PT TELKOM INDONESIA

PT Telkom Indonesia (Telkom) is the principal telecommunications company in Indonesia. It is the leading fixed line operator and has a 65% stake in Telkomsel, the country's premier wireless operator.

In our view Telkom has better long-term growth potential than many of its peers in the region, given the under penetrated market in Indonesia. Whilst subscriber numbers have been growing strongly in recent years, wireless penetration has only reached 24%. Demand for mobile services is very sensitive to economic growth in low income per capita countries and, in a steady growth scenario, penetration is expected to move up towards 40% by 2010.

Telkomsel has maintained a dominant position in the mobile market, despite intensifying competition. We think this is attributable to the quality of its service coverage, with twice as many base receivers as its competitors, covering over 90% of the population. Following the heavy investment involved in its roll out, this network should hold the company in good stead well into the future and allow for the generation of strong free cash flows.

In June 2006 the number of Telkomsel subscribers had reached 29.3m, (market share of over 50%). Testament to its competitive strength is the fact that it has been attracting two thirds of all new mobile subscribers recently. In other words it has been growing its market share.

The increase in subscriber numbers is helping the company to lower unit costs while the strong brand and premium service allows it to achieve significantly higher ARPU than its competitors.

In conclusion, Telkom displays many of the attributes we look for in a company, namely that it is:

- Competitively positioned in a growing market;
- Soundly financed (expected to be in a net cash position by the end of 2007);
- Trading at a modest rating.