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Dear Shareholders,

Our strategy of ‘sustaining growth competitively’ was reflected in our 2009 performance. In spite of intense competitive pressure and the drastic decline in pricing in recent years, TELKOM has continued to achieve solid growth while maintaining its leadership position in the industry. Our total revenue of Rp 64,596.6 billion and net income of Rp11,332.1 billion increased 6.4% and 6.7%, respectively.

We have seen significant growth in our customer base in each of our markets. Our market share across all business segments has improved. We were able to slow the expected decline in our legacy businesses through strategic promotions. At the same time, our new wave revenues grew by 82.8%, with a significant growth in internet revenue. This is a commendable achievement by our management.

The industry climate has been severe. Three to four years ago, the Indonesian telecommunications industry enjoyed the highest ARPU in Asia. Now it is among the lowest in the region. Over the same period, competition has intensified and, more recently, the global economy has been in deep crisis. Despite these challenges, TELKOM has strengthened its position, improved profitability.
and delivered growth. This is a credit to TELKOM’s strategic direction and strong execution by the management, and it is good news not just for our investors and employees, but for our wider community of stakeholders: our government and our society.

We are also satisfied with the way the Board of Directors is managing the future of the Company in order to create long-term value by sustaining this growth. To achieve this goal, we initiated a far-reaching transformation to address the rapid evolution taking place in communications and information. To maintain our dominant position in the industry, we began to expand our portfolio from voice services to include information, media and edutainment, or “IME”.

Our transformation from a monopolistic domestic corporation to a dynamic player in a highly competitive industry is having a profound impact on the character of the organization. We have shifted from being closely focused on our product—in our case, our networks—to being a customer-orientated company; from focusing on the domestic information and communications market to positioning ourselves to capture regional and global opportunities as a TIME operator.

To acknowledge and embrace this fundamental strategic change, we launched our new corporate identity in 2009. Our new identity communicates, to all our stakeholders, that we are changing, not just in terms of products and services we offer but also in terms of the boundaries within which we operate. It will, in addition, help to drive the internal transformation in the culture of the entire group.

Investing in our new identity was a strategic move. But of course, identity alone does not deliver performance; on the contrary, it is our performance that will give value to the identity. Thus our investment has reinforced our responsibility to deliver results. With a sound and clear-sighted strategy, realistic operational plans, capable human resources and visionary management, we will.

I believe that one of the keys to our resilience in these challenging times is the strong spirit of collaboration and openness between the two Boards. Having such a robust core, working as a team, enables us to manage the external factors and maintain the company’s strategic direction. This synergy has been achieved because the BoC and BoD have a shared objective: to grow the company competitively. The Commissioners’ supervisory function is not compromised; on the contrary, supervision is more effective because our perceptions of the Company’s goals and how they are to be achieved are aligned.

In our task of supervising our Company’s direction and activities, we are supported by several committees to ensure that procedures are adhered to and the proper standards of integrity upheld. One of the most important of these is the Audit Committee, which, in the spirit of openness I mentioned
above, also enjoys full access to and the cooperation of the BoD. The activities of the Audit Committee during 2009 are detailed later in this Annual Report.

Another key supervisory organ is the Planning and Risk Monitoring & Evaluation Committee. This is a critical and ongoing part of the planning process and is one of our strengths, contributing to the overall governance regime. However, while our listing on the NYSE and our last Sarbanes-Oxley audit are evidence of our ability to comply with the strict U.S. regulatory system, we will continue to strengthen our internal controls, transparency and accountability.

We have continued to invest in educational, health and community development across the country. One of the most important ways of delivering real benefits to disadvantaged communities is by leveraging their access to information and communication. Our initiatives in this field are enabling people to engage with the digital era and transform their lives.

In 2009 we again reached out to communities in need, delivering emergency aid and relief to the victims of a massive earthquake in Padang as well as to people in other parts of the country who bore the impact of disasters that garnered fewer headlines but were no less devastating for the affected communities.

Our transformation is not without risk. As we expand our portfolio from the inherently conservative telecommunications sector to position ourselves in the more innovative and dynamic information, media and edutainment market, we are exposed to new and/or different risks, which we have taken steps to mitigate. A large proportion of our risk, however, remains associated with regulatory issues in the field of telecommunications, particularly licensing. Regulation can have an immense impact on the industry and on our customers. It is our responsibility, as incumbent, to ensure that regulators and legislators recognize that telcos must be profitable in order to invest in innovation and expansion that will benefit customers—and the nation as a whole—in the long term. To this end, we have continued to engage positively and collaboratively with the regulators to ensure that the interests of all stakeholders are fairly represented and protected.

We are in agreement with the BoD that our key challenges for the coming year are to maintain our leadership position and capture opportunities in the new wave business. We will continue to work hard to expand the range of services, content and applications that we can offer to both individuals and business customers, and to deliver the high quality network platforms and increased bandwidth to support them.

On behalf of the Board, I’d like to thank all our customers for their loyalty and support. My thanks are also due to our BoD and employees for their hard work and dedication to our vision. Finally, I would like to express my sincere appreciation to our shareholders for their confidence and trust in us as we look forward together to another year of delivering value and excellence.

Tanri Abeng
President Commissioners
The future of our industry is TIME (Telecommunications, Information, Media and Edutainment). Several years ago, we realized that it would be an increasing challenge for TELKOM to fulfill the expectations and aspirations of our shareholders, customers, or indeed, the nation, if we remained solely a telecommunications operator. As new and unprecedented modes and volumes of communication emerged, driven by cellular, satellite, digital and broadband technologies, we saw that our future would rest on our ability to provide seamless access to a huge diversity of information, media and edutainment across a wide range of platforms.

As a result, we embarked upon a far-reaching transformation that is now on going. While maintaining our legacy business of fixed line and cellular voice services, we have strategically built our portfolio of new wave businesses, including broadband, IT and enterprise services and content with a view to sustaining competitive growth.

During 2009, our consolidated net income was Rp11,332.1 billion, an increase of 6.7% compared to 2008, and equivalent to 100.8% of our target. Meanwhile, net income margin stood at 17.5% in 2009, representing an achievement of 105.4% of our target net income margin.

This financial performance was supported by TELKOM’s solid operational performance. In terms of serving customers, we are now serving 105.2 million customers from our cellular, fixed wireless and fixed wireline businesses, representing an achievement of 106% of our target.

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We also succeeded in accelerating deployment of our investments in 2009. Development of the NGN infrastructure is well under way, and we expect triple play infrastructure to be deployed in June 2010. TELKOM is also participating in two submarine cable consortia, the Asia-American Gateway, which is now complete, and the Palapa Ring, which will be ready by early 2011. These investments will significantly enhance our broadband capacity and allow us to offer better pricing and bandwidth to our customers. Another major investment is the TELKOM 3 satellite, which, when launched in 2011, will critically boost our communication and broadcasting capabilities.

This positive performance notwithstanding, we faced a number of constraints in 2009, including the decline in wireline and interconnection revenues, declining ARPU from cellular services and stable revenues from the fixed wireless business. The decline in fixed wireline revenues—our legacy business—is an inevitable consequence of the shift towards wireless telephone use. The weakening of interconnection revenues since 2007 is largely attributable to the application of new cost-based interconnection provisions, which came into effect on January 2007. At the same time, tight competition in the wireless business drove down ARPU for cellular services and stabilized TELKOM Flexi’s fixed wireless revenues.

While there is certainly scope for further improvement in terms of streamlining corporate bureaucracy, improving competencies and enhancing synergy within the company and across the group, we have clear roadmaps to address these issues. Joint training for TELKOMGroup employees is already underway. We are encouraging our subsidiaries to make full use of the resources already available within the group in order avoid duplicating investments. For example, Telkomsel, our cellular operator, is using TELKOM networks; in turn, Telkomsel’s towers are used for our fixed wireless provider, Flexi. Both TELKOM and Telkomsel are beginning to access Infomedia’s call center capabilities, while for IT services, they are using Metra.

Our 2009 results contributed to a solid financial foundation that enabled the Company to proceed confidently despite the challenging business environment that prevailed in 2009. More importantly, they provide a robust platform for continued, sustainable and profitable growth.

Telecommunications today is a fundamental driving and enabling force, not just in business, but reaching deep into people’s everyday lives. But the face of telecommunications is changing rapidly. The traditional fixed wireline sector—TELKOM’s legacy business—went into decline as consumers shifted to cellular services that were better suited to increasingly mobile lifestyles and business modes. But even growth in the cellular business can now no longer match that of recent years, which is why TELKOM has actively sought out new areas to ensure the competitive growth of the company over the long term. These new wave businesses—which include fixed and mobile broadband (Speedy and Telkomsel Flash), and the enterprise business—are our key growth drivers for the future. In 2009 our new wave revenues grew by 82.8%, and we expect growth to continue to be strong in 2010. The impact on TELKOM’s unconsolidated revenue is also significant, with a growth of 42.3%.

The increasing emphasis on the new wave business was the foundation for the Company’s transformation. This has entailed not just the addition of new business units but a fundamental change in our network infrastructure, organization and corporate culture. We are no longer merely the incumbent in the domestic telecommunications industry; we are aiming to be a leading, innovative player in the digital information, media and edutainment business as well. All of the TELKOMGroup’s investment, infrastructure development and capacity building today is focused on delivering significantly enhanced access, quality and choice for our customers.

As our transformation draws towards its conclusion we are working to strengthen the synergies across the TELKOMGroup. With a portfolio of companies that includes IT, content, media and cellular businesses, we have an enormous diversity of resources that can be accessed and shared in pursuit of our strategic goals. Over the last year, these synergies have gathered momentum, not just between TELKOM and its subsidiaries but among the subsidiaries as well. We are beginning to deliver value added services seamlessly through all our business outlets. And as the movement of people and ideas within the group becomes increasingly fluid, it is having a profound impact on the dissemination and embedding of the TELKOM culture in each of our business units.

Such a far-reaching change in our culture and outlook demands a rejuvenated corporate image, and in 2009 we launched a dynamic...
quickly as possible, this must be done within the framework of responsible regulation that supports fair competition.

In 2010 TELKOM will enter an important phase of the transformation. Our overarching focus will be on getting closer to our customers by being more responsive to their need for connectivity. Our priority, therefore, is to become a provider not just of infrastructure but of value added services: to deliver integrated, mobile, seamless access to content and applications and innovative pricing, resulting in a better and more complete customer experience.

To do this we will continue the structural reorganization of the company to increase flexibility and maximize the potential of our key revenue generators. At the end of 2009 we established separate divisions for Business Services (to serve small to medium enterprises), Consumer Services (to serve retail customers), Enterprise & wholesale and Flexi. The result will be a more focused, efficient and customer-driven organization.

There are challenges that lie ahead, but we prefer to see them as opportunities. One of these challenges is to mitigate the decline of the legacy business. While this decline is inevitable, we will continue to slow its pace by offering advantageous programs such as more progressive flat tariffs. We will also seek to maintain the growth of fixed and mobile broadband at its current rate by continually improving the network, including through our investment in submarine cables, and by offering attractive pricing and content. Both our Mojopia portal and IPTV will be launched in 2010. Another priority is to sustain growth in our Flexi fixed wireless and cellular businesses by enhancing networks, coverage, quality and capacity. Given that broadband, wireless and cellular penetration is still comparatively low in Indonesia, we expect to be able to maintain our leading position in all these markets.

The business opportunities for sustained and competitive growth are there. Our focus now must be on ensuring that our business organization and human resources are aligned to these opportunities that are there. With the discipline that comes from long experience as a market leader and the deep resources for innovation and adaptability within our organization, driven by a clear strategic vision, we are confident of achieving this.

In closing, I would like to acknowledge the cooperation and guidance of our Board of Commissioners in steering our Company through the transformation process and in setting, and achieving, our strategic goals. Most importantly, I would like to thank all our customers and shareholders for your support and assure you of our continued commitment to delivering our best.

Rinaldi Firmansyah
President Director