gazi Nasution	Virano Gazi Nasution
Corporate Secretary	Honesti Basyir	Honesti Basyir

* The change of Audit Committee is based on Commissioner Regulation No.05/KEP/DK/2014 dated March 25, 2014.

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1. GENERAL (continued)

b. Company's Board of Commissioners, Board of Directors, Audit Committee, Corporate Secretary and employees

3. Employees

As of September 30, 2014 and December 31, 2013, the Company and subsidiaries had 25,093 employees and 25,011 employees (unaudited), respectively.

c. Public offering of securities of the Company

The Company's shares prior to its Initial Public Offering ("IPO") totalled 8,400,000,000, consisting of 8,399,999,999 Series B shares and 1 Series A Dwiwarna share, and were 100%-owned by the Government of the Republic of Indonesia (the "Government"). On November 14, 1995, 933,333,000 new Series B shares and 233,334,000 Series B shares owned by the Government were offered to the public through an IPO and listed on the Indonesia Stock Exchange ("IDX") (previously the Jakarta Stock Exchange and the Surabaya Stock Exchange) and 700,000,000 Series B shares owned by the Government were offered to the public and listed on the New York Stock Exchange ("NYSE") and the London Stock Exchange ("LSE"), in the form of American Depositary Shares ("ADS"). There were 35,000,000 ADS and each ADS represented 20 Series B shares at that time.

In December 1996, the Government had a block sale of its 388,000,000 Series B shares, and in 1997, distributed 2,670,300 Series B shares as incentive to the Company's stockholders who did not sell their shares within one year from the date of the IPO. In May 1999, the Government further sold 898,000,000 Series B shares.

To comply with Law No. 1/1995 on Limited Liability Companies, at the the Annual General Meeting ("AGM") of Stockholders of the Company on April 16, 1999, the Company's stockholders resolved to increase the Company's issued share capital by the distribution of 746,666,640 bonus shares through the capitalization of certain additional paid-in capital, which were made to the Company's stockholders in August 1999. On August 16, 2007, Law No. 1/1995 on Limited Liability Companies was amended by the issuance of Law No. 40/2007 on Limited Liability Companies which became effective on the same date. Law No. 40/2007 has no effect on the public offering of shares of the Company. The Company has complied with Law No. 40/2007.

In December 2001, the Government had another block sale of 1,200,000,000 shares or 11.9% of the total outstanding Series B shares. In July 2002, the Government further sold a block of 312,000,000 shares or 3.1% of the total outstanding Series B shares.

At the AGM of Stockholders of the Company held on July 30, 2004, the minutes of which are covered by notarial deed No. 26 of A. Partomuan Pohan, S.H., LLM., the Company's stockholders approved the Company's 2-for-1 stock split for Series A Dwiwarna and Series B share. The Series A Dwiwarna share with par value of Rp500 per share was split into 1 Series A Dwiwarna share with par value of Rp250 per share and 1 Series B share with par value of Rp250 per share. The stock split resulted in an increase of the Company's authorized capital stock from 1 Series A Dwiwarna share and 39,999,999,999 Series B shares to 1 Series A Dwiwarna share and 79,999,999,999 Series B shares, and the issued capital stock from 1 Series A Dwiwarna share and 10,079,999,639 Series B shares to 1 Series A Dwiwarna share and 20,159,999,279 Series B shares. After the stock split, each ADS represented 40 Series B shares.

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1. GENERAL (continued)

c. Public offering of securities of the Company (continued)

During the Extraordinary General Meeting ("EGM") held on December 21, 2005 and the AGM held on June 29, 2007, June 20, 2008, and May 19, 2011, the Company's stockholders approved phase I, II, III and IV plan, respectively, of the Company's program to repurchase its issued Series B shares (Note 25).

During the period December 21, 2005 to June 20, 2007, the Company had bought back 211,290,500 shares from the public (stock repurchase program phase I). On July 30, 2013, the Company has sold all such shares (Note 25).

On April 19, 2013, in the AGM held on April 19, 2013 as covered by notarial deed No. 38 of Ashoya Ratam, S.H., MKn., dated April 19, 2013 the stockholders approved the changes to the Company's plan on the treasury stock acquired under phase III (Notes 23 and 25).

At the AGM held on April 19, 2013, the minutes of which are covered by notarial deed No. 38 of Ashoya Ratam, S.H., MKn., dated April 19, 2013 the Company's stockholders approved the Company's 5-for-1 stock split for Series A Dwiwarna and Series B shares. Series A Dwiwarna share with par value of Rp250 per share was split into 1 Series A Dwiwarna share with par value of Rp50 per share and 4 Series B shares with par value Rp50 per share. The stock split resulted in an increase of the Company's authorized capital stock from 1 Series A Dwiwarna and 79,999,999,999 Series B shares to 1 Series A Dwiwarna and 399,999,999,999 Series B shares, and the issued capital stock from 1 Series A Dwiwarna and 20,159,999,279 Series B shares to 1 Series A Dwiwarna and 100,799,996,399 Series B shares. After the stock split, each ADS represented 200 Series B shares (Notes 23 and 25).

On May 16 and June 5, 2014, the company has deregistered on Tokyo Stock Exchange and delisted on the LSE.

On June 13, 2014, the Company has resold 215,000,000 (equal to 1,075,000,000 shares after the stock split) for the repurchase of shares of treasury stock phase II (Note 25).

As of September 30, 2014, all of the Company's Series B shares are listed on the IDX and 47,938,170 ADS shares are listed on the NYSE (Note 23).

As of September 30, 2014, the Company's outstanding rupiah bonds represents the second Rupiah bonds issued on June 25, 2010 with a nominal amount of Rp1,005 billion for a five-year period and Rp1,995 billion for a ten-year period for Series A and Series B, respectively, are listed on the IDX (Note 20a).

d. Subsidiaries

As of September 30, 2014 and December 31, 2013, the Company has consolidated the following directly or indirectly owned subsidiaries (Notes 2b and 2d):

(i) Direct subsidiaries:

Subsidiary/place of incorporation	Nature of business/ date of incorporation or acquisition by the Company	Date of start of commercial operations	Percentage of ownership interest		Total assets before elimination	
			September 30 2014	December 31 2013	September 30 2014	December 31, 2013
PT Telekomunikasi Selular ("Telkomsel") Jakarta, Indonesia	Telecommunication provides telecommunication facilities and mobile cellular services using Global Systems for Mobile Communication ("GSM") technology/ May 26, 1995	1995	65	65	74,003	73,336

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1. GENERAL (continued)

d. Subsidiaries (continued)

As of September 30, 2014 and December 31, 2013, the Company has consolidated the following directly or indirectly owned subsidiaries (Notes 2b and 2d):

(i) Direct subsidiaries:

Subsidiary/place of incorporation	Nature of business/ date of incorporation or acquisition by the Company	Date of start of commercial operations	Percentage of ownership interest		Total assets before elimination	
			September 30 2014	December 31 2013	September 30 2014	December 31, 2013
PT Dayamitra Telekomunikasi ("Dayamitra"), Jakarta, Indonesia	Telecommunication/ May 17, 2001	1995	100	100	8,911	7,363
PT Multimedia Nusantara ("Metra"), Jakarta, Indonesia	Multimedia and line telecommunication services/May 9, 2003	1998	100	100	6,088	5,297
PT Telekomunikasi Indonesia International ("TII"), Jakarta, Indonesia	Telecommunication/ July 31, 2003	1995	100	100	4,586	3,804
PT Graha Sarana Duta ("GSD"), Jakarta, Indonesia	Leasing of offices and providing building management and maintenance services, civil consultant and developer/ April 25, 2001	1982	99.99	99.99	2,007	1,574
PT Pramindo Ikat Nusantara ("Pramindo"), Jakarta, Indonesia	Telecommunication construction and services/ August 15, 2002	1995	100	100	3,069	1,365
PT Telkom Akses ("Telkom Akses"), Jakarta, Indonesia	Construction, service and trade in the field of telecommunication/ November 26, 2012	2013	100	100	2,029	946
PT Patra Telekomunikasi Indonesia ("Patrakom") Jakarta, Indonesia*	Telecommunication provides fixed line communication system/ September 28, 1995	1996	100	100	347	255
PT Infrastruktur Telekomunikasi Indonesia ("Telkom Infratel") Jakarta, Indonesia	Construction, service and trade in the field of telecommunication/ January 16, 2014	2014	100	-	333	-
PT Napsindo Primatel Internasional ("Napsindo"), Jakarta, Indonesia	Telecommunication - provides Network Access Point (NAP), Voice Over Data (VOD) and other related services/ December 29, 1998	1999; ceased operations on January 13, 2006	60	60	5	5

*On September, 25 and November, 29, 2013, the Company acquired additional interest of 40% and 20%, respectively, of Patrakom (Note3).

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1. GENERAL (continued)

d. Subsidiaries (continued)

(ii) Indirect subsidiaries:

Subsidiary/place of incorporation	Nature of business/ date of incorporation or acquisition by the Company	Date of start of commercial operations	Percentage of ownership interest		Total assets before elimination	
			September 30 2014	December 31 2013	September 30 2014	December 31 2013
PT Sigma Cipta Caraka ("Sigma"), Tangerang, Indonesia	Information technology service - system implementation and integration service, outsourcing and software license maintenance/ May 1, 1987	1988	100	100	2,186	1,890
PT Infomedia Nusantara ("Infomedia"), Jakarta, Indonesia	Data and information service - provides telecommunication information services and other information services in the form of print and electronic media and call center services/ September 22, 1999	1984	100	100	1,314	1,223
Telekomunikasi Indonesia International Pte. Ltd., Singapore	Telecommunication/ December 6, 2007	2008	100	100	948	785
PT Metra Digital Media ("MDM"), Jakarta, Indonesia	Telecommunication information services/ January 8, 2013	2013	100	100	859	692
Telekomunikasi Indonesia International ("TL") S.A., Timor Leste	Telecommunication/ September 11, 2012	2012	100	100	825	803
PT Telkom Landmark Tower ("TLT"), Jakarta, Indonesia	Service for property development and management/ February 1, 2012	2012	55	55	666	493
Telekomunikasi Indonesia International Ltd., Hong Kong	Telecommunication/ December 8, 2010	2010	100	100	208	90
PT Finnet Indonesia ("Finnet"), Jakarta, Indonesia	Banking data and communication/ October 31, 2005	2006	60	60	184	203
Telekomunikasi Indonesia Internasional Pty Ltd. Australia ("Telkom Australia")	Telecommunication/ January 9, 2013	2013	100	100	174	7
PT Administrasi Medika ("Ad Medika"), Jakarta, Indonesia	Health insurance administration services/ February 25, 2010	2010	75	75	137	127
PT Metra Plasa ("Metra Plasa"), Jakarta, Indonesia	Website services/ April 9, 2012	2012	60	60	68	86
PT Metra-Net ("Metra-Net"), Jakarta, Indonesia	Multimedia portal service/April 17, 2009	2009	100	100	40	40
PT Graha Yasa Selaras ("GYS"), Jakarta, Indonesia	Tourism service/ April 27, 2012	2013	51	51	45	32

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1. GENERAL (continued)

d. Subsidiaries (continued)

(ii) Indirect subsidiaries:(continued)

Subsidiary/place of incorporation	Nature of business/ date of incorporation or acquisition by the Company	Date of start of commercial operations	Percentage of ownership interest		Total assets before elimination	
			September 30 2014	December 31 2013	September 30 2014	December 31 2013
PT Pojok Celebes Mandiri ("Pointer") Jakarta, Indonesia	Tour agent/bureau services/ August 30, 2013	2008	51	51	8	14
PT Satelit Multimedia Indonesia ("SMI") Jakarta, Indonesia	Commerce and providing network services, telecommunication satellite, and multimedia services/ March 25, 2013	2013	99.99	99.99	6	6
PT Metra Digital Investama ("MDI") Jakarta, Indonesia*	Trade service, construction leveransir/supplier, services, etc./ January 8, 2013	2013	99.83	99.83	59	0
Telekomunikasi Selular Finance Limited ("TSFL"), Mauritius**	Finance - established to raise funds for the development of Telkomsel's business through the issuance of debenture stock, bonds, mortgages or any other securities/ April 22, 2002	2002	-	65	-	0
PT Metra TV ("Metra TV") Jakarta, Indonesia	Pay TV services/ January 8, 2013	2013	99.83	99.83	-	-
Telekomunikasi Indonesia International (USA) Inc. USA	Telecommunication/ December 11, 2013	2014	100	100	89	-
PT Nusantara Sukses Sarana ("NSS") Jakarta, Indonesia	Jasa pengelolaan gedung dan hotel/ 27 Agustus 2014	2014	99,99	-	13	-
PT Nusantara Sukses Realti ("NSR") Jakarta, Indonesia	Trade and service / 27 Agustus 2014	2014	99,99	-	13	-
PT Nusantara Sukses Investasi ("NSI") Jakarta, Indonesia	Trade and service / 27 Agustus 2014	2014	99,99	-	13	-

* On June 5, 2014, PT Metra Media ("MM") changed its name to PT Metra Digital Investama ("MDI") (Note 1.d (a))

** Based on General Notice of Direction of Insolvency Service of Mauritius No.844 of 2014, effective March 20, 2014, TSFL was liquidated.

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1. GENERAL (continued)

d. Subsidiaries (continued)

(a) Metra

On January 8, 2013, based on notarial deed No. 02 dated January 8, 2013 of Utiek R. Abdurachman, S.H., MLI., MKn., which was approved by the MoLHR through its Letter No. AHU-03276.AH.01.01/2013 dated January 29, 2013, Metra established a subsidiary, PT Metra Media ("MM"), and obtained 99.83% ownership. MM is engaged in providing trade, construction, advertising and other services.

On January 8, 2013, based on notarial deed No. 03 dated January 8, 2013 of Utiek R. Abdurachman, SH., MLI., MKn., which was approved by the MoLHR through its Letter No. AHU-03261.AH.01.01/2013 dated January 29, 2013, Metra established a subsidiary, PT Metra TV ("Metra TV"), and obtained 99.83% ownership. Metra TV is engaged in providing subscription-broadcasting services.

On January 22, 2013, based on notarial deed No. 28 dated January 22, 2013 of N.M. Dipo Nusantara Pua Upa, S.H., MKn., which was approved by the MoLHR through its Letter No. AHU-03084.AH.01.01/2013 dated January 28, 2013; Metra established a subsidiary, PT Metra Digital Media ("MDM"), and obtained 99.83% ownership. MDM is engaged in providing telecommunication information and other services.

On March 25, 2013, based on notarial deed No. 38 dated March 25, 2013 of N.M. Dipo Nusantara Pua Upa, S.H., MKn., which was approved by the MoLHR in its Letter No. AHU-20566.AH.01.01/2013 dated April 17, 2013, Metra established PT Satelit Multimedia Indonesia ("SMI") and obtained 99.99% ownership. SMI is engaged in commerce and providing network services, telecommunication, satellite, and multimedia devices.

On August 16, 2013, based on notarial deed No. 5 dated August 16, 2013 of N.M. Dipo Nusantara Pua Upa, S.H., MKn. which was approved by the MoLHR in its Letter No. AHU-0081886.AH.01.09/2013 dated August 30, 2013, Metra changed the ownership of PT Pojok Celebes Mandiri ("Pointer") after the signing of Sales and Purchase of Shares Agreement dated June 12, 2013 regarding the purchase of Pointer's shares of 2,550 shares equivalent to Rp255 million or 51% ownership.

On Mei 14, 2014, based on the Circular Resolution of the Stockholders of Indonusa as covered by notarial deed No. 57 dated April 23, 2014 of Budi Santoso Isbandi, S.H., which was approved by the MoLHR through its Letter No. AHU-02078.40.20.2014 dated April 29, 2014, Indonusa's stockholders approved an increase in its issued and paid capital by amounting to Rp80 billion. The Company do not execute its right to take the new shares issued and give it to Metra, results in Metra's ownership in indonusa increased to 2,61%.

On June 5, 2014, based on the Circular Resolution of the Stockholders of MM as covered by notarial deed No. 18 of N.M. Dipo Nusantara, S.H., M.Kn., which was approved by the MoLHR through its Letter No. AHU-03769.40.20.2014 dated June 10, 2014, MM's stockholders approved a change of name for PT Metra Media ("MM") into PT Metra Digital Investama ("MDI").

On June 16, 2014, based on the Circular Resolution of the Stockholders of Metra as covered by notarial deed No. 50 dated December 11, 2013 of N.M. Dipo Nusantara, S.H., M.Kn., which has been approved by the MoLHR through its Letter No. AHU-A.01.10-04116 dated February 11, 2014, Metra's stockholders approved an increase in its paid-in capital by 201.872.348 shares, amounting to Rp2 trillion taken by each of the shareholders proportionally.

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1. GENERAL (continued)

d. Subsidiaries (continued)

(a) Metra (continued)

On August 29, 2014, Metra signed Shareholders Agreement with Telstra Holding Singapore Pte. Ltd to established joint venture company under the name PT TeltraNet Aplikasi Solusi ("Teltranet"). Metra obtained 51% ownership in TeltraNet for USD4.29 million of total USD8.43 million. Teltranet is engaged in the business of communication system service (Note 47b).

(b) TII

On January 9, 2013, based on the Circular Resolution of the Stockholders of TII dated January 9, 2013, as covered by notarial deed No. 04 dated February 6, 2013 of Siti Safarjah, S.H., TII's stockholders agreed to establish a subsidiary, Telekomunikasi Indonesia Internasional Australia Pty. Ltd. ("Telkom Australia"). Telkom Australia is engaged in providing telecommunication services and IT-based services.

On May 13, 2013, TII through Telekomunikasi Indonesia International (Hong Kong) Ltd. established a subsidiary in Macau under the name Telkom Macau Ltd, ("Telkom Macau"). Telkom Macau is engaged in providing telecommunication services.

On June 3, 2013, TII through Telekomunikasi Indonesia International (Hong Kong) Ltd. established a subsidiary in Taiwan under the name Telkom Macau Ltd, ("Telkom Taiwan"). Telkom Taiwan is engaged in providing telecommunication services.

On December 11, 2013, TII established a subsidiary in the United States of America, Telekomunikasi Indonesia International (USA), Inc. Ltd. ("Telkom USA"). Telkom USA will be engaged in providing telecommunication services. As of the release date of this consolidated financial statements, Telkom USA had no financial and operational activities yet.

(c) Sigma

On January 17, 2013, Sigma signed a shares sale and transfer and loan assignment agreement with Landeskreditbank Baden-Wuttemberg-Forderbank ("L-Bank"), and Step Stuttgarter Engineering Park GmbH. ("STEP") as stockholders of PT German Center Indonesia ("GCI"). Based on the agreement, Sigma agreed to buy all the shares of GCI owned by L-Bank and STEP and take over L-Bank's stockholders' loan at a purchase price of US\$17.8 million (equivalent to Rp170 billion). The closing of this transaction was held on April 30, 2013 (Note 3a).

On June 16, 2014, based on the Circular Resolution of the Stockholders of Sigma as covered by notarial deed No. 29 dated March 15, 2013 of Utiek Abdurachman, S.H., Mli, M.Kn., which was approved by the MoLHR through its Letter No. AHU-05713.40.22.2014 dated April 30, 2014, Sigma's stockholders agreed to increase in its authorized capital amounting to Rp1.1 trillion and increase in its issued capital into Rp548 billion

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1. GENERAL (continued)

d. Subsidiaries (continued)

(d) Infomedia

Based on notarial deed No. 04 dated March 7, 2013 of Sjaaf De Carya Siregar, S.H., Infomedia's stockholders agreed to distribute dividend which was returned as the increment of issued and fully paid capital amounting to Rp44 billion.

Based on notarial deed No. 18 dated July 24, 2013 of Zulkifli Harahap, S.H., Infomedia's stockholders approved an increase in its paid-in capital by 88,529,790 shares, amounting to Rp44 billion.

On November 20, 2013, Infomedia had an agreement on business transfer of its Telephone Directory Management business to MD Media.

(e) Dayamitra

On April 5, 2013, based on notarial deed No.002 dated April 5, 2013 of Andi Fatma Hasiah, S.H., M.Kn., Dayamitra's stockholders agreed to distribute dividend which was returned as increment of issued and fully paid capital amounting to Rp31 billion.

(f) Telkom Infratel

On January 16, 2014 the Company established a wholly owned subsidiary under the name PT Telkom Infrastruktur Telekomunikasi Indonesia ("Telkom Infratel") which has been approved by the MoLHR through its Decision Letter No. AHU-03196.AH.01.01 - Year 2014 Dated on January 16, 2014, the Company established a wholly owned subsidiary. Telkom Infratel is engaged in providing construction service and trade in the field of telecommunication.

(g) Telkomsel

On June 27, 2014, the Company signed a Conditional Business Transfer Agreement with Telkomsel for transferring of Flexi target business. In order to maximize its business opportunities and group synergy, the Company intends to restructure the Flexi business unit by terminating the fixed wireless telecommunication network services and transfer it to Telkomsel.

Based on Decision Letter No. 934 dated September 26, 2014, the MoCI determined transfer of frequency usage license for bandwidths of 800 Megahertz ("MHz") from the Company to Telkomsel (Note 41.c.ii)

(h) Pramindo

On May 19, 2014, Pramindo signed a Conditional Shares Sales and Purchase Agreement with PT Upaya Cipta Sejahtera, PT Esa Utama Inti Persada, PT Sinarmas Sekuritas, and PT Tiphone Mobile Indonesia, Tbk ("Tiphone"). Subsequently on September 11, 2014, based on notarial deed No. 118 dated September 11, 2014 of Jimmy Tanal, S.H., M.H., Pramindo acquired 25% ownership in Tiphone at a purchase price of Rp1,394 billion (Note 10)

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1. GENERAL (continued)

d. Subsidiaries (continued)

(i) GSD

On August 27, 2014, based on notarial deed No. 21 dated August 27, 2014 of Zulkifli Harahap, S.H., which was approved by the MoLHR through its Letter No. AHU-22722. 40.10.2014 year 2014 dated September 1, 2014, GSD established a subsidiary, PT Nusantara Sukses Sarana ("NSS"). NSS is engaged in the business of service. As of the release date of this consolidated financial statement, NSS had no operational activities yet.

On August 27, 2014, based on notarial deed No. 22 dated August 27, 2014 of Zulkifli Harahap, S.H., which was approved by the MoLHR through its Letter No. AHU-22723. 40.10.2014 year 2014 dated September 1, 2014, GSD established a subsidiary, PT Nusantara Sukses Realti ("NSR"). NSR is engaged in the business of service and trading. As of the release date of this consolidated financial statement, NSR had no operational activities yet.

On August 27, 2014, based on notarial deed No. 23 dated August 27, 2014 of Zulkifli Harahap, S.H., which was approved by the MoLHR through its Letter No. AHU-22724. 40.10.2014 year 2014 dated September 1, 2014, GSD established a subsidiary, PT Nusantara Sukses Investasi ("NSI"). NSI is engaged in the business of service and trading. As of the release date of this consolidated financial statement, NSI had no operational activities yet.

e. Authorization for the issuance of the consolidated financial statements

The consolidated financial statements were prepared and approved to be issued by the Board of Directors on October 24, 2014.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company and subsidiaries have been prepared in accordance with Financial Accounting Standards ("Standar Akuntansi Keuangan" or "SAK") including Indonesian Financial Accounting Standards ("Pernyataan Standar Akuntansi Keuangan" or "PSAK") and Interpretation of Financial Accounting Standards ("Interpretasi Standar Akuntansi Keuangan" or "ISAK") in Indonesia published by Financial Accounting Standard Board of Indonesian Institute of Accountants and Regulation No. VIII.G.7 of the Capital Market and Financial Institution Supervisory Agency ("Bapepam-LK") regarding the Presentation and Disclosures of Financial Statements of Issuers or Public Companies, enclosed in the decision letter KEP- 347/BL/2012.

a. Basis of preparation of financial statements

The consolidated financial statements, except for the consolidated statements of cash flows, are prepared on the accrual basis. The measurement basis used is historical cost, except for certain accounts, which are measured using the basis mentioned in the relevant notes herein.

The consolidated statements of cash flows are prepared using the direct method and present the changes in cash and cash equivalents from operating, investing and financing activities.

Figures in the consolidated financial statements are presented and rounded to billions of Indonesian rupiah ("Rp"), unless otherwise stated.

Changes to the statements of financial accounting standards (PSAKs) and interpretations of statements of financial accounting standards ("Interpretasi Standar Akuntansi Keuangan" or "ISAKs")

On January 1, 2014, the Company and subsidiaries adopted new and revised PSAKs, which were effective in 2014. Changes to the Company and subsidiaries' accounting policies have been made as required in accordance with the transitional provisions in the respective standards and interpretations.

The adoption of these new/revised standards and interpretations had no material effect to the consolidated financial statements:

- ISAK 27, "Transfer of Assets from Customers"
- ISAK 28, "Extinguishing Financial Liabilities with Equity Instruments"

Several PSAKs and ISAKs have been issued by the Indonesian Financial Accounting Standards Board (DSAK) that are considered relevant to the financial reporting of the Company and its subsidiaries but are effective only for financial statements covering the periods beginning on or after either January 1, 2015.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a. Basis of preparation of financial statements (continued)

Effective beginning on or after January 1, 2015

- PSAK 1 (2013), "Presentation of Financial Statements", adopted from International Accounting Standards (IAS) 1
- PSAK 4 (2013), "Separate Financial Statements", adopted from IAS 4
- PSAK 15 (2013), "Investments in Associates and Joint Ventures", adopted from IAS 28
- PSAK 24 (2013), "Employee Benefits", adopted from IAS 19
- PSAK 46 (2014), "Income Tax", adopted from IAS 12
- PSAK 48 (2014), "Asset Impairment", adopted from IAS 36
- PSAK 50 (2014), "Financial Instrument: Presentation", adopted from IAS 32
- PSAK 55 (2014), "Financial Instrument: Measurement and Recognition", adopted from IAS 39
- PSAK 60 (2014), "Financial Instrument: Disclosure" adopted from IFRS 7"
- PSAK 65, "Consolidated Financial Statements", adopted from International Financial Reporting Standards (IFRS) 10
- PSAK 66, "Joint Arrangements", adopted from IFRS 11
- PSAK 67, "Disclosure of Interest in Other Entities", adopted from IFRS 12
- PSAK 68, "Fair Value Measurement", adopted from IFRS 13
- ISAK 26 (2014), "Revaluation of Embedded Derivatives", adopted from IFRIC 9

The Company is currently evaluating and has not yet determined the effects of these accounting standards and interpretations on the consolidated financial statements.

b. Principles of consolidation

The consolidated financial statements include the assets and liabilities of the Company and subsidiaries in which the Company, directly or indirectly has ownership of more than half of the voting power and has the ability to govern the financial and operating policies of the entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control, or the Company has the ability to control the entity, even though the ownership is less than or equal to half of the voting power. Subsidiaries are consolidated from the date on which effective control is obtained and are no longer consolidated from the date control ceases.

Non-controlling interest represents the portion of the profit and loss and net assets of the subsidiaries not attributable, directly or indirectly, to the Company. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests proportionally in accordance with their ownership in the subsidiaries. Non-controlling interests are presented under the equity section of the consolidated statement of financial position, separately from the owners of the Company's equity. In the consolidated statement of comprehensive income, total profit or loss and total comprehensive income that can be attributed to the owners of the Company and to the non-controlling interests are presented separately, and not presented as income or expense.

Intercompany balances and transactions have been eliminated in the consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Transactions with related parties

The Company and subsidiaries have transactions with related parties. The definition of related parties used is in accordance with the Bapepam-LK's Regulation No. VIII.G.7 regarding the Presentations and Disclosures of Financial Statements of Issuers or Public companies, enclosed in the decision letter No. KEP-347/BL/2012. The party which is considered as a related party is a person or entity that is related to the entity that is preparing its financial statements.

Under the Regulation of Bapepam-LK No.VIII.G.7 regarding the Presentations and Disclosures of Financial Statements of Issuers or Public companies, enclosed in the decision letter No.KEP-347/BL/2012, a government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government. Government in this context is the Minister of Finance or the Local Government, as the shareholder of the entity. Formerly, the Company and subsidiaries in its disclosure applied the definition of related party used based on PSAK 7 "Related Party".

Key management personnel are identified as the persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Company and subsidiaries. The related-party status extends to the key management of the subsidiaries to the extent they direct the operations of subsidiaries with minimal involvement from the Company's management.

d. Business combinations

Business combination is accounted for using the acquisition method. The consideration transferred is measured at fair value, which is the aggregate of the fair value of the assets transferred, liabilities incurred or assumed and the equity instruments issued in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred. The acquiree's identifiable assets and liabilities are recognized at their fair values at the acquisition date.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Business combinations (continued)

Goodwill arising on acquisition is recognized as an asset and measured at cost representing the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests in the acquiree's net identifiable assets acquired and liabilities assumed. For each business combination, non-controlling interest is measured at fair value or at the proportionate share of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

The excess of the fair value of identifiable assets acquired and the liabilities assumed at the date of acquisition over the aggregate fair value of consideration transferred and non-controlling interest in the acquiree at the acquisition date is a bargain purchase and recognized as gain in profit or loss at the acquisition date. Such gain is attributed to the acquirer.

When the determination of consideration from a business combination includes contingent consideration, it is measured at its fair value on acquisition date. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in profit or loss when adjustments are recorded outside the measurement period. Changes in the fair value of the contingent consideration that qualify as measurement-period adjustments are adjusted retrospectively, with corresponding adjustments made against goodwill. Measurement-period adjustments are adjustments that arise from additional information obtained during the measurement period, which cannot exceed one year from the acquisition date, about facts and circumstances that existed at the acquisition date.

In case of loss of control over a subsidiary, the Company:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary at the carrying amounts when it loses control;
- derecognizes the carrying amounts of any non-controlling interests of its former subsidiary on the date when it loses control;
- recognizes the fair value of the consideration received (if any) from the transaction, events, or condition that caused the loss of control;
- recognizes the fair value of any investment retained in the subsidiary at fair value on the date of loss of control;
- recognizes any surplus or deficit in profit or loss that is attributable to the Company.

In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in profit or loss.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Business combinations (continued)

Based on PSAK 38 (Revised 2012), "Common Control Business Combination", the transfer of assets, liabilities, shares or other ownership instruments among the companies under common control would not result in a gain or loss. Since the restructuring transaction between entities under common control does not result in a change of the economic substance of the ownership of assets, liabilities, shares or other instruments of ownership, which are exchanged, assets or liabilities transferred are recorded at book value using the pooling-of-interests method. In applying the pooling-of-interests method, the components of the financial statements for the period during which the restructuring occurred must be presented in such a manner as if the restructuring has occurred since the beginning of the earliest period presented. The excess of consideration paid or received over the carrying value of interest acquired, net of income tax, is directly recognized to equity and presented as "Additional Paid-in Capital" under the equity section of the consolidated statement of financial position.

At the initial application of PSAK 38 (Revised 2012), all balances of the Difference In Value of Restructuring Transactions of Entities under Common Control was reclassified to "Additional Paid-in Capital" in the consolidated statement of financial position.

e. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and in banks and all unrestricted time deposits with an original maturity of three months or less at the time of placement.

Time deposits with maturities of more than three months but not more than one year are presented as other current financial assets.

f. Investments in associated companies

Investments in companies where the Company and subsidiaries have 20% to 50% of the voting rights, and through which the Company and subsidiaries exert significant influence, but not control, over the financial and operating policies are accounted for using the equity method. Under this method, the Company and subsidiaries recognize their proportionate share in the income or loss of the associated companies from the date that significant influence commences until the date that significant influence ceases. When the Company and subsidiaries' share of loss exceeds the carrying amount of the investments in associated companies, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company and subsidiaries have incurred legal or constructive obligations or made payments on behalf of the associated companies.

Investment in a joint venture is accounted for using the equity method whereby the participation in a joint venture is initially recorded at cost and subsequently adjusted for changes that occur after the acquisition in the share of the venturer of the joint venture's net assets.

The Company and subsidiaries determine at each reporting date whether there is any objective evidence that the investments in the associated companies are impaired. If there is, the Company and subsidiaries calculate and recognize the amount of impairment as the difference between the recoverable amount of the investments in associated companies and their carrying value.

These assets are included in long-term investment in the consolidated statement of financial position.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Investments in associated companies (continued)

The functional currency of PT Pasifik Satelit Nusantara ("PSN") and PT Citra Sari Makmur ("CSM") is the United States dollar ("U.S. dollars") and the functional currency of Telin Malaysia is the Malaysian ringgit ("MYR"). For the purpose of reporting these investments using the equity method, the assets and liabilities of these companies as of the statement of financial position date are translated into Indonesian rupiah using the rate of exchange prevailing at that date, while revenues and expenses are translated into Indonesian rupiah at the average rates of exchange for the year. The resulting translation adjustments are reported as part of translation adjustment in the equity section of the consolidated statement of financial position.

g. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost, less provision for impairment. This provision for impairment is made based on management's evaluation of the collectibility of outstanding amounts. Receivables are written off in the year during which they are determined to be uncollectible.

h. Inventories

Inventories consist of components, which are subsequently expensed or transferred to property and equipment upon use. Components represent telephone terminals, cables, and other spare parts. Inventories also include Subscriber Identification Module ("SIM") cards, Removable User Identity Module ("RUIM") cards, handsets, set top box, wireless broadband modems, and blank prepaid vouchers, which are expensed upon sale.

The costs of inventories comprise of the purchase price, import duties, other taxes, transport, handling, and other costs directly attributable to their acquisition. Inventories are recognized at the lower of cost and net realizable value. Net realizable value is the estimate of selling price less the costs to sell.

Cost is determined using the weighted average method for components, SIM cards, RUIM cards, handsets, set top box, wireless broadband modem, and blank prepaid voucher.

The amounts of any write-down of inventories below cost to net realizable value and all losses of inventories are recognized as expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of general and administrative expenses in the year in which the reversal occurs.

Provision for obsolescence is primarily based on the estimated forecast of future usage of these items.

i. Prepaid expenses

Prepaid expenses are amortized over their future beneficial periods using the straight-line method.

j. Assets held for sale

Assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Assets that meet the criteria to be classified as held for sale are reclassified from property and equipment and depreciation on such assets is ceased.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Intangible assets

Intangible assets consist of goodwill arising from business acquisitions, license and software. Intangible assets are recognized if it is probable that the expected future economic benefits that are attributable to each asset will flow to the Company or subsidiaries, and the cost of the asset can be reliably measured.

Intangible assets are stated at cost less accumulated amortization and impairment, if any. Intangible assets are amortized over their useful lives. The Company and subsidiaries estimate the recoverable value of their intangible assets. When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to its estimated recoverable amount.

Intangible assets are amortized using the straight-line method, based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Software	3-20
License	3-20
Other intangible assets	1-30

Intangible assets are derecognized when no further economic benefits are expected, either from further use or from disposal. The difference between the carrying amount and the net proceeds received from disposal is recognized in the consolidated statement of comprehensive income.

l. Property and equipment - direct acquisitions

Property and equipment directly acquired are stated at costless accumulated depreciation and impairment losses.

The cost of an item of property and equipment includes: (a) purchase price, (b) any costs directly attributable to bringing the asset to its location and condition and (c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Property and equipment, except landrights, are depreciated using the straight-line method based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Buildings	15-40
Leasehold improvements	2-15
Switching equipment	3-15
Telegraph, telex and data communication equipment	5-15
Transmission installation and equipment	3-25
Satellite, earth station and equipment	3-20
Cable network	5-25
Power supply	3-20
Data processing equipment	3-20
Other telecommunications peripherals	5
Office equipment	2-5
Vehicles	4-8
Asset Customer Premise Equipment ("CPE")	10
Other equipment	2-5

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Property and equipment - direct acquisitions (continued)

The depreciation method, useful life and residual value of an asset are reviewed at least at each financial year-end and adjusted, if appropriate. The residual value of an asset is the estimated amount that the Company and subsidiaries would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The Company and subsidiaries periodically evaluate their property and equipment for impairment, whenever events and circumstances indicate that the carrying amount of the assets may not be recoverable. When the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down to its estimated recoverable amount, which is determined based on the higher of its fair value less cost to sell or value-in-use.

Property and equipment acquired in exchange for a non-monetary asset or for a combination of monetary and non-monetary assets are measured at fair value unless (i) the exchange transaction lacks commercial substance; or (ii) the fair value of neither the asset received nor the asset given up is reliably measurable.

Major spare parts and stand by equipment that are expected to be used for more than 12 months are recorded as part of property and equipment.

When assets are retired or otherwise disposed of, their cost and the related accumulated depreciation are derecognized from the consolidated statements of financial position and the resulting gains or losses on the disposal or sale of the property and equipment are recognized in the consolidated statement of comprehensive income.

Certain computer hardware can not be used without the availability of certain computer software. In such circumstance, the computer software is recorded as part of the computer hardware. If the computer software is independent from its computer hardware, it is recorded as part of intangible assets.

The cost of maintenance and repairs is charged to the consolidated statements of comprehensive income as incurred. Significant renewals and betterments are capitalized.

Property under construction is stated at cost until construction is completed, at which time it is reclassified to the specific property and equipment account to which it relates. During the construction period until the property is ready for its intended use or sale, borrowing costs, which include interest expense and foreign currency exchange differences incurred on loans obtained to finance the construction of the asset, as long as it meets the definition of a qualifying asset are capitalized in proportion to the average amount of accumulated expenditures during the period. Capitalization of borrowing cost ceases when the construction is completed and the asset is ready for its intended use.

Equipment temporarily unused is reclassified to equipment not used in operations and depreciated over its estimated useful life using the straight-line method.

m. Leases

In determining whether an arrangement is, or contains a lease, the Company and subsidiaries perform an evaluation over the substance of the arrangement. A lease is classified as a finance lease or operating lease based on the substance, not the form, of the contract. Finance lease is recognized if the lease transfers substantially all the risks and rewards incidental to the ownership of the leased asset.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Leases (continued)

Assets and liabilities under a finance lease are recognized in the consolidated statement of financial position at amounts equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments. Any initial direct costs of the Company and subsidiaries are added to the amount recognized as assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the year in which they are incurred.

Leased assets are depreciated using the same method and based on the useful lives as estimated for directly acquired property and equipment. However, if there is no reasonable certainty that the Company and subsidiaries will obtain ownership by the end of the lease term, the leased assets are fully depreciated over the shorter of the lease term and their economic useful lives.

Lease arrangements that do not meet the above criteria are accounted for as operating leases for which payments are charged as an expense on the straight-line basis over the lease period.

n. Deferred charges-land rights

Costs incurred to process the initial legal land rights are recognized as part of the property and equipment and are not amortized. Costs incurred to process the extension or renewal of legal land rights are deferred and amortized over the shorter of the term of the land rights or the economic life of the land.

o. Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if this period is longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method.

p. Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on obtaining loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facilities to which it relates.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Foreign currency translations

The functional currency and the recording currency of the Company and subsidiaries are both the Indonesian rupiah, except for the functional currency of Telekomunikasi Indonesia International Pte. Ltd., Hong Kong, Telekomunikasi Indonesia International Pte., Singapore, and Telekomunikasi Indonesia International S.A., Timor Leste whose accounting records are maintained in U.S. dollars. Transactions in foreign currencies are translated into Indonesian rupiah at the rates of exchange prevailing at transaction date. At the consolidated statement of financial position date, monetary assets and liabilities denominated in foreign currencies are translated into Indonesian rupiah based on the buy and sell rates quoted by Reuters prevailing at the consolidated statement of financial position date, as follows:

	September 30, 2014		December 31, 2013	
	Buy	Sell	Buy	Sell
United States dollar ("US\$") 1	12,180	12,190	12,160	12,180
Euro 1	15,424	15,439	16,744	16,774
Yen 1	111.17	111.27	115.67	115.87

The resulting foreign exchange gains or losses, realized and unrealized, are credited or charged to the consolidated statement of comprehensive income of the current year, except for foreign exchange differences incurred on borrowings during the construction of qualifying assets which are capitalized to the extent that the borrowings can be attributed to the construction of those qualifying assets (Note 2I).

r. Revenue and expense recognition

i. Fixed line telephone revenues

Revenues from fixed line installations, including incremental costs, are deferred and recognized as revenue and costs over the expected term of the customer relationships. Based on reviews of historical information and customer trends, the Company determined the expected term of the customer relationships in 2014 and 2013 to be 18 years, respectively. Revenues from usage charges are recognized as customers incur the charges. Monthly subscription charges are recognized as revenues when incurred by subscribers.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Revenue and expense recognition (continued)

ii. Cellular and fixed wireless telephone revenues

Revenues from postpaid service, which consist of usage and monthly charges, are recognized as follows:

- Airtime and charges for value added services are recognized based on usage by subscribers.
- Monthly subscription charges are recognized as revenues when incurred by subscribers.

Revenues from prepaid card subscribers, which consist of the sale of starter packs (also known as SIM cards in the case of cellular and RUIM in the case of fixed wireless telephone and start-up load vouchers) and pulse reload vouchers, are recognized as follows:

- Sales of SIM and RUIM cards are recognized as revenue upon delivery of the starter packs to distributors, dealers or directly to customers.
- Sales of pulse reload vouchers (either bundled in starter packs or sold as separate items) are recognized initially as unearned income and recognized proportionately as usage revenue based on duration and total of successful calls made and the value added services used by the subscribers or the expiration of the unused stored value of the voucher.
- Unutilized promotional credits are netted against unearned income.

iii. Interconnection revenues

The revenues from network interconnection with other domestic and international telecommunications carriers are recognized monthly on the basis of the actual recorded traffic for the month. Interconnection revenues consist of revenues derived from other operators' subscriber calls to the Company and subsidiaries' subscribers (incoming) and calls between subscribers of other operators through the Company and subsidiaries' network (transit).

iv. Data, internet and information technology service revenues

Revenues from data communication and internet are recognized based on service activity and performance which are measured by the duration of internet usage or based on the fixed amount of charges depending on the arrangements with customers.

Revenues from sales, installation and implementation of computer software and hardware, computer data network installation service and installation are recognized when the goods are delivered to customers or the installation takes place.

Revenue from computer software development service is recognized using the percentage-of-completion method.

v. Revenues from network

Revenues from network consist of revenues from leased lines and satellite transponder leases which are recognized over the period in which the services are rendered.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Revenue and expense recognition (continued)

vi. Other telecommunications service revenues

Revenues from other telecommunications services consist of Revenue-Sharing Arrangements ("RSA") and sales of other telecommunication services or goods.

The RSA are recorded in a manner similar to capital leases where the property and equipment and obligation under RSA are reflected in the consolidated statement of financial position. All revenues generated from the RSA are recorded as a component of revenues, while a portion of the investors' share of the revenues from the RSA is recorded as finance costs with the balance treated as a reduction of the obligation under RSA.

Universal Service Obligation ("USO") compensation from construction activities to design, build and finance assets for the grantor is recognized on the stage of completion basis. Revenues from operating and maintenance activities in respect of the assets under the concession are recognized when the services are rendered.

In concession contract under USO, the Company and subsidiaries have contractual rights to receive considerations from the grantor. The Company and subsidiaries recognize a financial asset in their consolidated statement of financial position, in consideration for the services they provide (designing, building, operation or maintenance of assets under concession). Such financial assets are recognized in the consolidated statement of financial position as Accounts Receivable, for the amount of fair value of the infrastructure on initial recognition and subsequently at amortized cost. The receivable is settled by means of the grantor's payments received. The financial income calculated on the basis of the effective interest rate is recognized as finance income.

Revenues from sales of other telecommunication services or goods are recognized upon completion of services and or delivery of goods to customers.

vii. Multiple-element arrangements

Where two or more revenue-generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of accounting is accounted for separately. The total revenue is allocated to each separately identifiable component based on the relative fair value of each component and the appropriate revenue recognition criteria are applied to each component as described above.

viii. Agency relationship

Revenues from an agency relationship are recorded based on the gross amount billed to the customers when the Company and subsidiaries act as principal in the sale of goods and services. Revenues are recorded based on the net amount retained (the amount paid by the customer less amount paid to the suppliers) because in substance, the Company and subsidiaries act as agents and earned commission from the suppliers of the goods and services sold.

ix. Customer loyalty programme

The Company and subsidiaries operate a loyalty point programme, which allows customers to accumulate points for every certain multiple of the usage of telecommunication services. The points can then be redeemed in the future for free or discounted products, provided other qualifying conditions are achieved.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Revenue and expense recognition (continued)

ix. Customer loyalty programme (continued)

Consideration received is allocated between the telecommunication services and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined based on historical information about redemption rate of award points. Fair value of the points issued is deferred and recognized as revenue when the points are redeemed or expired.

x. Service concession arrangements

Revenues relating to construction or upgrade services under a service concession arrangement are recognized based on the stage of completion of the work performed. Operation or service revenue is recognized in the period in which the service is provided. When more than one service is provided in the service concession arrangements, the consideration received is allocated by reference to the relative value of the services.

Further, the developed infrastructure assets under these arrangements are not recognized as property and equipment of the operator, because the contractual arrangements do not convey the right to control the use of the public services infrastructure assets to the operator.

xi. Expenses

Expenses are recognized as they are incurred.

s. Employee benefits

i. Short-term employee benefits

All short-term employee benefits which consist of salaries and related benefits, vacation pay, incentives and other short-term benefits are recognized as expense on undiscounted basis when employees have rendered service to the Company and subsidiaries.

ii. Pension and post-retirement health care benefit plans

The net obligations in respect of the defined pension benefit and post-retirement health care benefit plans are calculated at the present value of estimated future benefits that the employees have earned in return for their service in the current and prior periods, less the fair value of plan assets and as adjusted for unrecognized actuarial gains or losses and unrecognized past service cost. The calculation is performed by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currencies in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement benefit obligation. Government bonds are used as there is no deep market for high quality corporate bonds.

Plan assets are assets that are held by the pension and post-retirement health care benefit plans. These assets are measured at fair value at the end of the reporting period, which is based on the securities' quoted market price information. The amount of prepaid pension costs that can be recognized is limited to the total of any unrecognized past service costs, unrecognized actuarial losses and the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Employee benefits (continued)

ii. Pension and post-retirement health care benefit plans (continued)

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions, when exceeding the greater of 10% of the present value of defined benefit obligation or 10% of the fair value of plan assets, are charged or credited to the consolidated statements of comprehensive income over the average remaining service lives of the relevant employees. Prior service cost is recognized immediately if vested or amortized over the vesting period.

For defined contribution plans, the regular contributions constitute net periodic costs for the period in which they are due and as such are included in staff costs when they become payable.

iii. Long Service Awards ("LSA") and Long Service Leave ("LSL")

Employees of Telkomsel are entitled to receive certain cash awards or certain numbers of days leave benefits based on length of service requirements. LSA are either paid at the time the employees reach certain anniversary dates during employment, or at the time of termination. LSL is either a certain number of days leave benefit or cash, subject to approval by management, provided to employees who have met the requisite number of years of service and with a certain minimum age.

Actuarial gains or losses arising from experience and changes in actuarial assumptions are charged immediately to the consolidated statements of comprehensive income.

The obligation with respect to LSA and LSL is calculated by an independent actuary using the projected unit credit method.

iv. Early retirement benefits

Early retirement benefits are accrued at the time the Company makes a commitment to provide early retirement benefits as a result of an offer made in order to encourage voluntary redundancy. A commitment to a termination arises when, and only when a detailed formal plan for the early retirement cannot be withdrawn.

v. Pre-retirement benefits

Employees of the Company are entitled to a benefit during a pre-retirement period in which they are inactive for 6 months prior to their normal retirement age of 56 years. During the pre-retirement period, the employees still receive benefits provided to active employees, which include, but are not limited to regular salary, health care, annual leave, bonus and other benefits. Benefits provided to employees who enter pre-retirement period are calculated by an independent actuary using the projected unit credit method.

vi. Other post-retirement benefits

Employees are entitled to home leave passage benefits and final housing facility benefits to their retirement age of 56 years. Those benefits are calculated by an independent actuary using the projected unit credit method.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s. Employee benefits (continued)

vii. Share-based payments

The Company operates an equity-settled, share-based compensation plan. The fair value of the employees' services rendered which compensated with the Company's shares is recognized as an expense in the consolidated statement of comprehensive income and credited to additional paid-in capital at the grant date.

Gains or losses on curtailment are recognized when there is a commitment to make a material reduction in the number of employees covered by a plan or when there is an amendment of defined benefit plan terms such that a material element of future services to be provided by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

Gains or losses on settlement are recognized when there is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan.

t. Income tax

Current and deferred income taxes are recognized as income or an expense and included in the consolidated statement of comprehensive income, except to the extent that the tax arises from a transaction or event which is recognized directly in equity, in which case, the tax is recognized directly in equity.

Current tax assets and liabilities are measured at the amounts expected to be recovered or paid using the tax rates and tax laws that have been enacted at each reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Where appropriate, management establishes provisions based on the amounts expected to be paid to the tax authorities.

The Company and subsidiaries recognize deferred tax assets and liabilities for temporary differences between the financial and tax bases of assets and liabilities at each reporting date. The Company and subsidiaries also recognize deferred tax assets resulting from the recognition of future tax benefits, such as the benefit of tax losses carried forward to the extent their future realization is probable. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and tax laws at each reporting date which are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, such as tax rates and tax laws which have been enacted or substantially enacted at each reporting date.

The carrying amount of deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are offset in the consolidated statement of financial position, except if these are for different legal entities, in the same manner the current tax assets and liabilities are presented.

Amendment to tax obligation is recorded when an assessment letter ("Surat Ketetapan Pajak" or "SKP") is received or if appealed against, when the results of the appeal are determined. The additional taxes and penalty imposed through an SKP are recognized as income or expense in the current year profit or loss, unless objection / appeal is taken. The additional taxes and penalty imposed through the SKP are deferred as long as they meet the asset recognition criteria.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Financial instruments

The Company and subsidiaries classify financial instruments into financial assets and financial liabilities. Financial assets and liabilities are recognized initially at fair value including transaction costs. These are subsequently measured either at fair value or amortized cost using the effective interest rate method in accordance with their classification.

i. Financial assets

The Company and subsidiaries classify their financial assets as (i) financial assets at fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity financial assets or (iv) available-for-sale financial assets. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of financial assets at initial recognition.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company and subsidiaries commit to purchase or sell the assets.

The Company's financial assets include cash and cash equivalents, other current financial assets, trade receivables and other receivables, long-term investments, advances and other non-current financial assets.

a. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets classified as held for trading. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term and for which there is evidence of a recent actual pattern of short-term profit taking. Gains or losses arising from changes in fair value of the trading securities are presented as other (expenses) / income in consolidated statement of comprehensive income in the period in which they arise. Financial asset measured at fair value through profit loss consists of derivative asset-put option which is recognized as part of other current financial assets.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables consist of, among other things, cash and cash equivalents, trade receivables, other receivables, other current financial assets and other non-current financial assets.

These are initially recognized at fair value including transaction costs and subsequently measured at amortized cost, using the effective interest method.

c. Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity, other than:

- a) those that the Company upon initial recognition designates as assets at fair value through profit or loss;
- b) those that the Company designates as available for sale; and
- c) those that meet the definition of loans and receivables.

No financial assets were classified as held-to-maturity financial assets as of September 30, 2014 and December 31, 2013.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Financial instruments (continued)

i. Financial assets (continued)

d. Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets that are intended to be held for indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets consist of bonds and mutual funds which are recorded as other current financial assets.

Available-for-sale securities are stated at fair value. Unrealized holding gains or losses on available-for-sale securities are excluded from income of the current period and are reported as a separate component in the equity section of the consolidated statements of financial position until realized. Realized gains or losses from the sale of available-for-sale securities are recognized in the consolidated statements of comprehensive income, and are determined on the specific identification basis. A decline in the fair value of any available-for-sale securities below cost that is deemed to be other than temporary is charged to the consolidated statement of comprehensive income.

ii. Financial liabilities

The Company and subsidiaries classify their financial liabilities as (i) financial liabilities at fair value through profit or loss or (ii) financial liabilities measured at amortized cost.

The Company and subsidiaries' financial liabilities include trade payables and other payables, accrued expenses, loans and other borrowings which consist of short-term bank loans, obligations under capital lease, two step loans, bonds and notes, and bank loans.

a. Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities classified as held for trading. A financial liability is classified as held for trading if it is incurred principally for the purpose of selling or repurchasing them in the near term and for which there is evidence of a recent actual pattern of short-term profit taking.

No financial liabilities were categorized as held for trading as of September 30, 2014 and December 31, 2013.

b. Financial liabilities measured at amortized cost

Financial liabilities that are not classified as liabilities at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost are trade payables, other payables, accrued expenses, loans, bonds and notes.

iii. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Financial instruments (continued)

iv. Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or liability settled, in an arms' length transaction.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices, without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 44.

v. Impairment of financial assets

The Company and subsidiaries assess the impairment of financial assets if there is objective evidence that a loss event has a negative impact on the estimated future cash flows of the financial asset. Impairment is recognized when the loss event can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognized.

Impairment loss on financial assets carried at cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income is recognized in profit or loss as an impairment loss. The amount of the cumulative loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized.

vi. Derecognition of financial instrument

The Company and subsidiaries derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Company and subsidiaries transfer substantially all the risks and rewards of ownership of the financial asset.

The Company and subsidiaries derecognize a financial liability when the obligation specified in the contract is discharged or cancelled or expired.

v. Treasury stock

Reacquired Company shares of stock are accounted for at their reacquisition cost and classified as "Treasury Stock" and presented as a deduction to equity. The cost of treasury stock sold/transferred is accounted for using the weighted average method. The portion of treasury stock transferred for employees ownership program is accounted for at its fair value. The difference between the cost and the proceeds from the sale/transfer value of treasury stock is credited to "Additional Paid-in Capital".

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Dividends

Dividend distribution to the Company's stockholders is recognized as a liability in the Company's consolidated financial statements in the year in which the dividend is approved by the Company's stockholders. The Company recognizes interim dividend as a liability based on the Board of Directors' decision with the approval from the Board of Commissioners.

x. Basic earnings per share and earnings per ADS

Basic earnings pershare is computed by dividing profit for the year attributable to owners of the parent company by the weighted average number of shares outstanding during the year. Income per ADS is computed by multiplying basic earnings per share by 200, the number of shares represented by each ADS.

The Company does not have potentially dilutive financial investments.

y. Segment information

The Company and subsidiaries' segment information is presented based upon identified operating segments. An operating segment is a component of an entity: a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); b) whose operating results are regularly reviewed by the Company and subsidiaries' chief operating decision maker i.e., Directors, to make decisions about resources to be allocated to the segment and assess its performance, and c) for which discrete financial information is available.

z. Provision

Provision is recognized when the Company and subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.

aa. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company and subsidiaries make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i. Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

The Company and subsidiaries determine the appropriate discount rate at the end of each reporting period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the Company and subsidiaries consider the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement benefit obligations.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Critical Accounting Estimates and Judgements (continued)

i. Retirement benefits (continued)

If there is an improvement in the ratings of such government bonds or a decrease in interest rates as a result of improving economic conditions, there could be a material impact on the discount rate used in determining the post-employment benefits obligations.

Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Notes 34, 35 and 36.

ii. Estimating useful lives of property and equipment and intangible assets

The Company and subsidiaries estimate the useful lives of their property and equipment and intangible assets based on expected asset utilization, considering strategic business plans, expected future technological developments and market behavior. The estimates of useful lives of property and equipment are based on the Company and subsidiaries' collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The Company and subsidiaries review estimates of useful lives at least each financial year end and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limitations on the use of the assets. The amounts and timing of recorded expenses for any year will be affected by changes in these factors and circumstances. A change in the estimated useful lives of the property and equipment is a change in accounting estimates and is applied prospectively in profit or loss in the period of the change and future periods.

Details of the nature and carrying amount of property and equipment are disclosed in Note 11 and intangible assets in Note 13.

iii. Provision for impairment of receivables

The Company and subsidiaries assess whether there is objective evidence that trade receivables have been impaired at the end of each reporting period. Provision for impairment of receivables is calculated based on a review of the current status of existing receivables and historical collection experience. Such provision is adjusted periodically to reflect the actual and anticipated experience. Details of the nature and carrying amount of provision for impairment of receivables are disclosed in Note 6.

iv. Income taxes

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company and subsidiaries recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the year in which such determination is made. Details of the nature and carrying amount of income tax are disclosed in Note 31.

v. Impairment of non-financial assets

The Company and subsidiaries annually assess whether goodwill is impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit ("CGU") is determined based on the higher of its fair value less costs to sell and its value in use, calculated on the basis of management's assumptions and estimations.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Critical Accounting Estimates and Judgements (continued)

v. Impairment of non-financial assets (continued)

In determining value in use, the Company and subsidiaries apply management judgement in establishing forecasts of future operating performance, as well as the selection of growth rates and discount rates. These judgements are applied based on our understanding of historical information and expectations of future performance. Changing the key assumptions, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the value in use calculations.

For the years ended December 31, 2013, the Company recognized Rp596 billion of impairment loss on property and equipment pertaining to the fixed wireless services. A 1% increase in the discount rate used would result in an increase in impairment loss of approximately Rp703 billion in 2013. However, the recoverable amount of the fixed wireless CGU is most sensitive to whether management will be able to implement its plans, including the cost efficiency plan, such that it generates positive cash flows and returns to profitability as projected. If the performance of the fixed wireless CGU continues to decline or if management's initiatives are not performing as expected in the next financial year, analysis will be required to assess whether there will be further impairment next year (Note 11b).

vi. Fair value of put option and investment in PT Indonusa Telemedia

In determining the fair value, the Company uses management's judgment to determine future projected operational performance, growth rate and discount rate. These considerations are applied on the basis of management's understanding of historical information and expectation of future operational performance. Detail of the nature and recorded amount of Put Option and investment in Indonusa is disclosed in Notes 3, 5 and 10.

3. BUSINESS COMBINATIONS

a. Acquisitions

Acquisition of PT German Center Indonesia

On January 17, 2013, Sigma signed a sales and purchase of shares agreement and transfer of debt with Landeskreditbank Baden-Wuerttemberg-Forderbank ("L-Bank") and Step Stuttgarter Engineering Park GmbH ("STEP") as the shareholders of PT German Centre Indonesia ("GCI"). Based on the agreement, on April 30, 2013, Sigma has bought shares owned by L-Bank and STEP in GCI. Through the acquisition, Sigma enlarged its data center capacity that can be offered its customers.

Acquisition of Patrakom

On September 25, 2013, based on notarial deed No. 22 of Ashoya Ratam, S.H., M.Kn, the Company entered into a Sales and Purchase Agreement (SPA) with PT ELNUSA Tbk for the Company's acquisition of the 40% ownership in PT Patra Telekomunikasi Indonesia ("Ptrakom") for Rp45.6 billion. This SPA results in the Company's ownership in Patrakom to increase from 40% to 80% (Note 10).

Subsequently, on November 29, 2013, based on notarial deed No. 54 of Ashoya Ratam, S.H., M.Kn., dated November 29, 2013 the Company has signed a SPA with PT Tanjung Mustika Tbk for the Company's acquisition of the remaining of 20% ownership in Patrakom for Rp24.8 billion.

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3. BUSINESS COMBINATIONS (continued)

a. Acquisitions (continued)

Acquisition of Patrakom (continued)

Patrakom is a satellite-based closed fixed telecommunications network operator and as provider of communications solutions and network with a permit as Operator of Micro Earth Stations Communications Systems ("SKSBM") in partnership with manufacturers of telecommunications equipment to serve various companies. Through the acquisition of Patrakom, the Company can integrate Patrakom's business activities in accordance with the Company's business development plan.

The fair values of the assets acquired and liability transferred at the acquisition dates are as follows:

	GCI	Patrikom	Total
Cash and equivalents	3	39	42
Other current assets	18	122	140
Property and equipment (Note 11)	225	171	396
Current liabilities	(15)	(171)	(186)
Non-current liabilities	(16)	(45)	(61)
Fair value of the identifiable net assets acquired	215	116	331
Bargain purchase	(42)	-	(42)
Fair value of previously held equity interests	-	(46)	(46)
Fair value of the consideration transferred	173	70	243

The excess of fair value of the identifiable net assets acquired over the fair value of the consideration transferred, amounting Rp42 billion, was recorded as other income in the consolidated statement of comprehensive income of the year 2013. Cost related to the acquisition amounting to Rp4.3 billion was incurred in 2013.

The business combination transactions mentioned above complied to the related Bapepam-LK Regulations.

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3. BUSINESS COMBINATIONS (continued)

a. Acquisitions (continued)

Acquisition of Contact Centres Australia Pty. Ltd

On September 25, 2014, TII through Telkom Australia signed a Sales and Purchase of Shares Agreement and subscription with Contact Centres Australia Pty. Ltd ("CCA") for the Telkom Australia's acquisition of the 75% ownership in CCA for AUD\$11 million.

CCA, established in 2002, is owned by a company in Australia and located in Surry Hills, Sidney. The company is engaged in Business Process Outsourcing ("BPO") solution comprehensively and integrated to end to end services.

As of the release date of this consolidated financial statements, purchase price allocation calculation is in progress by independent appraisal.

b. Disposal of Indonusa

On October 8, 2013, the Company sold 80% of its ownership in Indonusa to PT Trans Corpora and PT Trans Media Corpora for Rp926 billion. Further, on the same date, the Company, Metra and PT Trans Corpora signed a Shareholders Agreement that establishes mutual relationship among the shareholders of Indonusa, including the grant of the right to the Company and Metra to sell their 20% remaining ownership in Indonusa to PT Trans Corpora at any time in 24 months after the second year of the closing transaction at a certain price (Put Option).

The Company had received the full payment for the sale transaction.

The Company recognized the gain on sale of Indonusa shares in the consolidated statement of comprehensive income of the year 2013 as follows:

	Amount
Fair value of considerations received:	
Cash	926
Put Option	289
Fair value of interest retained in Indonusa (Note 10)	182
Carrying amount of assets and liabilities of Indonusa	(14)
Gain on sale of shares	<u>1,383</u>

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4. CASH AND CASH EQUIVALENTS

	September 30, 2014	December 31, 2013
Cash on hand	32	7
Cash in banks		
Related parties		
Rupiah		
PT Bank Mandiri (Persero) Tbk ("Bank Mandiri")	851	804
PT Bank Negara Indonesia (Persero) Tbk ("BNI")	356	409
PT Bank Rakyat Indonesia (Persero) Tbk ("BRI")	179	70
Others	13	56
	1,399	1,339
Foreign currencies		
Bank Mandiri	637	458
BNI	169	224
BRI	123	75
Others	7	0
	936	757
Sub-total	2,335	2,096
Third parties		
Rupiah		
Deutsche Bank AG ("DB")	94	62
Others (each below Rp75 billion)	125	163
	219	225
Foreign currencies		
Standard Chartered Bank ("SCB")	328	313
Hong Kong and Shanghai Banking Corporation Ltd ("HSBC")	102	66
Others	93	36
	523	415
Sub-total	742	640
Total cash in banks	3,077	2,736

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4. CASH AND CASH EQUIVALENTS (continued)

	September 30, 2014	December 31, 2013
Time deposits		
Related parties		
Rupiah		
BRI	3,575	2,445
BNI	3,143	1,975
Bank Mandiri	1,676	1,271
BTN	20	375
PT Bank Syariah Mandiri ("BSM")	1	50
	<u>8,415</u>	<u>6,116</u>
Foreign currencies		
BRI	1,421	3,260
BNI	301	264
	<u>1,722</u>	<u>3,524</u>
Sub-total	<u>10,137</u>	<u>9,640</u>
Third parties		
Rupiah		
PT Bank CIMB Niaga Tbk ("Bank CIMB Niaga")	1,675	83
PT Bank Mega Tbk ("Bank Mega")	597	275
Bank OCBC NISP Tbk. ("OCBC NISP")	250	-
PT Bank Pembangunan Daerah Jawa Barat dan Banten TBK ("BJB")	75	245
PT Bank Muamalat Indonesia Tbk ("Bank Muamalat")	61	150
PT Bank Tabungan Pensiun Negara Tbk ("BTPN")	16	136
PT Bank Internasional Indonesia Tbk ("BII")	10	126
PT Bank Central Asia Tbk ("BCA")	-	599
PT Bank Yudha Bhakti	-	145
Others (each below Rp75 billion)	85	310
	<u>2,769</u>	<u>2,069</u>
Foreign currencies		
PT Bank OCBC NISP Tbk ("OCBC NISP")	1,758	244
Others	61	-
	<u>1,819</u>	<u>244</u>
Sub-total	<u>4,588</u>	<u>2,313</u>
Total time deposits	<u>14,725</u>	<u>11,953</u>
Grand Total	<u>17,834</u>	<u>14,696</u>

Interest rates per annum on time deposits are as follows:

	September 30, 2014	December 31, 2013
Rupiah	2.47% - 11.50%	1.00% - 11.50%
Foreign currencies	0.03% - 2.75%	0.03% - 3.00%

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4. CASH AND CASH EQUIVALENTS (continued)

The related parties in which the Company and subsidiaries place their funds are state-owned banks. The Company and subsidiaries placed a majority of their cash and cash equivalents in these banks because they have the most extensive branch networks in Indonesia and are considered to be financially sound banks, as they are owned by the State.

Refer to Note 37 for details of related party transactions.

5. OTHER CURRENT FINANCIAL ASSETS

	September 30, 2014	December 31, 2013
Time deposits		
Related parties		
Mandiri	83	-
BRI	-	1,000
Others	-	19
Sub-total	83	1,019
Third parties		
SCB	-	1,859
Bank CIMB Niaga	-	1,800
OCBC NISP	-	1,600
Others	10	10
Sub-total	10	5,269
Total time deposits	93	6,288
Available-for-sale financial assets		
Related parties		
Government	131	133
State-owned enterprises	75	74
Sub-total	206	207
Third parties	67	65
Total available-for-sale financial assets	273	272
Escrow account	897	-
Derivative asset - Put Option	297	297
Others	24	15
Total	1,584	6,872

As of September 30, 2014 and December 31, 2013, time deposit denominated in foreign currency amounted to Rp93 billion and Rp59 billion, respectively.

Escrow account represents Telkomsel's account in BNI for transfer frequency usage from the Company to Telkomsel (Notes 1.d, 41.c (ii) and 47).

The time deposits have maturities of more than three months but not more than one year, with interest rates as follows:

	September 30, 2014	December 31, 2013
Rupiah	-	1.60% -10.50%
Foreign currency	0.53% - 1.10%	1.00%-1.10%

Refer to Note 37 for details of related party transactions.

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6. TRADE RECEIVABLES

Trade receivables arise from services provided to both retail and non-retail customers, with details as follows:

a. By debtor

(i) Related parties

	September 30, 2014	December 31, 2013
State-owned enterprises	645	877
PT Indosat Tbk ("Indosat")	194	48
Indonusa	192	180
CSM	57	45
Others	99	241
Total	1,187	1,391
Provision for impairment of receivables	(371)	(491)
Net	816	900

(ii) Third parties

	September 30, 2014	December 31, 2013
Individual and business subscribers	9,129	7,010
Overseas international carriers	641	497
Total	9,770	7,507
Provision for impairment of receivables	(2,870)	(2,381)
Net	6,900	5,126

Trade receivables from certain parties are presented net of the Company and subsidiaries' liabilities to such parties due to the existence of a legal right of set-off in accordance with the agreements with those parties.

b. By age

(i) Related parties

	September 30, 2014	December 31, 2013
Up to 6 months	509	836
7 to 12 months	248	223
More than 12 months	430	332
Total	1,187	1,391
Provision for impairment of receivables	(371)	(491)
Net	816	900

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6. TRADE RECEIVABLES (continued)

b. By age (continued)

(ii) Third parties

	September 30, 2014	December 31, 2013
Up to 3 months	5,981	4,526
More than 3 months	3,789	2,981
Total	9,770	7,507
Provision for impairment of receivables	(2,870)	(2,381)
Net	6,900	5,126

(iii) Aging of total trade receivables

	September 30, 2014		December 31, 2013	
	Gross	Provision for impairment of receivables	Gross	Provision for impairment of receivables
Not past due	5,372	28	3,618	10
Past due up to 3 months	852	405	1,525	401
Past due more than 3 to 6 months	1,008	319	703	321
Past due more than 6 months	3,725	2,489	3,052	2,140
Total	10,957	3,241	8,898	2,872

The Company and subsidiaries have made provision for impairment of trade receivables based on the collective assessment of historical impairment rates and individual assessment of their customers' credit history. The Company and subsidiaries do not apply a distinction between related party and third party receivables in assessing amounts past due. As of September 30, 2014 and December 31, 2013, the carrying amount of trade receivables of the Company and subsidiaries considered past due but not impaired amounted to Rp2,372 billion and Rp2,418 billion, respectively. Management has concluded that receivables past due but not impaired, along with trade receivables that are neither past due nor impaired, are due from customers with good credit history and are expected to be recoverable.

c. By currency

(i) Related parties

	September 30, 2014	December 31, 2013
Rupiah	1,162	1,361
U.S.dollar	25	30
Total	1,187	1,391
Provision for impairment of receivables	(371)	(491)
Net	816	900

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6. TRADE RECEIVABLES (continued)

c. By currency (continued)

(ii) Third parties

	September 30, 2014	December 31, 2013
Rupiah	8,938	6,699
U.S.dollar	813	806
Euro	2	1
Hong Kong dollar	1	1
Australian dollar	16	-
Total	9,770	7,507
Provision for impairment of receivables	(2,870)	(2,381)
Net	6,900	5,126

d. Movements in the provision for impairment of receivables

	September 30, 2014	December 31, 2013
Beginning balance	2,872	2,047
Provision recognized during the year (Note 29)	370	1,589
Receivables written-off	(1)	(622)
Acquisition	-	1
Disposal (Note 3)	-	(158)
Reclassification	-	15
Ending balance	3,241	2,872

The receivables written off are related-party and third-party trade receivables.

Management believes that the provision for impairment of trade receivables is adequate to cover losses on uncollectible trade receivables.

Certain trade receivables of the subsidiaries amounting to Rp2,029 billion have been pledged as collateral under lending agreements (Notes 17 and 21).

Refer to Note 37 for details of related party transactions.

7. INVENTORIES

	September 30, 2014	December 31, 2013
Components	382	272
SIM cards, RUIM cards, set top box, and blank prepaid vouchers	115	102
Others	206	157
Total	703	531
Provision for obsolescence		
Components	(26)	(21)
SIM cards, RUIM cards, set top box, and blank prepaid vouchers	(1)	(1)
Total	(27)	(22)
Net	676	509

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7. INVENTORIES (continued)

Movements in the provision for obsolescence are as follows:

	September 30, 2014	December 31, 2013
Beginning balance	22	148
Provision (reversal) recognized during the year	5	(29)
Reclassification	-	(96)
Divestment (Note 3)	-	(1)
Ending balance	27	22

The inventories recognized as expense and included in operations, maintenance, and telecommunication service expenses (Note 28) as of September 30, 2014 and December 31, 2013 amounted to Rp459 billion and Rp752 billion, respectively.

Management believes that the provision is adequate to cover losses from declines in inventory value due to obsolescence.

Certain inventories of the Company's subsidiaries amounting to Rp68 billion have been pledged as collateral under lending agreements (Notes 17 and 21).

As of September 30, 2014 and December 31, 2013, modules and components held by the Company and subsidiaries have been insured against fire, theft, and other specific risks with book value amounting to Rp59 billion and Rp280 billion, respectively. Modules are recorded as part of property and equipment. Total sum insured as of September 30, 2014 and December 31, 2013 amounted to Rp256 billion and Rp261 billion, respectively.

Management believes that the insurance coverage is adequate to cover potential losses of certain inventories which happens to the Company and subsidiaries.

8. ADVANCES AND PREPAID EXPENSES

	September 30, 2014	December 31, 2013
Frequency license (Notes 41c.i and 41c.ii)	1,115	2,330
Prepaid rental	1,063	744
Advances	655	297
Salaries	500	209
Deferred expense	102	124
Insurance	12	84
Tax restitution claims	299	10
Others (each below Rp75 billion)	468	149
Total	4,214	3,947

Refer to Note 37 for details of related party transactions.

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9. ASSET HELD FOR SALE

This account represents the carrying amount of Telkomsel's equipment to be exchanged with equipment of Nokia Siemens Network Oy ("NSN Oy") and PT Huawei Tech Investment ("PT Huawei"). The amount will be used as part of the settlement for the acquisition of equipment from these companies. In addition, land of Sigma Citra Caraka located in residential of Alam Sutera will be diverted to PT Graha Indah Semesta. The transaction is in progress and expected to be completed on December 15, 2014.

In 2014, SCC's land and Telkomsel's equipment with net carrying amount of Rp65 billion (Note 11c.vi) and Rp17 billion respectively are reclassified to asset held for sale.

Asset held for sale is presented under personal and corporate segment (Note 38).

10. LONG-TERM INVESTMENTS

September 30, 2014						
	Percentage of ownership	Beginning balance	Addition (deduction)	Share of net (loss) profit of associated company	Translation adjustment	Ending balance
Long-term investments in associated companies:						
Indonusa ^a	20.00	189	32	-	-	221
PT Melon Indonesia ("Melon") ^b	51.00	39	-	3	-	42
ILCS ^c	49.00	37	-	(6)	-	31
Telin Malaysia ^d	49.00	18	4	(16)	(5)	1
CSM ^e	25.00	-	-	-	-	-
PSN ^f	14.60	-	-	-	-	-
Tiphone ⁱ	25.00	-	1,394	6	-	1,400
Sub-total		283	1,430	(13)	(5)	1,695
Other long-term investments		21	-	-	-	21
Total long-term investments		304	1,430	(13)	(5)	1,716

September 30, 2014				
	Assets	Liabilities	Revenue	Gain (loss)
Long-term investments in associated companies:				
Indonusa ^a	575	789	271	(62)
Melon ^b	129	47	92	6
ILCS ^c	85	22	73	(13)
Telin Malaysia ^d	6	2	7	(32)
CSM ^e	1,273	1,387	229	(136)
PSN ^f	1,130	2,033	271	(14)
Tiphone ⁱ	4,700*	2,879*	6,313*	25
Total	7,898	7,159	7,256	(226)

*) Assets, liabilities and revenue of Tiphone were disclosed based on financial statement of Tiphone as of June 30, 2014.

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10. LONG-TERM INVESTMENTS (continued)

December 31, 2013							
	Percentage of ownership	Beginning balance	Addition (deduction)	Share of net (loss) profit of associated company	Dividend	Translation adjustment	Ending balance
Long-term investments in associated companies:							
Indonusa ^a	20.00	-	182	7	-	-	189
PT Melon Indonesia ("Melon") ^b	51.00	42	-	(3)	-	-	39
ILCS ^c	49.00	48	-	(11)	-	-	37
Telin Malaysia ^d	49.00	-	20	(6)	-	4	18
CSM ^e	25.00	20	-	(20)	-	-	-
PSN ^f	22.38	-	-	-	-	-	-
Patrakom ^g	40.00	46	(46)	2	(2)	-	-
Scicom ^h	29.71	98	(88)	2	(3)	(9)	-
Sub-total		254	68	(29)	(5)	(5)	283
Other long-term investments		21	-	-	-	-	21
Total long-term investments		275	68	(29)	(5)	(5)	304

December 31, 2013				
	Assets	Liabilities	Revenue	Loss
Long-term investments in associated companies:				
Indonusa ^a	655	669	363	(124)
Melon ^b	90	22	73	(6)
ILCS ^c	88	13	4	(22)
Telin Malaysia ^d	37	1	0	(11)
CSM ^e	1,273	1,387	306	(181)
PSN ^f	817	2,148	462	(55)
Total	2,960	4,240	1,208	(399)

^a Indonusa had been the Company's subsidiary until 2013 when the Company disposed 80% of its interest in Indonusa (Notes 1d and 3).

^b Melon is engaged in providing Digital Content Exchange Hub services ("DCEH"). As a result of the existence of substantive participating rights held by the other venturer over the significant financial and operating policies of Melon, Metra does not have control over Melon.

^c ILCS is engaged in providing E-trade logistic services and other related services.

^d Telin Malaysia is engaged in telecommunication services in Malaysia.

^e CSM is engaged in providing Very Small Aperture Terminal ("VSAT"), network application services and consulting services on telecommunications technology and related facilities.

^f PSN is engaged in providing satellite transponder leasing and satellite-based communication services in the Asia-Pacific Region. The Company's share in losses of PSN has exceeded the carrying amount of its investment since 2001; accordingly, the investment value has been reduced to Rp nil. The unrecognized share of losses of PSN for nine months period ended September 30, 2014 and 2013 are Rp300 billion and Rp920 billion, respectively.

^g Patrakom has been engaged in providing satellite communication system services, related services and facilities to companies in the petroleum industry. Starting in 2013, Patrakom has been consolidated (Notes 1d and 3).

^h Scicom is engaged in providing call center services in Malaysia. On September 19, 2013, the Company sold its investment in Scicom (MSC) Berhad-Malaysia (Scicom), with the proceeds of disposal and the carrying amount of the investment on the date of disposal amounting to Rp153 billion and Rp88 billion, respectively, resulting in a gain of Rp65 billion.

ⁱ Tiphone was established on June 25, 2008 as Tiphone Mobile Indonesia Tbk. It is engaged in services trade device telecommunication in the form of cellular phone telephone including spare parts, accessories, pulse, and services repairs and content providers through its subsidiaries (Note 1d).

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11. PROPERTY AND EQUIPMENT

	January 1, 2014	Additions	Deductions	Reclassifications/ translations	September 30, 2014
At cost:					
Directly acquired assets					
Land rights	1,098	528	(17)	-	1,609
Buildings	4,224	84	(16)	182	4,474
Leasehold improvements	812	32	(38)	93	899
Switching equipment	18,705	221	(455)	578	19,049
Telegraph, telex and data communication equipment	6	-	-	-	6
Transmission installation and equipment	95,853	1,570	(427)	8,846	105,842
Satellite, earth station and equipment	7,456	113	(38)	543	8,074
Cable network	28,987	3,052	(192)	157	32,004
Power supply	11,755	90	(41)	799	12,603
Data processing equipment	9,230	342	(52)	394	9,914
Other telecommunications peripherals	500	140	-	-	640
Office equipment	770	74	(1)	15	858
Vehicles	332	17	(2)	24	371
Other equipment	104	-	-	-	104
Property under construction	1,971	12,358	-	(11,532)	2,797
Assets under finance lease					
Transmission installation and equipment	5,683	314	(296)	(43)	5,658
Data processing equipment	123	-	(18)	1	106
Office equipment	7	57	(2)	(5)	57
Vehicles	26	-	-	(26)	-
CPE assets	22	-	-	-	22
RSA assets	459	-	-	(207)	252
Total	188,123	18,992	(1,595)	(181)	205,339

	January 1, 2014	Additions	Impairment	Deductions	Reclassifications/ translations	September 30, 2014
Accumulated depreciation and impairment losses:						
Directly acquired assets						
Buildings	1,840	113	-	(16)	55	1,992
Leasehold improvements	649	53	-	(38)	8	672
Switching equipment	12,903	1,166	-	(455)	27	13,641
Telegraph, telex and datacommunication equipment	3	-	-	-	-	3
Transmission installation and equipment	46,665	6,496	97	(370)	(146)	52,742
Satellite, earth station and equipment	5,190	441	77	(38)	256	5,926
Cable network	17,758	801	16	(191)	74	18,458
Power supply	6,794	922	-	(30)	22	7,708
Data processing equipment	6,823	675	-	(52)	59	7,505
Other telecommunications peripherals	267	39	-	-	-	306
Office equipment	564	77	-	(1)	15	655
Vehicles	68	37	-	(2)	2	105
Other equipment	100	2	-	-	-	102
Assets under finance lease						
Transmission installation and equipment	1,345	468	-	(296)	(54)	1,463
Data processing equipment	83	17	-	(18)	-	82
Office equipment	2	-	-	(1)	(1)	-
Vehicles	1	-	-	-	(1)	-
CPE assets	13	2	-	-	-	15
RSA assets	294	30	-	-	(139)	185
Total	101,362	11,339	190	(1,508)	177	111,560
Net Book Value	86,761					93,779

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11. PROPERTY AND EQUIPMENT (continued)

	January 1, 2013	Business acquisition	Divestment	Additions	Deductions	Reclassifications/ translations	December 31, 2013
At cost:							
Directly acquired assets							
Land rights	977	110	-	13	-	(2)	1,098
Buildings	3,787	120	-	98	(1)	220	4,224
Leasehold improvements	783	-	-	24	(27)	32	812
Switching equipment	23,750	0	-	428	(2,896)	(2,577)	18,705
Telegraph, telex and data communication equipment	19	-	-	-	-	(13)	6
Transmission installation and equipment	85,289	-	-	1,777	(1,311)	10,098	95,853
Satellite, earth station and equipment	7,267	158	(110)	56	(2)	87	7,456
Cable network	27,658	-	(601)	2,084	(117)	(37)	28,987
Power supply	10,434	3	(0)	253	(71)	1,136	11,755
Data processing equipment	8,196	-	(1)	968	(62)	129	9,230
Other telecommunications peripherals	280	-	-	230	-	(10)	500
Office equipment	680	5	(11)	138	(1)	(41)	770
Vehicles	71	0	(1)	279	(1)	(16)	332
Other equipment	111	-	(2)	-	-	(5)	104
Property under construction	1,312	-	-	15,349	-	(14,690)	1,971
Assets under finance lease							
Transmission installation and equipment	2,873	-	(30)	3,170	(330)	-	5,683
Data processing equipment	339	-	-	5	(221)	-	123
Office equipment	15	-	-	-	(8)	-	7
Vehicles	-	-	-	26	(0)	-	26
CPE assets	22	-	-	-	-	-	22
RSA assets	459	-	-	-	-	-	459
Total	174,322	396	(756)	24,898	(5,048)	(5,689)	188,123

	January 1, 2013	Business acquisition	Divestment	Additions	Impairment	Deductions	Reclassifications/ translations	December 31, 2013
Accumulated depreciation and impairment losses:								
Directly acquired assets								
Buildings	1,739	-	-	163	-	(0)	(62)	1,840
Leasehold improvements	609	-	-	67	-	(27)	-	649
Switching equipment	17,105	-	-	1,982	-	(2,718)	(3,466)	12,903
Telegraph, telex and datacommunication equipment	16	-	-	-	-	-	(13)	3
Transmission installation and equipment	41,210	-	-	7,609	321	(1,205)	(1,269)	46,666
Satellite, earth station and equipment	4,684	-	(142)	663	226	(2)	(239)	5,190
Cable network	17,291	-	(181)	1,022	49	(106)	(317)	17,758
Power supply	5,982	-	(0)	1,171	-	(67)	(292)	6,794
Data processing equipment	6,355	-	(1)	738	-	(49)	(221)	6,822
Other telecommunications peripherals	259	-	-	18	-	-	(10)	267
Office equipment	548	-	(6)	72	-	(1)	(49)	564
Vehicles	61	-	(1)	25	-	(1)	(16)	68
Other equipment	102	-	(1)	4	-	-	(5)	100
Assets under finance lease								
Transmission installation and equipment	782	-	(3)	896	-	(330)	-	1,345
Data processing equipment	261	-	-	37	-	(215)	-	83
Office equipment	7	-	-	1	-	(6)	-	2
Vehicles	-	-	-	1	-	(0)	-	1
CPE assets	11	-	-	2	-	-	-	13
RSA assets	253	-	-	41	-	-	-	294
Total	97,275	-	(335)	14,512	596	(4,727)	(5,959)	101,362
Net Book Value	77,047							86,761

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11. PROPERTY AND EQUIPMENT (continued)

a. Gain on disposal or sale of property and equipment

	2014	2013
Proceeds from sale of property and equipment	154	55
Net book value	(51)	(19)
Gain on disposal or sale of property and equipment	103	36

b. Assets impairment

- (i) As of December 31, 2013, the CGUs that independently generate cash inflows were fixed wireline, fixed wireless, cellular and others. As of December 31, 2013, there were indications of impairment in the fixed wireless CGU (presented as part of personal segment), which were mainly due to increased competition in the fixed wireless market that resulted in lower average tariffs, declining active customers and declining Average Revenue Per User ("ARPU"). The Company assessed the recoverable value of the assets in the CGU and determined that assets for the fixed wireless CGU were impaired by Rp596 billion as at December 31, 2013, and additional impairment by Rp190 billion as September 30, 2014 which is recognized in the consolidated statement of comprehensive income under "Depreciation and amortization". The recoverable amount has been determined based on value-in-use (VIU) calculations. These calculations used pre-tax cash flow projections approved by management covering a five-year period and with cash flows beyond the five-year period extrapolated using a perpetuity growth rate. The cash flow projections reflect management's expectations of revenue, Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA") growth and operating cash flows on the basis that the fixed wireless CGU generates positive net cash flows starting from 2014. Management's cash flow projection also incorporates management's reasonable expectations for developments in macro economic conditions and market expectations for the Indonesian telecommunications industry. As of December 31, 2013, management applied a pre-tax discount rate of 13.5% derived from the Company's post-tax weighted average cost of capital and benchmarked to externally available data. As of December 31, 2013, the perpetuity growth rate used of 0%, assumes that subscriber numbers and average revenue per user may continue to decrease after five years.

If the performance of the fixed wireless CGU continues to decline or if management's initiatives are not performing as expected in the next financial year, analysis will be required to assess whether there will be further impairment next year.

- (ii) Management believes that there is no indication of impairment in the value of other CGUs as of December 31, 2013.

c. Others

- (i) Interest capitalized to property under construction amounted Rp59 billion and Rp100 billion for nine months period ended September 30, 2014 and for the year ended December 31, 2013, respectively. The capitalization rate used to determine the amount of borrowing costs eligible for capitalization ranges from 9.75% to 15.81% and from 9.75% to 13.07% for nine months period ended September 30, 2014 and for the year ended December 31, 2013, respectively.
- (ii) No foreign exchange loss was capitalized as part of property under construction for nine months period ended September 30, 2014 and for the year ended December 31, 2013.

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11. PROPERTY AND EQUIPMENT (continued)

c. Others (continued)

(iii) In 2012, Telkomsel decided to replace certain equipment units with net carrying amount of Rp1,037 billion, as part of a modernization program. Accordingly, Telkomsel changed the estimated useful lives of such equipment. In 2014, the effect of additional depreciation expense amounted to Rp70 billion.

(iv) In 2014, the useful lives of Telkomsel's towers were changed from 20 years to 40 years and from 10 years to 20 years to reflect their current economic lives. The impact is a reduction of depreciation expense for the nine months period ended September 30, 2014 is Rp217 billion.

The impact of the change in the estimated useful lives of the towers in future periods is to increase the profit before income tax as follows:

Years	Amount
2014 (3 months)	72
2015	264
2016	244
2017	198

(v) Exchange of property and equipment

- In 2011, the Company and PT Industri Telekomunikasi Indonesia ("INTI") signed Purchase Orders of Procurement and Installation Agreement for the Modernization of the Copper Cable Network through Optimization of Asset Copper Cable Network with Trade In/Trade Off with total procurement value amounting to Rp1,499 billion up to December 31, 2013.

In 2013, the Company derecognized the copper cable network asset with net carrying value of Rp1.6 billion, respectively, and recorded the fiber optic network asset from the exchange transaction of Rp203 billion.

- In 2014 and 2013, certain equipment units of Telkomsel with net carrying amount of Rp32 million and Rp250 million were exchanged with equipment from NSN Oy and PT Huawei. As of September 30, 2014, Telkomsel's equipment with net carrying amount of Rp45 billion and Rp73 billion are going to be exchanged with equipment from NSN Oy and PT Huawei; therefore, Telkomsel's equipment units were reclassified as assets held for sale (Note 9).

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11. PROPERTY AND EQUIPMENT (continued)

c. Others (continued)

- (vi) The Company and subsidiaries own several pieces of land rights located throughout Indonesia with Building Use Rights ("Hak Guna Bangunan" or "HGB") for a period of 10 – 45 years which will expire between 2014 and 2059. Management believes that there will be no issue in obtaining the extension of the land rights when they expire.
- (vii) As of September 30, 2014, the Company and subsidiaries' property and equipment except land rights, with net carrying amount of Rp83,400 billion were insured against fire, theft, earthquake and other specified risks, with a maximum loss claim of Rp6,660 billion, US\$67 million, EUROnil, SGD21.5 million and HKD20.61 million, and on a first loss basis of Rp6,203 billion including business recovery of Rp200 billion with the Automatic Reinstatement of Loss Clause. In addition, Telkom-1 and Telkom-2 were insured separately for US\$2.78 million and US\$24.42 million, respectively. Management believes that the insurance coverage is adequate to cover potential losses from the insured risks.
- (viii) As of September 30, 2014, the percentage of completion of property under construction was around 67.13% of the total contract value, with estimated dates of completion between September 2014 and December 2015. The balance of property under construction mainly consists of buildings, transmission installation and equipment, cable network and power supply. Management believes that there is no impediment to the completion of the construction in progress.
- (ix) All assets owned by the Company have been pledged as collateral for bonds (Note 20a). Certain property and equipment of the Company's subsidiaries with gross carrying value amounting to Rp6,924 billion have been pledged as collateral under lending agreements (Notes 17 and 21).
- (x) As of September 30, 2014 and December 31, 2013 the cost of fully depreciated property and equipment of the Company and subsidiaries that are still used in operations amounted to Rp32,580 billion and Rp40,791 billion. The Company and subsidiaries are currently performing modernization of network assets to replace the fully depreciated property and equipment.
- (xi) The Company and Telkomsel entered into several agreements with PT Profesional Telekomunikasi Indonesia, PT Tower Bersama Infrastructure Tbk, PT Solusindo Kreasi Pratama, PT Prima Media Selaras, PT Naragita Dinamika Komunika and other tower providers to lease spaces in telecommunication towers (slot) and sites of the towers for a period of 10 years. The Company and Telkomsel may extend the lease period based on the agreement by both parties. In addition, the Company and subsidiaries also have lease commitments for property and equipment under RSA, transmission installation and equipment, data processing equipment, office equipment, vehicles and CPE assets with the option to purchase certain leased assets at the end of the lease terms.

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11. PROPERTY AND EQUIPMENT (continued)

c. Others (continued)

(xi) (continued)

Future minimum lease payments for assets under finance lease are as follows:

Year	September 30, 2014	December 31, 2013
2014	993	1,070
2015	240	885
2016	895	847
2017	862	813
2018	789	754
Thereafter	2,748	2,535
Total minimum lease payments	6,527	6,904
Interest	(1,748)	(1,935)
Net present value of minimum lease payments	4,779	4,969
Current maturities (Note 18a)	(588)	(648)
Long-term portion (Note 18b)	4,191	4,321

12. ADVANCES AND OTHER NON-CURRENT ASSETS

Advances and other non-current assets as of September 30, 2014 and December 31, 2013 consist of:

	September 30, 2014	December 31, 2013
Advances for purchase of property and equipment	3,088	1,550
Prepaid rental - net of current portion (Note 8)	1,603	1,403
Frequency license - net of current portion (Note 8)	524	619
Long-term trade receivables - net of current portion (Note 6)	479	558
Deferred charges	461	529
Claim for tax refund - net of current portion (Notes 8 and 31)	199	499
Restricted cash	102	54
Others	156	82
Total	6,612	5,294

Prepaid rental covers rent of leased line and telecommunication equipment and land and building under lease agreements of the Company and subsidiaries with rental periods ranging from 1 to 20 years.

Long-term trade receivables are measured at amortized cost using the effective interest rate method payable in installments over 4 years, and arose from providing telecommunication access and services in rural areas (USO) (Note 41c.v).

As of September 30, 2014 and December 31, 2013, deferred charges represent deferred Revenue-Sharing Arrangement ("RSA") charges and deferred Indefeasible Right of Use ("IRU") Agreement charges. Total amortization of deferred charges for nine months period ended September 30, 2014 and 2013 amounted to Rp71 billion and Rp91 billion, respectively.

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12. ADVANCES AND OTHER NON-CURRENT ASSETS (continued)

As of September 30, 2014, restricted cash represents time deposits with original maturities of more than one year and cash pledged as collateral for Telkomsel's Corporate Business Solution for the USO contract (Note 41c.v) and has been settled.

As of December 31, 2013, the restricted cash represents time deposits with original maturities of more than one year and cash pledged as collateral for bank guarantees for the USO contract (Note 41c.v).

As of September 30, 2014 and December 31, 2013, restricted cash represents time deposits with original maturities of more than one year and cash pledged as collateral for bank guarantees for the USO contract (Note 41c.v) and other contracts.

As of September 30, 2014 and December 31, 2013, the carrying amount of the Company and subsidiaries' temporarily idle property and equipment amounted to Rp57 billion and Rp0 billion, respectively.

Refer to Note 37 for details of related party transactions.

13. INTANGIBLE ASSETS

- (i) The changes in the carrying amount of goodwill, software, license and other intangible assets for nine months period ended September 30, 2014 and for the year ended December 31, 2013 are as follows:

	Goodwill	Software	License	Other intangible assets	Total
Gross carrying amount:					
Balance, December 31, 2013	270	3,432	67	401	4,170
Additions	66	601	-	7	674
Reclassifications/ translations	-	-	-	6	6
Balance, September 30, 2014	336	4,033	67	414	4,850
Accumulated amortization:					
Balance, December 31, 2013	(29)	(2,278)	(37)	(318)	(2,662)
Amortization expense during the year	-	(416)	(4)	(16)	(436)
Reclassification/translation	-	(1)	-	-	(1)
Balance, September 30, 2014	(29)	(2,695)	(41)	(334)	(3,099)
Net Book Value	307	1,338	26	80	1,751
Weighted-average amortization period		7.27 years	11.67 years	18.57 years	
	Goodwill	Software	License	Other intangible assets	Total
Gross carrying amount:					
Balance, December 31, 2012	269	2,909	66	400	3,644
Additions	1	521	1	114	637
Deductions	-	(8)	-	(112)	(120)
Reclassifications/ translations	-	10	-	(1)	9
Balance, December 31, 2013	270	3,432	67	401	4,170

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13. INTANGIBLE ASSETS (continued)

	Goodwill	Software	License	Other intangible assets	Total
Accumulated amortization:					
Balance, December 31, 2012	(29)	(1,825)	(31)	(316)	(2,201)
Amortization expense during the year	-	(458)	(6)	(114)	(578)
Deductions	-	8	-	112	120
Reclassifications/ translations	-	(3)	-	-	(3)
Balance, December 31, 2013	(29)	(2,278)	(37)	(318)	(2,662)
Net Book Value	241	1,154	30	83	1,508
Weighted-average amortization period		7.51 years	11.30 years	3.63 years	

- (ii) Goodwill resulted from sales-purchase transaction of Data Center Business between Sigma and BDM in 2012 (Note 1d), acquisitions of Ad Medika in 2010 and Sigma in 2008.
- (iii) The estimated annual amortization expense of intangible assets from October 1, 2014 is approximately Rp527 billion. The remaining amortization periods of intangible assets, excluding land rights, range from 1 to 20 years.
- (iv) The aggregate amounts of goodwill allocated to each CGU are as follows:

	December 31, 2013
Sigma	88
Ad Medika	82
Total	170

Metra performed its annual impairment tests on those CGUs based on fair value less cost to sell using discounted cash flow projections. The impairment tests used management-approved cash flow projections covering a five-year period. Key assumptions used in the impairment tests are as follows:

	December 31, 2013	
	Sigma	Ad Medika
Discount rate	11.0%	14.0%
Perpetuity growth rate	4.5%	4.5%

As of December 31, 2013, no impairment charge was required for goodwill on acquisition of subsidiaries, with any reasonably possible changes to the key assumptions applied not likely to cause the carrying amounts of the CGUs to exceed their recoverable amounts.

- (v) As of September 30, 2014 the cost of fully amortized intangible assets that are still used in operations amounted to Rp554 billion.

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14. TRADE PAYABLES

	September 30, 2014	December 31, 2013
Related parties		
Purchase of equipment, materials and services	487	805
Payables to other telecommunications providers	19	21
Sub-total	506	826
Third parties		
Purchase of equipment, materials and services	10,412	9,758
Radio frequency usage charges, concession fees and Universal Service Obligation charges	532	960
Payables to other telecommunications providers	379	56
Sub-total	11,323	10,774
Total	11,829	11,600

Trade payables by currency are as follows:

	September 30, 2014	December 31, 2013
Rupiah	7,870	8,174
U.S. dollar	3,929	3,373
Others	30	53
Total	11,829	11,600

Refer to Note 37 for details of related party transactions.

15. ACCRUED EXPENSES

	September 30, 2014	December 31, 2013
Operations, maintenance and telecommunications services	3,411	2,504
Salaries and benefits	1,177	1,453
General, administrative and marketing expenses	1,782	1,126
Interest and bank charges	228	181
Total	6,598	5,264

Refer to Note 37 for details of related party transactions.

16. UNEARNED INCOME

	September 30, 2014	December 31, 2013
Prepaid pulse reload vouchers	2,531	3,117
Other telecommunications services	39	46
Others	150	327
Total	2,720	3,490

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17. SHORT-TERM BANK LOANS

Lenders	Currency	September 30, 2014		December 31, 2013	
		Outstanding		Outstanding	
		Original currency (in millions)	Rupiah equivalent	Original currency (in millions)	Rupiah equivalent
Citibank N.A	USD	100	1,221	-	-
BCA	Rp	-	1,000	-	-
Bank CIMB Niaga	Rp	-	115	-	155
PT Bank UOB Indonesia ("Bank UOB")	Rp	-	108	-	130
PT Bank Danamon Indonesia Tbk ("Bank Danamon")	Rp	-	80	-	80
Others	Rp	-	103	-	67
Total			2,627		432

Refer to Note 37 for details of related party transactions.

Other significant information relating to short-term bank loans as at September 30, 2014 is as follows:

	Borrower	Currency	Total facility (in billions)	Maturity date	Interest payment period	Interest rate per annum	Security
Citibank N.A. ^b April 22, 2014	Telkomsel	USD	0.1	November 14, 2014	Quarterly	LIBOR + 1.2%	None
BCA ^c April 15, 2014	Telkomsel	Rp	1,000	October 23, 2014	Quarterly	3 months JIBOR+2%	None
Bank CIMB Niaga April 25, 2005 ^a	Balebat	Rp	12	October 18, 2014	Monthly	11.00%	Property and equipment (Note 11), inventories (Note 7), and trade receivables (Note 6)
April 29, 2008 ^a	Balebat	Rp	10	October 18, 2014	Monthly	11.00%	Property and equipment (Note 11), inventories (Note 7), and trade receivables (Note 6)
March 21, 2013	Infomedia	Rp	38	October 18, 2015	Monthly	12.00%	Trade receivables (Note 6)
March 25, 2013	Infomedia	Rp	38	October 18, 2015	Monthly	12.00%	Trade receivables (Note 6)
March 27, 2013	Infomedia	Rp	24	October 18, 2015	Monthly	13.00%	Trade receivables (Note 6)
April 28, 2013	GSD	Rp	85	August 18, 2015	Monthly	9.75%	Property and equipment (Note 11)
September 30, 2013	GSD	Rp	50	August 18, 2015	Monthly	9.75%	Property and equipment
Bank UOB November 22, 2013	Infomedia	Rp	200	November 22, 2014	Monthly	11.32%	Trade receivables (Note 6) (Note 11)
Bank Danamon August 23, 2013	Infomedia	Rp	80	August 23, 2014	Monthly	12.00%	Trade receivables (Note 6)

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17. SHORT-TERM BANK LOANS (continued)

The credit facilities obtained by the Company's subsidiaries are used for working capital purposes.

^a based on the latest amendment on October 10, 2012

^b Payment rescheduling on November 14, 2014

^c Payment rescheduling on October 23, 2014

18. CURRENT MATURITIES OF LONG-TERM LIABILITIES

a. Current maturities

	Notes	September 30, 2014	December 31, 2013
Bank loans	21	3,575	3,956
Obligations under finance leases	11	588	648
Two-step loans	19	1,130	213
Bonds and notes	20	211	276
Total		5,504	5,093

Refer to Note 37 for details of related party transactions.

b. Long-term portion

Scheduled principal payments as of September 30, 2014 are as follows:

	Notes	Total	Year				
			2015	2016	2017	2018	Thereafter
Bank loans	21	9,007	1,792	2,242	1,868	1,721	1,384
Obligations under finance leases	11	4,191	144	562	585	566	2,334
Bonds and notes	20	2,029	10	23	1		1,995
Two-step loans	19	1,532	77	215	216	193	831
Total		16,759	2,023	3,042	2,670	2,480	6,544

19. TWO-STEP LOANS

Two-step loans are unsecured loans obtained by the Government which are then re-loaned to the Company. The loans entered into up to July 1994 were recorded and payable in rupiah based on the exchange rate at the date of drawdown. Loans entered into after July 1994 are payable in their original currencies and any resulting foreign exchange gain or loss is borne by the Company.

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19. TWO-STEP LOANS (continued)

Lenders	Currency	September 30, 2014		December 31, 2013	
		Outstanding		Outstanding	
		Original currency (in millions)	Rupiah equivalent	Original currency (in millions)	Rupiah equivalent
Overseas banks	Yen	8,063	897	8,447	979
	US\$	31	375	35	429
	Rp	-	471	-	507
Total			1,743		1,915
Current maturities (Note 18a)			(211)		(213)
Long-term portion (Note 18b)			1,532		1,702

Lenders	Currency	Payment schedule	Interest payment period	Interest rate per annum
Overseas banks	US\$	Semi-annually	Semi-annually	4.00%
	Rp	Semi-annually	Semi-annually	8.07%
	Yen	Semi-annually	Semi-annually	3.10%

The loans are intended for the development of telecommunications infrastructure and supporting telecommunication equipment. The loans are payable in semi-annual installments and are due on various dates through 2024.

Since 2008, the Company has used all facilities under the two-step loans program and the drawdown period for the two-step loans has expired.

The Company is required to maintain financial ratios as follows:

- Projected net revenue to projected debt service ratio should exceed 1.2:1 for the two-step loans originating from the Asian Development Bank ("ADB").
- Internal financing (earnings before depreciation and finance costs) should exceed 20% compared to annual average capital expenditures for loans originating from the ADB.

As of December 31, 2014, the Company complied with the above-mentioned ratios.

Refer to Note 37 for details of related party transactions.

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20. BONDS AND NOTES

Bonds and notes	Currency	September 30, 2014		December 31, 2013	
		Outstanding		Outstanding	
		Original currency (in millions)	Rupiah equivalent	Original currency (in millions)	Rupiah equivalent
Bonds					
Series A	Rp	-	1,005	-	1,005
Series B	Rp	-	1,995	-	1,995
Promissory Notes					
PT ZTE Indonesia ("ZTE")	US\$	7	82	11	136
PT Huawei	US\$	6	77	18	213
Total			3,159		3,349
Current maturities (Note 18a)			(1,130)		(276)
Long-term portion (Note 18b)			2,029		3,073

a. Bonds

Bonds	Principal	Issuer	Listed on	Issuance date	Maturity date	Interest payment period	Interest rate per annum
Series A	1,005	The Company	IDX	June 25, 2010	July 6, 2015	Quarterly	9.60%
Series B	1,995	The Company	IDX	June 25, 2010	July 6, 2020	Quarterly	10.20%
Total	3,000						

The bonds are secured by all of the Company's assets, movable or non-movable, either existing or in the future (Note 11c.x). The underwriters of the bonds are Bahana, PT Danareksa Sekuritas and PT Mandiri Sekuritas and the trustee is PT CIMB Niaga Tbk.

The Company received the proceeds from the issuance of bonds on July 6, 2010.

The funds received from the public offering of bonds net of issuance costs, are to be used for increasing capital expenditure which consisted of: wave broadband (bandwidth, softswitching, datacom, information technology and others), infrastructure (backbone, metro network, regional metro junction, internet protocol, and satellite system) and optimizing legacy and supporting facilities (fixed wireline and wireless).

As of September 30, 2014, the rating of the bonds issued by PT Pemeringkat Efek Indonesia (Pefindo) is idAAA (stable outlook).

Based on the indenture trusts agreement, the Company is required to comply with all covenants or restrictions, including maintaining financial ratios as follows:

1. Debt to equity ratio should not exceed 2:1.
2. EBITDA to finance costs ratio should not be less than 5:1.
3. Debt service coverage is 125%.

As of September 30, 2014, the Company has complied with the above mentioned ratios.

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20. BONDS AND NOTES (continued)

b. Promissory Notes

Supplier	Currency	Principal	Issuance date	Payment schedule	Interest payment period	Interest rate per annum
PT Huawei	US\$	0.3 0.2	June 19, 2009 April 30, 2013	Semi-annually (October 12, 2014 - June 23, 2016)	semi – annually	6 month LIBOR+1.5%
PT ZTE Indonesia ("ZTE")	US\$	0.1	August 20, 2009 ^a	Semi-annually (December 28, 2014 - June 15, 2016)	Semi-annually	6 month LIBOR+1.5%

Based on Agreement of Frame Supply and Deferred Payment Arrangement between the Company and ZTE and PT Huawei, the promissory notes issued by the Company to ZTE and PT Huawei are vendor financing facilities with no collateral covering 85% of Hand-over Report ("Berita Acara Serah Terima") projects with ZTE and PT Huawei.

^a based on the addendum No.1 on August 15, 2011

21. BANK LOANS

Lenders	Currency	September 30, 2014		December 31, 2013	
		Outstanding		Outstanding	
		Original currency (in millions)	Rupiah equivalent	Original currency (in millions)	Rupiah equivalent
BRI	Rp		3,873	-	3,035
Syndication of banks	Rp		2,350	-	2,426
BNi	Rp		2,721	-	1,305
Bank Mandiri	Rp		1,750	-	722
ABN Amro Bank N.V. Stockholm ("AAB Stockholm") and SCB	US\$	43	524	55	673
BCA	Rp		394	-	858
Japan Bank for International Cooperation ("JBIC")	US\$	40	490	18	219
Bank CIMB Niaga	Rp		524	-	365
Bank Bukopin	Rp		30	-	31
	US\$	1	8	1	12
Others	Rp			-	1
Total			12,664		9,647
Unamortized debt issuance cost			(82)		(56)
			12,582		9,591
Current maturities (Note 18a)			(3,5745)		(3,956)
Long-term portion (Note 18b)			9,007		5,635

Refer to Note 37 for details of related party transactions.

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21. BANK LOANS (continued)

Other significant information relating to bank loans as of September 30, 2014 is as follows:

	Borrower	Currency	Total facility (in billions)	Current period payment	Payment schedule	Interest payment period	Interest rate per annum	Security
BRI								
October 13, 2010 ^a	The Company	Rp	3,000	500	Semi-annually (2013-2015)	Quarterly	3 months JIBOR+1.25%	None
July 20, 2011 ^a	Dayamitra	Rp	1,000	180	Semi-annually (2011-2017)	Quarterly	3 months JIBOR+1.40%	Property and Equipment
April 26, 2013	GSD	Rp	141	19	Monthly (2014-2018)	Monthly	11.34%	Property and equipment (Note 11) and lease agreement
October 30, 2013	GSD	Rp	70	-	Monthly (2014-2021)	Monthly	11.34%	Property and equipment (Note 11) and trade receivables, (Note 6) and lease agreement
October 30, 2013	GSD	Rp	34	-	Monthly (2014-2021)	Monthly	11.34%	Property and equipment (Note 11) and trade receivables, (Note 6) and lease agreement
November 20, 2013	The Company	Rp	1,500	188	Semi-annually (2013-2015)	Quarterly	3 months JIBOR+2.65%	None
Syndication of banks December 19, 2012 (BNI, BRI and Bank Mandiri) ^a	Dayamitra	Rp	2,500	-	Semi annually (2014-2020)	Quarterly	3 months JIBOR+3.00%	Property and equipment (Note 11) and trade receivables (Note 6)

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21. BANK LOANS (continued)

	Borrower	Currency	Total facility (in billions)	Current period payment	Payment schedule	Interest payment period	Interest rate per annum	Security
BNI								
October 13, 2010 ^a	The Company	Rp	1,000	143	Semi-annually (2013-2015)	Quarterly	3 months JIBOR+1.25%	None
December 23, 2011 ^a	PIN	Rp	500	43	Semi-annually (2013-2016)	Quarterly	3 months JIBOR+1.50%	Inventories (Note 7) and trade receivables (Note 6)
November 28, 2012 ^a	Metra	Rp	44	9	Annually (2013-2015)	Monthly	11.00%	Property and equipment (Note 11) and trade receivables (Note 6)
March 13, 2013 ^{a&h}	Sigma	Rp	300	21	Monthly (2013-2015)	Monthly	1 month JIBOR+3.35%	Property and equipment (Note 11) and trade receivables (Note 6)
March 26, 2013 ^a	Metra	Rp	60	15	Quarterly (2013-2016)	Quarterly	11.00%	Property and equipment (Note 11) and trade receivables (Note 6)
May 2, 2013 ^a	Sigma	Rp	313	-	Monthly (2015-2021)	Monthly	1 month JIBOR+3.35%	Property and equipment (Note 11) and trade receivables (Note 6)
November 20, 2013	The Company	Rp	1,500	-	Semi-annually (2015-2017)	Quarterly	3 months JIBOR+2.65%	None
November 25, 2013 ^a	Metra	Rp	90	23	Quarterly (2013-2016)	Monthly	11.00%	Property and equipment (Note 11) and trade receivables (Note 6)
January 10, 2014	Sigma	Rp	322	-	Monthly (2016-2022)	Monthly	3 months JIBOR+3.35%	Property and equipment (Note 11) and trade receivables (Note 6)
July 21, 2014	Metra	Rp	40	-	Semi-annually (2015-2017)	Monthly	11.00%	Property and equipment (Note 11) and trade receivables (Note 6)
Bank Mandiri								
July 9, 2009 ^{b&c} and July 5, 2010 ^{b&c}	Telkomsel	Rp	5,000	472	Semi-annually (2009-2016)	Quarterly	3 months JIBOR+1.00%	None
November 20, 2013	The Company	Rp	1,500	-	Semi-annually (2015-2017)	Quarterly	3 months JIBOR+2.65%	None

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21. BANK LOANS (continued)

	Borrower	Currency	Total facility (in billions)	Current period payment	Payment schedule	Interest payment period	Interest rate per annum	Security
ABN Amro Bank N.V. Stockholm Branch ("AAB Stockholm") and SCB December 30, 2009 ^{b&d}	Telkomsel	US\$	0.3	0.01	Semi-annually (2011-2016)	Semi-annually	6 months LIBOR+0.82%	None
BCA July 9, 2009 ^{b&c} and July 5, 2010 ^{b&c}	Telkomsel	Rp	4,000	444	Semi-annually (2009-2016)	Quarterly	3 months JIBOR+1.00%	None
December 16, 2010 ^a	TII	Rp	200	20	Semi-annually (2011-2015)	Quarterly	3 months JIBOR+1.25%	None
Japan Bank for International Cooperation ("JBIC")								
March 26, 2010 ^{a&e}	The Company	US\$	0.06	0.006	Semi-annually (2010-2015)	Semi-annually	4.56%	None
March 28, 2013 ^{a&h}	The Company	US\$	0.03	0.003	Semi-annually (2014-2019)	Semi-annually	2.18% and 6 months LIBOR+1.20%	None
Bank CIMB Niaga								
March 21, 2007 ^f	GSD	Rp	21	3	Quarterly (2007-2015)	Monthly	11.00%	Property and equipment (Note 11)
July 28, 2009 ^g	Balebat	Rp	3	0.4	Monthly (2010-2015)	Monthly	11.00%	Property and equipment (Note 11), inventories (Note 7), and trade receivables (Note 6)
May 24, 2010 ^g	Balebat	Rp	2	0.5	Monthly (2010-2015)	Monthly	11.00%	Property and equipment (Note 11), inventories (Note 7), and trade receivables (Note 6)
March 31, 2011	GSD	Rp	24	2	Monthly (2011-2020)	Monthly	11.00%	Property and equipment (Note 11) and lease agreement
March 31, 2011	GSD	Rp	13	1	Monthly (2011-2019)	Monthly	11.00%	Property and equipment (Note 11) and lease agreement
March 31, 2011	GSD	Rp	12	1	Monthly (2011-2016)	Monthly	11.00%	Property and equipment (Note 11) and lease agreement
September 9, 2011	GSD	Rp	41	3	Monthly (2011-2021)	Monthly	11.00%	Property and equipment (Note 11) and lease

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21. BANK LOANS (continued)

	Borrower	Currency	Total facility (in billions)	Current period payment	Payment schedule	Interest payment period	Interest rate per annum	Security
Bank CIMB Niaga (continued) September 9, 2011	GSD	Rp	11	2	Monthly (2011-2015)	Monthly	11.00%	Property and (Note 11) and lease equipment agreement
August 2, 2012 ^a	Balebat	Rp	4	0.9	Monthly (2012-2015)	Monthly	11.00%	Property and equipment (Note 11), inventories (Note 7), and trade receivables (Note 6)
September 20, 2012 ^a	TLT	Rp	1,150	-	Monthly (2015-2030)	Monthly	3 Month JIBOR +3.45%	Property and equipment (Note 11)
September 20, 2012 ^a	TLT	Rp	118	-	Monthly (2015-2030)	Monthly	11.00%	Property and equipment (Note 11)
October 10, 2012 ^a	Balebat	Rp	1	0.3	Monthly (2012-2015)	Monthly	11.00%	Property and equipment (Note 11), inventories (Note 7), and trade receivables (Note 6)
August 26, 2013	Balebat	Rp	3.5	0.5	Monthly (2013-2018)	Monthly	11.00%	Property and equipment (Note 11), inventories (Note 7), and trade receivables (Note 6)

The credit facilities obtained by the Company and subsidiaries are used for working capital purposes.

^a As stated in the agreements, the Company and subsidiaries are required to comply with all covenants or restrictions such as on dividend distribution, obtaining new loans, including maintaining financial ratios. As of September 30, 2014, the Company and subsidiaries have complied with the ratios.

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21. BANK LOANS (continued)

- ^b Telkomsel has no collateral for its bank loans, or other credit facilities. The terms of the various agreements with Telkomsel's lenders and financiers require compliance with a number of pledges and negative pledges as well as financial and other covenants, which include, among other things, certain restrictions on the amount of dividends and other profit distributions which could adversely affect Telkomsel's capacity to comply with its obligation under the facility. The terms of the relevant agreements also contain default and cross default clauses. As of September 30, 2014, Telkomsel has complied with the above covenants.
- ^c In January 2012, the availability periods of the facilities from BCA and Bank Mandiri expired.
- ^d Pursuant to the agreements with PT Ericsson Indonesia ("Ericsson Indonesia") and Ericsson AB (Note 41a.ii), Telkomsel entered into an EKN-Backed Facility Agreement ("facility") with ABN Amro Bank N.V. Stockholm branch (as "the original lender") and Standard Chartered Bank (as "the original lender", "the arranger", "the facility agent" and "the EKN agent"), and ABN Amro Bank N.V., Hong Kong (as "the arranger") for the purchase of Ericsson telecommunication equipment and services. The facilities consist of facility 1, 2 and 3 amounting to US\$117 million, US\$106 million, and US\$95 million, respectively. The availability period of facility 1, 2 and 3 expired in July 2010, March 2011 and November 2011, respectively. In October 2011, EKN agreed to reduce the premium on the unused facility by US\$3 million through a cash refund.
- ^e In connection with the agreement with NSW-Fujitsu Consortium, the Company entered into a loan agreement with JBIC, the international arm of Japan Finance Corporation, for the purchase of NSW-Fujitsu Consortium telecommunication equipment and services. The facilities consist of facility A and B amounting to US\$36 million and US\$24 million, respectively.
- ^f Based on the latest amendment on March 31, 2011
- ^g Based on the latest amendment in 2013
- ^h In August 2013, the bank loan was rescheduled up to February 2015
- ⁱ In connection with the agreement with NEC Corporation Consortium and TE SubCom, the Company entered into a loan agreement with JBIC, for the procurement of goods and services from NEC Corporation Consortium and TE SubCom for the Southeast Asia Japan Cable System project. The facilities consist of facility A and facility B amounting to US\$18.8 million and US\$12.5 million, respectively

22. NON-CONTROLLING INTERESTS

	September 30, 2014	December 31, 2013
Non-controlling interests in net assets of subsidiaries:		
Telkomsel	16,094	16,735
Metra	84	87
GSD	108	58
Patrakom	-	2
Total	16,286	16,882
	2014	2013
Non-controlling interests in total comprehensive income (loss) of subsidiaries:		
Telkomsel	4,822	4,566
Metra	17	13
Patrakom	-	0
Napsindo	-	(4)
GSD	(5)	(4)
Total	4,834	4,571

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23. CAPITAL STOCK

September 30, 2014			
Description	Number of shares	Percentage of ownership	Total paid-up capital
Series A Dwiwarna share			
Government	1	-	
Series B shares			
Government	51,602,353,559	52.56	2,580
The Bank of New York Mellon Corporation*	9,587,633,980	9.77	479
Directors (Note 1b):			
Indra Utoyo	27,540	-	0
Honesti Basyir	540	-	0
Priyantono Rudito	540	-	0
Sukardi Silalahi	540	-	0
Public (individually less than 5%)	36,985,836,900	37.67	1,850
Total	98,175,853,600	100.00	4,909
Treasury stock (Note 25)	2,624,142,800	-	131
Total	100,799,996,400	100.00	5,040

December 31, 2013			
Description	Number of shares	Percentage of ownership	Total paid-up capital
Series A Dwiwarna share			
Government	1	-	0
Series B shares			
Government	51,602,353,559	53.14	2,580
The Bank of New York Mellon Corporation*	10,031,129,780	10.33	502
Directors (Note 1b):			
Indra Utoyo	27,540	-	0
Honesti Basyir	540	-	0
Priyantono Rudito	540	-	0
Sukardi Silalahi	540	-	0
Public (individually less than 5%)	35,467,341,100	36.53	1,773
Total	97,100,853,600	100.00	4,855
Treasury stock (Note 25)	3,699,142,800	-	185
Total	100,799,996,400	100.00	5,040

* The Bank of New York Mellon Corporation serves as the Depositary of registered ADS holders for the Company's ADSs.

The Company issued only 1 Series A Dwiwarna share which is held by the Government and cannot be transferred to any party, and has a veto in the General Meeting of Stockholders of the Company with respect to election and removal from the Boards of Commissioners and Directors, issuance of new shares, and amendments of the Company's Articles of Association.

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24. ADDITIONAL PAID-IN CAPITAL

	September 30, 2014	December 31, 2013
Proceeds from sale of 933,333,000 shares in excess of par value through IPO in 1995	1,446	1,446
Excess of value over cost of selling 211,290,500 shares treasury stock phase I (Note 25)	544	544
Difference in value arising from restructuring transactions and other transactions between entities under common control	478	478
Excess of value over cost of treasury stock transferred to employee stock ownership program (Note 25)	228	228
Capitalization into 746,666,640 Series B shares in 1999	(373)	(373)
Excess of value over cost of selling 215,000,000 shares treasury stock phase II (Note 25)	576	-
Net	2,899	2,323

Difference in value arising from restructuring transactions and other transactions of entities under common control amounting Rp478 billion arose from the early termination of the Company's exclusive rights to provide local and inter-local fixed line telecommunication services, for which the Company is required by the Government to use the funds received from this compensation for the development of telecommunication infrastructure. As of September 30, 2014 and December 31, 2013, the accumulated development of the related infrastructure amounted to Rp537 billion.

25. TREASURY STOCK

Phase	Basis	Period	Maximum Purchase	
			Number of Shares	Amount
I	EGM	December 21, 2005 - June 20, 2007	1,007,999,964	Rp5,250
II	AGM	June 29, 2007 - December, 28, 2008	215,000,000	Rp2,000
III	AGM	June 20, 2008 - December 20, 2009	339,443,313	Rp3,000
-	BAPEPAM - LK	October 13, 2008 - January 12, 2009	4,031,999,856	Rp3,000
IV	AGM	May 19, 2011 - November 20, 2012	645,161,290	Rp5,000

Movements in treasury stock as a result of the repurchase of shares are as follows:

	September 30, 2014			December 31, 2013		
	Number of shares	%	Rp	Number of shares	%	Rp
Beginning balance	3,699,142,800	3.67	5,805	5,054,652,300	5.01	8,067
Transfer to employees ownership programme	-	-	-	(299,057,000)	(0.29)	(433)
Proceeds from sale of treasury stock	(1,075,000,000)	(1.07)	(1,969)	(1,056,452,500)	(1.05)	(1,829)
Ending balance	2,624,142,800	2.60	3,836	3,699,142,800	3.67	5,805

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25. TREASURY STOCK (continued)

Pursuant to the AGM of Stockholders of the Company held on June 11, 2010, the stockholders approved the changes to the Company's plan for the treasury stock as a result of the Share Buyback I, II and III, as follows: (i) sold, through or outside stock exchange; (ii) cancellation by deduct its equity; (iii) implementation of equity stock conversion and (iv) funding.

Based on the Annual General Meeting of the Company on April 19, 2013, the Company's stockholders approved the change to the plan for the treasury stock phase III, which was decided to be used for the implementation of the Employee Stock Ownership Program ("ESOP") for the year 2013.

On May 31, 2013, the Company offered all its eligible employees and those of its subsidiaries (collectively referred to as the "participants"), the right to purchase a fixed number of its shares at a certain price. The shares have become an entitlement of the employees on the transaction dates and are no longer conditional on the satisfaction of any vesting conditions. Shares which are held by employees through the ESOP have a lock-up period that varies from 0 up to 12 months, depending on the position of the employee.

In the lock-up period, participants may not transfer shares or have shares transactions either through or outside the stock exchange.

Price per share offered was Rp10,714 and each participant received allowance (discount) of Rp5,575 per share. At the closing of this program, the Company had transferred a part of the treasury stock phase III to employees totaling 59,811,400 shares (equivalent to 299,057,000 shares after the stock split) with fair value amounting to Rp661 billion. The excess in value of treasury stock recovered over acquisition cost of the stock amounting to Rp228 billion was recorded as additional paid-in capital (Note 24).

The difference between the fair value of treasury stock and amount paid by the participants amounting to Rp353 billion is recorded in the consolidated statement of comprehensive income (Note 27).

On July 30, 2013, the Company resold 211,290,500 shares (equal to 1,056,452,500 shares after the stock split) for the repurchase of shares of treasury stock phase I with fair value amounting to Rp2,409 billion. The excess in value of the treasury stock sold over their acquisition cost amounting to Rp544 billion was recorded as additional paid-in capital (net of related costs to sell the shares) (Note 24).

On June 13, 2014, the Company resold 215,000,000 shares (equal to 1,075,000,000 shares after the stock split) for the repurchase of shares of treasury stock phase II with fair value amounting to Rp2,585 billion (including costs related to sell the shares). The excess in value of the treasury stock sold over their acquisition cost amounting to Rp576 billion was recorded as additional paid-in capital (net of costs related to sell the shares) (Note 24).

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26. REVENUES

	2014	2013
Telephone Revenues		
Cellular		
Usage charges	24,032	22,599
Features	561	504
Monthly subscription charges	439	562
	25,032	23,665
Fixed lines		
Usage charges	4,157	4,867
Monthly subscription charges	2,010	2,027
Call center	340	236
Installation charges	77	93
Others (each below Rp75 billion)	186	172
	6,770	7,395
Total Telephone Revenues	31,802	31,060
Interconnection Revenues		
Domestic interconnection and transit	2,204	2,237
International interconnection	1,432	1,396
Total Interconnection Revenues	3,636	3,633
Data, Internet, and Information Technology Service Revenues		
Internet, data communication and information technology services	13,110	13,437
Short Messaging Services ("SMS")	10,004	9,743
Voice over Internet Protocol ("VoIP")	3,696	84
E-business	105	69
Total Data, Internet, and Information Technology Service Revenues	26,915	23,333
Network Revenues		
Leased lines	495	634
Satellite transponder lease	348	277
Total Network Revenues	843	911
Other Telecommunications Service Revenues		
Customer Premise Equipment ("CPE") and terminal	1,227	889
Leases	609	467
E-Payment revenue	223	35
Directory assistance	196	208
E-health	120	93
USO compensation	89	350
Pay TV	19	267
Others	162	253
Total Other Telecommunications Service Revenues	2,645	2,562
TOTAL REVENUES	65,841	61,499

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26. REVENUES (continued)

The details of net revenues received by the Company and subsidiaries from agency relationships for nine months period ended September 30, 2014 and 2013 are as follows:

	2014	2013
Gross revenues	13,403	13,630
Compensation to value added service providers	(293)	(193)
Net revenues	13,110	13,437

Refer to Note 37 for details of related party transactions.

27. PERSONNEL EXPENSES

	2014	2013
Salaries and related benefits	2,739	2,523
Vacation pay, incentives and other benefits	2,554	2,213
Employees' income tax	1,050	898
Net periodic pension costs (Note 34)	392	656
Housing	167	163
Insurance	76	73
Net periodic post-retirement health care benefit costs (Note 36)	56	281
Others (each below Rp75 billion)	181	160
Total	7,215	6,967

Refer to Note 37 for details of related party transactions.

28. OPERATIONS, MAINTENANCE AND TELECOMMUNICATION SERVICE EXPENSES

	2014	2013
Operations and maintenance	9,607	7,879
Radio frequency usage charges (Notes 41c.i and 41c.ii)	2,392	2,301
Concession fees and Universal Service Obligation charges	1,375	1,150
Electricity, gas and water	827	752
Leased lines and CPE	539	439
Cost of phone, set top box, SIM and RUIM cards	459	495
Vehicles rental and supporting facilities	438	301
Cost of IT services	279	369
Insurance	249	287
Others (each below Rp75 billion)	441	142
Total	16,606	14,115

Refer to Note 37 for details of related party transactions.

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29. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013
General expenses	608	495
Provision for impairment of receivables and inventory obsolescence (Notes 6d and 7)	375	569
Training, education and recruitment	374	254
Travelling	254	227
Professional fees	220	178
Meetings	126	97
Social contribution	80	72
Collection expenses	78	244
Others (each below Rp75 billion)	275	262
Total	2,390	2,398

Refer to Note 37 for details of related party transactions.

30. INTERCONNECTION EXPENSES

	2014	2013
Domestic interconnection and transit	2,796	2,730
International interconnection	884	906
Total	3,680	3,636

Refer to Note 37 for details of related party transactions.

31. TAXATION

a. Claims for tax refund

	September 30, 2014	December 31, 2013
The Company		
Value added tax ("VAT")	142	142
Subsidiaries		
Value added tax ("VAT")	299	306
Import duties	0	10
Corporate income tax	57	38
Income tax		
Article 23 - Withholding tax on service delivery	-	13
Total claims for tax refund	498	509
Short-term portion	(299)	(10)
Long-term portion	199	499

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31. TAXATION

b. Prepaid taxes

	September 30, 2014	December 31, 2013
Subsidiaries		
Corporate income tax	46	58
VAT	843	445
Income tax		
Article 22 - Withholding tax on purchase goods	3	-
Article 23 - Withholding tax on service delivery	69	22
	961	525

c. Taxes payable

	September 30, 2014	December 31, 2013
The Company		
Income taxes		
Article 4 (2) - Final tax	15	11
Article 21 - Individual income tax	89	34
Article 22 - Withholding tax on goods delivery and imports	8	5
Article 23 - Withholding tax on service delivery	10	12
Article 24 - Foreign tax credit limitation	0	-
Article 25 - Installment of corporate income tax	0	53
Article 26 - Withholding tax on non-resident income	1	1
Article 29 - Corporate income tax	113	165
VAT	412	441
	648	722
Subsidiaries		
Income taxes		
Article 4 (2) - Final tax	57	48
Article 21 - Individual income tax	71	82
Article 23 - Withholding tax on service delivery	54	34
Article 25 - Installment of corporate income tax	490	440
Article 26 - Withholding tax on non-resident income	8	16
Article 29 - Corporate income tax	504	284
VAT	-	72
	1,184	976
	1,832	1,698

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31. TAXATION (continued)

d. The components of income tax expense (benefit) are as follows:

	2014	2013
Current		
The Company	708	607
Subsidiaries	4,797	4,714
	<u>5,505</u>	<u>5,321</u>
Deferred		
The Company	(23)	(63)
Subsidiaries	(47)	(138)
	<u>(70)</u>	<u>(201)</u>
	<u>5,435</u>	<u>5,120</u>

The reconciliation between the income tax expense calculated by applying the applicable tax rate of 20% to the profit before income tax less income subject to final tax, and the net income tax expense as shown in the consolidated statement of comprehensive income is as follows:

	2014	2013
Profit before income tax	21,715	20,748
Less income subject to final tax	(1,246)	(618)
	<u>20,469</u>	<u>20,130</u>
Tax calculated at the Company's applicable statutory tax rate of 20%	4,094	4,026
Difference in applicable statutory tax rate for subsidiaries	951	897
Non-deductible expenses	312	298
Final income tax expenses	72	45
Others	6	(146)
Net income tax expense	<u>5,435</u>	<u>5,120</u>

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31. TAXATION (continued)

d. The components of income tax expense (benefit) are as follows: (continued)

The reconciliation between the profit before income tax and the estimated taxable income of the Company for the nine months period ended September 30, 2014 and 2013 is as follows:

	2014	2013
Profit before income tax	21,715	20,750
Add back consolidation eliminations	9,487	8,987
Consolidated profit before income tax and eliminations	31,202	29,737
Less profit before income tax of the subsidiaries	(18,828)	(18,182)
Profit before income tax attributable to the Company	12,374	11,555
Less income subject to final tax	(507)	(300)
	11,867	11,255
Temporary differences:		
Provision for impairment and trade receivables written-off	270	(46)
Provision for personnel expenses benefits costs	(350)	(490)
Net periodic pension and other post-retirement	210	315
Provision for impairment of assets	190	-
Deferred installation fee	0	(25)
Payment of provision for early retirement program	0	(699)
Depreciation and gain on sale of property and equipment	(183)	25
Finance lease	(8)	322
Other provisions	2	187
Net temporary differences	131	(411)
Permanent differences:		
Donations	167	161
Employee benefits	161	148
Net periodic post-retirement health care benefit costs	55	281
Equity in net income of associates and subsidiaries	(9,496)	(9,000)
Others	297	387
Net permanent differences	(8,816)	(8,023)
Taxable income of the Company	3,182	2,821
Current corporate income tax expense	636	563
Final income tax expense	72	44
Total current income tax expense of the Company	708	607
Current income tax expense of the subsidiaries	4,797	4,714
Total current income tax expense	5,505	5,321

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31. TAXATION (continued)

- d. The components of income tax expense (benefit) are as follows: (continued)

Tax Law No. 36/2008 which further regulated in Government Regulation No. 77/2013 stipulates a reduction of 5% from the top rate applicable to qualifying listed companies, for those whose stocks are traded in the IDX which meet the prescribed criteria that the public owns 40% or more of the total fully paid and traded shares, and such shares are owned by at least 300 parties, with each party owning less than 5% of the total paid-up shares. These requirements must be met by a company for a period of 183 days in one tax year. The Company has met all of the required criteria; therefore, for purposes of calculating income tax expense and liabilities for the financial reporting periods of September 30, 2014 and December 31, 2013, the Company has reduced the applicable tax rate by 5%.

The Company applied a tax rate of 20% for the nine months period ended September 30, 2014 and for the year ended December 31, 2013. The subsidiaries applied a tax rate of 25% for the nine months period ended September 30, 2014 and for the year ended December 31, 2013.

- e. Tax assessment

- (i) The Company

The Directorate General of Tax ("DGT") assessed the Company for Value Added Tax, withholding income taxes and corporate income tax for fiscal year 2011. Tax assessment for the fiscal year 2008 has been completed with the issuance of Tax Assessment Letter (SKP) No. SPHP-2/WPJ.19/KP.03/2014 regarding notice of workup with no correction for Income Tax Article 21/22/23/26 and 4 (2).

In November 2013, the Company received SKPKBs No. 00056/207/07/093/13 to No. 00065/207/07/093/13 dated November 15, 2013, for the underpayment of Value Added Tax (VAT) for the fiscal year January - September and November 2007 of Rp142 billion. On January 2014, the Company filed an objection to the Tax Authorities regarding the underpayment of VAT. As of the issuance date of the consolidated financial statements, the Tax Authorities have not yet issued their decision on the objection.

As of January 20, 2014, the Company submitted the objection letter for SKPKB of underpayment of VAT year 2007 which was received by the Company on November 2013.

- (ii) Telkomsel

On April 21, 2010, the Tax Authorities filed a judicial review request to the SC for the Tax Court's acceptance of Telkomsel's request to cancel the Tax Collection Letter (STP) for the underpayment of December 2008 Income Tax Article 25 amounting to Rp429 billion (including a penalty of Rp8 billion). In May 2010, Telkomsel filed a contra-appeal to the SC. As of the date of approval and authorization for issuance of these consolidated financial statements, the judicial review is still in process.

On August 10, 2010, the Tax Authorities filed a judicial review request to the SC for the Tax Court's acceptance of Telkomsel's appeal on 2004 and 2005 VAT totaling Rp215 billion. In September 2010, Telkomsel filed a contra-appeal to the SC. Based on its verdict which was received in June 2014, the SC decided to reject the request from the tax authorities. The SC verdict is legally binding in favour of Telkomsel.

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31. TAXATION (continued)

e. Tax assessment (continued)

(ii) Telkomsel (continued)

In May and June 2012, Telkomsel received the refund of penalty of 2010 Income Tax Article 25 underpayment amounting to Rp15.7 billion based on the Tax Court's verdict. On July 17, 2012, the Tax Authorities filed a judicial review request to the SC on the Tax Court's verdict. On September 14, 2012, Telkomsel filed a contra-appeal to the SC. As of the date of approval and authorization for issuance of these consolidated financial statements, the judicial review is still in process.

On March 12, 2012, Telkomsel received assessment letters as a result of a tax audit for the fiscal year 2010 by the Tax Authorities. Based on the letters, Telkomsel overpaid corporate income tax and underpaid VAT amounting to Rp597.4 billion and Rp302.7 billion (including penalty of Rp73.3 billion), respectively. Telkomsel accepted the assessment on the overpayment of corporate income tax and Rp12.1 billion of the underpayment of the VAT (including penalty of Rp6.3 billion). The accepted portion was charged to the 2012 consolidated statement of comprehensive income. On April 5, 2012, Telkomsel received a refund for the overpayment of corporate income tax for fiscal year 2010 amounting to Rp294.7 billion, net of underpayment of VAT. On May 24, 2012, Telkomsel filed an objection to the Tax Court for the underpayment of VAT of Rp290.6 billion (including penalty of Rp67 billion) and recorded it as a claim for tax refund. On May 1, 2013, the Tax Authorities rejected Telkomsel's objection. Subsequently, on July 29, 2013, Telkomsel filed an appeal to the Tax Court. As of the date of approval and authorization for the issuance of these consolidated financial statements, the appeal is still in process.

In December 2013, the Tax Court accepted Telkomsel's appeal on 2006 VAT and withholding taxes totaling Rp116 billion. In February 2014, Telkomsel has recognized the claim.

On January 22, 2014, Telkomsel received appeal from Tax Court related to tax claim for Import VAT. Based on the decision, Tax Court accepted the tax claim of Telkomsel partially. In February 2014, Telkomsel has planned to disburse the portion that was received from the claim amounted to Rp8.5 billion. As of the date of the release of this consolidated financial statement, the refund is still in progress.

f. Deferred tax assets and liabilities

The details of the Company and subsidiaries' deferred tax assets and liabilities are as follows:

	December 31, 2013	(Charged) credited to the consolidated comprehensive income	September 30, 2014
The Company			
Deferred tax assets:			
Provision for impairment of receivables	446	54	500
Net periodic pension and other post-retirement benefits costs	213	42	255
Employee benefit provisions	143	(73)	70
Deferred connection fee	70	0	70
Accrued expenses and provision for inventory obsolescence	27	(1)	26
Total deferred tax assets	899	22	921

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31. TAXATION (continued)

f. Deferred tax assets and liabilities (continued)

	December 31, 2013	(Charged) credited to the consolidated statements of comprehensive income	September 30, 2014
Deferred tax liabilities:			
Finance leases	9	(2)	7
Land rights, intangible assets, and others	(11)	2	(9)
Valuation of long-term investment	(70)	0	(70)
Difference between accounting and tax bases of property and equipment	(1,543)	(1)	1,542
Total deferred tax liabilities	(1,615)	1	(1,614)
Deferred tax liabilities of the Company - net	(716)	23	(693)
Telkomsel			
Deferred tax assets:			
Employee benefit provisions	254	1	255
Provision for impairment of receivables	122	18	140
Recognition of interest based on agreement	0	(4)	(4)
Total deferred tax assets	376	15	391
Deferred tax liabilities:			
Recognition of interest under USO arrangements			
Intangible assets	(62)	1	(61)
Finance leases	(121)	(98)	(219)
Difference between accounting and tax bases of property and equipment	(2,268)	168	(2,100)
Total deferred tax liabilities	(2,451)	71	(2,380)
Deferred tax liabilities of Telkomsel - net	(2,075)	86	(1,989)
Deferred tax liabilities of other subsidiaries - net	(213)	(54)	(267)
Deferred tax liabilities - net	(3,004)	55	(2,949)
Deferred tax assets - net	82	16	98

	December 31, 2012	(Charged) credited to the consolidated statements of comprehensive income	Acquisition/ divestment of subsidiaries	December 31, 2013
The Company				
Deferred tax assets:				
Provision for impairment of receivables	276	170	-	446
Net periodic pension and other post-retirement benefits costs	129	84	-	213
Employee benefit provisions	173	(30)	-	143
Deferred connection fee	54	16	-	70
Accrued expenses and provision for inventory obsolescence	22	5	-	27
Provision for early retirement expense	140	(140)	-	-
Total deferred tax assets	794	105	-	899

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31. TAXATION (continued)

f. Deferred tax assets and liabilities (continued)

	December 31, 2012	(Charged) credited to the consolidated statements of comprehensive income	Acquisition/ divestment of subsidiaries	December 31, 2013
Deferred tax liabilities:				
Finance leases	(64)	73	-	9
Land rights, intangible assets, and others	(14)	3	-	(11)
Valuation of long-term investment	0	(70)	-	(70)
Difference between accounting and tax bases of property and equipment	(1,581)	38	-	(1,543)
Total deferred tax liabilities	(1,659)	44	-	(1,615)
Deferred tax liabilities of the Company - net	(865)	149	-	(716)
Telkomsel				
Deferred tax assets:				
Employee benefit provisions	206	48	-	254
Provision for impairment of receivables	118	4	-	122
Recognition of interest under USO arrangements	6	(6)	-	0
Total deferred tax assets	330	46	-	376
Deferred tax liabilities:				
Intangible assets	(44)	(18)	-	(62)
Finance leases	(22)	(99)	-	(121)
Difference between accounting and tax bases of property and equipment	(2,363)	95	-	(2,268)
Total deferred tax liabilities	(2,429)	(22)	-	(2,451)
Deferred tax liabilities of Telkomsel - net	(2,099)	24	-	(2,075)
Deferred tax liabilities of other subsidiaries - net	(95)	(109)	(9)	(213)
Deferred tax liabilities - net	(3,059)	64	(9)	(3,004)
Deferred tax assets - net	89	71	(78)	82

As of September 30, 2014 and December 31, 2013, the aggregate amounts of temporary differences associated with investments in subsidiaries and associated companies, for which deferred tax liabilities have not been recognized were Rp22,791 billion and Rp24,252 billion, respectively.

Realization of the deferred tax assets is dependent upon the Company and subsidiary's capability in generating future profitable operations. Although realization is not assured, the Company and subsidiaries believe that it is probable that these deferred tax assets will be realized through reduction of future taxable income when temporary differences reverse. The amount of deferred tax assets is considered realizable; however, it could be reduced if actual future taxable income is lower than estimates.

g. Administration

Since 2008 to 2013, the Company has been consecutively entitled to income tax rate reduction of 5% for meeting the requirements in accordance with the Government Regulation No. 81/2007 in conjunction with the Ministry of Finance Regulation No. 238/PMK.03/2008. On the basis of historical data, for the year 2013, the Company calculates the deferred tax using the tax rate of 20%.

The taxation laws of Indonesia require that the Company and subsidiaries submit individual tax returns on the basis of self-assessment. Under prevailing regulations, the DGT may assess or amend taxes within a certain period. For fiscal years 2007 and earlier, this period is within ten years of the time the tax became due, but not later than 2013, while for fiscal years 2008 and onwards, the period is within five years of the time the tax became due.

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31. TAXATION (continued)

g. Administration (continued)

The Minister of Finance of the Republic of Indonesia has issued Regulation No.85/PMK.03/2012 dated June 6, 2012 concerning the appointment of State-Owned Enterprises ("SOEs") to withhold, deposit and report VAT and Sales Tax on Luxury Goods ("PPnBM") according to the procedures outlined in the Regulation which is effective from July 1, 2012. The Minister of Finance of the Republic Indonesia also has issued Regulation No.224/PMK.011/2012 dated December 26, 2012 concerning the appointment of SOEs to withhold income tax article 22 which is effective from February 23, 2013. The Company has withheld, deposited, and reported the VAT and PPnBM or VAT and also income tax article 22 in accordance with the Regulation.

No tax audit has been conducted for fiscal years 2003, 2005, 2006, 2007, 2009, and 2010 on the Company. Tax audits have been completed for all other fiscal years, except for fiscal year 2011.

The Company received a certificate of tax audit exemption from the DGT for fiscal years 2007, 2008, 2009 and 2010, 2012 which is valid unless the Company files for corporate income tax overpayment, in which case a tax audit will be performed.

32. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is computed by dividing profit for the year attributable to owners of the parent company amounting to Rp11,446 billion and Rp11,057 billion by the weighted average number of shares outstanding during the period totaling 97,534,003,783 and 96,108,544,541 (after stock split) for nine months period ended September 30, 2014 and 2013, respectively.

Basic earnings per share amounted to Rp117.36 and Rp115.05 (in full amount) for nine months period ended September 30, 2014 and 2013, respectively.

The calculation of basic earning per share for nine months period ended September 30, 2013 has been retrospectively adjusted in connection with the Company's stock split (Note 1c).

No diluted earnings per share is computed because the Company does not have potentially dilutive financial investments for nine months period ended September 30, 2014 and for the year ended December 31, 2013.

33. CASH DIVIDENDS AND GENERAL RESERVE

In the AGM of Stockholders of the Company as stated in notarial deed No. 38 dated April 19, 2013 of Ashoya Ratam,S.H.,MKn., the Company's stockholders agreed on the distribution of cash dividend and special cash dividend for 2012 amounting to Rp7,068 billion and Rp1,285 billion, respectively. On June 18, 2013, the Company paid the cash dividend and special cash dividend totalling Rp8,353 billion.

In the AGM of Stockholders of the Company as stated in notarial deed No. 4 dated April 4, 2014 of Ashoya Ratam,S.H.,MKn., the Company's stockholders agreed on the distribution of cash dividend and special cash dividend for 2013 amounting to Rp7,813 billion and Rp2,131 billion, respectively. On May 19, 2014, the Company paid the cash dividend and special cash dividend totalling Rp9,943 billion.

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33. CASH DIVIDENDS AND GENERAL RESERVE (continued)

Appropriation of Retained Earnings

Under the Limited Liability Company Law, the Company is required to establish a statutory reserve amounting to at least 20% of its issued and paid-up capital.

The balance of the appropriated retained earnings of the Company as of September 30, 2014 and December 31, 2013 amounted to Rp15,337 billion.

34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS

	September 30, 2014	December 31, 2013
Prepaid pension benefit costs		
The Company	908	927
Infomedia	-	-
Prepaid pension benefit costs	908	927
Pension benefit costs provision and other post-employment benefit		
Pension		
The Company	1,812	1,644
Telkomsel	598	613
Pension benefit costs provisions	2,410	2,257
Other post-retirement benefits	371	349
Obligation under the Labor Law	202	189
Pension benefit costs provision and other post-employment benefits	2,983	2,795
Net periodic pension costs		
The Company	309	678
Telkomsel	83	194
Infomedia	-	1
Net periodic pension costs (Note 27)	392	873
Other post-retirement benefit costs (Note 27)	46	66
Employee benefit costs under the Labor Law	23	17

a. Prepaid pension benefit costs

The Company sponsors a defined benefit pension plan to employees with permanent status prior to July 1, 2002. The pension benefits are paid based on the participating employees' latest basic salary at retirement and the number of years of their service. The plan is managed by Telkom Pension Fund ("Dana Pensiun Telkom" or "Dapen"). The participating employees contribute 18% (before March 2003: 8.4%) of their basic salaries to the pension fund. The Company's contributions to the pension fund for nine months period ended September 30, 2014 and for the year ended December 31, 2013 amounted to Rp nil billion and Rp182 billion, respectively.

The following table presents the change in projected pension benefits obligation, change in pension plan assets, funded status of the pension plan and net amount recognized in the Company's consolidated statement of financial position for nine months period ended September 30, 2014 and for the year ended December 31, 2013 for its defined benefit pension plan:

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34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS
(continued)

a. Prepaid pension benefit costs (continued)

	September 30, 2014	December 31, 2013
Change in projected pension benefits obligation		
Projected pension benefits obligation at beginning of period	14,883	19,249
Service costs	192	450
Interest costs	1,001	1,183
Pension plan participants' contributions	34	44
Actuarial (gains) losses	754	(5,387)
Expected pension benefits paid	(544)	(656)
Projected pension benefits obligation at end of period	16,320	14,883
Change in pension plan assets		
Fair value of pension plan assets at beginning of period	16,803	18,222
Expected return on pension plan assets	1,232	1,485
Employer's contributions	-	182
Pension plan participants' contributions	34	44
Actuarial gains (losses)	754	(2,474)
Expected pension benefits paid	(544)	(656)
Fair value of pension plan assets at end of period	18,279	16,803
Funded status	1,959	1,920
Unrecognized prior service costs	20	78
Unrecognized net actuarial (gains) losses	(1,071)	(1,071)
Prepaid pension benefit costs	908	927

The expected return is determined based on market expectation for returns over the entire life of the obligation by considering the portfolio mix of the plan assets. The actual return on plan assets was Rp 1,981 billion and (Rp989) billion for nine months period ended September 30, 2014 and for the year ended December 31, 2013, respectively. Based on the Company's regulation issued on January 14, 2014 regarding Dapen's Funding Policy, the Company will not give contribution to Dapen when Dapen's Funding Sufficiency Ratio (FSR) is above 105%. Therefore, the Company expects no contribution to defined benefit pension plan in 2014.

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34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS (continued)

a. Prepaid pension benefit costs (continued)

Based on company regulations published on July 1, 2014, in respect of pension regulatory by Dana Pensiun Telkom, there is an increasing in monthly benefits given to the pensionary, widow/widower or the child of participants who stop working before the month ended of June, 2002.

The movements of the prepaid pension benefit costs during nine months period ended September 30, 2014 and for the year ended December 31, 2013 are as follows:

	September 30, 2014	December 31, 2013
Prepaid pension benefit costs at beginning of period	(927)	(1,031)
Net periodic pension costs less amounts charged to subsidiaries	(19)	265
Amounts charged to subsidiaries under contractual agreement	-	21
Employer's contributions	-	(182)
Prepaid pension benefit costs at end of period	(908)	(927)

As of September 30, 2014 and December 31, 2013, pension plan assets mainly consisted of :

	September 30, 2014	December 31, 2013
Government bonds	37.09%	40.30%
Indonesian equity securities	22.70%	21.97%
Corporate bonds	18.45%	21.19%
Others	21.76%	16.54%
Total	100.00%	100.00%

Pension plan assets also include Series B shares issued by the Company with fair values totaling Rp364 billion and Rp336 billion, representing 1.99% and 2.00% of total plan assets as of September 30, 2014 and December 31, 2013, respectively, and bonds issued by the Company with fair values totaling Rp151 billion representing 0.83% and 0.90% of total plan assets as of September 30, 2014 and December 31, 2013, respectively.

The actuarial valuation for the defined benefit pension plan and the other post-retirement benefits (Notes 34b and 34c) was performed based on the measurement date as of December 31, 2013 and 2012, with reports dated February 28, 2014 and February 28, 2013, respectively, by PT Towers Watson Purbajaga ("TWP"), an independent actuary in association with Towers Watson ("TW") (formerly Watson Wyatt Worldwide). The principal actuarial assumptions used by the independent actuary as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Discount rate	9.00%	6.25%
Expected long-term return on pension plan assets	9.75%	8.25%
Rate of compensation increases	8.00%	8.00%

The components of net periodic pension costs are as follows:

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34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS
(continued)

a. Prepaid pension benefit costs (continued)

	September 30, 2014	December 31, 2013
Service costs	192	450
Interest costs	1,001	1,183
Expected return on pension plan assets	(1,232)	(1,485)
Amortization of prior service costs	58	139
Net periodic pension costs	19	287
Amount charged to subsidiaries under contractual agreements	-	(21)
Net periodic pension costs less amounts charged to subsidiaries (Note 27)	19	266

b. Pension benefit costs provisions

(i) The Company

The Company sponsors unfunded defined benefit pension plans and a defined contribution pension plan for its employees.

The defined contribution pension plan is provided to employees hired with permanent status on or after July 1, 2002. The plan is managed by Financial Institutions Pension Fund ("Dana Pensiun Lembaga Keuangan" or "DPLK"). The Company's contribution to DPLK is determined based on a certain percentage of the participants' salaries and amounted to Rp4 billion and Rp6 billion for nine months period ended September 30, 2014 and for the year ended December 31, 2013, respectively.

Since 2007, the Company has provided pension benefit based on uniformulation for both participants prior to and from April 20, 1992 effective for employees retiring beginning February 1, 2009. The change in benefit had increased the Company's obligations by Rp699 billion, which is amortized over 9.9 years until 2016. In 2010, the Company replaced the uniformulation with Manfaat Pensiun Sekaligus ("MPS"). MPS is given to those employees reaching retirement age, upon death or upon being disabled starting from February 1, 2009. The change in benefit had increased the Company's obligations by Rp435 billion, which is amortized over 8.63 years until 2018.

The Company also provides benefits to employees during a pre-retirement period in which they are inactive for 6 months prior to their normal retirement age of 56 years, known as pre-retirement benefits ("Masa Persiapan Pensiun" or "MPP"). During the pre-retirement period, the employees still receive benefits provided to active employees, which include, but are not limited to, regular salary, health care, annual leave, bonus and other benefits. Since 2012, the Company has issued a new requirement for MPP effective for employees retiring beginning April 1, 2012, whereby the employee is required to file a request for MPP and if the employee does not file the request, he or she is required to work until the retirement date.

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34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS
(continued)

b. Pension benefit costs provisions (continued)

(i) The Company (continued)

The following table presents the change in projected benefits obligation of MPS and MPP for for nine months period ended September 30, 2014 and for the year ended December 31, 2013:

	September 30, 2014	December 31, 2013
Change in projected benefits obligation		
Unfunded projected benefits obligation at beginning of year	2,200	2,436
Service costs	60	97
Interest costs	146	150
Actuarial gains	(55)	(342)
Benefits paid by employer	(66)	(141)
Unfunded projected benefits obligation at end of year	2,285	2,200
Unrecognized prior service costs	(407)	(506)
Unrecognized net actuarial losses	(66)	(50)
Pension benefit costs provisions at end of period	1,812	1,644

Movements of the pension benefit costs provisions during nine months period ended September 30, 2014 and for the year ended December 31, 2013:

	September 30, 2014	December 31, 2013
Pension benefit costs provisions at beginning of year	1,644	1,373
Total periodic pension costs	290	412
Employer's contributions	(122)	(141)
Pension benefit costs provisions at end of period	1,812	1,644

The principal actuarial assumptions used by the independent actuary based on the measurement date as of December 31, 2013 and 2012 are as follow:

	December 31, 2013	December 31, 2012
Discount rate	9.00%	6.25%
Rate of compensation	8.00%	8.00%

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34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS
(continued)

b. Pension benefit costs provisions (continued)

(i) The Company (continued)

The components of total periodic pension costs are as follows:

	September 30, 2014	December 31, 2013
Service costs	60	97
Interest costs	146	150
Amortization of prior service costs	100	132
Recognized actuarial (gains) losses	(16)	33
Total periodic pension costs (Note 27)	290	412

(ii) Telkomsel

Telkomsel provides a defined benefit pension plan to its employees. Under this plan, employees are entitled to pension benefits based on their latest basic salary or take-home pay and the number of years of their service. PT Asuransi Jiwasraya ("Jiwasraya"), a state-owned life insurance company, manages the plan under an annuity insurance contract. Until 2004, the employees contributed 5% of their monthly salaries to the plan and Telkomsel contributed any remaining amount required to fund the plan. Starting 2005, the entire contributions are fully made by Telkomsel.

The following table presents the change in projected pension benefits obligation, change in pension plan assets, funded status of the pension plan and net amount recognized in the Company's consolidated statement of financial position for nine months period ended September 30, 2014 and for the year ended December 31, 2013 of its defined benefit pension plan:

	September 30, 2014	December 31, 2013
Change in projected pension benefits obligation		
Projected pension benefits obligation at beginning of year	899	1,472
Service cost	55	130
Interest cost	61	88
Actuarial gains	-	(789)
Expected pension benefits paid	-	(2)
Projected pension benefits obligation at end of year	1,015	899

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34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS
(continued)

b. Pension benefit costs provisions (continued)

(ii) Telkomsel (continued)

	September 30, 2014	December 31, 2013
Changes in pension plan asset		
Fair value of pension plan assets at beginning of year	439	666
Expected return on pension plan assets	-	40
Employers contributions	98	-
Actuarial losses	-	(265)
Expected pension benefits paid	-	(2)
	<u>537</u>	<u>439</u>
Fair value of pension plan assets at end of year		
	<u>537</u>	<u>439</u>
Funded status	(478)	(460)
Unrecognized items in the consolidated statement of financial position:		
Prior service costs	0	0
Net actuarial loss	(120)	(153)
	<u>(598)</u>	<u>(613)</u>
Pension benefit costs provisions	(598)	(613)

The components of the net periodic pension costs are as follows:

	September 30, 2014	December 31, 2013
Service costs	55	130
Interest costs	61	88
Expected return on pension plan assets	(30)	(40)
Amortization of past service costs	0	1
Recognized actuarial (gain) losses	(3)	15
	<u>83</u>	<u>194</u>
Net periodic pension costs (Note 27)	83	194

The net periodic pension costs for the pension plan was calculated based on actuary measurement date as of December 31, 2013 and 2012, with reports dated February 20, 2014 and February 12, 2013, respectively, by TWP, an independent actuary in association with TW. The principal actuarial assumptions used by the independent actuary based on the measurement date as of December 31, 2013 and 2012, are as follows:

	December 31, 2013	December 31, 2012
Discount rate	9.00%	6.00%
Expected long-term return on plan assets	9.00%	6.00%
Rate of compensation increases	6.50%	6.50%

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34. RETIREMENT BENEFIT AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS
(continued)

c. Other post-retirement benefits

The Company provides other post-retirement benefits in the form of cash paid to employees on their retirement or termination. These benefits consist of last housing allowance ("Biaya Fasilitas Perumahan Terakhir" or "BFPT") and home passage leave ("Biaya Perjalanan Pensiun dan Purnabhakti" or "BPP").

Movements of the other post-retirement benefit costs provisions for nine months period ended September 30, 2014 and for the year ended December 31, 2013:

	September 30, 2014	Desember 31, 2013
Other post-retirement benefit costs provisions at beginning of year	349	310
Other post-retirement benefit costs	46	66
Other post-retirement benefits paid by the Company	(24)	(27)
Net other post-retirement benefit costs provisions at end of period	371	349

The principal actuarial assumptions used by the independent actuary as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Discount rate	9.00%	6.25%
Rate of compensation	8.00%	8.00%

Components of the total periodic other post-retirement benefit costs for nine months period ended September 30, 2014 and for the year ended December 31, 2013:

	September 30, 2014	December 31, 2013
Service costs	7	11
Interest costs	29	30
Amortization of past service costs	5	7
Recognized actuarial losses	5	18
Other post-retirement benefit costs (Note 27)	46	66

d. Obligation under the Labor Law

Under Law No. 13 Year 2003, the Company and subsidiaries are required to provide minimum pension benefit, if not covered yet by the sponsored pension plans, to their employees upon retirement age. The total related obligation recognized as of September 30, 2014 and December 31, 2013 amounted to Rp202 billion and Rp189 billion, respectively. The related employee benefit costs charged to expense amounted to Rp23 billion and Rp17 billion for nine months period ended September 30, 2014 and for the year ended December 31, 2013, respectively.

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35. LONG SERVICE AWARDS (“LSA”)

Telkomsel provides certain cash awards or certain number of days leave benefits to its employees based on the employees’ length of service requirements, including LSA and LSL. LSA are either paid at the time the employees reach certain years during employment, or at the time of termination. LSL are either certain number of days leave benefit or cash, subject to approval by management, provided to employees who meet the requisite number of years of service and with a certain minimum age.

The obligation with respect to these awards was determined based on an actuarial valuation using the Projected Unit Credit method, and amounted to Rp352 billion and Rp336 billion as of September 30, 2014 and December 31, 2013, respectively. The related benefit costs charged to expense amounted to Rp47 billion and Rp19 billion for nine months ended September 30, 2014 and for the year ended December 31, 2013, respectively (Note 27).

36. POST-RETIREMENT HEALTH CARE BENEFITS

The Company provides a post-retirement health care plan to all of its employees hired before November 1, 1995 who have worked for the Company for 20 years or more when they retire, and to their eligible dependents. The requirement to work for 20 years does not apply to employees who retired prior to June 3, 1995. The employees hired by the Company starting from November 1, 1995 are no longer entitled to this plan. The plan is managed by Yakes.

The defined contribution post-retirement health care plan is provided to employees hired with permanent status on or after November 1, 1995 or employees with terms of service less than 20 years at the time of retirement. The Company’s contribution amounted to Rp15 billion and Rp17 billion for nine months period ended September 30, 2014 and for the year ended December 31, 2013, respectively.

The following table presents the change in the projected post-retirement health care benefits obligation, change in post-retirement health care benefits plan assets, funded status of the post-retirements health care benefits plan and net amount recognized in the Company’s consolidated statement of financial position as of September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Change in projected post-retirement health care benefits obligation		
Projected post-retirement health care benefits obligation at beginning of year	10,653	13,162
Service costs	34	70
Interest costs	706	813
Actuarial losses (gains)	468	(3,099)
Expected post-retirement health care benefits paid	(279)	(293)
Projected post-retirement health care benefits obligation at end of period	11,582	10,653

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36. POST-RETIREMENT HEALTH CARE BENEFITS (continued)

Change in post-retirement health care benefits plan assets

	September 30, 2014	December 31, 2013
Fair value of plan assets at beginning of year	9,661	9,913
Expected return on plan assets	683	744
Employer's contributions	205	302
Actuarial gains (losses)	468	(1,005)
Expected post-retirement health care paid	(279)	(293)
Fair value of plan assets at end of period	10,738	9,661
Funded status	(844)	(992)
Unrecognized net actuarial losses	240	240
Post-retirement health care benefit costs provisions	(604)	(752)

As of September 30, 2014 and December 31, 2013, plan assets mainly consisted of:

	September 30, 2014	December 31, 2013
Mutual funds	73.16%	81.80%
Equity securities	10.54%	13.14%
Time deposits	14.77%	3.68%
Others	1.53%	1.38%
Total assets	100.00%	100.00%

Yakes plan assets also include Series B shares issued by the Company with fair values totaling Rp142 billion and Rp120 billion representing 1.32% and 1.25% of total plan assets as of September 30, 2014 and December 31, 2013, respectively.

The expected return is determined based on market expectation for returns over the entire life of the obligation by considering the portfolio mix of the plan assets. The actual return on plan assets was Rp1,151 billion and (Rp261 billion) for nine months period ended September 30, 2014 and for the year ended December 31, 2013, respectively.

The components of net periodic post-retirement health care benefit costs are as follows:

	September 30, 2014	December 31, 2013
Service costs	34	70
Interest costs	706	813
Expected return on plan assets	(683)	(744)
Recognized actuarial losses	-	236
Net periodic post-retirement benefit costs	57	375
Amounts charged to subsidiaries under contractual agreements	(1)	(1)
Net periodic post-retirement health care benefit costs less amounts charged to subsidiaries (Note 27)	56	374

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36. POST-RETIREMENT HEALTH CARE BENEFITS (continued)

The movements of the projected post-retirement health care benefit costs provisions for nine months period ended September 30, 2014 and for the year ended December 31, 2013, are as follows:

	September 30, 2014	December 31, 2013
Projected post-retirement health care benefit costs provisions at beginning of year	752	679
Net periodic post-retirement health care benefits costs less amounts charged to subsidiaries (Note 27)	56	374
Amounts charged to subsidiaries under contractual agreements	1	1
Employer's contributions	(205)	(302)
Projected post-retirement health care benefit costs provisions at end of period	604	752

The actuarial valuation for the post-retirement health care benefits was performed based on the measurement date as of December 31, 2013 and 2012, with reports dated February 28, 2014 and February 28, 2013, respectively, by TWP, an independent actuary in association with TW. The principal actuarial assumptions used by the independent actuary as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Discount rate	9.00%	6.25%
Expected long-term return on plan assets	9.50%	7.50%
Health care costs trend rate assumed for next year	7.00%	7.00%

37. RELATED PARTY TRANSACTIONS

In the normal course of its business, the Company and subsidiaries entered into transactions with related parties. It is the Company's policy that the pricing of these transactions be the same as those of arm's length transactions.

a. Nature of relationships and accounts/transactions with related parties

Details of the nature of relationships and transactions/accounts with significant related parties are as follows:

Related parties	Nature of relationships with related parties	Nature of transactions/accounts
The Government Ministry of Finance State-owned enterprises	Majority stockholder Entity under common control	Finance costs and investment in financial instruments Operation expenses, purchase of property and equipment, construction and installation services, insurance expense, finance income, finance costs, investment in financial instruments
Indosat	Entity under common control	Interconnection revenues, interconnection expenses, telecommunications facilities usage, operating and maintenance cost, leased lines revenue, satellite transponders

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37. RELATED PARTY TRANSACTIONS (continued)

a. Nature of relationships and accounts/transactions with related parties (continued)

Details of the nature of relationships and transactions/accounts with significant related parties are as follows:

Related parties	Nature of relationships with related parties	Nature of transactions/accounts
PT Aplikanusa Lintasarta ("Lintasarta")	Entity under common control	usage revenues, usage of data communication network system expenses and lease revenues Network revenues, usage of data communication network system expenses and leased lines expenses
Indosat Mega Media CSM	Entity under common control Associated company	Network revenues Satellite transponders usage revenues, leased lines revenues, transmission lease expenses
Patrakom*	Associated company	Satellite transponders usage revenues, leased lines revenues, transmission lease expenses
PSN	Associated company	Satellite transponders usage revenues, leased lines revenues, transmission lease expenses, interconnection revenues and interconnection expense
Indonusa**	Associated company	Leased line revenues, telecommunication services revenue, data telecommunication expense
PT Industri Telekomunikasi Indonesia ("INTI")	Entity under common control	Purchase of property and equipment
PT Asuransi Jasa Indonesia ("Jasindo")	Entity under common control	Insurance of property and equipment
PT Jaminan Sosial Tenaga Kerja ("Jamsostek")	Entity under common control	Insurance for employees
PT Perusahaan Listrik Negara (Persero) ("PLN")	Entity under common control	Electricity expenses
PT Pos Indonesia	Entity under common control	Cost of SIM cards
State-owned banks	Entity under common control	Finance income and finance costs
BNI	Entity under common control	Finance income and finance costs
Bank Mandiri	Entity under common control	Finance income and finance costs
BRI	Entity under common control	Finance income and finance costs
BTN	Entity under common control	Finance income and finance costs
BSM	Entity under common control	Finance costs
PT Bank BRI Syariah ("BRI Syariah")	Entity under common control	Finance costs
Bahana	Entity under common control	Available-for-sale financial assets, bonds and notes
Koperasi Pegawai Telkom ("Kopegtel")	Entity under common control	Purchase of property and equipment, construction and installation services, leases of buildings, leases of vehicles, purchases of materials and construction services, utilities maintenance and cleaning services and RSA revenues
PT Sandhy Putra Makmur ("SPM")	Entity under common control	Leases of buildings, leases of vehicles, purchase of materials and construction services, utilities maintenance and cleaning services

* Patrakom became a subsidiary on September 25, 2013 (Note 3).

** On October 8, 2013, the Company sold its 80% ownership in Indonusa (Notes 3 and 10)

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37. RELATED PARTY TRANSACTIONS (continued)

a. Nature of relationships and accounts/transactions with related parties (continued)

Details of the nature of relationships and transactions/accounts with significant related parties are as follows:

Related parties	Nature of relationships with related parties	Nature of transactions/accounts
Koperasi Pegawai Telkomsel ("Kisel")	Entity under common control	Leases of vehicles, printing and distribution of customer bills, collection fee, and other services fee, distribution of SIM cards and pulse reload vouchers
PT Graha Informatika Nusantara ("Gratika")	Entity under common control	Leased lines revenues, purchase of property and equipment, installation expense, and maintenance expense
Directors and commissioners Yakes	Key management personnel Entity under significant influence	Honorarium and facilities Medical expenses

b. Transactions with related parties

The following are significant transactions with related parties:

	2014		2013	
	Amount	% of total revenues	Amount	% of total revenues
REVENUES				
Entity under common control				
State-own enterprises				
Kisel	2,235	3.39	1,988	3.23
Indosat	717	1.09	790	1.28
Gratika	258	0.39	-	-
Lintasarta	43	0.07	49	0.08
Sub-total	3,253	4.94	2,827	4.59
Associated companies				
Indonusa**	34	0.05	-	-
CSM	20	0.03	26	0.04
Sub total	54	0.08	26	0.04
Other (each below Rp30 billion)	57	0.09	262	0.43
Jumlah	3,364	5.11	3,115	5.06

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37. RELATED PARTY TRANSACTIONS (continued)

b. Transactions with related parties (continued)

The following are significant transactions with related parties:

	2014		2013	
	Amount	% of total expenses	Amount	% of total expenses
EXPENSES				
Entity under common control				
State-owned enterprises				
Kisel	732	1.65	539	1.34
Indosat	702	1.59	763	1.89
PLN	697	1.58	397	0.99
Kopegstel	430	0.97	485	1.20
Jasindo	223	0.50	254	0.63
PT Pos Indonesia	32	0.07	34	0.08
Jamsostek	33	0.07	28	0.07
SPM	11	0.02	12	0.03
Sub-total	2,860	6.45	2,512	6.23
Entity under significant influence				
Yakes	107	0.24	99	0.25
Associated companies				
PSN	168	0.38	131	0.33
CSM	37	0.08	50	0.12
Patrakom*	-	-	-	-
Sub-total	205	0.46	181	0.45
Others	23	0.05	31	0.07
Total	3,195	7.20	2,823	7.00

* Patrakom became a subsidiary on September 25, 2013 (Note 3).

** On October 8, 2013, the Company sold its 80% ownership in Indonusa (Notes 3 and 10).

	2014		2013	
	Amount	% of total finance income	Amount	% of total finance income
FINANCE INCOME				
Entity under common control				
State-owned banks	565	60.88	351	61.47

	2014		2013	
	Amount	% of total finance costs	Amount	% of total finance costs
FINANCE COSTS				
Majority stockholder				
The Government	66	4.95	65	5.82
Entity under common control				
State-owned banks	521	39.08	365	32.71
Total	587	44.03	430	38.53

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37. RELATED PARTY TRANSACTIONS (continued)

b. Transactions with related parties (continued)

	2014		2013	
	Amount	% of total fixed assets purchased	Amount	% of total fixed assets purchased
PURCHASE OF PROPERTY AND EQUIPMENT (Note 11)				
Entity under common control				
State-owned enterprises	372	1.96	97	0.62
Kopectel	42	0.22	149	0.95
Sub-total	414	2.18	246	1.57
Others	35	0.18	42	0.27
Total	449	2.36	288	1.84

Presented below are balances of accounts with related parties:

	September 30, 2014		December 31, 2013	
	Amount	% of total assets	Amount	% of total assets
a. Cash and cash equivalents (Note 4)	12,472	9.01	11,736	9.17
b. Other current financial assets (Note 5)	289	0.21	1,226	0.95
c. Trade receivables - net (Note 6)	816	0.59	900	0.70
d. Advances and prepaid expenses (Note 8)				
Others	11	0.01	82	0.06
e. Advances and other non-current assets (Note 12)				
Entity under common control				
BNi	-	0.00	52	0.04
Others	4	0.00	3	0.00
Total	4	0.00	55	0.04

	September 30, 2014		December 31, 2013	
	Amount	% of total liabilities	Amount	% of total liabilities
f. Trade payables (Note 14)				
Entity under common control				
INTI	300	0.52	115	0.23
Kopectel	47	0.08	82	0.16
Indosat	7	0.01	17	0.03
State-owned enterprises	1	0.00	1	0.00
Sub-total	355	0.61	215	0.42
Entity under significant influence				
Yakes	3	0.01	43	0.09
Others	148	0.26	568	1.12
Total	506	0.88	826	1.63

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37. RELATED PARTY TRANSACTIONS (continued)

b. Transactions with related parties (continued)

	September 30, 2014		December 31, 2013	
	Amount	% of total liabilities	Amount	% of total liabilities
g. Accrued expenses (Note 15)				
Majority stockholder				
The Government	29	0.05	17	0.04
Entity under common control				
State-owned banks	66	0.11	53	0.10
Total	95	0.16	70	0.14
h. Advances from customers and suppliers				
Majority stockholder				
The Government	20	0.03	19	0.04
i. Short-term bank loans (Note 17)				
Entity under common control				
BRI	50	0.09	50	0.09
BSM	15	0.03	14	0.03
BRI Syariah	2	0.00	3	0.01
Mandiri	2	0.00	-	-
Total	69	0.12	67	0.13
j. Two-step loans (Note 19)				
Majority stockholder				
The Government	1,742	3.03	1,915	3.79
k. Long-term bank loans (Note 21)				
Entity under common control				
BNI	3,547	6.18	2,351	4.65
BRI	3,390	5.90	4,043	8.00
Bank Mandiri	3,710	6.46	1,069	2.12
Total	10,647	18.54	7,463	14.77

c. Significant agreements with related parties

i. The Government

The Company obtained two-step loans from the Government (Note 19).

ii. Indosat

The Company has an agreement with Indosat for the provision of international telecommunications services to the public.

The Company has also entered into an interconnection agreement between the Company's fixed line network (Public Switched Telephone Network or "PSTN") and Indosat's GSM mobile cellular telecommunications network in connection with the implementation of the Indosat Multimedia Mobile services and the settlement of the related interconnection rights and obligations.

The Company also has an agreement with Indosat for the interconnection of Indosat's GSM mobile cellular telecommunications network with the Company's PSTN, enabling each party's customers to make domestic calls between Indosat's GSM mobile network and the Company's fixed line network and allowing Indosat's mobile customers to access the Company's IDD service by dialing "007".

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37. RELATED PARTY TRANSACTIONS (continued)

c. Significant agreements with related parties (continued)

The Company has been handling customer billings and collections for Indosat. Indosat is gradually taking over the activities and performing its own direct billing and collection. The Company receives compensation from Indosat computed at 1% of the collections made by the Company beginning January 1, 1995, plus the billing process expenses which are fixed at a certain amount per record. On December 11, 2008, the Company and Indosat agreed to implement IDD service charge tariff which already takes into account the compensation for billing and collection. The agreement is valid and effective starting on January to December 2012, and can be applied until a new agreement becomes available.

On December 28, 2006, the Company and Indosat signed amendments to the interconnection agreements for the fixed line networks (local, SLJJ and international) and mobile network for the implementation of the cost-based tariff obligations under the MoCI Regulations No. 8/Year 2006 (Note 40). These amendments took effect on January 1, 2007.

Telkomsel also entered into an agreement with Indosat for the provision of international telecommunications services to its GSM mobile cellular customers.

The Company provides leased lines to Indosat and subsidiaries, namely PT Indosat Mega Media and Lintasarta. The leased lines can be used by these companies for telephone, telegraph, data, telex, facsimile or other telecommunication services.

iii. Others

The Company has entered into agreements with associated companies, namely CSM, PSN and Gratika for the utilization of the Company's satellite transponders or frequency channels and leased lines.

On April 1, 2013, Telkomsel has an agreement with PSN for the lease of PSN's transmission link, which will be expired on March 31, 2016.

Koperasi Pegawai Telkomsel ("Kisel") is a cooperative that was established by Telkomsel's employees to engage in car rental services, printing and distribution of customer bills, collection and other services principally for the benefit of Telkomsel. Telkomsel also has dealership agreements with Kisel for distribution of SIM cards and pulse reload vouchers.

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37. RELATED PARTY TRANSACTIONS (continued)

d. Key management personnel remuneration

Key management personnel consists of the Boards of Commissioners and Directors of the Company and its subsidiaries.

The Company and subsidiaries provide honorarium and facilities to support the operational duties of the Board of Commissioners and short-term employment benefits in the form of salaries and facilities to support the operational duties of the Board of Directors. The total of such benefits is as follows:

	2014		2013	
	Amount	% of total expenses	Amount	% of total expenses
Board of Directors	343	0.78%	271	0.67%
Board of Commissioners	95	0.22%	85	0.21%

38. SEGMENT INFORMATION

Management manages the Company's business portfolios using the customer-centric approach, as part of the Company's strategy to provide one-stop solution to customers.

The Company and subsidiaries have four main operating segments, namely personal, home, corporate and others. The personal segment provides mobile cellular and fixed wireless telecommunications services to individual customers. The home segment provides fixed wireline telecommunications services, pay TV, data and internet services to home customers. The corporate segment provides telecommunications services, including interconnection, leased lines, satellite, VSAT, contact center, broadband access, information technology services, data and internet services to companies and institutions. Operating segments that are not monitored separately by the Chief Operation Decision Maker are presented as "Others", which provides building management services.

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

However, the financing activities and income taxes are not separately monitored and are not allocated to operating segments.

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38. SEGMENT INFORMATION (continued)

Segment revenues and expenses include transactions between operating segments and are accounted at market prices.

2014							
	Corporate	Home	Personal	Others	Total before elimination	Elimination	Total consolidated
Segment results							
Revenues							
External revenues	12,264	6,418	47,024	135	65,841	-	65,841
Inter-segment revenues	9,553	242	2,039	1,187	13,021	(13,021)	-
Total segment revenues	21,817	6,660	49,063	1,322	78,862	(13,021)	65,841
Expenses							
External expenses	(9,969)	(5,265)	(27,270)	(1,205)	(43,709)	-	(43,709)
Inter-segment expenses	(6,751)	(357)	(5,899)	(14)	(13,021)	13,021	-
Total segment expenses	(16,720)	(5,622)	(33,169)	(1,219)	(56,730)	(13,021)	(43,709)
Segment results	5,097	1,038	15,894	103	22,132	-	22,132
Other information							
Segment assets	47,588	22,612	77,276	1,987	149,463	(12,986)	136,477
Asset held-for-sale	17	-	65	-	82	-	82
Long-term investments	74	1,621	21	-	1,716	-	1,716
Total consolidated assets							138,275
Capital expenditures	(5,961)	(2,635)	(9,999)	(397)	(18,992)	-	(18,992)
Depreciation and amortization	(1,938)	(1,081)	(8,785)	(42)	(11,846)	-	(11,846)
Impairment of assets	-	-	(190)	-	(190)	-	(190)
Provision for impairment of receivables and inventory obsolescence	(118)	(183)	(75)	1	(375)	-	(375)
2013							
	Corporate	Home	Personal	Others	Total before elimination	Elimination	Total consolidated
Segment results							
Revenues							
External revenues	11,289	6,685	43,388	137	61,499	-	61,499
Inter-segment revenues	7,367	257	1,623	589	9,836	(9,836)	-
Total segment revenues	18,656	6,942	45,011	726	71,335	(9,836)	61,499
Expenses							
External expenses	(10,544)	(5,333)	(23,664)	(656)	(40,197)	-	(40,197)
Inter-segment expenses	(4,190)	(1,175)	(4,461)	(10)	(9,836)	9,836	-
Total segment expenses	(14,734)	(6,508)	(28,125)	(666)	(50,033)	9,836	(40,197)
Segment results	3,922	434	16,886	60	21,302	-	21,302
Other information							
Segment assets	39,079	18,879	69,478	1,222	128,658	(8,078)	120,580
Asset available for sale	-	-	73	-	73	-	73
Long-term investments	122	-	20	-	142	-	142
Total consolidated assets	39,201	18,879	69,571	1,222	128,873	(8,078)	120,795
Capital expenditures	(3,137)	(1,058)	(11,009)	(459)	(15,663)	-	(15,663)
Depreciation and amortization	(1,693)	(1,100)	(8,253)	(28)	(11,074)	2	(11,072)
Impairment of assets	-	-	-	-	-	-	-
Provision for impairment of receivables and inventory obsolescence	(183)	(225)	(160)	(1)	(569)	-	(569)

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38. SEGMENT INFORMATION (continued)

The Company predominantly generates revenue and profit within Indonesia. Revenue with respect to international interconnections and assets held by geographical location are disclosed in Note 26 and Note 1, respectively.

39. REVENUE-SHARING ARRANGEMENTS (“RSA”)

The Company has entered into separate agreements with several investors under RSA to develop fixed lines, public card-phone booths, data and internet network, and related supporting telecommunications facilities.

As of September 30, 2014, the Company has 4 RSA’s with 4 investors. The RSA’s are located in East Java, Makassar, Pare-pare, Manado, Denpasar, Mataram and Kupang, with concession periods ranging from 129 to 148 months.

Under the RSA, the investors finance the costs incurred in developing the telecommunications facilities and the Company manages and operates the telecommunications facilities upon the completion of the construction. Repairs and maintenance costs during RSA period are borne jointly by the Company and investors. The investors legally retain the rights to the property and equipment constructed by them during the RSA periods. At the end of the RSA period, the investors transfer the ownership of the telecommunications facilities to the Company at a nominal price.

Generally, the revenues earned in the form of line installation charges, outgoing telephone pulses and monthly subscription charges are shared between the Company and investors based on certain agreed amount and/or ratio.

40. TELECOMMUNICATIONS SERVICE TARIFFS

Under Law No. 36 Year 1999 and Government Regulation No. 52 Year 2000, tariffs for operating telecommunications network and/or services are determined by providers based on the tariff type, structure and with respect to the price cap formula set by the Government.

a. Fixed line telephone tariffs

The Government has issued a new adjustment tariff formula which is stipulated in the Decree No. 15/PER/M.KOMINFO/4/2008 dated April 30, 2008 of the Ministry of Communication and Information (“MoCI”) concerning “Procedure for Tariff Determination for Basic Telephony Services Connected through Fixed Line Network”.

Under the Decree, tariff structure for basic telephony services connected through fixed line network consists of the following:

- Activation fee
- Monthly subscription charges
- Usage charges
- Additional facilities fee.

b. Mobile cellular telephone tariffs

On April 7, 2008, the MoCI issued Decree No. 09/PER/M.KOMINFO/04/2008 regarding “Mechanism to Determine Tariff of Telecommunication Services Connected through Mobile Cellular Network” which provides guidelines to determine cellular tariffs with a formula consisting of network element cost and retail services activity cost. This Decree replaced the previous Decree No. 12/PER/M.KOMINFO/02/2006.

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40. TELECOMMUNICATIONS SERVICE TARIFFS (continued)

b. Mobile cellular telephone tariffs (continued)

Under MoCI Decree No. 09/PER/M.KOMINFO/04/2008 dated April 7, 2008, the cellular tariffs of operating telecommunication services connected through mobile cellular network consist of the following:

- Basic telephony services tariff
 - Roaming tariff, and/or
 - Multimedia services tariff,
- with the following traffic structure:
- Activation fee
 - Monthly subscription charges
 - Usage charges
 - Additional facilities fee.

c. Interconnection tariffs

The Indonesian Telecommunication Regulatory Body ("ITRB"), in its letter No. 227/BRTI/XII/2010 dated December 31, 2010, decided to implement new interconnection tariffs effective from January 1, 2011 for cellular mobile network, satellite mobile network and fixed local network, and effective from July 1, 2011 for fixed wireless local network with a limited mobility.

Based on Decree No. 201/KEP/DJPPI/KOMINFO/7/2011 dated July 29, 2011 of the Director General of Post and Informatics, ITRB approved the Company's revision of Reference Interconnection Offer ("RIO") regarding the interconnection tariff.

ITRB, in its letter No. 262/BRTI/XII/2011 dated December 12, 2011, decided to change the basis for interconnection SMS tariff to cost basis with a maximum tariff of Rp23 per SMS effective from June 1, 2012, for all telecommunication provider operators.

ITRB, in its letter No. 118/KOMINFO/DJPPI/PI.02.04/2014 dated January 30, 2014, decided to change the basis for new interconnection tariff effective from February 2014 to December 2016 that will be evaluated each year.

d. Network lease tariffs

Through MoCI Decree No. 03/PER/M.KOMINFO/1/2007 dated January 26, 2007 concerning "Network Lease", the Government regulated the form, type, tariff structure, and tariff formula for services of network lease. Pursuant to the MoCI Decree, the Director General of Post and Telecommunication issued its Letter No. 115 Year 2008 dated March 24, 2008 which stated "The Agreement on Network Lease Service Type Document, Network Lease Service Tariff, Available Capacity of Network Lease Service, Quality of Network Lease Service, and Provision Procedure of Network Lease Service in 2008 Owned by Dominant Network Lease Service Provider", in conformity with the Company's proposal.

e. Tariff for other services

The tariffs for satellite lease, telephony services, and other multimedia are determined by the service provider by taking into account the expenditures and market price. The Government only determines the tariff formula for basic telephony services. There is no stipulation for the tariff of other services.

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS

a. Capital expenditures

As of September 30, 2014, capital expenditures committed under the contractual arrangements, principally relating to procurement and installation of switching equipment, transmission equipment and cable network are as follows:

Currencies	Amounts in foreign currencies (in millions)	Equivalent in rupiah
Rupiah		12,103
U.S. dollar	779	9,504
Euro	0.21	3
Total		21,610

The above balance includes the following significant agreements:

(i) The Company

Contracting parties	Initial date of agreement	Significant provisions of the agreement
The Company and PT Industri Telekomunikasi Indonesia	December 30, 2010	Procurement and installation agreement for copper wire access modernization through Trade In/Trade Off method
The Company and PT Lintas Teknologi Indonesia	June 8, 2011	Procurement and installation agreement for DWDM Alcatel Lucent (ALU)
The Company and G-Pas Consortium	June 14, 2011	Procurement and installation agreement for Outside Plant Fiber Optic (OSP-FO) Access and RMJ GPAS
The Company and Mandiri Maju Consortium	June 14, 2011	Procurement and installation agreement for OSP-FO Access and RMJ
The Company and PT QDC Technologies	June 14, 2011	Procurement and installation agreement for OSP-FO Access and RMJ
The Company and TEKKEN-DMT Consortium	June 14, 2011	Procurement and installation agreement for OSP-FO Access and RMJ
The Company and DJAFa Consortium	June 14, 2011	Procurement and installation agreement for OSP-FO Access and RMJ
The Company and PT Telekomindo Primakarya	June 14, 2011	Procurement and installation agreement for OSP-FO Access and RMJ
The Company and Jembo Kabel-Tridayasa Consortium	June 14, 2011	Procurement and installation agreement for OSP-FO Access and RMJ

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

a. Capital expenditures (continued)

(i) The Company (continued)

Contracting parties	Initial date of agreement	Significant provisions of the agreement
The Company and PT Karya Mitra Nugraha	June 14, 2011	Procurement and installation agreement for OSP-FO Access and RMJ
The Company and PT Huawei Tech Investment	October 11, 2011	Procurement and installation agreement for IMS (IP-Multimedia System)
The Company and PT Huawei Tech Investment	January 5, 2012	Procurement and installation agreement for ISP WDM SBCS JASUKA
The Company and PT Ericsson Indonesia-PT Infracell Nusantara	February 8, 2012	Procurement and installation agreement for IMS
The Company and PT Len Industri (Persero)	March 29, 2012	Procurement and installation agreement for copper wire access modernization through Trade In/Trade Off method
The Company and PT Sisindokom Lintasbuana	July 4, 2012	Procurement and installation agreement for managed WIFI for Program of Indonesia WIFI Package-1
The Company and PT Ketrosden Triasmitra - PT Nautic Maritime Salvage Consortium	August 30, 2012	Procurement and installation agreement for SKKL Luwuk-Tutuyan Cable System (LTCS)
The Company and Furukawa and Partners Consortium	November 14, 2012	Procurement and installation of Outside Plant Fiber To The Home (OSP FTTH) DIVA Regional V and VII
The Company and INTI-Huawei Consortium	November 14, 2012	Procurement and installation of OSP FTTH DIVA Regional III, IV and VI
The Company and JF DJAFA Consortium	November 14, 2012	Procurement and installation agreement of OSP FTTH DIVA Regional II
The Company and PT Mastersystem Infotama	December 5, 2012	Procurement and installation agreement for IP Backbone (IPBB) System
The Company and Binainfo Lokatara Consortium	December 7, 2012	Procurement and installation agreement for WAG, PCEF and PCRF Huawei
The Company and PT Huawei Tech Investment	December 20, 2012	Procurement and installation agreement for WAG, PCEF and PCRF Huawei
The Company and ASN-PT Lintas Consortium	May 6, 2013	Procurement and installation agreement of Sulawesi Maluku Papua Cable System (SMPCS) project
The Company and PT Sisindokom Lintasbuana	May 8, 2013	Procurement and installation agreement for expansion of PE-VPN CISCO
The Company and NEC Corp-PT NEC Indonesia Consortium	May 28, 2013	Procurement and installation of SMPCS package-2
The Company and PT Datacomm Diangraha	June 26, 2013	Procurement and installation agreement for expansion of Maintenance Support (MS) Service for Metro Ethernet Platform ALU
The Company and PT Lintas Teknologi Indonesia	July 22, 2013	Procurement and installation agreement for expansion of DWDN platform ALU
The Company and PT Cisco Technologies Indonesia	November 14, 2013	The partnership for procurement and installation agreement of WIFI CISCO
The Company and PT NEC Indonesia	November 29, 2013	Procurement and installation agreement for IP Radio Equipment for Backhaul Node-B Telkomsel Package-3 Platform NEC

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

a. Capital expenditures (continued)

(i) The Company (continued)

Contracting parties	Initial date of agreement	Significant provisions of the agreement
The Company and PT Huawei Tech Investment	December 6, 2013	Procurement and installation agreement for IP Radio Equipment for Backhaul Node-B Telkomsel Package-2 Platform Huawei
The Company and PT Huawei Tech Investment	December 6, 2013	Procurement and installation agreement for 10 Gigabyte of Capable Passive Optical Network (XGPON) Platform Huawei
The Company and PT ASB-PT ALU Indonesia-PT GBN-PT Lintas Consortium	December 6, 2013	Procurement and installation agreement for XGPON Platform ALU
The Company and PT Ericsson Indonesia – PT Infracell Nusantara	December 23, 2013	Procurement and installation agreement for IP Radio Equipment for Backhaul Node-B Telkomsel Package-1 Platform NEC
The Company and PT Multipolar Technology Tbk.	May 21, 2014	Procurement and installation expand cache system PT Multipolar Technology
The Company and PT Huawei Tech Investment	June 24, 2014	Procurement and installation IMS (IP-Multimedia System) Platform Huawei
The Company and Thales Alenia Space France	July 14, 2014	Telkom-3 Subtitution (T3S) Satellite System

(ii) Telkomsel

Contracting parties	Initial date of agreement	Significant provisions of the agreement
Telkomsel, PT Ericsson Indonesia, Ericsson AB, PT Nokia Siemens Networks, NSN Oy and Nokia Siemens Network GmbH & Co. KG	April 17, 2008	The combined 2G and 3G CS Core Network Rollout Agreements
Telkomsel, PT Ericsson Indonesia and PT Nokia Siemens Networks	April 17, 2008	Technical Service Agreement (TSA) for combined 2G and 3G CS Core Network
Telkomsel, PT Ericsson Indonesia, Ericsson AB, PT Nokia Siemens Networks, NSN Oy, Huawei International Pte. Ltd., PT Huawei and PT ZTE Indonesia	March and June 2009	2G BSS and 3G UTRAN Rollout agreement for the provision of 2G GSM BSS and 3G UMTS Radio Access Network
Telkomsel, PT Packet Systems Indonesia and PT Huawei	February 3, 2010	Maintenance and procurement of equipment and related service agreement for Next Generation Convergence IP RAN Rollout and Technical Support
Telkomsel, PT Datacraft Indonesia and PT Huawei	February 3, 2010	Maintenance and procurement of equipment and related service agreement for Next Generation Convergence Core Transport Rollout and Technical Support
Telkomsel, Amdocs Software Solutions Limited Liability Company and PT Application Solutions	February 8, 2010	Online Charging System ("OCS") and Service Control Points ("SCP") System Solution Development Agreement
Telkomsel and PT Application Solutions	February 8, 2010	Technical Support Agreement to provide technical support services for the OCS and SCP

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

a. Capital expenditures (continued)

(ii) Telkomsel (continued)

Contracting parties	Initial date of agreement	Significant provisions of the agreement
Telkomsel, PT Nokia Siemens Networks and NSN Oy	January 27, 2011	Soft HLR Rollout Agreement
Telkomsel and PT Nokia Siemens Networks	January 27, 2011	Soft HLR Technical Support Agreement
Telkomsel, Amdocs Software Solutions Limited Liability Company and PT Application Solutions	July 5, 2011	Development and Rollout agreement for Customer Relationship Management and Contact Center solutions
Telkomsel and PT Ericsson Indonesia	December 21, 2011	Development and Rollout Operating Support System ("OSS") agreement
Telkomsel, Apple South Asia Pte. Ltd. and PT Mitra Telekomunikasi Selular ("MTS")	July 16, 2012	Purchasing of iPhone products and provision of cellular network service
Telkomsel and Huawei International Pte. Ltd. and PT Huawei	July 17, 2012	CS Core System Rollout and CS Core System Technical Support agreement
Telkomsel and PT Ericsson Indonesia	March 25, 2013	Technical Support Agreement (TSA) for the procurement of Gateway GPRS Support Node ("GGSN") Service Complex agreement
Telkomsel and Wipro Limited, Wipro Singapore Pte. Ltd. and PT WT Indonesia	April 23, 2013	Development and procurement of OSDSS Solution agreement
Telkomsel and PT Ericsson Indonesia	October 22, 2013	Procurement of GGSN Service Complex Rollout agreement

(iii) GSD

Contracting parties	Initial date of agreement	Significant provisions of the agreement
TLT and PT Adhi Karya	November 6, 2012	Service arrangement structure and main contractor architecture for Telkom Landmark Tower Building development project
TLT and PT Indalex	February 11, 2013	Procurement agreement for the Façade construction phase I unitized system Tower I and Tower II of Telkom Landmark Tower Building
GSD and PT Pembangunan Perumahan (Persero)	March 5, 2013	Development of Telkomsel's building agreement
GYS and PT Waskita Karya	June 25, 2014	Development of Infomedia's building agreement

(iv) DMT

Contracting parties	Initial date of agreement	Significant provisions of the agreement
DMT and PT M Jusuf & Sons	December 20, 2012	Telecommunication tower development agreement
DMT and PT Putra Arga Binangun	June 26, 2014	Asset purchase agreement of collocation telecommunication tower

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

a. Capital expenditures (continued)

(v) TII

Contracting parties	Initial date of agreement	Significant provisions of the agreement
TL, Ericsson AB and PT Ericsson Indonesia	November 2, 2012	Operational Supporting System (OSS), Base Sub Station (BSS) and Value Added System (VAS) System Rollout and Radio Access Network (RAN) and Core System Rollout agreement
TL, Ericsson AB and PT Ericsson Indonesia	February 1, 2013	Management service agreement for end-to-end mobile network
TL and PT Cascadian Indonesia	December 31, 2012 Desember 31, 2012 November 20, 2013	Installation and maintenance service agreement Purchase of equipment phase I agreement Purchase of equipment phase II agreement

b. Borrowings and other credit facilities

- (i) As of September 30, 2014, the Company has bank guarantee facilities for tender bond, performance bond, maintenance bond, deposit guarantee and advance payment bond for various projects of the Company, as follows:

Lenders	Total facility	Maturity	Currency	Facility utilized	
				Original currency (in millions)	Rupiah equivalent
BRI	350	March 14, 2016	Rp	-	177
BNI	250	March 31, 2015	US\$	0	2
			Rp	-	81
			US\$	0	3
Bank Mandiri	150	December 23, 2014	EUR	0	0
			Rp	-	51
			US\$	-	-
Total	750				314

- (ii) Telkomsel has a US\$3 million bond and bank guarantee and standby letter of credit facilities with SCB, Jakarta. The facilities expire on July 31, 2014. Under these facilities, as of September 30, 2014, Telkomsel has issued a bank guarantee of Rp20 billion (equivalent to US\$1.7 million) for a 3G performance bond (Note 41c.i). The bank guarantee is valid until March 24, 2015.

Telkomsel has a Rp200 billion bank guarantee facility with BRI. The facility will expire on September 25, 2014. Under the facility, as of September 30, 2014, Telkomsel has issued a bank guarantee of Rp177 billion (equivalent to USD\$14.8 million) as payment commitment guarantee for annual right of usage fee valid until March 31, 2015.

Telkomsel has a Rp100 billion bank guarantee with BNI. The bank guarantee is valid until December 11, 2014. Telkomsel was using this facility to replace the time deposit used guaranty for the USO program amounting to Rp56.4 billion.

Telkomsel has also a Rp150 billion bank guarantee with BCA. The bank guarantee is valid until April 15, 2015. Under these facilities, as of September 30, 2014, Telkomsel has issued a bank guarantee of Rp20 billion (equivalent to US\$1.7 million) for a 3G performance bond (Note.41c.i).

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

b. Borrowings and other credit facilities (continued)

- (iii) TII has a US\$15 million bank guarantee from Bank Mandiri. The facility expires on December 19, 2014. As of September 30, 2014, TII has not issued a bank guarantee.

c. Others

(i) 3G license

With reference to the Decision Letters No. 07/PER/M.KOMINFO/2/2006, No. 268/KEP/M.KOMINFO/9/2009 and No. 191 year 2013 of the MoCI (Note 2i), Telkomsel is required, among other things, to:

1. Pay an annual BHP fee which is calculated based on a certain formula over the license term (10 years) as set forth in the Decision Letters. The BHP is payable upon receipt of the notification letter ("Surat Pemberitahuan Pembayaran") from the DGPI. The BHP fee is payable annually up to the expiry date of the license.
2. Provide roaming access for the existing other 3G operators.
3. Contribute to USO development.
4. Construct a 3G network which covers at least 14 provinces by the sixth year of holding the 3G license.
5. Issue a performance bond each year amounting to Rp20 billion or 5% of the annual fee to be paid for the subsequent year, whichever is higher.

(ii) Radio Frequency Usage

Based on the Decree No. 76 dated December 15, 2010 of the Government of the Republic of Indonesia, which amended Decree No. 7 dated January 16, 2009, the annual frequency usage fees for bandwidths of 800 Megahertz ("MHz"), 900 MHz and 1800 MHz are determined using a formula set forth in the Decree. The Decree is applicable for 5 years unless further amended.

As an implementation of the above Decree, the Company and Telkomsel paid the first year and second year annual frequency usage fees in 2010 and 2011, respectively.

Based on Decision Letters No. 495 dated August 29, 2012 and No. 491 dated August 29, 2012, the MoCI determined that the third year (Y₃), 2012, annual frequency usage fees of the Company and Telkomsel were Rp174 billion and Rp1,718 billion, respectively. The fees were paid in December 2012.

Based on Decision Letters No. 881 dated September 10, 2013 and No. 884 dated September 10, 2013, the MoCI determined that the fourth year (Y₄), 2013, annual frequency usage fees of the Company and Telkomsel were Rp213 billion and Rp1,649 billion, respectively. The fees were paid in December 2013 (Note 2i).

Based on Decision Letters No. 940 dated September 26, 2014, MoCI determined that the fifth year (Y₅), 2014, annual frequency usage fee of Telkomsel was Rp2,198 billion. The fee includes frequency usage fee was transferred from Company to Telkomsel and should be paid in December 2014 (Note 1.d)

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

c. Others (continued)

(iii) Apple, Inc

On January 9 and July 16, 2009, Telkomsel entered into agreements with Apple, Inc for the purchase of iPhone products, marketing it to customers using third parties (PT Trikomsel OKE and PT Mitra Telekomunikasi Selular) and providing cellular network services over a 3-year term. Subsequently, on July 16, 2012, Telkomsel replaced the agreements with a new agreement. Cumulative minimum iPhone units to be purchased up to June 2015 are at least 500,000 units.

(iv) Future Minimum Lease Payments of Operating Lease

The Company and subsidiaries entered into non-cancelable lease agreements with both third and related parties. The lease agreements cover leased lines, telecommunication equipment and land and building with terms ranging from 1 to 10 years and with expiry dates between 2014 and 2023.

Future minimum lease payments under the operating lease agreements as of September 30, 2014 are as follows:

	Total	Less than 1 year	1-5 years	More than 5 years
As lessee	29,738	1,745	12,968	15,025
As lessor	4,810	1,180	2,567	1,063

(v) USO

The MoCI issued Regulation No. 15/PER/M.KOMINFO/9/2005 dated September 30, 2005, which sets forth the basic policies underlying the USO program and requires telecommunications operators in Indonesia to contribute 0.75% of their gross revenues (with due consideration for bad debts and interconnection charges) for USO development. Based on the Government's Decree No. 7/2009 dated January 16, 2009, the contribution was changed to 1.25% of gross revenues, net of bad debts and/or interconnection charges and/or connection charges. Subsequently, in December 2012, Decree No. 05/PER/M.KOMINFO/2/2007 was replaced by Decree No. 45 year 2012 of the MoCi which was effective from January 22, 2013. The Decree stipulates, among other things, the exclusion of certain revenues that are not considered as part of gross revenues as a basis to calculate the USO charged, and changed the payment period which was previously on a quarterly basis to become quarterly or semi-annually.

Based on MoCI Decree No. 32/PER/M.KOMINFO/10/2008 dated October 10, 2008 which replaced MoCI Decree No. 11/PER/M.KOMINFO/04/2007 dated April 13, 2007 and MoCI Decree No. 38/PER/M.KOMINFO/9/2007 dated September 20, 2007, it is stipulated that, among others, in providing telecommunication access and services in rural areas (USO Program), the provider is determined through a selection process by *Balai Telekomunikasi dan Informatika Pedesaan* ("BTIP") which was established based on MoCI Decree No. 35/PER/M.KOMINFO/11/2006 dated November 30, 2006.

Subsequently, based on Decree No. 18/PER/M.KOMINFO/11/2010 dated November 19, 2010 of MoCI, BTIP was changed to *Balai Penyedia dan Pengelola Pembiayaan Telekomunikasi dan Informatika* ("BPPPTI").

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

c. Others (continued)

(v) USO (continued)

a. Company

On March 12, 2010, the Company was selected in a tender by the Government through BTIP to provide internet access service centers for USO sub-districts for a total amount of Rp322 billion, covering Nanggroe Aceh Darussalam, Sumatera Utara, Sulawesi Utara, Gorontalo, Sulawesi Tengah, Sulawesi Barat, Sulawesi Selatan and Sulawesi Tenggara.

On December 23, 2010, the Company was selected in a tender by the Government through BTIP to provide mobile internet access service centers for USO sub-districts for a total amount of Rp528 billion, covering Jambi, Riau, Kepulauan Riau, Sulawesi Utara, Sulawesi Tengah, Gorontalo, Sulawesi Barat, Sulawesi Tenggara, Kalimantan Tengah, Sulawesi Selatan, Papua and Irian Jaya Barat.

b. Telkomsel

On January 16 and 23, 2009, Telkomsel was selected in a tender by the Government through BTIP to provide telecommunication access and services in rural areas (USO Program) for a total amount of Rp1.66 trillion, covering all Indonesian territories except Sulawesi, Maluku and Papua. Telkomsel will obtain local fixed-line licenses and the right to use radio frequency in the 2390 MHz - 2400 MHz bandwidth.

Subsequently, in 2010 and 2011, the agreements with BTIP were amended, which amendments cover, among other things, changing the price to Rp1.76 trillion and changing the term of payment from quarterly to monthly or quarterly.

In January 2010, the MoCI granted Telkomsel operating licenses to provide local fixed-line services under the USO program.

On March 31, 2014, USO Program for 1,2,3,6 and 7 packages are ceased.

On December 27, 2011, Telkomsel (on behalf of Konsorsium Telkomsel, a consortium which was established with Dayamitra on December 9, 2011) was selected by BPPPTI as a provider of the USO Program in the border areas for all packages (package 1 to package 13) with a total price of Rp830 billion. On such date, Telkomsel was also selected by BPPPTI as a provider of the USO Program (upgrading) of "Desa Pinter" or "Desa Punya Internet" for 1, 2 and 3 packages with a total price of Rp261 billion.

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41. SIGNIFICANT COMMITMENTS AND AGREEMENTS (continued)

c. Others (continued)

(v) USO (continued)

For nine months period ended September 30, 2014 and 2013, the Company and Telkomsel recognized the following amounts:

	2014	2013
Revenues		
Construction	0	49
Operation of telecommunication service centre	139	476
Profits		
Construction	0	2
Operation of telecommunication service centre	(74)	214

As of September 30, 2014, the Company's and Telkomsel's trade receivables from the USO programs which are measured at amortized cost using the effective interest rate method amount to Rp865 billion (Notes 6 and 12).

vi) Trademark License Agreement

On June 23, 2014, TII signed an agreement with Mobile Telecommunication Company (Zain Saudi Arabia) for the telecommunications product and service trademark license agreement over a 5-year term has elapsed from the effective date

42. CONTINGENCIES

In the ordinary course of business, the Company and subsidiaries have been named as defendants in various legal actions in relation with land disputes, monopolistic practice and unfair business competition and SMS cartel practices. Based on management's estimate of the probable outcomes of these matters, the Company and subsidiaries have recognized provision for losses amounting to Rp47 billion as of September 30, 2014.

- a. The Company, Telkomsel and seven other local operators are being investigated by The Commission for the Supervision of Business Competition ("Komisi Pengawasan Persaingan Usaha" or "KPPU") for allegations of SMS cartel practices. As a result of the investigations on June 17, 2008, KPPU found that the Company, Telkomsel and certain other local operators had violated Law No. 5 year 1999 article 5 and charged the Company and Telkomsel penalty in the amounts of Rp18 billion and Rp25 billion, respectively.

Management believes that there are no such cartel practices that led to a breach of prevailing regulations. Accordingly, the Company and Telkomsel filed an appeal with the Bandung District Court and South Jakarta District Court on July 14, 2008 and July 11, 2008, respectively.

Due to the filing of case by operators in various courts, the KPPU subsequently requested the Supreme Court (SC) to consolidate the cases into the Central Jakarta District Court. Based on the SC's decision letter dated April 12, 2011, the SC appointed the Central Jakarta District Court to investigate and resolve the case.

As of the issuance date of the consolidated financial statements, there has not been any notification on the case from the court.

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42. CONTINGENCIES (continued)

- b. The Company is a defendant in a case filed in Makassar District Court by Andi Jindar Pakki and his affiliates over a landproperty on Jl. A.P. Pettarani. On May 8, 2013, the court pronounced its verdict and ordered the Company to pay fair compensation or to vacate and surrender the disputed land to the plaintiffs.

On May 20, 2013 the Company filed an appeal to the Makassar High Court, objecting to the District Court's ruling. In December 2013, the Makassar High Court pronounced its verdict that is favorable to the plaintiffs and the Company filed an appeal to the Supreme Court. As of the issuance date of the consolidated financial statements, no decision has been reached on the appeal.

43. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are as follows:

September 30, 2014				
	U.S. dollar (in millions)	Japanese yen (in millions)	Others* (in millions)	Rupiah equivalent (in billions)
Assets				
Cash and cash equivalents	392.55	7.37	17.44	5,001
Other current financial assets	14.52	-	0.04	177
Trade receivables				
Related parties	2.03	-	-	25
Third parties	66.71	-	1.57	833
Other receivables	3.66	-	0.37	46
Advances and other non-current assets	4.01	-	0.01	50
Total assets	483.48	7.37	19.43	6,132
Liabilities				
Trade payables				
Related parties	0.23	-	0.09	4
Third parties	332.86	17.89	2.07	4,092
Other payables	6.09	-	2.01	100
Accrued expenses	52.81	91.76	0.28	658
Short term bank loan	100	-	-	1,221
Advances from customers and suppliers	7.17	-	0.08	88
Current maturities of long-term liabilities	40.49	767.90	-	579
Promissory notes	13.05	-	-	159
Long-term liabilities - net of current maturities	75.89	7,295.03	-	1,738
Total liabilities	628.59	8,172.58	4.53	8,639
Liabilities - net	(145.11)	(8,165.21)	14.90	(2,507)
December 31, 2013				
	U.S. dollar (in millions)	Japanese yen (in millions)	Others* (in millions)	Rupiah equivalent (in billions)
Assets				
Cash and cash equivalents	394.30	1.23	11.42	4,940
Other current financial assets	10.78	-	-	131
Trade receivables				
Related parties	2.44	-	-	30
Third parties	66.27	-	0.17	808
Other receivables	0.68	-	0.13	10
Advances and other non-current assets	5.76	-	-	70
Total assets	480.23	1.23	11.72	5,989

* Assets and liabilities denominated in other foreign currencies are presented as U.S. dollar equivalents using the buy and sell rates quoted by Reuters prevailing at the end of the reporting period.

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43. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES (continued)

	December 31, 2013			
	U.S. dollar (in millions)	Japanese yen (in millions)	Others* (in millions)	Rupiah equivalent (in billions)
Liabilities				
Trade payables				
Related parties	(1.40)	-	-	(17)
Third parties	(275.35)	-	(4.33)	(3,409)
Other payables	(7.62)	-	(0.09)	(94)
Accrued expenses	(51.41)	(18.63)	(0.01)	(629)
Short-term bank loan	-	-	-	-
Advances from customers and suppliers	(1.60)	-	(0.01)	(20)
Current maturities of long-term liabilities	(34.85)	(767.90)	-	(514)
Promissory notes	(28.67)	-	-	(349)
Long-term liabilities - net of current maturities	(78.82)	(7,678.98)	-	(1,850)
Total liabilities	(479.72)	(8,465.51)	(4.44)	(6,882)
Liabilities - net	0.51	(8,464.28)	7.28	(893)

* Assets and liabilities denominated in other foreign currencies are presented as U.S. dollar equivalents using the buy and sell rates quoted by Reuters prevailing at the end of the reporting period.

The Company and subsidiaries' activities expose them to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates, and interest rates.

If the Company and subsidiaries report monetary assets and liabilities in foreign currencies as of September 30, 2014 using the exchange rates on October 24, 2014, the unrealized foreign exchange gain will increase by Rp18 billion.

44. FINANCIAL RISK MANAGEMENT

1. Financial risk management

The Company and subsidiaries activities expose them to a variety of financial risks such as market risks (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Overall, the Company and subsidiaries' financial risk management program is intended to minimize losses on the financial assets and financial liabilities arising from fluctuation of foreign currency exchange rates and the fluctuation of interest rates. Management has a written policy for foreign currency risk management mainly on time deposit placements and hedging to cover foreign currency risk exposures for periods ranging from 3 up to 12 months.

Financial risk management is carried out by the Corporate Finance unit under policies approved by the Board of Directors. The Corporate Finance unit identifies, evaluates and hedges financial risks.

a. Foreign exchange risk

The Company and subsidiaries are exposed to foreign exchange risk on sales, purchases and borrowings that are denominated in foreign currencies. The foreign currency denominated transactions are primarily in U.S. dollar and Japanese yen. The Company and subsidiaries' exposures to other foreign exchange rates are not material.

Increasing risks of foreign currency exchange rates on the obligations of the Company and subsidiaries are expected to be offset by the effects of the exchange rates on time deposits and receivables in foreign currencies that are equal to at least 25% of the outstanding current liabilities.

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44. FINANCIAL RISK MANAGEMENT (continued)

1. Financial risk management (continued)

a. Foreign exchange risk (continued)

The following table presents the Company and subsidiaries' financial assets and financial liabilities exposure to foreign currency risk:

	September 30, 2014		December 31, 2013	
	U.S. dollar (in billions)	Japanese yen (in billions)	U.S. dollar (in billions)	Japanese yen (in billions)
Financial assets	0.48	0.01	0.48	0.00
Financial liabilities	(0.63)	(8.17)	(0.48)	(8.47)
Net exposure	(0.15)	(8.16)	0.00	(8.47)

Sensitivity analysis

A strengthening of the U.S.dollar and Japanese yen, as indicated below, against the rupiah at September 30, 2014 would have decreased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company and subsidiaries considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Equity/loss
September 30, 2014	
U.S. dollar (1% strengthening)	(28)
Japanese yen (5% strengthening)	(45)

A weakening of the U.S.dollar and Japanese yen against the rupiah at September 30, 2014 would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

b. Market price risk

The Company and subsidiaries are exposed to changes in debt and equity market prices related to available-for-sale investments carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale investments are recognized in equity.

The performance of the Company and subsidiaries' available-for-sale investments is monitored periodically, together with a regular assessment of their relevance to the Company and subsidiaries' long-term strategic plans.

As of September 30, 2014, management considered the price risk for the Company's available-for-sale investments to be immaterial in terms of the possible impact on profit or loss and total equity from a reasonably possible change in fair value.

c. Interest rate risk

Interest rate fluctuation is monitored to minimize any negative impact to financial position. Borrowings at variable interest rates expose the Company and subsidiaries to interest rate risk (Notes 17, 18, 19, 20 and 21). To measure market risk pertaining to fluctuations in interest rates, the Company and subsidiaries primarily use interest margin and maturity profile of the financial assets and liabilities based on changing schedule of the interest rate.

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44. FINANCIAL RISK MANAGEMENT (continued)

1. Financial risk management (continued)

c. Interest rate risk (continued)

At reporting date, the interest rate profile of the Company and subsidiaries' interest-bearing borrowings was as follows:

	September 30, 2014	December 31, 2013
Fixed rate borrowings	(9,948)	(9,591)
Variable rate borrowings	(14,942)	(10,665)

Sensitivity analysis for variable rate borrowings

At September 30, 2014, a decrease (increase) by 25 basis points in interest rates of variable rate borrowings would have increased (decreased) equity and profit or loss by Rp37 billion, respectively. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

d. Credit risk

The following table presents the maximum exposure to credit risk of the Company and subsidiaries' financial assets:

	September 30, 2014	December 31, 2013
Cash and cash equivalents	17,834	14,696
Other current financial assets	1,584	6,872
Trade and other receivables, net	8,060	6,421
Long-term investments	21	21
Advances and other non-current assets	641	685
Total	28,140	28,695

The Company and subsidiaries are exposed to credit risk primarily from trade receivables and other receivables. The credit risk is managed by continuous monitoring of outstanding balances and collection.

Trade and other receivables do not have any major concentration risk whereas no customers' receivables balance exceeds 1% of trade receivables at September 30, 2014.

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk given that the Company and subsidiaries have provided sufficient provision for impairment of receivables to cover incurred loss arising from uncollectible receivables based on existing historical data on credit losses.

e. Liquidity risk

Liquidity risk arises in situations where the Company and subsidiaries have difficulties in fulfilling financial liabilities when they become due.

Prudent liquidity risk management implies maintaining sufficient cash in order to meet the Company and subsidiaries' financial obligations. The Company and subsidiaries continuously perform an analysis to monitor financial position ratios, such as liquidity ratios, and debt equity ratios, against debt covenant requirements.

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44. FINANCIAL RISK MANAGEMENT (continued)

1. Financial risk management (continued)

e. Liquidity risk (continued)

The following is the maturity profile of the Company and subsidiaries' financial liabilities:

	Carrying amount	Contractual cash flows	2014	2015	2016	2017	2018 and thereafter
September 30, 2014							
Trade and other payables	12,468	(12,468)	(12,468)	-	-	-	-
Accrued expenses	6,598	(6,598)	(6,598)	-	-	-	-
Loans and other borrowings							
Bank loans	15,209	(18,106)	(7,140)	(1,769)	(2,944)	(2,947)	(3,306)
Obligations under finance leases	4,779	(6,527)	(993)	(240)	(895)	(862)	(3,537)
Bonds and notes	3,159	(4,409)	(1,410)	(61)	(228)	(203)	(2,507)
Two-step loans	1,743	(2,114)	(291)	(106)	(281)	(270)	(1,166)
Total	43,956	(50,222)	(28,900)	(2,176)	(4,348)	(4,282)	(10,516)

	Carrying amount	Contractual cash flows	2014	2015	2016	2017	2018 and thereafter
December 31, 2013							
Trade and other payables	11,988	(11,988)	(11,988)	-	-	-	-
Accrued expenses	5,264	(5,264)	(5,264)	-	-	-	-
Loans and other borrowings							
Bank loans	10,023	(11,618)	(5,028)	(3,264)	(1,248)	(980)	(1,098)
Obligations under finance leases	4,969	(6,904)	(1,070)	(885)	(847)	(813)	(3,289)
Two-step loans	1,915	(2,308)	(292)	(285)	(278)	(271)	(1,182)
Bonds and notes	3,349	(4,817)	(582)	(1,311)	(215)	(203)	(2,506)
Total	37,508	(42,899)	(24,224)	(5,745)	(2,588)	(2,267)	(8,075)

The difference between the carrying amount and the contractual cash flows is interest value.

2. Fair value of financial assets and financial liabilities

a. Fair value measurement

Fair value is the amount for which an asset could be exchanged, or liability settled, between in an arm's length transaction.

The Company and subsidiaries determined the fair value measurement for disclosure purposes of each class of financial assets and financial liabilities based on the following methods and assumptions:

- (i) The fair values of short-term financial assets and financial liabilities with maturities of one year or less (cash and cash equivalents, trade receivables, other receivables, other current assets, trade payables, other payables, dividend payable, accrued expenses, advances from customers and suppliers and short-term bank loans) are considered to approximate their carrying amounts as the impact of discounting is not significant .

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44. FINANCIAL RISK MANAGEMENT (continued)

2. Fair value of financial assets and financial liabilities (continued)

a. Fair value measurement (continued)

- (ii) Available-for-sale financial assets primarily consist of shares, mutual funds and Corporate and Government bonds. Shares and mutual funds actively traded in an established market are stated at fair value using quoted market price or, if unquoted, determined using a valuation technique. Corporate and Government bonds are stated at fair value by reference to prices of similar securities at the reporting date.
- (iii) The fair values of long-term financial liabilities are estimated by discounting the future contractual cash flows of each liability at rates offered to the Company and subsidiaries for similar liabilities of comparable maturities by the bankers of the Company and subsidiaries, except for bonds which are based on market prices.

The fair value estimates are inherently judgmental and involve various limitations, including:

- a. Fair values presented do not take into consideration the effect of future currency fluctuations.
- b. Estimated fair values are not necessarily indicative of the amounts that the Company and subsidiaries would record upon disposal/termination of the financial assets and liabilities.

b. Classification and fair value

The following table presents the carrying value and estimated fair values of the Company and subsidiaries' financial assets and liabilities based on their classifications:

September 30, 2014						
	Trading	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Cash and cash equivalents	-	17,834	-	-	17,834	17,834
Other current financial assets	-	1,311	273	-	1,584	1,584
Trade and other receivables, net	-	8,060	-	-	8,060	8,060
Long-term investments	-	-	21	-	21	21
Advances and other non-current assets	-	641	-	-	641	641
Total financial assets	-	27,846	294	-	28,140	28,140
Trade and other payables	-	-	-	(12,468)	(12,468)	(12,468)
Accrued expenses	-	-	-	(6,598)	(6,598)	(6,598)
Loans and other borrowings	-	-	-	-	-	-
Short-term bank loans	-	-	-	(2,627)	(2,627)	(2,627)
Long-term bank loans	-	-	-	(12,582)	(12,582)	(12,176)
Obligation under finance lease	-	-	-	(4,779)	(4,779)	(4,779)
Bonds and notes	-	-	-	(3,159)	(3,159)	(3,206)
Two-step loans	-	-	-	(1,743)	(1,743)	(1,891)
Total financial liabilities	-	-	-	(43,956)	(43,956)	(43,475)

December 31, 2013						
	Trading	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Cash and cash equivalents	-	14,696	-	-	14,696	14,696
Other current financial assets	-	6,600	272	-	6,872	6,872
Trade and other receivables, net	-	6,421	-	-	6,421	6,421
Long-term investments	-	-	21	-	21	21
Advances and other non-current assets	-	685	-	-	685	685
Total financial assets	-	28,402	293	-	28,695	28,695

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44. FINANCIAL RISK MANAGEMENT (continued)

2. Fair value of financial assets and financial liabilities (continued)

b. Classification and fair value (continued)

Classification and fair value (continued)

	December 31, 2013					
	Trading	Loans and receivables	Available for sale	Other financial liabilities	Total carrying amount	Fair value
Trade and other payables	-	-	-	(11,988)	(11,988)	(11,988)
Accrued expenses	-	-	-	(5,264)	(5,264)	(5,264)
Loans and other borrowings						
Short-term bank loans	-	-	-	(432)	(432)	(432)
Obligations under finance leases	-	-	-	(4,969)	(4,969)	(4,969)
Two-step loans	-	-	-	(1,915)	(1,915)	(1,921)
Bonds and notes	-	-	-	(3,349)	(3,349)	(3,490)
Long-term bank loans	-	-	-	(9,591)	(9,591)	(9,474)
Total financial liabilities	-	-	-	(37,508)	(37,508)	(37,538)

c. Fair value hierarchy

The table below presents the recorded amount of financial assets measured at fair value and limited mutual funds participation unit for debt-based securities where the Net Asset Value ("NAV") per share of the investments information is not published as explained below:

September 30, 2014				
	Fair value measurement at reporting date using			
	Balance	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial assets				
Available-for-sale securities	273	50	223	-
Fair value to profit or loss securities (Note 3)	297	-	-	297
Total	570	50	223	297

December 31, 2013				
	Fair value measurement at reporting date using			
	Balance	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Financial assets				
Available-for-sale securities	272	48	224	0
Fair value to profit or loss securities (Note 3)	297	-	-	297
Total	569	48	224	297

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44. FINANCIAL RISK MANAGEMENT (continued)

2. Fair value of financial assets and financial liabilities (continued)

c. Fair value hierarchy (continued)

Available-for-sale financial assets primarily consist of shares, mutual funds and Corporate and Government bonds. Corporate and Government bonds are stated at fair value by reference to prices of similar securities at the reporting date. As they are not actively traded in an established market, these securities are classified as level 2.

Shares and mutual funds actively traded in an established market are stated at fair value using quoted market price and classified within level 1. The valuation of the mutual funds invested in Corporate and Government bonds requires significant management judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. As these investments are subject to restrictions on redemption (such as transfer restrictions and initial lock-up periods) and observable activity for the investments is limited, these investments are therefore classified within level 3 of the fair value hierarchy. Management considers among other assumptions, the valuation and quoted price of the arrangement of the mutual funds.

Reconciliations of the beginning and ending balance for investment measured at fair value using significant unobservable inputs (level 3) as of September 30, 2014 and 2013 are as follows:

	2014	2013
Balance at January 1	297	48
Included in consolidated statement of comprehensive income		
Unrealized loss - recognized in other comprehensive income	-	-
Redemption	-	(48)
Balance at June 30	297	-

45. CAPITAL MANAGEMENT

The capital structure of the Company and subsidiaries is as follows:

	September 30, 2014		December 31, 2013	
	Amount	Portion	Amount	Portion
Short-term debts	2,627	2.94%	432	0.53%
Long-term debts	22,263	24.88%	19,824	24.54%
Total debts	24,890	27.82%	20,256	25.07%
Equity attributable to owners	64,578	72.18%	60,542	74.93%
Total	89,468	100.00%	80,798	100.00%

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45. CAPITAL MANAGEMENT (continued)

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for stockholders and benefits to other stakeholders and to maintain an optimum capital structure to minimize the cost of capital.

Periodically, the Company conducts debt valuation to assess possibilities of refinancing existing debts with new ones which have more efficient cost that will lead to more optimized cost-of-debt. In case of idle cash with limited investment opportunities, the Company will consider buying back its shares of stock or paying dividend to its stockholders.

In addition to complying with loan covenants, the Company also maintains its capital structure at the level it believes will not risk its credit rating and is comparable with its competitors.

Debt to equity ratio (comparing net interest-bearing debt to total equity) is a ratio which is monitored by management to evaluate the Company's capital structure and review the effectiveness of the Company's debts. The Company monitors its debt levels to ensure the debt to equity ratio complies with or is below the ratio set out in its contractual borrowings and that such ratios are comparable or better than those of regional area entities in the telecommunications industry.

The Company's debt to equity ratio as of September 30, 2014 and December 31, 2013 is as follows:

	September 30, 2014	December 31, 2013
Total interest-bearing debts	24,890	20,256
Less cash and cash equivalents	(17,834)	(14,696)
Net debts	7,056	5,560
Total equity attributable to owners	64,578	60,542
Net debt to equity ratio	10.93%	9.18%

As stated in Note 19, 20 and 21, the Company is required to maintain a certain debt to equity ratio and debt service coverage ratio by the lenders. During nine months period ended September 30, 2014 and for the year ended December 31, 2013, the Company has complied with the externally imposed capital requirements.

46. SUPPLEMENTAL CASH FLOWS INFORMATION

The non-cash investing activities for nine months period ended September 30, 2014 and 2013 are as follows:

	2014	2013
Acquisition of property and equipment credited to:		
Trade payables	7,523	4,402
Obligations under finance leases	372	2,279
Non-monetary exchange	-	176
Reclassification of fix asset to asset available for sale	65	73

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47. SUBSEQUENT EVENTS

- a. On October 2, 2014, escrow account related to radio frequency diversion has been disbursed amounting to Rp707 billion. Subsequently, on October 15, 2014, Telkomsel placed their fund in the escrow account amounting to Rp2.1 trillion.
- b. On October 9, 2014, the Company signed Conditional Shares Exchange Agreement with PT Tower Bersama Infrastructure Tbk. ("TBI") to exchange 49% Company's ownership in DMT with 5.7% ownership in TBI. There is an option to exchange the remaining 51% Company's ownership in DMT with up to 13.7% ownership in TBI within a period of two years.
- c. On October 17 2014, based on Shareholders Agreement between Metra and Telstra Holdings Singapore Pte. Ltd on August 29, 2014, Metra filed a license for foreign capital investment in Teltranet to the Investment Coordinating Board (Note 1d).
- d. Based on notarial deed No. 14 dated October 20, 2014 of Tanti Lena, S.H., MKn., Dayamitra has signed a Purchase and Sale Agreement of Telecommunication Tower Infrastructure together with PT Putra Arga Binangun amounting to Rp147 billion.
- e. On October 23, 2014, Telkomsel has paid its short-term loan to BCA amounting to Rp1 trillion.