

## IMPORTANT NOTICE

**This offering is available only to investors who are either (1) qualified institutional buyers (as defined below) under Rule 144A under the U.S. Securities Act of 1933, as amended (the Securities Act) or (2) Institutional Accredited Investors (as defined below) or (3) addressees outside of the United States as defined in Regulation S under the Securities Act.**

**IMPORTANT:** You must read the following before continuing. The following applies to the offering memorandum (the **Offering Memorandum**) following this page and you are therefore advised to read this notice carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

**Nothing in this electronic transmission constitutes an offer of securities for sale or solicitation in any jurisdiction where it is unlawful to do so. The securities have not been, and will not be, registered under the Securities Act, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.**

The Offering Memorandum may not be forwarded or distributed to any other person and may not be reproduced in any manner whatsoever. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorized. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Any investment decision should be made on the basis of the pricing supplement and conditions of the securities and the information contained in an offering memorandum that will be distributed to you prior to the closing date and not on the basis of the Offering Memorandum. If you have gained access to this transmission contrary to any the foregoing restrictions, you are not authorized and will not be able to purchase any of the securities described therein.

**Confirmation of your Representation:** In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the securities, investors must be (a) qualified institutional buyers (**QIBs**) (within the meaning of Rule 144A under the Securities Act), (b) accredited investors within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act that are institutions (**Institutional Accredited Investors**) or (c) located outside the United States. The Offering Memorandum is being sent at your request and, by accepting the email and accessing the Offering Memorandum, you shall be deemed to have represented to us (i) that you and any customers you represent are (A) QIBs, (B) Institutional Accredited Investors or (C) outside the United States and the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia and (ii) that you consent to delivery of such Offering Memorandum by electronic transmission.

The Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. If this is not the case, you must return the Offering Memorandum to us immediately. You must not deliver or disclose the contents of the Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Perusahaan Penerbit SBSN Indonesia III, the Republic of Indonesia, Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Mandiri Securities Pte Ltd, National Bank of Abu Dhabi PJSC, Standard Chartered Bank, the Dealers nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Mandiri Securities Pte Ltd, National Bank of Abu Dhabi PJSC, Standard Chartered Bank or the Dealers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The Offering Memorandum is not an offer to sell these securities and is not a solicitation of an offer to buy these securities in any jurisdiction where such offer or sale is prohibited.

**Actions That You May Not Take:** You may not purchase or subscribe for any securities by replying to this communication. Any reply e-mail communication that purports to be an order or subscription for securities will be ignored or rejected.



**REPUBLIC OF INDONESIA**  
**(THROUGH PERUSAHAAN PENERBIT SBSN INDONESIA III)**  
**U.S.\$15,000,000,000 TRUST CERTIFICATE ISSUANCE PROGRAM**

Under the trust certificate issuance program (the **Program**) described in this offering memorandum (the **Offering Memorandum**), Perusahaan Penerbit SBSN Indonesia III, established in Indonesia under Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 57 of 2011 on the Establishment of Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III (in its capacity as issuer, the **Issuer** or **PPSI-III**), subject to compliance with all relevant laws, regulations and directives, may from time to time issue trust certificates (the **Certificates**) in *ijara* or *wakala* series (an **Ijara Series** or a **Wakala Series**, respectively, and each, a **Series**) and in any currency agreed between the Issuer and the relevant Dealer (as defined below).

Certificates may only be issued in registered form. The maximum aggregate face amount of all Certificates (**face amount**) from time to time outstanding under the Program will not exceed U.S.\$15,000,000,000 (or its equivalent in other currencies calculated as described in the Program Agreement as defined herein), subject to increase as described herein.

The Certificates may be issued on a continuing basis to the Dealers and any additional dealer(s) appointed under the Program from time to time (each, a **Dealer** and, together, the **Dealers**) pursuant to the terms of an amended and restated program agreement dated August 15, 2014 (as the same may be amended or supplemented from time to time, the **Program Agreement**) which appointment may be for a specific issue or on an ongoing basis. References in this Offering Memorandum to the “**relevant Dealer**” shall, in the case of Certificates being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe to such Certificates.

**An investment in Certificates issued under the Program involves certain risks. For a discussion of these risks, see “Investment Considerations.”**

Each Series of Certificates issued under the Program will be constituted by (i) an amended and restated master declaration of trust (the **Master Declaration of Trust**) dated March 13, 2017 entered into between the Issuer, the Trustee, the Republic of Indonesia (the **Republic**) and The Bank of New York Mellon (the **Delegate**) and (ii) a supplemental declaration of trust (the **Supplemental Declaration of Trust**) and, together with the Master Declaration of Trust, the **Declaration of Trust** in relation to the relevant Series. Pursuant to the Declaration of Trust, the Issuer (in its capacity as the trustee for and on behalf of the Certificateholders (as defined herein), the **Trustee**) will declare that it will hold the Trust Assets (as defined herein) upon trust absolutely for the holders of the Certificates of the relevant Series *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust, the terms and conditions of the Certificates (the **Conditions**) and the applicable pricing supplement relating to such Series (the **applicable Pricing Supplement**). Notice of the aggregate face amount of each Series of Certificates, whether that Series will be an *Ijara* Series or a *Wakala* Series, and any other terms and conditions not contained herein which are applicable to the Series will be set out in the applicable Pricing Supplement.

Application has been made to the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for permission to deal in and quotation for any Certificates which are agreed at the time of issue thereof to be so listed on the SGX-ST. Such permission will be granted when such Certificates have been admitted to the Official List of the SGX-ST. The SGX-ST takes no responsibility for the correctness of any statements made or opinions expressed herein. An approval-in-principle and the admission of any Certificates to the Official List of the SGX-ST are not to be taken as an indication of the merits of the Issuer, the Republic, the Program or the Certificates. Unlisted Certificates may be issued under the Program. The applicable Pricing Supplement in respect of any Series will specify whether or not such Certificates will be listed and, if so, on which exchange(s) the Certificates are to be listed. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Certificates of any Series will be approved. Each of the Issuer and the Republic is an “**Exempt Offeror**” for the purposes of Article 13(1) of the Markets Law, Dubai International Financial Centre Law No. 1 of 2012 (the **Markets Law 2012**) of the Dubai Financial Services Authority (the **DFSA**). Accordingly, this Offering Memorandum has not been approved by the DFSA for the purposes of Articles 14 and 15 of the Markets Law 2012. Application has been made to the DFSA for certain Certificates issued under the Program to be admitted to the official list of securities (the **DFSA Official List**) maintained by the DFSA and to Nasdaq Dubai for admission to trading on Nasdaq Dubai.

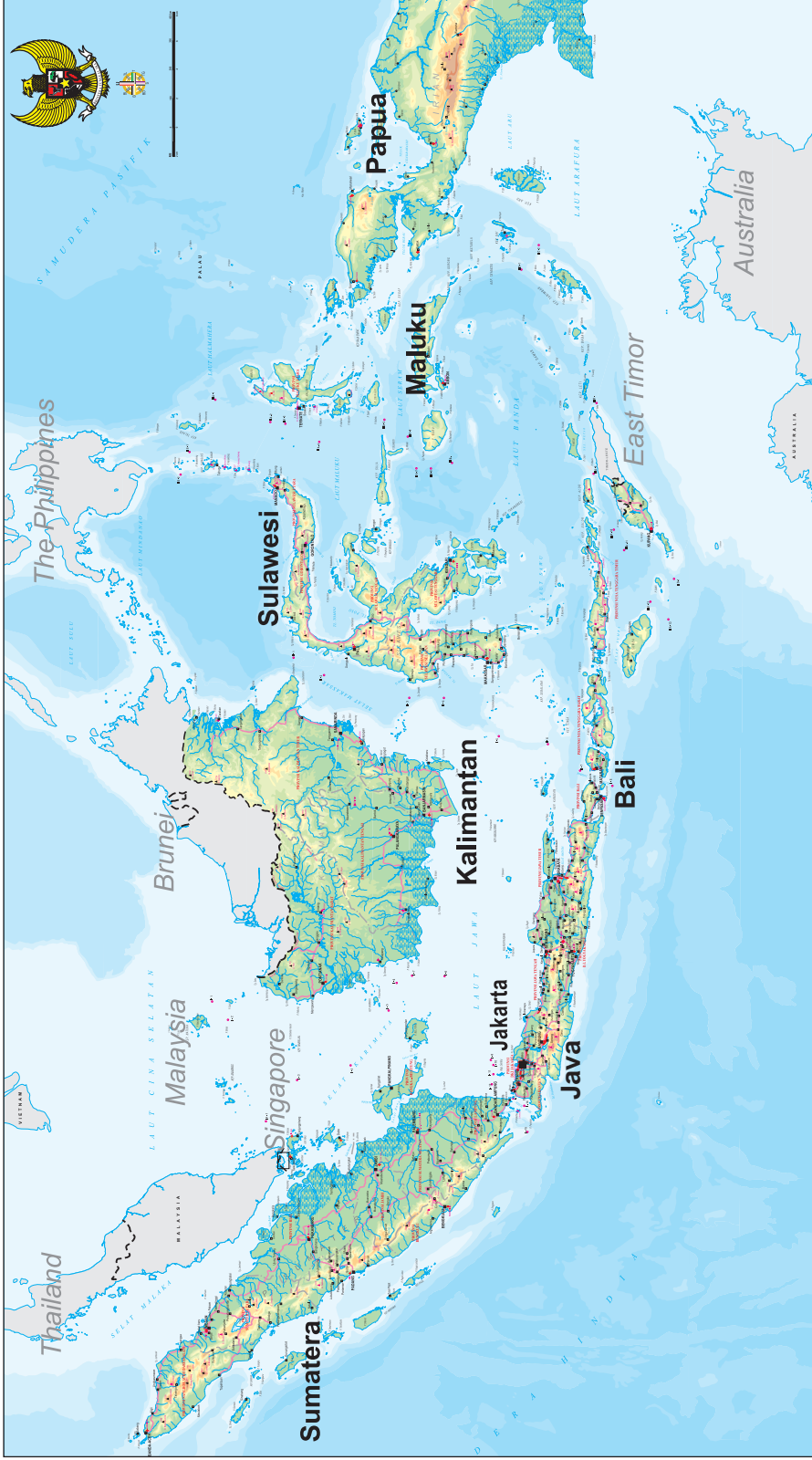
The Certificates will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, Certificates will be offered, sold or delivered (i) outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) (the **Regulation S Certificates**) and (ii) within the United States in reliance on Rule 144A under the Securities Act (Rule 144A) only to persons who are “qualified institutional buyers” (each a **QIB**) within the meaning of Rule 144A, acting for their own account or for the account of one or more QIBs (the **Rule 144A Certificates**) or to accredited investors as that term is defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act that are institutions (**Institutional Accredited Investors**), acting for their own account or for the account of one or more Institutional Accredited Investors (the **Definitive IAI Certificates**). Each purchaser of the Certificates in making its purchase will be deemed to have made certain acknowledgements, representations and agreements. Prospective purchasers are hereby notified that sellers of the Rule 144A Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Certificates are subject to other restrictions on transferability and resale; see “*Plan of Distribution*” and “*Transfer Restrictions*.”

The Certificates will be represented by one or more global certificates in fully registered form which will, unless otherwise specified in the applicable Pricing Supplement, be registered in the name of a nominee of The Depository Trust Company (**DTC**) or, in the case of Regulation S Certificates only, may alternatively be registered in the name of a nominee for the common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, S.A. (**Clearstream, Luxembourg**). It is expected that delivery of the Certificates in book-entry form will be made against payment on the Issue Date (as defined herein) through the book-entry facilities of DTC or Euroclear and Clearstream, Luxembourg, as the case may be.

Beneficial interests in the Certificates will be shown on, and transfers thereof, unless otherwise specified in the applicable Pricing Supplement, will be effected only through, records maintained by DTC and its direct or indirect participants, including Euroclear and Clearstream, Luxembourg, or, in the case of Regulation S Certificates only, Euroclear or Clearstream, Luxembourg. Except as described herein, definitive Certificates will not be issued in exchange for beneficial interests in global certificates.

<i>Arrangers</i>				
Deutsche Bank	HSBC	Mandiri Securities	National Bank of Abu Dhabi	Standard Chartered Bank
<i>Dealers</i>				
Deutsche Bank	HSBC	Mandiri Securities	National Bank of Abu Dhabi	Standard Chartered Bank

**Republic of Indonesia**



Source: National Coordinating Agency for Surveys and Mapping, with modifications

The Issuer and the Republic accept responsibility for the information contained in this Offering Memorandum. To the best of the knowledge of each of the Issuer and the Republic (each having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts subsisting on the date of this Offering Memorandum and does not omit anything likely to affect the import of such information.

This Offering Memorandum should be read and construed together with any amendments or supplements hereto and, in relation to any Series of Certificates, should be read and construed together with the applicable Pricing Supplement.

Copies of the applicable Pricing Supplement will be available from the registered office of the Issuer and the specified office set out below of the Principal Paying Agent (as defined below).

The Issuer has agreed to comply with any undertakings given by it from time to time to the SGX-ST in connection with Certificates in a Series to be listed on the SGX-ST and, without prejudice to the generality of the foregoing, shall in connection with the listing of the Certificates on the SGX-ST or any other relevant stock exchange, so long as any Certificate remains outstanding, prepare a supplement to this Offering Memorandum, or, as the case may be, publish a new offering memorandum, whenever required by the rules of the SGX-ST or any other relevant stock exchange and in any event (i) if the maximum aggregate face amount of the Certificates that may be issued under the Program is increased, (ii) upon the Issuer or the Republic becoming aware that (A) there has been a significant change (including any change to the Conditions of a Series of Certificates to be listed on the SGX-ST) affecting any matter contained in this Offering Memorandum or (B) a significant new matter has arisen, the inclusion of information in respect of which would have been required to be in this Offering Memorandum if it had arisen before this Offering Memorandum was issued or (iii) if the terms of the Program are modified or amended in a manner which would make this Offering Memorandum, as supplemented, materially inaccurate or misleading. In the event that a supplement to this Offering Memorandum is produced pursuant to such undertakings, a copy of such supplement will accompany this Offering Memorandum. Any such supplement to this Offering Memorandum will also be available from the specified office of the Principal Paying Agent. See “*General Information — Documents Available.*”

None of the Arrangers, the Dealers, the Delegate nor any of the Agents (each as defined herein) has independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers, the Delegate or any of the Agents as to the accuracy or completeness of the information contained in or incorporated by reference into this Offering Memorandum or any other information provided by the Issuer or the Republic or any other person in connection with the Program or the Certificates or their distribution. None of the Arrangers, the Dealers, the Delegate nor any of the Agents accepts any liability or responsibility in relation to the information contained in or incorporated by reference into this Offering Memorandum or any other information provided by the Issuer or the Republic in connection with the Program or for any statements made or purported to be made by the Arrangers, the Dealers, the Delegate or the Agents or on its behalf in connection with the Issuer or the Republic or the offering of the Certificates. The Arrangers, the Dealers, the Delegate and the Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which any of them might otherwise have in respect of this Offering Memorandum or any such statement. The SGX-ST takes no responsibility for the contents of this Offering Memorandum nor does it make any representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this Offering Memorandum. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer and Republic under the Program.

No person is authorized in connection with the offering of the Certificates to give any information or to make any representation other than as contained in this Offering Memorandum or any other information supplied in connection with the Program or the Certificates, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate, the Agents or any other person. Neither the delivery of this Offering Memorandum, any other information supplied in connection with the Program or the Certificates nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

Neither this Offering Memorandum nor any other information supplied in connection with the Program or the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents that any recipient of this Offering Memorandum should purchase any of the Certificates. Each investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Republic. None of the Arrangers, the Dealers, the Delegate or the Agents undertakes to review the Issuer's or the Republic's financial condition or affairs during the life of the arrangements contemplated by this Offering Memorandum nor to advise any investor or potential investor in the Certificates of any information relating to the Issuer and the Republic coming to its attention.

No comment is made or advice given by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

**EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS OWN TAX ADVISOR, LEGAL ADVISOR AND BUSINESS ADVISOR AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.**

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Memorandum and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents represents that this Offering Memorandum may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Republic, the Arrangers, the Dealers, the Trustee, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this Offering Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Memorandum or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Memorandum and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer or sale of Certificates in the United States, the United Kingdom, Hong Kong, Japan, Singapore, Brunei, Indonesia, the United Arab Emirates (excluding the Dubai International Finance Centre), Dubai International Financial Centre, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, Kuwait and Malaysia. See "*Plan of Distribution.*"

**THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CERTIFICATES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE IN THE UNITED STATES.**

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Certificates may not be offered, sold or delivered within the United States, except in transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act. This Offering Memorandum has been prepared by the Issuer and the Republic for use in connection with the offer and sale of Certificates outside the United States in reliance upon Regulation S and within the United States (i) to QIBs in reliance upon and as defined in Rule 144A or (ii) to a limited number of Institutional Accredited Investors pursuant to an exemption from the registration requirements of the Securities Act, or (iii) in transactions otherwise exempt from registration. Prospective purchasers are hereby notified that sellers of Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Certificates, see "*Plan of Distribution*" and "*Transfer Restrictions.*"

Purchasers of Definitive IAI Certificates will be required to execute and deliver an investor representation letter. Each purchaser or holder of Regulation S Certificates, Rule 144A Certificates and Definitive IAI Certificates, or any Certificates issued in registered form in exchange or substitution therefor will be deemed, by its acceptance or purchase of any such Certificates, to have made certain representations and agreements intended to restrict the resale or other transfer of such Certificates as set out in “*Transfer Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Global Certificates — Form of the Certificates*.”

In making an investment decision regarding the Certificates, prospective investors must rely on their own examination of the Issuer, the Republic, the terms of the Program and the Certificates, including the merits and risks involved. None of the Arrangers, the Dealers, the Issuer, the Delegate, the Agents or the Republic makes any representation to any investor in the Certificates regarding the legality of its investment under any applicable laws. Any investor in the Certificates should be able to bear the economic risk of an investment in the Certificates for an indefinite period.

**IN CONNECTION WITH THE ISSUE OF CERTIFICATES IN ANY SERIES UNDER THE PROGRAM, SUBSEQUENT TO THE ISSUE OF CERTIFICATES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILIZING MANAGER(S) (EACH, A STABILIZING MANAGER) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT CERTIFICATES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES IN SUCH A SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILIZATION MAY NOT NECESSARILY OCCUR. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILIZATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILIZATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES. SEE “*PLAN OF DISTRIBUTION*.”**

#### **NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA**

THIS DOCUMENT MAY NOT BE DISTRIBUTED IN THE KINGDOM EXCEPT TO SUCH PERSONS AS ARE PERMITTED UNDER THE OFFERS OF SECURITIES REGULATIONS ISSUED BY THE CAPITAL MARKET AUTHORITY OF THE KINGDOM OF SAUDI ARABIA (THE **CAPITAL MARKET AUTHORITY**).

THE CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATION AS TO THE ACCURACY OR COMPLETENESS OF THIS DOCUMENT, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS DOCUMENT. PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE SECURITIES. IF YOU DO NOT UNDERSTAND THE CONTENTS OF THIS DOCUMENT, YOU SHOULD CONSULT AN AUTHORIZED FINANCIAL ADVISOR.

#### **NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN**

THIS OFFER IS A PRIVATE PLACEMENT. IT IS NOT SUBJECT TO THE REGULATIONS OF THE CENTRAL BANK OF BAHRAIN THAT APPLY TO PUBLIC OFFERINGS OF SECURITIES AND THE EXTENSIVE DISCLOSURE REQUIREMENTS AND OTHER PROTECTIONS THAT THESE REGULATIONS CONTAIN. THIS OFFERING MEMORANDUM IS THEREFORE INTENDED ONLY FOR “ACCREDITED INVESTORS” AS DEFINED BY THE CENTRAL BANK OF BAHRAIN.

THE FINANCIAL INSTRUMENTS OFFERED PURSUANT TO THIS OFFERING MEMORANDUM MAY ONLY BE OFFERED IN MINIMUM SUBSCRIPTIONS OF U.S.\$200,000 (OR ITS EQUIVALENT IN FOREIGN CURRENCIES).

THE CENTRAL BANK OF BAHRAIN ASSUMES NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENTS OF THIS OFFERING MEMORANDUM.

THE BOARD OF DIRECTORS AND THE MANAGEMENT OF THE OFFEROR ACCEPTS RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM. TO THE BEST OF THE KNOWLEDGE AND BELIEF OF THE BOARD OF DIRECTORS AND THE MANAGEMENT, WHO HAVE TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE, THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE RELIABILITY OF SUCH INFORMATION.

THIS OFFERING MEMORANDUM CONTAINS INFORMATION WHICH SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE PROPOSALS CONTAINED THEREIN AND THE INVESTORS ARE RECOMMENDED TO TAKE THEIR OWN FINANCIAL ADVICE IN RESPECT OF ANY OF THE TERMS AND CONDITIONS OF THIS OFFERING MEMORANDUM.

### NOTICE TO RESIDENTS OF MALAYSIA

THE CERTIFICATES MAY NOT BE OFFERED FOR SUBSCRIPTION OR PURCHASE AND NO INVITATION TO SUBSCRIBE FOR OR PURCHASE THE CERTIFICATES IN MALAYSIA MAY BE MADE, DIRECTLY OR INDIRECTLY, AND THIS OFFERING MEMORANDUM OR ANY DOCUMENT OR OTHER MATERIALS IN CONNECTION THEREWITH MAY NOT BE DISTRIBUTED IN MALAYSIA OTHER THAN TO PERSONS FALLING WITHIN THE CATEGORIES OF PERSON SPECIFIED UNDER SCHEDULE 6 OR SECTION 229(1)(B) AND SCHEDULE 7 OR SECTION 230(1)(B), READ TOGETHER WITH SCHEDULE 8 AND SCHEDULE 9 OR SECTION 257(3) OF THE CAPITAL MARKETS AND SERVICES ACT 2007 OF MALAYSIA.

THE SECURITIES COMMISSION MALAYSIA SHALL NOT BE LIABLE FOR ANY NON-DISCLOSURE ON THE PART OF THE ISSUER OR THE REPUBLIC AND ASSUMES NO RESPONSIBILITY FOR THE CORRECTNESS OF ANY STATEMENTS MADE OR OPINIONS OR REPORTS EXPRESSED IN THIS OFFERING MEMORANDUM.

### EXCHANGE RATES

Unless otherwise indicated, all references in this Offering Memorandum to “**Rupiah**” or “**Rp**” are to the currency of Indonesia, those to “**dollars**,” “**U.S. dollars**” or “**U.S.\$**” are to the currency of the United States of America, those to “**JP ¥**” are to the lawful currency of Japan, those to “**€**” or “**euro**” are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty Establishing the European Community, as amended, those to “**SDR**” are to Special Drawing Rights of the International Monetary Fund (**IMF**) and those to “**ID**” are to Islamic Dinars of the Islamic Development Bank. References in this document to “**Indonesia**” or the “**Republic**” are to the Republic of Indonesia and to the “**Government**” are to the Government of Indonesia.

For ease of presentation, certain financial information relating to the Republic included herein is presented as translated into U.S. dollars. Unless otherwise specified herein, all translations of Rupiah into U.S. dollars or from U.S. dollars into Rupiah were made at the middle exchange rate, the mid-point between the buy and sell rate (the **BI middle exchange rate**), between the Rupiah and the U.S. dollar, as announced by Bank Indonesia (**BI**), the Indonesian Central Bank, as of the respective dates to which such information relates. However, these translations should not be construed as a representation that the Rupiah amount actually represents such U.S. dollar amount or could be converted into U.S. dollars at the rate indicated or any other rate. The BI middle exchange rate was Rp13,373 = U.S.\$1.00 on March 9, 2017. In addition, unless otherwise specified herein, all translations of Rupiah into currencies other than U.S. dollars, or from such other currencies into Rupiah, were made at the BI middle exchange rate between the Rupiah and such other currencies as announced by Bank Indonesia as of the respective dates to which such information relates.

The following table sets forth information on exchange rates between the Rupiah and certain other currencies as of the end of the periods indicated.

	Exchange Rates			
	Rupiah per U.S. dollar	Rupiah per 100 Japanese yen	Rupiah per Euro	Rupiah per Singapore dollar
2011 .....	9,068	11,680	11,739	6,974
2012 .....	9,670	11,197	12,810	7,907
2013 .....	12,189	11,617	16,821	9,628
2014 .....	12,385	10,364	15,063	9,376
2015 .....	13,785	11,459	15,062	9,765
2016 <sup>A</sup> .....	13,473	11,500	14,169	9,312
2017 .....				
January .....	13,352	11,836	14,417	9,470
February .....	13,336	11,826	14,104	9,504
March <sup>B</sup> .....	13,347	11,710	14,102	9,457

Source: Bank Indonesia

<sup>A</sup> As of December 30, 2016.

<sup>B</sup> As of March 7, 2017.

Unless otherwise indicated, all statistical data and figures for 2016 and 2017 or any part thereof are estimates based upon preliminary data and are subject to review and adjustment.

Certain budget figures appear as audited numbers in the relevant year's Central Government Financial Report (Laporan Keuangan Pemerintah Pusat, or **LKPP**).

Certain statistical or financial information included in this Offering Memorandum may differ from previously published information for a number of reasons, including basis of presentation and ongoing statistical revisions. Also, certain monetary amounts included in this Offering Memorandum have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

## FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Memorandum constitute forward-looking statements. Statements that are not historical facts are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “target,” “continue” or similar terminology. Among other things, Indonesia's economy, fiscal condition, debt or prospects may constitute forward-looking statements. These statements are based on the Republic's current plans, objectives, assumptions, estimates and projections.

Forward-looking statements speak only as of the date that they are made and involve inherent risks and uncertainties. Each of the Republic and the Arrangers and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statements contained herein to reflect any change in the Republic's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Therefore, undue reliance should not be placed on them.

## DATA DISSEMINATION

Indonesia subscribes to the IMF's Special Data Dissemination Standard, which is designed to improve the timeliness and quality of information of subscribing member countries. This standard requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released or the so-called “Advance Release Calendar”. For Indonesia, precise dates or “no-later-than-dates” for the release of data are disseminated three months in advance through the Advance Release Calendar, which is published on the Internet under the IMF's Dissemination Standards Bulletin Board.



Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standards Bulletin Board. The internet website for Indonesia's Advance Release Calendar and metadata is located at <http://dsbb.imf.org/Pages/SDDS/ARCCtyCtgList.aspx?ctycode=IDN>.

## ENFORCEMENT

The Issuer is established by the Republic under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* and is wholly-owned by the Republic. All of the directors of the Issuer reside in the Republic and substantially all of the assets of the Issuer and of such directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside the Republic upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside the Republic, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by its Indonesian legal counsel that there is doubt as to the enforceability in the Republic in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

The Republic is a sovereign nation. Consequently, it may be difficult for holders of the Certificates to obtain or enforce judgments against the Republic.

Subject to the following paragraph, to the extent that the Republic may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, the Republic will agree in the Transaction Documents (as defined herein) not to claim and will irrevocably and unconditionally waive such immunity in relation to any proceedings. Further, the Republic will irrevocably and unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any proceedings.

The Republic's waiver of immunity is a limited and specific waiver for the purposes of the Certificates and the Transaction Documents and under no circumstances should it be interpreted as a general waiver by the Republic or a waiver with respect to proceedings unrelated to the Certificates or the Transaction Documents. Furthermore, notwithstanding anything to the contrary in the foregoing, no waiver of immunity or consent shall be deemed or interpreted to include any waiver of immunity or consent in respect of:

- actions brought against the Republic arising out of or based upon U.S. federal or state securities laws;
- attachment under Indonesian laws;
- present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961;
- "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963;
- any other property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere; and
- military property or military assets or property or assets of the Republic related thereto,

**provided that** the foregoing limitations shall not preclude any proceeding to enforce any provision of the relevant Transaction Documents relating to the Assets (as defined herein).

Because the Republic has not submitted to jurisdiction or waived its sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it will not be possible to obtain a judgment in the United States against the Republic based on such laws unless a court were to determine that the Republic is not entitled to sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to such actions. The Republic may assert immunity to such actions or with respect to the property or assets described above. Investors may have difficulty making any claims based upon such securities laws or enforcing judgments against the property or assets described above.

The Republic has appointed the Representative Office of Bank Indonesia in London as its authorized agent upon whom process may be served in any action arising out of or based on the Certificates or the Declaration of Trust. Such appointment is irrevocable until all amounts in respect of the Certificates have been paid in full or unless and until a successor has been appointed as the Republic's authorized agent and such successor has accepted such appointment. The Republic has agreed that it will at all times maintain an authorized agent to receive such service, as provided above. The Representative Office of Bank Indonesia is not the agent for receipt of service of process for actions under the United States federal or state securities laws.

The Republic is subject to suit in competent courts in Indonesia. However, the Law on State Treasury (Law No. 1 of 2004) prohibits the seizure or attachment of property or assets owned by the Republic. Furthermore, a judgment of a non-Indonesian court will not be enforceable by the courts of Indonesia, although such a judgment may be admissible as evidence in a proceeding on the underlying claim in an Indonesian court. Re-examination of the underlying claim *de novo* would be required before the Indonesian court.

## CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise indicated, all references in this Offering Memorandum to (i) “**tons**” are to metric tons, each of which is equal to 1,000 kilograms or approximately 2,204.6 pounds, (ii) “**barrels**” are to U.S. barrels, each of which is equal to 159.0 liters, (iii) “**LNG**” are to liquefied natural gas and (iv) “**LPG**” are to liquefied petroleum gas. Measures of distance referred to herein are stated in kilometers or “**km**” each of which is equal to 1,000 meters or approximately 0.62 miles. Measures of area referred to herein are stated in square kilometers, each of which is equal to approximately 0.39 square miles, or in hectares, each of which is equal to approximately 2.47 acres.

The Ministry of Energy and Mineral Resources publishes an average monthly and annual price for Indonesian crude oil which is commonly referred to as the Indonesian Crude Price (the **ICP**). ICP is calculated as the sum of (i) 50.0% of the average price for Indonesian crude oil published by Platts, a division of The McGraw-Hill Companies, and (ii) 50.0% of a crude oil price for Indonesian crude oil published by RIM Intelligence Co. of Japan for the relevant period. The Government evaluates the methodology of the calculation of the ICP from time to time and, if appropriate, adjusts the formula to ensure that the ICP closely tracks world market prices for Indonesian crude oil. The Government uses the ICP for various accounting and other purposes. For instance, the Ministry of Finance uses the ICP as an assumption underlying the preparation of the Government budget. See “*Republic of Indonesia — Government Budget.*”

Statistical information included in this Offering Memorandum is the latest official data publicly available at the date of this Offering Memorandum. Financial data provided in this Offering Memorandum may be subsequently revised in accordance with Indonesia's ongoing maintenance of its economic data. The Republic has no obligation to distribute such revised data to any holder of Certificates.

In August 2014, the Republic revised its methodology in compiling balance of payments data, using the sixth edition of Balance of Payments and International Investment Position Manual (**BPM6**). This revised methodology was implemented to comply with international best practices. BPM6 will be implemented gradually in Indonesia's balance of payments (**BOP**) statistics. The first phase of implementation, which began in the second quarter of 2014, involves reclassifying existing data components and improving the methodology in accordance with BPM6, using sources of data currently available.

The shift to the new methodology impacts the following data:

- In the goods account, the changes include: (a) reclassifying “goods for processing” as “manufacturing services on physical inputs owned by others” and “repairs on goods” as “maintenance and repair services” in the services account; and (b) incorporating only “goods procured in ports by carriers” and “general merchandise on a balance of payments basis”.
- In the services account, the changes include: (a) combining “information and computer services” and “communication services (excluding postal and couriers)” into “telecommunication, computer and information services”; (b) reclassifying “postal and couriers services” to “transportation services”; and (c) incorporating the “financial intermediation services” section into “indirectly measured estimates” (**FISIM**).

- The income account and current transfers account are renamed the primary income account and secondary income account, respectively, to comply with the terms used in the System of National Accounts 2008 and adjustments were made to the accounts after the implementation of FISIM.
- In the financial account, the changes include: (a) the presentation format of direct investment data, which was previously based on the directional principle of investment (direct investments abroad and foreign direct investments in Indonesia) that was based on the principle of assets-liabilities (“direct investments — asset” and “direct investments — liability”). Notwithstanding the change, the net value of direct investments according to BPM6 is the same as that in the fifth edition of Balance of Payments and International Investment Program Manual; and (b) including financial derivative data as an independent component, which is consistent with the information displayed by Indonesia’s International Investment Position Statistics.
- In the current account, the changes include: (a) the calculation of several indicators associated with the account; (b) reclassifying “goods for processing” from goods to services; and (c) recording net values instead of gross values. While the changes resulted in smaller values of imports of goods and services and current account receipts, and larger values of indicators for reserve adequacy and the debt service ratio, the level of the current account remains unchanged from the previous methodology.

The shift to the new methodology does not affect the “net errors and omissions”, “total balance”, and “reserves and related items” values in the current and financial accounts.

In this Offering Memorandum, GDP is shown in both current and constant market prices. GDP at current market prices values a country’s output using the actual prices for each year, while GDP at constant market prices (also referred to as “real” GDP) values output using the prices from a base year, thereby eliminating the distorting effects of inflation and deflation. In 2015, Statistics Indonesia (*Badan Pusat Statistik* or **BPS**) adopted the calendar year 2010 as the base year (the **Base Year**) for the calculation of Indonesia’s GDP in constant market prices. Unless stated otherwise, all GDP growth rates in this Offering Memorandum (in aggregate or by sector) are based on constant market prices using the Base Year. Percentage shares of Indonesia’s GDP represented by various sectors (unless otherwise noted) use current market prices.

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## SUMMARY

### Overview

Indonesia, the world's fourth most populous country, with a population of approximately 260 million, is a developing nation in Southeast Asia spread across an archipelago of 17,504 islands.

In recent years, Indonesia has continued its rapid economic growth and consolidated its transformation to a participatory democracy that places greater political power in the hands of local and regional governments.

The following table sets forth certain of the Republic's principal economic indicators as of and for the specified dates and periods.

### Selected Key Economic Indicators

	For the Year Ended December 31,					
	2012 <sup>L</sup>	2013 <sup>L</sup>	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>P</sup>	2017 <sup>B</sup>
National account and prices:						
Real GDP growth (year-on-year) . . . . .	6.0%	5.6%	5.0%	4.9%	5.0%	5.1%
Per capita GDP (in thousands of rupiah) . . . . .	35,105	38,366	41,916	45,141	47,957	N/A
Per capita GDP (in U.S. dollars) <sup>(1)</sup> . . . . .	3,741	3,667	3,532	3,374	3,605	N/A
Average exchange rate (rupiah per U.S. dollar) <sup>(2)</sup> . . . . .	9,348	10,559	11,876	13,392	13,305	13,300
Inflation rate (year-on-year change in CPI) . . . . .	4.3%	8.4%	8.4%	3.4%	3.0%	4.0%
External sector:						
Current account (% of GDP) <sup>(3)</sup> . . . . .	(2.7)%	(3.2)%	(3.1)%	(2.0)%	(1.8)%	N/A
Fiscal account:						
Budget deficit (% of GDP) . . . . .	(1.9)%	(2.3)%	(2.3)%	(2.6)%	(2.5)%	(2.4)%
External debt of the central government (in trillions of rupiah) . . . . .	880	1,112	1,131	1,410	1,438	1,492
Debt service ratio (% of government revenue) . . . . .	19.9%	18.8%	23.7%	25.3%	32.0%	28.1%

Source: BPS, Bank Indonesia and Ministry of Finance

<sup>L</sup> LKPP (Central Government Financial Report/Audited).

<sup>P</sup> Preliminary.

<sup>B</sup> Budget.

(1) Per capita GDP in U.S. dollars has been converted from Rupiah into U.S. dollars and the U.S. dollar amounts of external debt of the central Government have been converted into Rupiah at the following exchange rates per U.S. dollar: Rp9,384 per U.S. dollar for 2012, Rp10,463 per U.S. dollar for 2013, Rp11,868 per U.S. dollar for 2014, Rp13,377 per U.S. dollar for 2015, and Rp13,303 per U.S. dollar for 2016. These exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given period.

(2) Official average exchange rate for the relevant period published by Bank Indonesia in its annual report.

(3) As published by Bank Indonesia in Indonesia's balance of payments report.

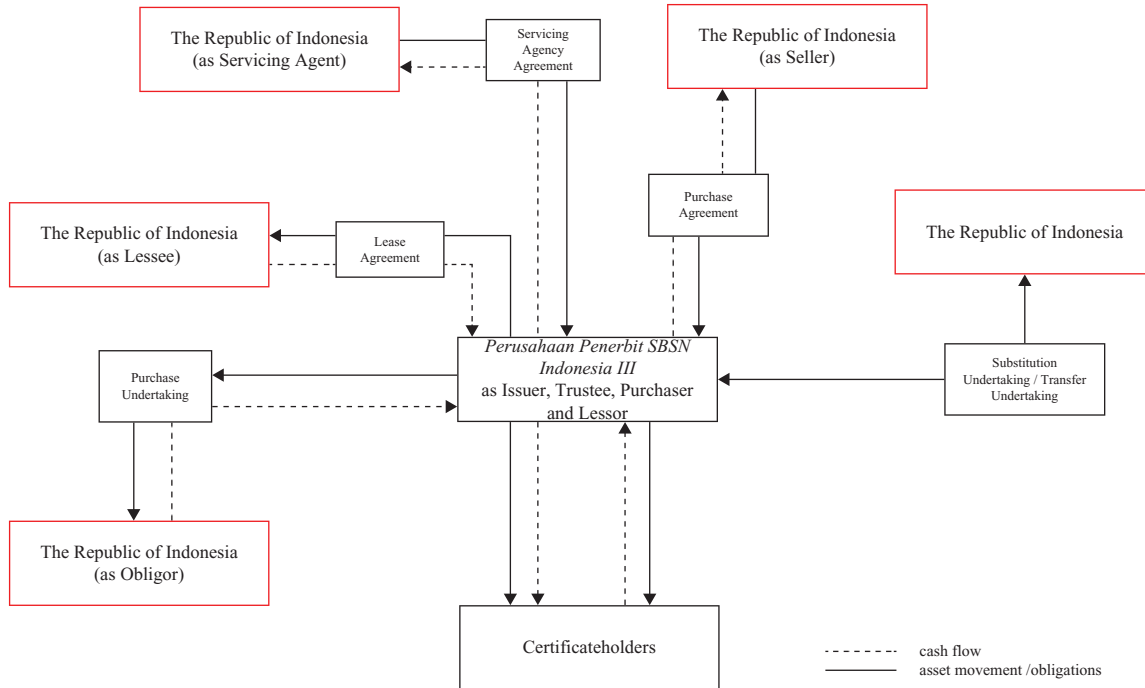
N/A Not available.

## STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying each Ijara Series and Wakala Series. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this Offering Memorandum for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalized terms used below.

### IJARA SERIES

#### Structure Diagram



#### Principal cash flows

##### *Payments by the Certificateholders and the Issuer*

On the Issue Date of each Ijara Series, the Certificateholders will pay the Issue Price in respect of the Certificates to PPSI-III and PPSI-III will pay such amount to the Republic as the price payable under the Master Purchase Agreement (as defined herein) as supplemented by a Supplemental Purchase Agreement (as defined herein and together with the Master Purchase Agreement, the **Purchase Agreement**) for the purchase of the Ijara Assets identified in the Supplemental Purchase Agreement.

##### *Periodic Payments by the Issuer*

On or prior to each Periodic Distribution Date, the Lessee will pay to PPSI-III an amount reflecting the rental due under the Lease Agreement in respect of the Ijara Assets, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Issuer for that purpose.

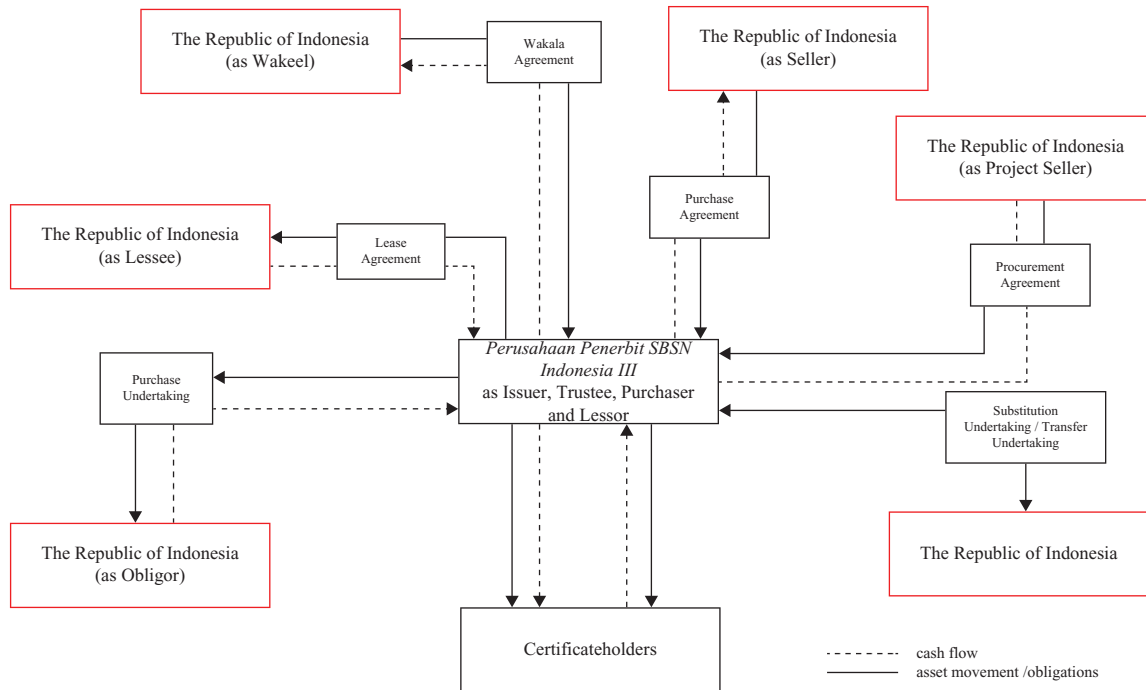
##### *Dissolution Payment by the Republic*

On the Scheduled Dissolution Date, PPSI-III will have the right under the Purchase Undertaking (as defined herein) to require the Republic to purchase all of its rights, title, benefits and entitlements in, to and under the Ijara Assets. The Exercise Price (as defined herein) payable by the Republic to the Issuer for such purpose is intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Trust may be dissolved prior to the Scheduled Dissolution Date by reason of redemption following the occurrence of a Dissolution Event (as defined in Condition 12 (*Dissolution Events*)). In such case, the amounts payable by the Issuer on the due date for dissolution will be funded by the Republic purchasing PPSI-III's rights, title, benefits and entitlements in, to and under the Ijara Assets and paying the Exercise Price to (or to the order of) PPSI-III pursuant to the terms of the Purchase Undertaking.

## WAKALA SERIES

### Structure Diagram



### Principal cash flows

#### *Payments by the Certificateholders and the Issuer*

On the Issue Date of each Wakala Series, the Certificateholders will pay the Issue Price in respect of the Certificates to PPSI-III and PPSI-III will pay (i) no less than 51.0% of such amount to the Republic as the price payable under the Purchase Agreement for the purchase of the Ijara Assets identified in the Supplemental Purchase Agreement and (ii) not more than 49.0% of such amount to the Republic as the price payable under the Master Procurement Agreement (as defined herein) as supplemented by a Supplemental Procurement Agreement (as defined here and together with the Master Procurement Agreement, the **Procurement Agreement**) for the purchase of the Project Assets identified in the Supplemental Procurement Agreement, and the procurement of the construction of the relevant Project Assets and their delivery upon completion.

#### *Periodic Payments by the Issuer*

On or prior to each Periodic Distribution Date, the Lessee will pay to PPSI-III an amount reflecting the rental due under the Lease Agreement in respect of the Assets, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Issuer under the Certificates and shall be applied by the Issuer for that purpose. The Lessee will further pay to PPSI-III an amount reflecting the rental due in respect of any Project Assets following their completion and delivery.

#### *Dissolution Payment by the Republic*

On the Scheduled Dissolution Date, PPSI-III will have the right under the Purchase Undertaking to require the Republic to purchase all of its rights, title, benefits and entitlements in, to and under the Ijara Assets and the Project Assets (as a single portfolio of assets for the relevant Series). The Exercise Price payable by the Republic to the Issuer for such purpose is intended to fund the Dissolution Distribution Amount payable by the Issuer under the Certificates.

The Trust may be dissolved prior to the Scheduled Dissolution Date by reason of redemption following the occurrence of a Dissolution Event. In such case, the amounts payable by the Issuer on the due date for dissolution will be funded by the Republic purchasing PPSI-III's rights, title, benefits and entitlements in, to and under the Ijara Assets and the Project Assets and paying the Exercise Price to (or to the order of) PPSI-III pursuant to the terms of the Purchase Undertaking.



## SUMMARY OF THE PROGRAM

The following is an overview of the principal features of the Certificates issued under the Program. This overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Offering Memorandum and the applicable Pricing Supplement. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this Offering Memorandum as a whole and the applicable Pricing Supplement.

Words and expressions defined in “*Terms and Conditions of the Certificates*” shall have the same meanings in this overview. Reference to a “**Condition**” is to a numbered condition of the Terms and Conditions of the Certificates (the **Conditions**).

### Parties

**Issuer** ..... Perusahaan Penerbit SBSN Indonesia III (**PPSI-III**), a legal entity established in the Republic by the Government under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara*. The Issuer has been established solely for the purpose of issuing Sharia compliant securities in foreign currencies in the international markets. In accordance with the Declaration of Trust, PPSI-III will (in its capacity as Trustee) act as trustee in respect of the Trust Assets for the benefit of each Series of Certificateholders (see “— *Trustee*” below).

**Ownership of the Issuer** ..... The Issuer’s entire issued share capital is held by the Republic.

**Seller** ..... The Republic (in such capacity, the **Seller**).

In respect of each Ijara Series, the Seller will sell to the Issuer pursuant to the Purchase Agreement (to hold as trustee for and on behalf of the Certificateholders) certain Ijara Assets identified in the relevant Supplemental Purchase Agreement.

In respect of each Wakala Series, the Seller will sell to the Issuer pursuant to:

- (a) the Purchase Agreement (to hold as trustee for and on behalf of the Certificateholders) certain Ijara Assets identified in the relevant Supplemental Purchase Agreement for a purchase price of not less than 51.0% of the Issue Price; and
- (b) the Procurement Agreement (to hold as trustee for and on behalf of the Certificateholders) certain Project Assets identified in the Supplemental Procurement Agreement for a purchase price of not more than 49.0% of the Issue Price, further to which the Project Seller will procure the construction of the relevant Project Assets and deliver such assets upon completion.

**Lessor** ..... PPSI-III (in such capacity, the **Lessor**).

In respect of each Ijara Series, the Lessor will lease to the Lessee and the Lessee will lease from the Lessor pursuant to the Master Lease

Agreement and a Supplemental Lease Agreement (together, the **Lease Agreement**), certain Ijara Assets identified in that Supplemental Lease Agreement.

In respect of each Wakala Series, the Lessor will lease to the Lessee and the Lessee will lease from the Lessor pursuant to the Lease Agreement:

- (a) certain Ijara Assets identified in the relevant Supplemental Lease Agreement; and
- (b) following their completion and delivery, certain Project Assets identified in the Supplemental Lease Agreement.

**Lessee** ..... The Republic (in such capacity, the **Lessee**). In respect of each Ijara Series and Wakala Series, and in accordance with the Lease Agreement, the Lessee will lease the Ijara Assets and, in respect of a Wakala Series, following their completion and delivery, the relevant Project Assets, in consideration for rental payable to the Lessor in the amounts and on the dates specified in the Lease Agreement. The rental for the Ijara Assets will be used to fund the Periodic Distribution Amounts payable by PPSI-III (in its capacity as Issuer) in respect of each Ijara Series and Wakala Series.

**Obligor** ..... The Republic (in such capacity, the **Obligor**). In accordance with the Purchase Undertaking, the Republic will, at the option of the Trustee or the Delegate, purchase all of PPSI-III's rights, title, benefits and entitlements in, to and under the Ijara Assets of an Ijara Series or the Ijara Assets and the Project Assets of a Wakala Series, each as identified in a sale agreement (in the form scheduled to the Purchase Undertaking).

**Servicing Agent** ..... In respect of an Ijara Series, the Republic (in such capacity, the **Servicing Agent**). Under the Lease Agreement, the Lessor will be responsible for insuring the Properties (as defined below) or replacing all of the Properties upon the occurrence of a Total Loss Event (as each such term is defined herein), paying proprietorship taxes and performing major maintenance and structural repair. In accordance with the Servicing Agency Agreement, the Lessor will delegate this responsibility to the Servicing Agent.

**Wakeel** ..... In respect of a Wakala Series, the Republic (in such capacity, the **Wakeel**). Under the Lease Agreement, the Lessor will be responsible for insuring the Properties or replacing all of the Properties upon the occurrence of a Total Loss Event (as each such term is defined herein), paying proprietorship taxes and performing major maintenance and structural repair. In accordance with the Wakala Agreement, the Lessor will delegate this responsibility to the Wakeel. Pursuant to the Wakala Agreement, the Wakeel will also maintain a separate ledger account which shall be used to record all rental received by the Wakeel pursuant to the Lease Agreement and shall use its best efforts to manage the Properties in respect of each Wakala Series such that the percentage of the Properties of each Wakala Series which are represented by Ijara Assets shall at all times be no less than 51 per cent.

**Arrangers** ..... Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Mandiri Securities Pte Ltd, National Bank of Abu Dhabi PJSC and Standard Chartered Bank.

<b>Dealers</b> .....	Deutsche Bank AG, Singapore Branch, The Hongkong and Shanghai Banking Corporation Limited, Mandiri Securities Pte Ltd, National Bank of Abu Dhabi PJSC and Standard Chartered Bank.
<b>Local Co-Managers</b> .....	PT Bahana Securities, PT Danareksa Sekuritas and PT Trimegah Sekuritas Indonesia Tbk.
<b>Trustee</b> .....	PPSI-III (in such capacity, the <b>Trustee</b> ). In accordance with the Declaration of Trust, the Trustee will act as trustee in respect of the Trust Assets for the benefit of each Series of Certificateholders.
<b>Delegate</b> .....	The Bank of New York Mellon (the <b>Delegate</b> ). In accordance with the Declaration of Trust, the Trustee will unconditionally and irrevocably delegate to the Delegate certain present and future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust.
<b>Principal Paying Agent</b> .....	The Bank of New York Mellon.
<b>Registrar and Transfer Agent</b> .....	The Bank of New York Mellon as registrar and transfer agent with respect to Certificates held through DTC. The Bank of New York Mellon (Luxembourg) S.A. as registrar and The Bank of New York Mellon, London Branch as transfer agent with respect to Certificates held through Euroclear and/or Clearstream, Luxembourg.
<b>Calculation Agent</b> .....	The Bank of New York Mellon.
<b>Summary of the Transaction Structure and Documents</b> .....	An overview of the structure of the transaction and the principal cash flows is set out under “ <i>Structure Diagram and Cash Flows</i> ” and a description of the principal terms of the significant Transaction Documents is set out under “ <i>Summary of the Principal Transaction Documents.</i> ”
<b>Summary of the Certificates</b>	
<b>Method of Issue</b> .....	The Certificates may be issued on a syndicated or non-syndicated basis. The Certificates will be issued in series (each a <b>Series</b> ). Each Series will be issued on the relevant Issue Date specified in the applicable Pricing Supplement.
<b>Program Size</b> .....	Up to U.S.\$15,000,000,000 (or its equivalent in other currencies calculated as described in the Program Agreement) outstanding at any time. The Issuer may increase the amount of the Program in accordance with the terms of the Program Agreement.
<b>Distribution</b> .....	Certificates may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
<b>Currencies</b> .....	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Issuer and the relevant Dealer.
<b>Maturities</b> .....	The Certificates will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or the Specified Currency (as defined in the applicable Pricing Supplement).

<b>Trust Assets</b> .....	Each Certificate evidences an undivided ownership interest in the Trust Assets of each Series, subject to the terms of the Transaction Documents. The Trust Assets in respect of each Series consist of: <ul style="list-style-type: none"> <li>(a) all of the Issuer's rights, title, interest and benefit in, to and under the Ijara Assets, in the case of an Ijara Series, and the Ijara Assets and the Project Assets, in the case of a Wakala Series (as varied from time to time as a result of the exercise of rights granted under the Substitution Undertaking or prior to the completion and delivery of Project Assets as provided in the Procurement Agreement and which, as of any Transfer Date, shall exclude the Transferred Assets);</li> <li>(b) all of the Issuer's rights, title, interest and benefit in, to and under the Transaction Documents (other than in relation to any representations given to the Issuer by the Republic pursuant to the Transaction Documents which relate to that Series);</li> <li>(c) all monies that from time to time are, standing to the credit of the Transaction Account for that Series; and</li> <li>(d) all proceeds of the foregoing.</li> </ul>
<b>Issue Price</b> .....	Certificates may be issued on a fully paid basis and at an issue price which is at par.
<b>Periodic Distributions</b> .....	Certificateholders are entitled to receive Periodic Distribution Amounts (as defined in the Conditions) calculated on the basis specified in the Pricing Supplement applicable to the relevant Series.
<b>Scheduled Dissolution of the Trust</b> ...	Certificates shall be redeemed on the Scheduled Dissolution Date and at the Dissolution Distribution Amount as may be specified in the applicable Pricing Supplement.
<b>Dissolution Date</b> .....	The Scheduled Dissolution Date or any earlier date of dissolution of the Trust in accordance with the Conditions.
<b>Early Dissolution of the Trust</b> .....	Other than as a result of the occurrence of a Dissolution Event, a Total Loss Event, the Trust will not be subject to dissolution, and the Certificates will not be redeemed, prior to the Scheduled Dissolution Date.
<b>Dissolution Events and Republic Events</b> .....	<p>The Dissolution Events are set out in Condition 12 (<i>Dissolution Events</i>). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at the Dissolution Distribution Amount. The Exercise Price paid pursuant to the Purchase Undertaking shall be used to fund the Dissolution Distribution Amount.</p> <p>The Dissolution Events include the Republic Events (as defined herein) which are certain events relating to the Republic, as set out in the Purchase Undertaking.</p>
<b>Dissolution Distribution Amount</b> .....	The aggregate outstanding face amount of the Certificates plus all Periodic Distribution Amounts accrued and unpaid (if any) at the Dissolution Date.

**Total Loss Event** ..... The occurrence of a Total Loss Event in respect of the Assets relating to a particular Series will result in the termination of the relevant Supplemental Lease Agreement(s) in respect of the properties the subject of the Total Loss Event and the redemption of the Certificates of the relevant Series and the consequent dissolution of the Trust, unless the Republic (in its capacity as Servicing Agent or Wakeel, as the case may be) in its sole discretion decides to procure, on the date of occurrence of the Total Loss Event, sufficient new properties that will be made subject to the Lease Agreement in respect of such Series. In such an event the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the new properties. The Servicing Agent or the Wakeel, as the case may be, is also responsible for ensuring that, in such an event, all insurance proceeds (if any) in respect thereof are paid in the Specified Currency directly into the Transaction Account in respect of such Series by no later than the close of business in London on the 30<sup>th</sup> day after the occurrence of the Total Loss Event.

If a Total Loss Event occurs and the relevant provisions of the Servicing Agency Agreement or Wakala Agreement, as the case may be, are not strictly complied with and as a result an amount (if any) less than the aggregate outstanding face amount of the Certificates of such Series is credited to the relevant Transaction Account (the difference between such amount in the Specified Currency and the amount credited to the Transaction Account being the **Total Loss Shortfall Amount**), then the Servicing Agent or the Wakeel, as the case may be, is required (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement or Wakala Agreement, as the case may be, relating to insurance) to pay (in the Specified Currency in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly into the Transaction Account by no later than close of business in London on the 31<sup>st</sup> day after the Total Loss Event has occurred. The amount standing to the credit of the Transaction Account shall be used to redeem the Certificates of such Series on the Total Loss Dissolution Date. Following such redemption, the Trust shall be dissolved.

Unless the Servicing Agent or the Wakeel, as the case may be, procures new properties that will be subject to the Lease Agreement in respect of such Series, rental under the Lease Agreement will cease automatically with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the relevant Transaction Account.

“**Total Loss Dissolution Date**” means the earlier of (i) the date notified by the Issuer in a notice given to the Certificateholders, the Delegate and the Principal Paying Agent in accordance with Condition 15 (*Notices*) and (ii) the 31<sup>st</sup> day following the occurrence of a Total Loss Event following which the Servicing Agent has not procured the full replacement of the Assets.

“**Total Loss Event**” means the total loss or destruction of, or damage to the whole of, the Properties, or any event or occurrence that renders the whole of the Properties permanently unfit for any economic use and (but only after taking into consideration any

insurance or other indemnity granted by any third party in respect of the Properties) the repair or remedial work in respect thereof is wholly uneconomical.

**Cancellation of Certificates held by the Republic** .....

The Republic may at any time purchase Certificates at any price in the open market or otherwise. Following any purchase of Certificates, the Republic may at its option hold or resell such Certificates or surrender the Certificates for cancellation by PPSI-III. Should the Republic wish to cancel any Certificates so purchased, it shall deliver a transfer notice (a **Transfer Notice**) to PPSI-III (in accordance with the terms of the Transfer Undertaking) whereupon PPSI-III shall, in accordance with the terms of the Transfer Undertaking, be obliged to transfer all of PPSI-III's rights, title, benefits and entitlements in, to and under the Transferred Assets (as specified in the Transfer Notice) to the Republic in consideration for which the relevant Certificates shall be surrendered to PPSI-III for cancellation.

The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking). Following the entry into such transfer agreement, PPSI-III shall cancel the relevant Certificates identified in the Transfer Notice on the Transfer Date specified in the Transfer Notice (which shall be a Periodic Distribution Date).

**Covenants** .....

The Purchase Undertaking contains a negative pledge given by the Republic. See "*Summary of the Principal Transaction Documents*."

**Role of Delegate** .....

Pursuant to the Declaration of Trust, the Trustee will delegate to the Delegate certain of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to:

- (a) deliver an Exercise Notice to the Republic in accordance with the Purchase Undertaking; and
- (b) following a Dissolution Event, take any enforcement action in the name of the Trustee against the Republic.

**Asset Substitution** .....

Pursuant to a Substitution Undertaking entered into by PPSI-III in favor of the Republic, the Republic may, subject to certain conditions, require PPSI-III to accept the substitution of certain new assets (the **New Assets**) in replacement of certain existing Ijara Assets or, in the case of a Wakala Series and following the completion and delivery of such Project Assets, Project Assets subject to the Lease Agreement (together, the Replaced Assets) as described in a substitution notice provided by the Republic to PPSI-III, **provided that** the Republic certifies that the New Assets are of a value equal or greater than the value of the Replaced Assets. Upon the Republic giving notice of substitution to PPSI-III, (i) PPSI-III shall enter to a substitution sale agreement (in the form scheduled to the Substitution Undertaking) with the Republic to effect the transfer and conveyance of the Replaced Assets and the New Assets; and (ii) PPSI-III (as Lessor) and the Republic (as Lessee) shall amend the Supplemental Lease Agreement(s) in respect of such Series to reflect the change in composition of the properties that are subject to the Lease. If the value of the Replaced Assets as certified by the Republic is more than

20 per cent. of the aggregate outstanding face amount of the Certificates of such Series then the existing Supplemental Lease Agreement in respect of the relevant Replaced Assets shall be terminated and the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the New Assets.

PPSI-III may also replace Project Assets under the Procurement Agreement prior to the completion and delivery of the relevant assets pursuant to the specified Project by the amendment of the schedule to the relevant Supplemental Procurement Agreement specifying such Project Assets.

In addition, the Servicing Agent or the Wakeel, as the case may be, may in accordance with the Servicing Agency Agreement or the Wakala Agreement, as the case may be, upon the occurrence of a Loss Event (as defined in the Lease Agreement), procure new properties with a value not less than the value of the Properties the subject of the Loss Event and shall convey the Beneficial Rights in and to such new properties to PPSI-III, following which PPSI-III (in its capacity as Lessor) and the Republic (in its capacity as Lessee) shall amend the Supplemental Lease Agreement(s) in respect of such Series to reflect the change in the composition of the properties that are the subject of the Lease Agreement.

**Form and Delivery of the**

**Certificates** .....

The Certificates will be represented by one or more global certificates in fully registered form which will, unless otherwise specified in the applicable Pricing Supplement, be deposited on or about the Issue Date with a custodian for and registered in the name of a nominee of DTC, except that global certificates representing Regulation S Certificates may, if specified in the applicable Pricing Supplement, be deposited on or about its Issue Date with a common depository for, and registered in the name of a nominee of the common depository for Euroclear and Clearstream, Luxembourg.

It is expected that delivery of the Certificates in book-entry form will be made against payment on the Issue Date through the book-entry facilities of DTC or Euroclear or Clearstream, Luxembourg, as the case may be.

Beneficial interests in the global certificates deposited with DTC will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct or indirect participants, including Euroclear and Clearstream, Luxembourg. Beneficial interests in the global certificates deposited with the common depository for Euroclear and Clearstream, Luxembourg will be shown on, and transfers thereof will be effected only through records maintained by Euroclear and Clearstream, Luxembourg and its direct or indirect participants. See "*Global Certificates*" and "*Clearance and Settlement*". Except as described herein, definitive Certificates will not be issued in exchange for beneficial interests in global certificates.

**Denominations** .....

The Certificates will be issued in such denominations as may be agreed between the Issuer, the Republic and the relevant Dealer save that the minimum denomination of each Certificate will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Specified Currency, above, save that the minimum denomination of each Certificate admitted to trading on a regulated

market within the European Economic Area or offered to the public in a Member State of the European Economic Area, in circumstances which require the publication of a prospectus under the Prospectus Directive, will be €100,000 (or, if the Certificates are denominated in a currency other than euro, the equivalent amount in such currency).

**Status of the Certificates** . . . . . Each Certificate represents an undivided ownership interest in the Trust Assets of the relevant Series and will rank *pari passu*, without any preference, with the other Certificates of the Series.

**Transaction Account** . . . . . The Principal Paying Agent will maintain and operate a separate transaction account denominated in the Specified Currency for each Series of Certificates in the name of the Issuer (the **Transaction Account**) into which, among other things, payments to the Issuer by the Lessee, the Servicing Agent or the Wakeel, as the case may be, and the Republic under the Lease Agreement, the Servicing Agency Agreement or the Wakala Agreement, as the case may be, or the Purchase Undertaking, respectively, will be credited. Periodic Distribution Amounts and the Dissolution Distribution Amount will be paid to holders of the Certificates from funds standing to the credit of the Transaction Account in accordance with the order of priority described under “*Priority of Distributions*” below.

**Priority of Distributions** . . . . . On each Periodic Distribution Date, on the relevant Dissolution Date and upon payment of continuing rentals by the Republic following the failure of the Republic to pay the Exercise Price due under the Purchase Undertaking, the Principal Paying Agent shall apply the monies standing to the credit of the relevant Transaction Account in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of all Periodic Distribution Amounts due but unpaid;
- (c) *third*, only if such payment is made on the Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of the Dissolution Amount or amount payable following a Total Loss Event, where the Servicing Agent or the Wakeel, as the case may be, does not procure the full replacement of the Assets in accordance with the Servicing Agency Agreement or the Wakala Agreement, as the case may be;
- (d) *fourth*, only if such payment is made on the Dissolution Date, to the Servicing Agent or the Wakeel, as the case may be, in or towards payment of all outstanding Servicing Agency Expenses or Management Expenses, respectively; and
- (e) *fifth*, only if such payment is made on the Dissolution Date, to the Issuer in payment of any surplus.

**Enforcement** . . . . . The Delegate shall not be bound in any circumstances to take any action to enforce or to realize the Assets or take any action against the Issuer or the Republic under any Transaction Document unless directed or requested to do so (a) by an Extraordinary Resolution or in the absence of an Extraordinary Resolution (b) in writing by the



holders of at least 25.0% of the aggregate outstanding face amount of the Certificates and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing. No Certificateholder shall be entitled to proceed directly against the Issuer or the Republic unless (i) the Delegate, having become bound so to proceed, fails to do so within 60 days of becoming so bound and such failure is continuing and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders) who proposes to proceed directly against the Issuer or the Republic, holds at least 25.0% of the outstanding aggregate face amount of the Certificates. Under no circumstances shall the Delegate or any Certificateholders have any right to cause the sale or other disposition of any of the Assets (other than in accordance with the Purchase Undertaking) and the sole right of the Delegate and the Certificateholders in respect of the Assets shall be to enforce their respective obligations under the Transaction Documents.

- Withholding Tax** ..... All payments by the Issuer under the Certificates are to be made without withholding or deduction for or on account of taxes, unless the withholding or deduction of the taxes is required by Indonesian law. In such event, the Issuer will be required pursuant to Condition 10 (*Taxation*) to pay such additional amounts as may be necessary to ensure that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders. All payments by each of the Lessee and the Republic to the Issuer under the Transaction Documents are to be made without withholding or deduction for or on account of taxes, unless the withholding or deduction of the taxes is required by Indonesian law. In such event, the relevant payer will be required pursuant to the relevant Transaction Documents to pay to the Issuer such additional amounts as may be necessary to ensure that the Issuer will receive the full amount which otherwise would have been due and payable.
- Costs Undertaking** ..... The Republic will execute a Costs Undertaking pursuant to which it will agree to reimburse, among others, the Trustee, the Delegate and the Agents for certain expenses incurred by them and indemnify such parties in respect of certain liabilities incurred by them.
- Use of Proceeds** ..... The gross proceeds of the issue of the Certificates of each Series will be paid by PPSI-III in its capacity as Purchaser and Issuer on the Issue Date to the Seller as the purchase price for the Assets of such Series.
- Listing** ..... Application will be made to the SGX-ST for permission to deal in and quotation of any Certificates that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST for the listing of a particular Series will be approved. For so long as any Certificates are listed on the SGX-ST and the rules of the SGX-ST so require, such Certificates will be traded on the SGX-ST in a minimum board lot size of S\$200,000 (or its equivalent in any other currency). Application has also been made for certain Certificates issued under the Program to be admitted to listing on the DFSA Official List of securities and to be admitted to trading on Nasdaq Dubai. The Certificates may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Certificates may also be

issued under the Program. The relevant Pricing Supplement will state whether or not the Certificates of a Series will be listed on any exchange(s) and, if so, on which exchange(s) the Certificates are to be listed.

**Clearing Systems** . . . . . DTC, Euroclear and Clearstream, Luxembourg and, in relation to any Series, such other clearing system as may be agreed between the Republic, the Issuer, the Delegate and the relevant Dealer. See “*Clearance and Settlement*.”

**Ratings** . . . . . A Series of Certificates may be rated or unrated. Where a Series of Certificates is to be rated, such rating will be specified in the applicable Pricing Supplement.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Certificateholder Meetings** . . . . . A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests is set out in Condition 16 (*Meetings of Certificateholders; Written Resolutions*) and Condition 17 (*Aggregation Agent; Aggregation Procedures*)

**Tax Considerations** . . . . . See “*Taxation*” for a description of certain tax considerations applicable to the Certificates.

**Transaction Documents** . . . . . The Transaction Documents are the Purchase Agreement, the Lease Agreement, the Procurement Agreement (in the case of a Wakala Series), the Servicing Agency Agreement (in the case of an Ijara Series) or the Wakala Agreement (in the case of a Wakala Series), the Purchase Undertaking, the Transfer Undertaking, any sale agreement, any transfer agreement, the Substitution Undertaking, the Declaration of Trust, the Agency Agreement and the Costs Undertaking.

**Governing Law** . . . . . The Purchase Undertaking, the Transfer Undertaking, the Declaration of Trust, the Certificates, the Agency Agreement and the Costs Undertaking will be governed by English law.

The Lease Agreement, the Purchase Agreement, the Procurement Agreement, the Servicing Agency Agreement, the Wakala Agreement and the Substitution Undertaking will be governed by Indonesian law.

**Selling Restrictions** . . . . . See “*Plan of Distribution*” for a description of the restrictions on the distribution of this Offering Memorandum and the offer or sale of Certificates in the United States, the United Kingdom, Hong Kong, Japan, Singapore, Brunei, the United Arab Emirates, Dubai International Financial Centre, the Kingdom of Saudi Arabia, the State of Qatar, the Kingdom of Bahrain, Kuwait, Malaysia and Switzerland.

**Waiver of Immunity** . . . . . Subject to the following paragraph, to the extent that the Republic may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, the Republic will agree in the Lease Agreement, Purchase Undertaking, the Transfer Undertaking, Declaration of Trust, Agency Agreement and Costs Undertaking not to claim and will irrevocably and unconditionally waive such immunity in relation to any proceedings. Further, the Republic will irrevocably and

unconditionally consent to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any proceedings.

Notwithstanding anything to the contrary in the foregoing, no waiver of immunity or consent shall be deemed or interpreted to include any waiver of immunity or consent in respect of (i) actions brought against the Republic arising out of or based upon United States federal or state securities laws, (ii) attachment under Indonesian laws, (iii) present or future 'premises of the mission' as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (iv) 'consular premises' as defined in the Vienna Convention on Consular Relations signed in 1963, (v) any other property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere, or (vi) military property or military assets or property or assets of the Republic related thereto; provided that the foregoing limitations shall not preclude any proceeding to enforce any provision of the relevant Transaction Documents relating to the Assets.

## INVESTMENT CONSIDERATIONS

*An investment in the Certificates involves certain risks. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives the following factors, in addition to the matters set forth elsewhere in this Offering Memorandum, prior to investing in the Certificates. Each of the Republic and the Issuer believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the Republic and the Issuer may be unable to pay any amounts on or in connection with any Certificate for other reasons and neither the Republic nor the Issuer represents that the statements below regarding the risks of holding any Certificate are exhaustive or that the statements below relate to any other risks not described therein. There may also be other considerations, including some which may not be presently known to the Republic or the Issuer or which the Republic or the Issuer currently deem immaterial, that may impact on any investment in the Certificates.*

*Prospective investors should also read the detailed information set out elsewhere in this Offering Memorandum and reach their own views prior to making any investment decision. Words and expressions defined elsewhere in this Offering Memorandum shall have the same meanings in this section.*

### **Investment consideration relating to the Issuer**

#### ***The Issuer must rely on payments by the Republic.***

The Issuer will not engage in any business activity other than the issuance of the Certificates, the acquisition of Ijara Assets and Project Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Issuer's only material assets, which will be held in trust for Certificateholders, will be the Trust Assets relating to each Series, including its right to receive payments from the Lessee under the Lease Agreement relating to each Ijara Series and the Wakeel under the Wakala Agreement relating to each Wakala Series, and payment from the Republic of the Exercise Price under the Purchase Undertaking. Therefore, the Issuer is subject to all the risks to which the Republic is subject to the extent that such risks could limit the Republic's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents.

Investors should therefore carefully review the description of the Republic herein under "Republic of Indonesia."

The ability of the Issuer to pay amounts due on the Certificates of each Series will primarily be dependent upon receipt by the Issuer from the Lessee of all amounts due under the Lease Agreement, in the case of an Ijara Series, and from the Wakeel of all amounts due under the Wakala Agreement, in the case of a Wakala Series and from the Republic of the Exercise Price under the Purchase Undertaking. In the event of any shortfall in such amounts, the ability of the Issuer to meet its payment obligations under the Certificates may be adversely affected.

### **Investment considerations relating to the Certificates**

#### ***There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders.***

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realize a desired yield. The market value of the Certificates may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity.

#### ***The Certificates may be subject to restrictions on transfer which may adversely affect the value of the Certificates.***

The Certificates have not been and will not be registered under the Securities Act or any United States state securities laws and the Issuer has not undertaken to effect any exchange offer for the Certificates in the future.

The Certificates may not be offered in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable United States state securities laws, or pursuant to an effective registration statement, in a transaction that will not require the Issuer to register as an investment company under the United States Investment Company Act of 1940, as amended (the **Investment Company Act**). The Certificates and the Agency Agreement will contain provisions that will restrict the Certificates from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exemptions, under the Securities Act. Furthermore, the Issuer has not registered the Certificates under any other country's securities laws. Investors must ensure that their offers and sales of the Certificates within the United States and other countries comply with applicable securities laws. See "*Transfer Restrictions*."

***Credit ratings may not reflect all risks.***

A Series of Certificates issued under the Program may or may not be rated. Where a Series is to be rated, one or more independent credit rating agencies may assign credit ratings to the Certificates. The ratings may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***The Certificates contain collective action clauses under which the terms of any one series of securities and/or multiple series of securities may be modified without the consent of all the holders of the securities of that series or all the holders of any other series of securities being aggregated, as the case may be.***

The Conditions of the Certificates contain provisions regarding modifications commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Certificateholders, including Certificateholders who did not attend, Certificateholders who did not vote and Certificateholders who voted in a manner contrary to the defined majority. The relevant provisions also permit, in relation to reserved matters, multiple series of securities (including, without limitation, any trust certificates (such as the Certificates), notes, bonds, debentures or other debt securities issued by the Trustee or the Republic, as the case may be, in one or more series with an original stated maturity of more than one year) to be aggregated for voting purposes (provided that each such series also contains the collective action clauses in the terms and conditions of such securities).

The Republic and the Trustee expect that all series of securities issued by the Republic and the Trustee in future will include such collective action clauses, thereby giving the Republic and/or the Trustee the ability to request modifications (including in respect of Reserved Matters (as defined in the Conditions of the Certificates)) across multiple series of securities. This means that a defined majority of the holders of such series of securities (when taken in the aggregate) would be able to bind all holders of securities in all the relevant aggregated series.

Any modification relating to Reserved Matters (as defined in the Conditions of the Certificates), including in respect of payments and other important terms (such as, without limitation, changes to the Scheduled Dissolution Date or any other date for payment of amounts in respect of the Certificates), may be made to the Certificates with the consent of the holders of at least 75 per cent. of the aggregate principal amount outstanding of Certificates represented at a meeting, and to multiple series of securities with the consent of either (A) both (i) the holders of at least  $66\frac{2}{3}$  per cent. of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated (taken in aggregate) and (ii) the holders of more than 50 per cent. in aggregate principal amount of the outstanding securities in each affected series of securities capable of being aggregated (taken individually) or (B) the consent of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated. For further details, see Condition 16 (*Meetings of Certificateholders; Written Resolutions*).

Any modification proposed by the Republic or the Trustee (as the case may be) may, at the option of the Republic or the Trustee (as the case may be), be made in respect of some series of securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more series of securities simultaneously. At the time of any proposed modification, the Republic or the Trustee (as the case may be) will be obliged, inter alia, to specify which method or methods of aggregation will be used by the Republic or the Trustee (as the case may be).

There is a risk therefore that the Conditions of the Certificates may be modified in circumstances whereby the holders of securities voting in favour of modification may be holders of a different series of securities and, as

such, less than 75 per cent. of the holders of the Certificates would have voted in favour of such modification. In addition, there is a risk that the provisions allowing for aggregation across multiple series of securities may make the Certificates less attractive to purchasers in the secondary market on the occurrence of a Dissolution Event or in a distress situation. This risk may be exacerbated should holders of interest-bearing securities pass resolutions pursuant to the multiple series single limb voting mechanism which have the effect of contractually binding holders of the Certificates to modifications that result in the Certificates no longer being Shariah compliant. Further, any such modification in relation to any Certificates may adversely affect their trading price.

***The Declaration of Trust may be modified without notice to Certificateholders.***

The Declaration of Trust contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification of, or to the waiver or authorisation of any breach or proposed breach of, any provision of the Declaration of Trust or determine, without any such consent or sanction, that any Dissolution Event shall not be treated as such if, in the opinion of the Delegate, (i) such modification is of a formal, minor or technical nature, or (ii) such modification is made to correct a manifest or proven (to the satisfaction of the Delegate) error, or (iii) such modification, waiver, authorisation or determination is not materially prejudicial to the interests of Certificateholders. Unless the Delegate otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

***The United States Internal Revenue Service may treat the Certificates as an interest in a grantor trust for federal income tax purposes, which may result in the Issuer and United States holders being subject to significant penalties.***

The Issuer believes that it is appropriate to treat the Certificates as representing debt obligations of the Republic and intends to do so. However, the United States Internal Revenue Service (the **IRS**) may seek to characterize the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterization, the Issuer and United States holders (as defined in “*Taxation — United States Federal Income Tax Considerations*”) would be required to comply with certain information reporting requirements applicable to foreign trusts, or risk significant penalties. The Issuer does not expect that it will provide information that would allow either itself or United States holders to comply with these requirements if they were determined to be applicable. Should the IRS characterize the Certificates as interests in a grantor trust and should the Issuer be unable to provide the information necessary for itself and for United States holders to comply with the foreign trust information reporting requirements, both the Issuer and United States holders may be subject to significant penalties that may adversely affect the Issuer’s financial position and the returns of United States holders from the Certificates. See “*Taxation — United States Federal Income Tax Considerations — Potential Alternative Characterization.*”

**Other investment considerations**

***The Certificates may not be a suitable investment for all investors.***

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this Offering Memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor’s currency;
- understand thoroughly the terms of the Certificates and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

***Certificateholders may be adversely affected by the occurrence of a Total Loss Event despite the Issuer's obligation to adequately insure the Properties.***

Pursuant to the Master Lease Agreement, the Issuer is required, among other things, to insure the Properties. The Issuer has delegated this obligation to the Republic, as its Servicing Agent, in the case of an Ijara Series, or Wakeel, in the case of a Wakala Series. The Servicing Agent has undertaken in the Servicing Agency Agreement and the Wakeel in the Wakala Agreement, among other things, to insure the Properties in the name of the Issuer, against the occurrence of a Total Loss Event at their full reinstatement value.

Nevertheless, should such an event occur, unless the Servicing Agent or the Wakeel, as the case may be, procures new properties on the date of occurrence of the Total Loss Event that will be made subject to the relevant Lease Agreement, the Lease Agreement will be terminated and the Certificates will be redeemed at an amount equal to the Dissolution Distribution Amount using the insurance proceeds (if any) deposited into, and other monies standing to the credit of, the Transaction Account established in respect of the relevant Series. In connection with this, the Servicing Agency Agreement and the Wakala Agreement provide that the relevant provisions of the Servicing Agency Agreement or Wakala Agreement, as the case may be, are not strictly complied with and as a result sufficient insurance proceeds are not paid into the Transaction Account within 30 days of the occurrence of the Total Loss Event, the Republic, as Servicing Agent or Wakeel, as the case may be, shall have failed in its responsibility to properly insure the Properties and accordingly (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement or Wakala Agreement, as the case may be, relating to insurance), the Republic shall be required to pay any shortfall directly to the Transaction Account within 31 days of the occurrence of the Total Loss Event. The Delegate will be entitled to enforce this undertaking against the Republic on behalf of the Certificateholders.

Potential investors should be aware that (i) rental under the Lease Agreement will cease automatically upon the occurrence of a Total Loss Event and accordingly the Periodic Distribution Amounts received by Certificateholders will reflect this fact and (ii) there may be a delay in the Issuer receiving the proceeds of insurance (or shortfall amounts from the Servicing Agent or Wakeel, as the case may be) and therefore in Certificateholders receiving the full Dissolution Distribution Amount in respect of their Certificates, and no additional Periodic Distribution Amounts will be paid in respect of this delay.

***Certificateholders may be adversely affected by a change of English law or the laws of Indonesia.***

The structure of the issue of the Certificates is based on English law, the laws of Indonesia and administrative practices in effect as at the date of this Offering Memorandum. No assurance can be given as to the impact of any possible change to English law, the laws of Indonesia or administrative practices in either jurisdiction after the date of this Offering Memorandum, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Certificates or of the Republic to comply with its obligations under the Transaction Documents to which it is a party.

***Certificateholders will be reliant on the procedures of the clearing systems to exercise certain rights under the Certificates.***

The Certificates will be represented on issue by one or more global certificates that will, unless otherwise specified in the applicable Pricing Supplement, be deposited with a custodian for DTC or, in the case of Regulation S Certificates only, may alternatively be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the global certificates and the Conditions, investors will not be entitled to receive Certificates in definitive form. DTC and its direct and indirect participants (including Euroclear and Clearstream, Luxembourg) or, as the case may be, Euroclear and Clearstream, Luxembourg and its direct or indirect participants will maintain records of the beneficial interests in the global certificates. While the Certificates are represented by the global certificates, investors will be able to trade their beneficial interests only through DTC and its respective participants or Euroclear and Clearstream, Luxembourg, and their respective participants as the case may be, unless otherwise specified in the applicable Pricing Supplement.

While the Certificates are represented by the global certificates, the Issuer will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a global certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. None of the Issuer, the Delegate nor any of the

Agents has any responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in a global certificate.

Holders of beneficial interests in a global certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

***There is no assurance that the Certificates will be deemed Sharia compliant by all Sharia scholars.***

The Executive Shariah Committee of HSBC Saudi Arabia Limited, Shariah Committee of National Bank of Abu Dhabi, Standard Chartered Bank Shariah Supervisory Committee and Sheikh Dr. Hussein Hamed Hassan, Sharia Adviser of Deutsche Bank AG, Singapore Branch (each a **Shariah Advisor** and, collectively, the **Shariah Advisors**) have approved that the structure and mechanism described under the Transaction Documents are Sharia compliant. The National Sharia Board — Indonesian Council of Ulama has provided similar confirmation. However, there can be no assurance that the transaction structure or any issue and trading of any Certificates will be deemed to be Sharia compliant by any other Sharia board or Sharia scholars. None of the Issuer, the Republic, the Arrangers, the Dealers, the Delegate or the Agents makes any representation as to the Sharia compliance of any Series and potential investors are reminded that, as with any Sharia views, differences in opinion are possible. Potential investors should obtain their own independent Sharia advice as to the compliance of the structure and mechanism described under the Transaction Documents and the issue and trading of any Series with Sharia principles.

***Certificateholders may be adversely affected by certain exchange rate risks and exchange controls.***

The Issuer will make payments to Certificateholders in the Specified Currency set out in the applicable Pricing Supplement. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Certificates, (ii) the Investor's Currency equivalent value of the amounts payable on the Certificates and (iii) the Investor's Currency equivalent market value of the Certificates. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, the payments received by investors may be adversely affected.



## TERMS AND CONDITIONS OF THE CERTIFICATES

The following is the text of the Terms and Conditions of the Certificates which (subject to modification and except for the text in italics) will be endorsed on each Certificate in definitive form issued under the Program. The applicable Pricing Supplement in relation to any Series of Certificates may specify other terms and conditions which shall, to the extent specified or to the extent inconsistent with the following Terms and Conditions, supplement, replace or modify the following Terms and Conditions for the purpose of such Certificates.

Perusahaan Penerbit SBSN Indonesia III (in its capacity as issuer, the **Issuer** and in its capacity as trustee, the **Trustee**) has established a program (the **Program**) for the issuance of up to U.S.\$15,000,000,000 trust certificates (the **Certificates**).

Certificates issued under the Program are issued in ijara or wakala series (an **Ijara Series** or a **Wakala Series**, respectively, and each a **Series**), as specified in the applicable Pricing Supplement. The final terms for each Series are set out in the applicable Pricing Supplement attached to or endorsed on this Certificate which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Certificate. References to the applicable Pricing Supplement are to the pricing supplement (or the relevant provisions thereof) attached to or endorsed on this Certificate.

Each Certificate will represent an undivided ownership interest in the Trust Assets of each Series (as described in Condition 4.1 (*Summary of the Trust*)) which are held by the Trustee on trust (the **Trust**) for, inter alia, the benefit of the registered holders of the Certificates pursuant to (i) an amended and restated master declaration of trust (the **Master Declaration of Trust**) dated March 13, 2017 (the **Program Update Date**) and made between the Issuer, the Trustee, the Republic of Indonesia (the **Republic**) and The Bank of New York Mellon (the **Delegate**) and (ii) a supplemental declaration of trust (the **Supplemental Declaration of Trust** and, together with the Master Declaration of Trust, the **Declaration of Trust**) having the details set out in the applicable Pricing Supplement. In these Conditions, references to Certificates shall be references to the Certificates which are the subject of the applicable Pricing Supplement.

Payments relating to the Certificates will be made pursuant to an amended and restated agency agreement dated the Program Update Date (the **Agency Agreement**) made between the Issuer, the Republic, The Bank of New York Mellon as principal paying agent (in such capacity, the **Principal Paying Agent**), The Bank of New York Mellon, London Branch as paying agent in respect of any Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg (in such capacity, a **Paying Agent** and, together with the Principal Paying Agent and any further or other paying agents appointed from time to time in respect of the Certificates, the **Paying Agents**), The Bank of New York Mellon as registrar, and The Bank of New York Mellon (Luxembourg) S.A. registrar only in respect of any Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg (each in such capacity, a **Registrar**), The Bank of New York Mellon as transfer agent and The Bank of New York Mellon, London Branch as transfer agent in respect of any Regulation S Certificates held through Euroclear and/or Clearstream, Luxembourg (in such capacity, a **Transfer Agent** and, together with the Registrars and any further or other transfer agents appointed from time to time in respect of the Certificates, the **Transfer Agents**) and The Bank of New York Mellon as calculation agent (in such capacity, a **Calculation Agent**). The Paying Agents, Transfer Agents and the Calculation Agent are together referred to in these Conditions as the **Agents**. References to the **Agents** or any of them shall include their successors.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents (as described in Condition 4.1 (*Summary of the Trust*)). In these Conditions, words and expressions defined and rules of construction and interpretation set out in the Declaration of Trust shall, unless defined herein or the context otherwise requires, have the same meanings herein.

The Certificateholders (as defined in Condition 1.2 (*Title*)) are entitled to the benefit of, are bound by, and are deemed to have notice of the Transaction Documents (copies of which are available for inspection between 9.30am and 3.00pm, Monday to Friday (excluding public holidays) at the specified offices of the Principal Paying Agent) namely:

- (a) the Master Purchase Agreement and the Supplemental Purchase Agreement(s);
- (b) the Master Procurement Agreement and the Supplemental Procurement Agreement(s);
- (c) the Master Lease Agreement and the Supplemental Lease Agreement(s);

- (d) the Servicing Agency Agreement;
- (e) the Wakala Agreement;
- (f) the Purchase Undertaking;
- (g) the Transfer Undertaking;
- (h) the Substitution Undertaking;
- (i) the Master Declaration of Trust and the Supplemental Declaration(s) of Trust;
- (j) the Pricing Supplement;
- (k) the Agency Agreement; and
- (l) the Costs Undertaking,

each as defined herein and as may be amended and restated from time to time.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorize and direct Perusahaan Penerbit SBSN Indonesia III (PPSI-III), on behalf of the Certificateholders, (i) to apply the sums paid by it in respect of its Certificates in acquiring the Trust Assets and (ii) to enter into each Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust and these Conditions.

## **1. FORM, DENOMINATION AND TITLE**

### **1.1 Form and Denomination**

The Certificates are issued in registered form in the Specified Denominations (as defined in respect of each Series in the applicable Pricing Supplement). A certificate will be issued to each Certificateholder in respect of its registered holding of Certificates. Each certificate will be numbered serially with an identifying number which will be recorded on the relevant certificate and in the relevant register of Certificateholders (the Register) which the Issuer will cause to be kept by the relevant Registrar.

*Upon issue, unless otherwise specified in the applicable Pricing Supplement, the certificates will be represented by a Global Certificate deposited with a custodian for DTC, or in the case of Certificates issued outside the United States in reliance on Regulation S of the United States Securities Act of 1933, as amended (the Securities Act), the Certificates may be represented by a Global Certificate deposited with a common depository for Euroclear and Clearstream, Luxembourg. The Conditions are modified by certain provisions contained in the Global Certificates. Except in certain limited circumstances, owners of interests in the Global Certificates will not be entitled to receive definitive certificates representing their holdings of Certificates. See "Global Certificates."*

### **1.2 Title**

The Issuer will cause the relevant Registrar to maintain the Register in respect of the Certificates in accordance with the provisions of the Agency Agreement. Title to the Certificates passes only by registration in the Register. The registered holder of any Certificate will (except as otherwise required by law) be treated as the absolute owner of the Certificates represented by the Certificate for all purposes (whether or not any payment thereon is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate) and no person will be liable for so treating the holder of any Certificate. The registered holder of a Certificate will be recognized by the Issuer as entitled to such Certificate free from any equity, set-off or counterclaim on the part of the Issuer against the original or any intermediate holder of such Certificate. In these Conditions, Certificateholder and (in relation to a Certificate) holder of Certificates have the meanings given thereto in the Master Declaration of Trust.

## **2. TRANSFERS OF CERTIFICATES**

### **2.1 Transfers**

Subject to Conditions 2.4 (*Closed Periods*) and 2.5 (*Regulations*) and to the provisions of the Agency Agreement, a Certificate may be transferred in the Specified Denomination only by depositing the Certificate, with the form of transfer, as set forth in Schedule 2 (*Form of Transfer Certificate pursuant to Rule 144A*) or Schedule 3 (*Form of Transfer Certificate pursuant to Regulation S*), as applicable, of the Agency Agreement on the back of such Certificate duly completed and signed by the Certificateholder as

the transferor, at the specified office of any of the Transfer Agents. No transfer of title to a Certificate will be valid unless and until entered on the Register.

*Transfer of interests in the Certificates represented by a Global Certificate will be effected in accordance with the rules of the relevant clearing system through which the interest is held.*

## **2.2 Delivery of New Certificates**

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the original Certificate and the duly completed form of transfer endorsed on the relevant Certificate (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder entitled to the Certificate (free of charge and at the Issuer's expense) to the address specified in the form of transfer. For the purposes of this Condition 2, "**business day**" shall mean a day (other than Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be delivered at the specified office of the relevant Transfer Agent or be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred (free of charge and at the Issuer's expense) to the address of such holder appearing on the Register or as specified in the form of transfer.

*Except in the limited circumstances described herein (see "The Global Certificates — Registration of Title), owners of interests in the Certificates will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Certificates are subject to compliance by the transferor and transferee with the procedures described above and in the Declaration of Trust and, in the case of Rule 144A Certificates and Definitive IAI Certificates, compliance with the legend set forth under "Transfer Restrictions."*

## **2.3 Formalities Free of Charge**

Registration of any transfer of Certificates will be effected at the expense of the Issuer and without charge by or on behalf of the Issuer or any Transfer Agent but upon (i) payment (or the giving of such indemnity or security as the Issuer or any Transfer Agent may require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title and/or the identity of the person making the application; and (iii) the Issuer or the relevant Transfer Agent (after consultation with the Issuer if it so requires) being satisfied that the regulations concerning the Certificates have been complied with.

## **2.4 Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of seven days ending on (and including) the due date for any payment of the Dissolution Distribution Amount (as defined in Condition 9.1 (*Scheduled Dissolution*)) or any Periodic Distribution Amount (as defined in Condition 6.2 (*Periodic Distribution Amount*)).

## **2.5 Regulations**

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Master Declaration of Trust. The regulations may be changed by the Issuer from time to time with the prior written approval of the Registrars. A copy of the current regulations will be mailed (free of charge and at the Issuer's expense) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

The holder of Certificates shall be entitled to receive, in accordance with Condition 2.2 (*Delivery of New Certificates*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 2.2 (*Delivery of New Certificates*).

### 3. STATUS

#### 3.1 Status

Each Certificate evidences an undivided ownership interest in the Trust Assets, subject to the terms of the Transaction Documents and these Conditions. Each Certificate ranks *pari passu*, without any preference or priority, with the other Certificates.

#### 3.2 Agreement of Certificateholders

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (a) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against, the Issuer or the Trustee any bankruptcy, reorganization, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law; and
- (b) no recourse shall be had for the payment of any amount or performance of any obligation hereunder against any director of PPSI-III and no personal liability shall attach to or be incurred by the directors of the Trustee under the Declaration of Trust or other Transaction Documents save in the case of willful default or gross negligence.

### 4. TRUST

#### 4.1 Summary of the Trust

PPSI-III has entered into an amended and restated master purchase agreement (the **Master Purchase Agreement**) dated August 15, 2014 with the Republic (in such capacity, the **Seller**), as supplemented by a supplemental purchase agreement dated on or about the Issue Date (as defined in the Pricing Supplement) (the **Supplemental Purchase Agreement** and together with the Master Purchase Agreement, the **Purchase Agreement**). Pursuant to the Purchase Agreement, the Seller has sold to PPSI-III beneficial rights in and to certain properties (as further described in the Schedule to the Purchase Agreement) (the **Ijara Assets**).

In the case of a Wakala Series, PPSI-III has also entered into a master procurement agreement (the **Master Procurement Agreement**) dated the August 15, 2014 with the Republic (in such capacity, the **Project Seller**), as supplemented by a supplemental procurement agreement dated on or about the Issue Date (the **Supplemental Procurement Agreement** and together with the Master Procurement Agreement, the **Procurement Agreement**). Pursuant to the Procurement Agreement, the Project Seller has sold to PPSI-III beneficial rights in and to certain assets (as further described in the Schedule to the Procurement Agreement) (the **Project Assets**) and has undertaken to procure the construction of the relevant assets (the construction of such assets being, a **Project**) pursuant to the specified Project in respect of such Project Assets and deliver such assets to PPSI-III upon completion.

PPSI-III (in its capacity as **Lessor**) has leased the Ijara Assets so sold to it by the Republic and, in the case of a Wakala Series, following the completion and delivery of assets pursuant to a specified Project, will lease the relevant Project Assets (together with the Ijara Assets, the **Assets**, as modified, where the context requires, to give effect to any substitution by the Republic, the transfer of Transferred Assets (as defined below) to the Republic pursuant to the Transfer Undertaking (as defined below) or procurement of new properties in connection with certain loss events by the Servicing Agent or Wakeel (each as defined below), as the case may be) to the Republic (in such capacity, the **Lessee**) pursuant to an amended and restated master lease agreement (the **Master Lease Agreement**) dated August 15, 2014, as supplemented by a supplemental lease agreement between PPSI-III and the Republic dated on or about the Issue Date, in the case of the Ijara Assets, and otherwise following the completion and delivery of the relevant assets, in the case of the Project Assets (the **Supplemental Lease Agreement** and together with the Master Lease Agreement, the **Lease Agreement**).

Under an amended and restated servicing agency agreement (the **Servicing Agency Agreement**) dated August 15, 2014, PPSI-III has appointed the Republic as servicing agent (the **Servicing Agent**) in respect of the properties underlying the Assets for an Ijara Series. Under a wakala agreement (the **Wakala Agreement**) dated August 15, 2014, PPSI-III has appointed the Republic as agent (the **Wakeel**) in respect of the properties underlying the Assets (including any Project Assets in respect of which the relevant assets are still to be completed pursuant to the specified Project and delivered) for a Wakala Series.

PPSI-III has executed an amended and restated substitution undertaking (the **Substitution Undertaking**) dated August 15, 2014 in favor of the Republic pursuant to which the Republic may, subject to certain conditions, require PPSI-III to accept the substitution of certain new assets (the **New Assets**) in replacement of certain existing Assets (the **Replaced Assets**) as described in a substitution notice provided by the Republic to PPSI-III (the **Substitution Notice**). Upon the Republic giving a Substitution Notice to PPSI-III, to give effect to such substitution, (i) PPSI-III shall enter into a substitution sale agreement (in the form scheduled to the Substitution Undertaking) with the Republic and (ii) PPSI-III (in its capacity as Lessor) and the Republic (in its capacity as Lessee) shall amend the Supplemental Lease Agreement to reflect the change in the composition of the properties that are subject to the Lease Agreement. If the value of the Replaced Assets as certified by the Republic is more than 20 per cent. of the aggregate outstanding face amount of the Certificates of such Series then the existing Supplemental Lease Agreement in respect of the relevant Replaced Assets shall be terminated and the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the New Assets. PPSI-III and the Republic may also replace Project Assets under the Procurement Agreement prior to the completion and delivery of the relevant assets pursuant to the specified Project by the amendment of the schedule to the relevant Supplemental Procurement Agreement specifying such Project Assets.

The Republic has executed an amended and restated purchase undertaking (the **Purchase Undertaking**) dated August 15, 2014 in favor of, PPSI-III to purchase all of PPSI-III's rights, title, benefits and entitlements in, to and under the Assets (including any Project Assets which are still to be completed pursuant to the specified Project and delivered) on the Scheduled Dissolution Date (as defined in Condition 9.1 (*Scheduled Dissolution*)) or, if earlier, on the due date for dissolution at an exercise price equal to the aggregate face amount of the Certificates then outstanding plus an amount equal to all accrued and unpaid Periodic Distribution Amounts as of such date (if any) plus any accrued Supplementary Rental (as defined in the Lease Agreement) incurred in connection with the properties underlying the Assets in respect of which an appropriate rental payment has not been made in accordance with the Lease Agreement.

PPSI-III has executed an amended and restated transfer undertaking (the **Transfer Undertaking**) dated August 15, 2014 in favor of the Republic. Under the terms of the Transfer Undertaking, if at any time the Republic wishes to cancel any Certificates that it has purchased pursuant to Condition 9.5 (*Purchases*), the Republic may, by exercising its right under the Transfer Undertaking and by serving a transfer notice (the **Transfer Notice**) on PPSI-III, require PPSI-III to transfer all of PPSI-III's rights, title, benefits and entitlements in and to the Transferred Assets (specified in the Transfer Notice) to the Republic in consideration for which the Certificates shall be surrendered for cancellation. The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking) (the **Transfer Agreement**). Following the entry into such Transfer Agreement, PPSI-III shall cancel the relevant Certificates identified for cancellation in the Transfer Notice on the Transfer Date specified in the Transfer Notice (which shall be a Periodic Distribution Date). PPSI-III (in its capacity as **Lessor**) and the Republic (in its capacity as **Lessee**) shall amend the Supplemental Lease Agreement to reflect the change in the composition of the properties that are subject to the Lease Agreement and, where the Transferred Assets include any Project Assets which are still to be completed pursuant to the specified Project and delivered, PPSI-III and the Republic (in its capacity as the Project Seller) shall amend the Supplemental Procurement Agreement to reflect the change in composition of the Project Assets.

The Republic has executed an amended and restated costs undertaking (the **Costs Undertaking**) dated August 15, 2014, whereby it undertakes to pay certain fees and expenses of and indemnify against certain liabilities incurred by, among others, the Delegate and the Agents.

In relation to each Series, the Issuer shall establish a transaction account in the Specified Currency (the **Transaction Account**) in the name of the Issuer with the Principal Paying Agent into which the Republic will cause to be deposited all rental payments due under the Lease Agreement, in the case of an Ijara Series, and an amount from such rental payments equal to the Periodic Distribution Amounts payable, in the case of a Wakala Series, and the exercise price payable under the Purchase Undertaking. All other monies (if any) derived from the Trust Assets will be paid into the Transaction Account and payments to be made to holders of Certificates will be made from funds standing to the credit of the Transaction Account.

Pursuant to the Declaration of Trust, the Issuer will declare that it will hold, for each Series, assets (the **Trust Assets**) consisting of:

- (a) all of the Issuer's rights, title, interest and benefit in, to and under the Ijara Assets, in the case of an Ijara Series, and the Ijara Assets and the Project Assets, in the case of a Wakala Series (as varied from time to time as a result of the exercise of rights granted under the Substitution Undertaking or prior to

the completion and delivery of Project Assets as provided in the Procurement Agreement and which, as of any Transfer Date, shall exclude the Transferred Assets (as defined in the Transfer Undertaking));

- (b) all of the Issuer's rights, title, interest and benefit in, to and under the Transaction Documents (other than in relation to any representations given to the Issuer by the Republic pursuant to the Transaction Documents which relate to that Series);
- (c) all monies that from time to time are, standing to the credit of the Transaction Account for that Series; and
- (d) all proceeds of the foregoing,

upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and these Conditions.

The Purchase Agreement, the Procurement Agreement (in the case of a Wakala Series), the Lease Agreement, the Servicing Agency Agreement (in the case of an Ijara Series) or the Wakala Agreement (in the case of a Wakala Series), the Purchase Undertaking, the Transfer Undertaking, the Substitution Undertaking, the Costs Undertaking, the Declaration of Trust, the Agency Agreement and any other agreements and documents delivered or executed in connection therewith are collectively referred to as the Transaction Documents.

#### **4.2 Application of Proceeds from Trust Assets**

Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets for and on behalf of the holders of the Certificates. On each Periodic Distribution Date or on the Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

- (a) *first*, to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;
- (b) *second*, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of all Periodic Distribution Amounts due but unpaid;
- (c) *third*, only if such payment is made on the Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of the Dissolution Distribution Amount (as defined in Condition 9 (*Capital Distributions of the Trust*)) or amount payable following a Total Loss Event, where the Servicing Agent or the Wakeel, as the case may be, does not procure the full replacement of the Assets in accordance with the Servicing Agency Agreement or the Wakala Agreement, as the case may be;
- (d) *fourth*, only if such payment is made on the Dissolution Date, to the Servicing Agent or the Wakeel, as the case may be, in or towards payment of all outstanding Servicing Agency Expenses or Management Expenses, as the case may be; and
- (e) *fifth*, only if such payment is made on the Dissolution Date, to the Issuer in payment of any surplus.

#### **5. COVENANTS**

The Issuer covenants that, among other things, for so long as any Certificate is outstanding, it shall not:

- (a) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;
- (b) secure any of its present or future indebtedness for borrowed money by any Encumbrance (as defined in the Declaration of Trust) upon any of its present or future assets, properties or revenues (other than those arising by operation of law), except as permitted or provided under the Transaction Documents;
- (c) except as provided in the Declaration of Trust, act as trustee in respect of any trust other than the Trust established in respect of each Series of Certificates issued under the Program or in respect of any parties other than the Certificateholders;
- (d) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than: (i) as provided for or permitted in the Transaction Documents; (ii) the

ownership, management and disposal of the Trust Assets or other trust assets as provided in the Transaction Documents; (iii) as required under Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the Amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* and Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* and (iv) such other matters which are incidental thereto;

- (e) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or Encumber (as defined in the Declaration of Trust) (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets of any Series except pursuant to the Transaction Documents;
- (f) amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof), in each case in a manner which is materially prejudicial to the rights of the holders of the Certificates, without the approval of Certificateholders by way of Extraordinary Resolution;
- (g) exercise its option under the Purchase Undertaking except in its capacity as Trustee;
- (h) have any subsidiaries or employees;
- (i) redeem any of its capital or pay any dividend or make any other distribution to its shareholders;
- (j) use the proceeds of the issue of the Certificates of any Series for any purpose other than as stated in the Transaction Documents; or
- (k) prior to the date which is one year and one day after the date on which all amounts owing by the Issuer under the Transaction Documents to which it is a party have been paid in full, put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it.

## **6. FIXED PERIODIC DISTRIBUTION PROVISIONS**

### **6.1 Application**

This Condition 6 is applicable to the Certificates only if the Fixed Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable.

### **6.2 Periodic Distribution Amount**

A Periodic Distribution Amount representing a defined share of the income of the Assets for each Series of Certificates will be payable in respect of the Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions.

### **6.3 Determination of Periodic Distribution Amount**

Except as provided in the applicable Pricing Supplement, the Periodic Distribution Amount payable in respect of each Certificate for any Return Accumulation Period shall be the Fixed Amount and, if the Certificates are in more than one Specified Denomination, shall be the Fixed Amount in respect of each relevant Specified Denomination. Payments of the Periodic Distribution Amount on any Periodic Distribution Date may, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, “**Return Accumulation Period**” means the period from (and including) a Periodic Distribution Date (or the Return Accumulation Commencement Date (as defined in the applicable Pricing Supplement)) to (but excluding) the next (or first) Periodic Distribution Date.

If any Periodic Distribution Amount is required to be calculated for a period other than a Return Accumulation Period or if no relevant Fixed Amount or Broken Amount is specified in the applicable Pricing Supplement, such Periodic Distribution Amount shall be calculated by applying the Rate to each Specified Denomination, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**“Day Count Fraction”** means, in respect of the calculation of Periodic Distribution Amount in accordance with this Condition 6.3:

- (a) if **“Actual/Actual (ICMA)”** is specified in the applicable Pricing Supplement:
  - (i) in the case of Certificates where the number of days in the relevant period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (the Accrual Period) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or
  - (ii) in the case of Certificates where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
- (b) if **“30/360”** is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Periodic Distribution Date (or, if none, the Return Accumulation Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

**“Determination Period”** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Return Accumulation Commencement Date (as specified in the applicable Pricing Supplement) or the final Periodic Distribution Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

**“sub-unit”** means, with respect to any currency, the lowest amount of such currency that is available as legal tender in the country of such currency.

#### **6.4 Payment in Arrear**

Subject to Condition 6.5 (*Cessation of Profit Entitlement*), Condition 9.3 (*Dissolution Following a Total Loss Event*) and Condition 12 (*Dissolution Events*) below, and unless otherwise specified in the applicable Pricing Supplement, each Periodic Distribution Amount will be paid in respect of the relevant Certificates in arrear on each Periodic Distribution Date.

#### **6.5 Cessation of Profit Entitlement**

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the Dissolution Date.

### **7. FLOATING PERIODIC DISTRIBUTION PROVISIONS**

#### **7.1 Application**

This Condition 7 is applicable to the Certificates only if the Floating Periodic Distribution Provisions are specified in the applicable Pricing Supplement as being applicable.

#### **7.2 Periodic Distribution Amount**

A Periodic Distribution Amount representing a defined share of the income in the Assets of each Series of Certificates will be payable in respect of the Certificates and be distributable by the Issuer to the Certificateholders in accordance with these Conditions. Such Periodic Distribution Amounts will be payable in arrear on either:



- (a) the Specified Periodic Distribution Date(s) in each year specified in the applicable Pricing Supplement; or
- (b) (if no Specified Periodic Distribution Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Periodic Distribution Date, a Periodic Distribution Date) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Periodic “**Distribution Date**” or, in the case of the first Periodic Distribution Date, after the Return Accumulation Commencement Date.

Such Periodic Distribution Amounts will be payable in respect of each Return Accumulation Period. If a Business Day Convention is specified in the applicable Pricing Supplement and (x) if there is no numerically corresponding day in the calendar month in which a Periodic Distribution Date should occur or (y) if any Periodic Distribution Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (a) in any case where Specified Periods are specified in accordance with Condition 7.2(a) above, the Floating Rate Convention, such Periodic Distribution Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Periodic Distribution Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Periodic Distribution Date occurred; or
- (b) the Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day; or
- (c) the Modified Following Business Day Convention, such Periodic Distribution Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day; or
- (d) the Preceding Business Day Convention, such Periodic Distribution Date shall be brought forward to the immediately preceding Business Day.

In this Condition 7, “**Business Day**” means a day which is either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency; (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open, or (iii) in the case of a currency and/or one or more Additional Business Centers, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Additional Business Center(s) or, if no currency is indicated, generally in each of the Additional Business Centers.

### 7.3 Screen Rate Determination

If Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate(s) is/are to be determined, the Rate applicable to the Certificates for each Return Accumulation Period will be determined by the Calculation Agent on the following basis:

- (a) if the Reference Rate specified in the applicable Pricing Supplement is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time (as specified in the applicable Pricing Supplement) on the relevant Periodic Distribution Determination Date;
- (b) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Periodic Distribution Determination Date;
- (c) if, in the case of (a) above, such rate does not appear on that page or, in the case of (b) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
  - (i) request each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Periodic Distribution Determination Date to prime banks in the London or Eurozone interbank market, as the case may be, in an amount that is representative for a single transaction in that market at that time; and

- (ii) determine the arithmetic mean of such quotations; and
- (d) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the principal financial centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the principal financial centre of the Specified Currency) on the first day of the relevant Return Accumulation Period for loans in the Specified Currency to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market, or if the Reference Rate is EURIBOR, the Euro-zone interbank market for a period equal to the relevant Return Accumulation Period and in an amount that is representative for a single transaction in that market at that time, and the Rate for such Return Accumulation Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Return Accumulation Period, the Rate applicable to the Certificates during such Return Accumulation Period will be the sum of the Margin specified in the applicable Pricing Supplement and the rate or (as the case may be) the arithmetic mean last determined in relation to the Certificates in respect of a preceding Return Accumulation Period.

#### 7.4 Cessation of Profit Entitlement

No further amounts will be payable on any Certificate from and including the Scheduled Dissolution Date or, as the case may be, the Dissolution Date.

#### 7.5 Calculation of Periodic Distribution Amount

The Calculation Agent will, as soon as practicable after the time at which the Rate is to be determined in relation to each Return Accumulation Period, calculate the Periodic Distribution Amount payable in respect of each Certificate for such Return Accumulation Period. The Periodic Distribution Amount will be calculated by applying the Rate applicable to the relevant Return Accumulation Period to the face amount (in the case of a Certificate in global form) or Specified Denomination (in the case of a Certificate in individual registered form) of such Certificate during such Return Accumulation Period, multiplying the product by the relevant Day Count Fraction and rounding the resultant figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards).

“**Day Count Fraction**” means, in respect of the calculation of a Periodic Distribution Amount in accordance with this Condition 7:

- (a) if “**Actual/365**” or “**Actual/Actual**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365 (or, if any portion of that Return Accumulation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Return Accumulation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Return Accumulation Period falling in a non-leap year divided by 365);
- (b) if “**Actual/365 (Fixed)**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365;
- (c) if “**Actual/365 (Sterling)**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 365 or, in the case of a Periodic Distribution Date falling in a leap year, 366;
- (d) if “**Actual/360**” is specified in the applicable Pricing Supplement, the actual number of days in the Return Accumulation Period divided by 360;
- (e) if “**30/360**” “**360/360**” or “**Bond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Return Accumulation Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (A) the last day of the Return Accumulation Period is the 31<sup>st</sup> day of a month but the first day of the Return Accumulation Period is a day other than the 30<sup>th</sup> or 31<sup>st</sup> day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (B) the last day of the Return Accumulation Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (f) if “**30E/360**” or “**Eurobond Basis**” is specified in the applicable Pricing Supplement, the number of days in the Return Accumulation Period divided by 360 (the number of days to be calculated on the

basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of the Return Accumulation Period unless, in the case of the final Return Accumulation Period, the Scheduled Dissolution Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

“**Reference Banks**” means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the Pricing Supplement.

“**Relevant Screen Page**” means such page, section, caption, column or other part of a particular information service as may be specified in the Pricing Supplement.

“**TARGET2 System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on November 19, 2007 or any successor thereto.

## **7.6 Calculation of Other Amounts**

If the applicable Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the applicable Pricing Supplement.

## **7.7 Publication**

The Calculation Agent will cause each Rate and Periodic Distribution Amount determined by it, together with the relevant Periodic Distribution Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Issuer, Paying Agents and each listing authority, stock exchange and/or quotation system (if any) by which the Certificates have then been admitted to listing, trading and/or quotation as soon as practicable after such determination but (in the case of each Rate, Periodic Distribution Amount and Periodic Distribution Date) in any event not later than the first day of the relevant Return Accumulation Period. Notice thereof shall also promptly be given to the Certificateholders by the Calculation Agent in accordance with Condition 15 (*Notices*). The Calculation Agent will be entitled to recalculate any Periodic Distribution Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Return Accumulation Period.

## **7.8 Notifications, etc. to be final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7 by the Calculation Agent will (in the absence of willful default, bad faith or manifest or proven error) be binding on the Issuer, the Trustee, the Principal Paying Agent and all Certificateholders. No liability to the Issuer, the Trustee, the Republic, the Principal Paying Agent or the Certificateholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition 7.

## **8. PAYMENT**

### **8.1 Payments in Respect of Certificates**

Subject to Condition 8.2 (*Payments Subject to Applicable Laws*), payment of the Dissolution Amount and any Periodic Distribution Amount will be made by the Principal Paying Agent in the Specified Currency, by wire transfer in same day funds to the registered account of each Certificateholder or if it does not have a registered account, by a cheque in the Specified Currency drawn on a bank that processes payments in the Specified Currency and mailed to the registered address of the Certificateholder. Payments of the Dissolution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Amount and each Periodic Distribution Amount will be paid to the Certificateholder shown on the Register at the close of business on the date (the Record Date) being the fifteenth day (whether or not a business day) before the date on which the Dissolution Amount or the relevant Periodic Distribution Amount, as the case may be, is due to be paid.

*For so long as the Certificates are represented by a Global Certificate deposited with a custodian for DTC or, in the case of Certificates issued outside the United States in reliance on Regulation S of the Securities*

*Act, deposited with a common depository for Euroclear and Clearstream, Luxembourg, payments of the Distribution Amount and each Periodic Distribution Amount will be made to the person shown on the relevant Register as the registered Certificateholder represented by such Global Certificate at the close of business on the Clearing System Business Day before the due date for such payment (where “Clearing System Business Day” means a day on which each Clearing System with which the Global Certificate is being held is open for business).*

For the purposes of these Conditions, a Certificateholder’s “**registered account**” means the account in the Specified Currency maintained by or on behalf of it with a bank that processes payments in the Specified Currency, details of which appear on the Register at the close of business on the relevant Record Date and a Certificateholder’s “**registered address**” means its address appearing on the Register at that time.

## **8.2 Payments Subject to Applicable Laws**

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment and where appropriate, the place of the specified office of the Paying Agent to whom the relevant Certificate is surrendered, but without prejudice to the provisions of Condition 9 (*Capital Distributions of the Trust*).

## **8.3 Payment only on a Payment Business Day**

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed at the risk and if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder, in each case by the Principal Paying Agent on the due date for payment or, in the case of a payment of the Dissolution Amount, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent (if required to do so).

Certificateholders will not be entitled to any additional Periodic Distribution Amount, Dissolution Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition 8.3 arrives after the due date for payment.

If the amount of the Dissolution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount actually paid.

In this Condition 8.3, “**Payment Business Day**” means:

- (a) a day on which banks in the relevant place of surrender of the definitive Certificate are open for presentation and payment of registered securities and for dealings in foreign currencies; and
- (b) in the case of payment by transfer to an account:
  - (i) if the currency of payment is euro, a TARGET2 Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Business Centre; or
  - (ii) if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Business Centre.

## **8.4 Agents**

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents **provided that** it will at all times maintain (a) a Principal Paying Agent and a Registrar in New York and a Registrar in Luxembourg and (b) a Paying Agent (which may be the Principal Paying Agent) having its specified office in New York. In addition, for so long as the Certificates are listed on the Singapore Exchange Securities Trading Limited (**SGX-ST**) and the rules thereof so require, in the event that any of the Global Certificates are exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the definitive Certificates may be presented or surrendered for payment or redemption. In addition, in the event that any of the Global Certificates are exchanged for definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates,

including details of the paying agent in Singapore. Notice of any termination or appointment and of any changes in specified offices will be given to Certificateholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

## **9. CAPITAL DISTRIBUTIONS OF THE TRUST**

### **9.1 Scheduled Dissolution**

Unless the Certificates are previously redeemed, the Issuer will redeem Certificates at the Dissolution Distribution Amount on the Scheduled Dissolution Date. Upon payment in full of the Dissolution Distribution Amount and the termination of the Trust, the Certificates shall cease to represent the Trust Assets and no further amounts shall be payable in respect thereof and the Issuer and the Trustee shall have no further obligations in respect thereof.

“**Dissolution Date**” means the Scheduled Dissolution Date or any other earlier date of dissolution of the Trust.

“**Dissolution Distribution Amount**” means the aggregate outstanding face amount of the Certificates plus the Periodic Distribution Amounts accrued and unpaid (if any) to the due date for dissolution.

“**Scheduled Dissolution Date**” in relation to a Series of Certificates shall be specified in the applicable Pricing Supplement.

### **9.2 Dissolution Following a Dissolution Event**

Upon the occurrence of a Dissolution Event (as defined in Condition 12 (*Dissolution Events*)), which is continuing, the Certificates may be redeemed at the Dissolution Distribution Amount and the Trust dissolved by the Trustee on the dates specified in Condition 12 (*Dissolution Events*).

### **9.3 Dissolution Following a Total Loss Event**

The occurrence of a Total Loss Event will result in the termination of the relevant Supplemental Lease Agreement(s) in respect of the properties the subject of the Total Loss Event and the redemption of the Certificates on the Total Loss Dissolution Date and the consequent dissolution of the Trust, unless the Republic (in its capacity as Servicing Agent or Wakeel, as the case may be) in its sole discretion decides to procure, on the date of occurrence of the Total Loss Event, sufficient new properties that will be made subject to the Lease Agreement. In such an event the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the new properties. The Servicing Agent or the Wakeel, as the case may be, is also responsible for ensuring that, in such an event, all insurance proceeds (if any) in respect thereof are paid in the Specified Currency directly into the Transaction Account by no later than the close of business in London on the 30<sup>th</sup> day after the occurrence of the Total Loss Event.

If a Total Loss Event occurs and an amount (if any) less than the aggregate outstanding face amount of the relevant Series is credited to the Transaction Account (the difference between such amount in the Specified Currency and the amount credited to the Transaction Account being the “**Total Loss Shortfall Amount**”), then the Servicing Agent or the Wakeel, as the case may be, shall be required to pay (in the Specified Currency in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than close of business in London on the 31<sup>st</sup> day after the Total Loss Event has occurred.

“**Total Loss Dissolution Date**” means the earlier of (i) the date specified for redemption of the Certificates in a notice given by the Issuer to the Certificateholders, the Delegate and the Principal Paying Agent in accordance with Condition 15 (*Notices*); and (ii) the 31<sup>st</sup> day following the occurrence of a Total Loss Event following which the Servicing Agent or the Wakeel, as the case may be, has not procured the full replacement of the Assets.

“**Total Loss Event**” means the total loss or destruction of, or damage to the whole of, the properties underlying the Assets, or any event or occurrence that renders the whole of the properties underlying the Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted by any third party in respect of the properties underlying the Assets) the repair or remedial work in respect thereof is wholly uneconomical.

#### 9.4 No Other Dissolution

The Issuer shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust otherwise than as provided in this Condition 9 and in Condition 12 (*Dissolution Events*).

#### 9.5 Purchases

Notwithstanding anything to the contrary in any Transaction Document, the Issuer or the Republic may at any time purchase or acquire any Certificates in any manner and at any price. Certificates which are purchased or acquired by the Issuer or the Republic may, at the Issuer's or the Republic's discretion, as the case may be, be held, resold or surrendered for cancellation (subject to such Certificates being deemed not to remain outstanding for certain purposes as provided under the Master Declaration of Trust if so held).

Any Certificates resold shall be assigned a separate CUSIP from the Certificates redeemed unless such resold Certificates are treated as being issued in a "qualified reopening" for U.S. federal income tax purposes.

#### 9.6 Cancellations

Should the Republic wish to cancel any Certificates purchased pursuant to Condition 9.5 (*Purchases*), it shall deliver a Transfer Notice to PPSI-III (in accordance with the terms of the Transfer Undertaking) whereupon PPSI-III shall, in accordance with the terms of the Transfer Undertaking, be required to transfer all of PPSI-III's rights, title, benefits and entitlements in and to the Transferred Assets to the Republic in consideration for which the Certificates shall be surrendered for cancellation. The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking). Following the entry into such transfer agreement, PPSI-III shall cancel the relevant Certificates identified for cancellation in the Transfer Notice on the Transfer Date (which shall be a Periodic Distribution Date). In addition, Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold.

### 10. TAXATION

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, imposed or levied by or on behalf of any Relevant Jurisdiction (**Taxes**), unless the withholding or deduction of the Taxes is required by Indonesian law. In such event, the Issuer will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by parties entitled thereto, except that no such additional amount shall be payable in relation to any payment in respect of any Certificate:

- (a) presented for payment (where presentation is required) by or on behalf of a Certificateholder who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate or receiving payments thereon; or
- (b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that a Certificateholder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or
- (c) presented for payment (where presentation is required) by or on behalf of a Certificateholder who is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the Certificateholder.

In these Conditions:

**"Relevant Date"** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Issuer in accordance with Condition 15 (*Notices*); and

**“Relevant Jurisdiction”** means the Republic or any political subdivision thereof having the power to tax. For the avoidance of doubt, neither the Agents nor the Delegate shall be responsible or liable for (a) determining whether the Issuer is liable to pay any taxes or the amounts payable (if any) in connection with this Condition 9; or (b) determining the sufficiency or insufficiency of any amounts so paid and neither the Agents nor the Delegate shall be responsible to the Certificateholders or any other person for any loss arising from any failure by it to do so.

The Lease Agreement and the Purchase Undertaking each provide that payments thereunder by the Republic shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by Indonesian law and, in such case, provide for the payment by the Republic of additional amounts so that the full amount which would otherwise have been due and payable is received by PPSI-III.

## 11. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within periods of ten years (in the case of the Dissolution Distribution Amount) and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof, subject to the provisions of Condition 8 (*Payment*). Neither the Agents nor the Delegate shall be responsible or liable for any amounts so prescribed.

## 12. DISSOLUTION EVENTS

Upon the occurrence and continuation of any of the following events (**Dissolution Events**):

- (a) the Issuer defaults in the payment of any Dissolution Amount or Periodic Distribution Amount and such default is not cured within 30 days of the due date for payment;
- (b) the Issuer defaults in the performance of any covenant or obligation under the Declaration of Trust and such default continues for a period of 60 days after written notice thereof has been given to the Issuer by the Delegate or to the Issuer at the address of its agent for service of process in England by holders of Certificates representing at least 10.0% of the aggregate face amount of the Certificates outstanding;
- (c) the Issuer ceases to exist at any time on or after the Scheduled Dissolution Date but before redemption in full of the Certificates is made;
- (d) the Republic as Lessee rejects any Rental Fixing Notice as defined in and delivered under the relevant Lease Agreement; and
- (e) a Republic Event (as defined in the Purchase Undertaking) occurs,

the Delegate shall give notice of the occurrence of such Dissolution Event to the holders of Certificates in accordance with Condition 15 (*Notices*) with a request to such holders to indicate if they wish the Trust to be dissolved. If so requested in writing by the holders of at least 25.0% of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution, the Delegate shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) or, if the Delegate so decides in its discretion, the Delegate may (but shall have no obligation to), give notice to the Issuer, the Republic and all the holders of the Certificates in accordance with Condition 15 (*Notices*) that the Certificates are to be redeemed at the Dissolution Distribution Amount on the date specified in such notice (which may not be earlier than the date on which the Republic receives such notice) and that the Trust is to be dissolved on the day after the last outstanding Certificate has been redeemed, unless the Issuer or the Republic has remedied the relevant Dissolution Event(s) and has notified the Delegate, each of the Agents and the holders of the Certificates prior to the receipt of such notice of dissolution from the Delegate, such notice to be provided by the Issuer or the Republic, (i) in respect of the Delegate and the Agents, in writing, signed by, in the case of the Issuer, the President Director of the Issuer and, in the case of the Republic, an authorized representative of the Republic and, (ii) in respect of the holders of the Certificates, in accordance with Condition 15 (*Notices*).

If the Dissolution Event(s) giving rise to such notice, other than the non-payment of the Dissolution Distribution Amount which has become due solely by reason of such notice, shall have been cured, waived or otherwise remedied, then the holders of more than 50.0% of the then aggregate face amount outstanding of the Certificates may instruct the Delegate in writing (and the Delegate shall act upon such instructions, subject to being indemnified and/or secured and/or prefunded against any liabilities which it may incur by doing so), on behalf of all Certificateholders, to waive the relevant Dissolution Event(s) and rescind and annul such notice and its consequences (but no such waiver or rescission and annulment shall extend to or affect any subsequent Dissolution Event or impair any right consequent thereon).

For the purpose of paragraph (a) above, amounts shall be considered due in respect of the Certificates (including any amounts calculated as being payable under Condition 6 (*Fixed Periodic Distribution Provisions*), Condition 7 (*Floating Periodic Distribution Provisions*), Condition 8 (*Payment*) and Condition 9 (*Capital Distributions of the Trust*)) notwithstanding that the Issuer or the Trustee has at the relevant time insufficient funds or Trust Assets to pay such amounts.

As set out in the Purchase Undertaking, each of the following events or circumstances shall constitute a “**Republic Event**”:

- (a) the Republic defaults in the payment of any Rental (as defined in the Lease Agreement) under the Lease Agreement or the Exercise Price (as defined in the Purchase Undertaking) and such default is not cured within 30 days of the due date for payment;
- (b) the Republic defaults in the performance of any other covenant in the Purchase Undertaking and such default continues for a period of 60 days after written notice thereof has been given to the Republic by the Delegate or to the Republic at the address of its agent for service of process in England by holders of Certificates representing at least 10.0% of the aggregate face amount of the Certificates outstanding;
- (c) any Public External Indebtedness (as defined in the Purchase Undertaking) in a principal amount in excess of U.S.\$50,000,000 (or the equivalent amount thereof in any other currency) is accelerated (other than by optional or mandatory prepayment or redemption);
- (d) the Republic defaults in the payment of principal or interest or profit in excess of U.S.\$50,000,000 (or the equivalent amount thereof in any other currency) payable (whether upon maturity, acceleration or otherwise) in connection with Public External Indebtedness beyond any applicable grace and waiver periods and such default shall not have been cured or waived within 30 days after written notice thereof has been given to the Republic by the Delegate or to the Republic at the address of its agent for service of process in England by any holder of Certificates; and
- (e) the Republic declares a moratorium with respect to the payment of principal of or interest or profit on any Public External Indebtedness.

### **13. ENFORCEMENT AND EXERCISE OF RIGHTS**

**13.1** Upon the occurrence of a Dissolution Event, to the extent that the Dissolution Distribution Amount payable in respect of the Certificates has not been paid in full, PPSI-III or (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) the Delegate acting on behalf of PPSI-III may, or (in the case of the Delegate) shall, if so instructed by an Extraordinary Resolution, or in the absence of an Extraordinary Resolution, in writing by holders of at least 25.0% of the then aggregate face amount of the Certificates outstanding and subject to being indemnified and/or secured and/or pre-funded to its satisfaction, (acting for the benefit of the Certificateholders) take one or more of the following steps:

- (a) enforce the provisions of the Purchase Undertaking against the Republic; and/or
- (b) take such other steps as PPSI-III or the Delegate may consider necessary or desirable to exercise all of the rights of PPSI-III under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the Trust Assets as PPSI-III is bound to make in accordance with the Declaration of Trust.

**13.2** The Delegate shall not be bound in any circumstances to take any action to enforce or to realize the Trust Assets or take any action against the Issuer and/or the Republic under any Transaction Document to which either of the Issuer or the Republic is a party unless directed or requested to do so (a) by an Extraordinary Resolution or (b) in writing by the holders of at least 25.0% of the then aggregate face amount of the Certificates outstanding and in either case then only if it shall be indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

**13.3** No Certificateholder shall be entitled to proceed directly against the Issuer or the Republic under any Transaction Document unless (a) the Delegate, having become so bound to proceed in accordance with Condition 13.2 (*Enforcement and Exercise of Rights*), fails to do so within 60 days of becoming so bound and such failure is continuing and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders) who proposes to proceed directly against the Issuer or the Republic, holds at least 25.0% of the outstanding aggregate face amount of the Certificates. This Condition 13 is subject to the following:

- (a) under no circumstances shall the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets (other than in accordance with the Purchase Undertaking)



and the sole right of the Delegate and the Certificateholders against the Issuer and the Republic shall be to enforce their respective obligations under the Transaction Documents; and

- (b) any action or proceeding commenced by an individual Certificateholder as described above must be for the equal, ratable and common benefit of all holders of the Certificates.

**13.4** The foregoing paragraphs in this Condition 13 are subject to this paragraph. No Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding up of the PPSI-III.

#### **14. REPLACEMENT OF CERTIFICATES**

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified offices of the Paying Agents upon payment by the claimant of the expenses and costs incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer, the Republic, the relevant Paying Agent or the Registrar may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

#### **15. NOTICES**

All notices to Certificateholders will be valid if:

- (a) published in a daily newspaper (which will be a leading English language newspaper having general circulation) in Asia (which is expected to be the *Asian Wall Street Journal*) and a daily newspaper having general circulation in London (which is expected to be the *Financial Times*) approved by the Delegate; or
- (b) mailed to them by first class pre-paid registered mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective registered addresses.

The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange on which the Certificates are for the time being listed. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication. So long as the Certificates are represented by one or more Global Certificates held on behalf of DTC or Euroclear and/or Clearstream, Luxembourg, or another clearing system as may be specified in the applicable Pricing Supplement, or, in each case, the relevant nominee, notices to Certificateholders may be given by delivery of the relevant notice to those clearing systems for communication to entitled holders in substitution for notification as set out under (a) or (b) above.

#### **16. MEETINGS OF CERTIFICATEHOLDERS; WRITTEN RESOLUTIONS**

##### **(a) Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions**

- (i) The Delegate, the Trustee or the Republic may convene a meeting of the Certificateholders at any time in respect of the Certificates in accordance with the Master Declaration of Trust and the Agency Agreement. The Delegate, the Trustee or the Republic (as the case may be) will determine the time and place of the meeting. The Delegate, the Trustee or the Republic (as the case may be) will notify the Certificateholders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the meeting.
- (ii) The Trustee, the Republic or the Delegate will convene a meeting of Certificateholders if the holders of at least 10 per cent. in principal amount of the outstanding Certificates (as defined in the Master Declaration of Trust and described in Condition 16(i) (*Certificates controlled by the Trustee or the Republic*)) have delivered a written request to the Trustee, the Republic or the Delegate (with a copy to the Trustee and the Republic) setting out the purpose of the meeting. The Delegate will agree the time and place of the meeting with the Trustee and the Republic promptly. The Trustee, the Republic or the Delegate, as the case may be, will notify the Certificateholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 30 and not more than 60 days after the date on which such notification is given.
- (iii) The Trustee or the Republic (as the case may be) (with the agreement of the Delegate) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the

Trustee, the Republic and the Delegate will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Trustee or the Republic (as the case may be) proposes any modification to the terms and conditions of, or action with respect to, two or more series of securities issued by it.

- (iv) The notice convening any meeting will specify, *inter alia*;
  - (A) the date, time and location of the meeting;
  - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
  - (C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
  - (D) the documentation required to be produced by a Certificateholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Certificateholder's behalf at the meeting;
  - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Certificates are traded and/or held by Certificateholders;
  - (F) whether Condition 16(b) (*Modification of a Single Series of Certificates only*), or Condition 16(c) (*Multiple Series Aggregation — Single limb voting*), or Condition 16(d) (*Multiple Series Aggregation — Two limb voting*) shall apply and, if relevant, in relation to which other series of securities it applies;
  - (G) if the proposed modification or action relates to two or more series of securities issued by it and contemplates such series of securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group of securities;
  - (H) such information that is required to be provided by the Trustee or the Republic (as the case may be) in accordance with Condition 16(f) (*Information*);
  - (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 16(g) (*Claims Valuation*); and
  - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of securities.
- (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 16(a)(iv) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (vi) A “**record date**” in relation to any proposed modification or action means the date fixed by the Trustee or the Republic (as the case may be) for determining the Certificateholders and, in the case of a multiple series aggregation, the holders of securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution, which date shall be no more than five business days before the date of any such meeting.
- (vii) An “**Extraordinary Resolution**” means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (viii) A “**Written Resolution**” means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (ix) Any reference to “**securities**” means any trust certificates (including, without limitation, the Certificates), notes, bonds, debentures or other securities issued by the Trustee or the Republic in one or more series with an original stated maturity of more than one year.
- (x) “**Securities Capable of Aggregation**” means those securities which include or incorporate by reference this Condition 16 and Condition 17 (*Aggregation Agent; Aggregation Procedures*) or provisions substantially in these terms which provide for the securities which include such provisions to be capable of being aggregated for voting purposes with other series of securities.

**(b) Modification of a Single Series of Certificates only**

- (i) Without prejudice to clause 10.1 of the Declaration of Trust, any modification of any provision of, or any action in respect of, these Conditions or the Transaction Documents in respect of the Certificates may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
- (ii) A “**Single Series Extraordinary Resolution**” means a resolution passed at a meeting of Certificateholders duly convened and held in accordance with the procedures prescribed by the Trustee or the Republic and the Delegate pursuant to Condition 16(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) by a majority of:
  - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates that are represented at a meeting; or
  - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Certificates that are represented at a meeting.
- (iii) A “**Single Series Written Resolution**” means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
  - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or
  - (B) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Certificates.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders.
- (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Certificateholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

**(c) Multiple Series Aggregation — Single limb voting**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.
- (ii) A “**Multiple Series Single Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the Republic (as the case may be) and the Delegate pursuant to Condition 16(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of Securities Capable of Aggregation (taken in aggregate).
- (iii) A “**Multiple Series Single Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding securities of all affected series of Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of securities.
- (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same

series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be.

- (v) The “**Uniformly Applicable**” condition will be satisfied if:
  - (A) the holders of all affected series of Securities Capable of Aggregation are invited to exchange, convert, or substitute their securities, on the same terms, for (i) the same new instrument or other consideration or (ii) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
  - (B) the amendments proposed to the terms and conditions of each affected series of Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (vi) Any modification or action proposed under Condition 16(c)(i) (*Multiple Series Aggregation – Single Limb Voting*) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 16(c) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

**(d) Multiple Series Aggregation — Two limb voting**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (ii) A “**Multiple Series Two Limb Extraordinary Resolution**” means a resolution considered at separate meetings of the holders of each affected series of Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Trustee or the Republic (as the case may be) and the Delegate pursuant to Condition 16(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*), as supplemented if necessary, which is passed by a majority of:
  - (A) at least 66 $\frac{2}{3}$  per cent. of the aggregate principal amount of the outstanding securities of affected series of Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).
- (iii) A “**Multiple Series Two Limb Written Resolution**” means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Securities Capable of Aggregation, in accordance with the applicable documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
  - (A) at least 66 $\frac{2}{3}$  per cent. of the aggregate principal amount of the outstanding securities of all the affected series of Securities Capable of Aggregation (taken in aggregate); and
  - (B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of Securities Capable of Aggregation.

- (iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.
- (v) Any modification or action proposed under Condition 16(d)(i) (*Multiple Series Aggregation – Two limb voting*) may be made in respect of some series only of the Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 16(d) may be used for different groups of two or more series of Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters**

In these Conditions, “**Reserved Matter**” means any proposal:

- (i) to change the Scheduled Dissolution Date or any other date, or the method of determining the Scheduled Dissolution Date or any other date, for payment of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount in respect of the Certificates, to reduce or cancel the amount of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount payable on any date in respect of the Certificates or to change the method of calculating the amount of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount payable in respect of the Certificates on any date;
- (ii) to change the currency in which any amount due in respect of the Certificates is payable or the place in which any payment is to be made;
- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Certificateholders or the number or percentage of votes required to be cast, or the number or percentage of Certificates required to be held, in connection with the taking of any decision or action by or on behalf of the Certificateholders or any of them;
- (iv) to change this definition, or the definition of “Extraordinary Resolution”, “Single Series Extraordinary Resolution”, “Multiple Series Single Limb Extraordinary Resolution”, “Multiple Series Two Limb Extraordinary Resolution”, “Written Resolution”, “Single Series Written Resolution”, “Multiple Series Single Limb Written Resolution” or “Multiple Series Two Limb Written Resolution”;
- (v) to change the definition of “securities” or “Securities Capable of Aggregation”;
- (vi) to change the definition of “Uniformly Applicable”;
- (vii) to change the definition of “outstanding” or to modify the provisions of Condition 16(i) (*Certificates controlled by the Trustee or the Republic*);
- (viii) to change the legal ranking of the Certificates;
- (ix) to permit early redemption of the Certificates or, if early redemption is already permitted, set a redemption date earlier than the date previously specified or reduce the redemption price;
- (x) to change any provision of the Certificates describing circumstances in which the Certificates are to be redeemed upon the occurrence of a Dissolution Event, set out in Condition 12 (*Dissolution Events*);
- (xi) to change the law governing the Certificates, the courts to the jurisdiction of which the Trustee and the Republic have submitted in the Certificates, any of the arrangements specified in the Certificates to enable proceedings to be taken or the Trustee’s or the Republic’s waiver of immunity, in respect of actions or proceedings brought by any Certificateholder, set out in Condition 20 (*Governing Law and Submission to Jurisdiction*);
- (xii) to impose any condition on or otherwise change the Trustee’s obligation to make payments of the Dissolution Distribution Amount, the Periodic Distribution Amount or any other amount in respect of the Certificates, including by way of the addition of a call option;
- (xiii) to modify the provisions of this Condition 16(e);
- (xiv) except as permitted by any Transaction Document, to release any agreement guaranteeing or securing payments under the Certificates or to change the terms of any such guarantee or security;
- (xv) to exchange or substitute all the Certificates for, or convert all the Certificates into, other obligations or securities of the Trustee or the Republic (as the case may be) or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Certificates for, or the conversion of the Certificates into, any other obligations or securities of the Trustee or the Republic (as the case may be) or any other person, which would result in the Conditions as so modified being less favourable to the Certificateholders which are subject to the Conditions as so modified than:
  - (A) the provisions of the other obligations or securities of the Trustee or the Republic or any other person resulting from the relevant exchange or substitution or conversion; or
  - (B) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of securities having the largest aggregate principal amount.

**(f) Information**

Prior to or on the date that the Delegate, the Trustee or the Republic proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 16(b) (*Modification of a Single Series of Certificates only*), Condition 16(c) (*Multiple Series Aggregation — Single limb voting*) or Condition 16(d) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Republic (as the case may be) shall publish in accordance with Condition 17 (*Aggregation Agent; Aggregation Procedures*), and provide the Delegate with the following information:

- (i) a description of the Republic's economic and financial circumstances, a description of the Republic's existing debts and a description of its broad policy reform program and provisional macroeconomic outlook, in each case to the extent that such matters are, in the Republic's opinion, relevant to the request for any potential modification or action;
- (ii) if the Republic shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (iii) a description of the Republic's proposed treatment of external securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other securities and its other major creditor groups; and
- (iv) if any proposed modification or action contemplates securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Certificateholders in Condition 16(a)(iv)(G) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*).

**(g) Claims Valuation**

For the purpose of calculating the par value of the Certificates and any affected series of securities which are to be aggregated with the Certificates in accordance with Condition 16(c) (*Multiple Series Aggregation — Single limb voting*) and Condition 16(d) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Republic (as the case may be) may appoint a Calculation Agent. The Trustee or the Republic (as the case may be) shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Certificates and such affected series of securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Certificates and each other affected series of securities for these purposes, and the same methodology will be promulgated for each affected series of securities.

**(h) Manifest error, etc.**

The Certificates, these Conditions and the provisions of the Master Declaration of Trust or the Agency Agreement may be amended, without the consent of the Certificateholders, to correct a manifest error. In addition, the parties to the Master Declaration of Trust may agree to modify any provision thereof, but the Delegate shall not agree, without the consent of the Certificateholders, to any such modification unless, in the opinion of the Delegate, it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Certificateholders.

**(i) Certificates controlled by the Trustee or the Republic**

For the purposes of (i) determining the right to attend and vote at any meeting of Certificateholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution and (ii) this Condition 16, any Certificates which are for the time being held by or on behalf of the Trustee, the Republic or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the Republic or by any public sector instrumentality of the Trustee or the Republic shall be disregarded and be deemed not to remain outstanding, where:

- (i) “**public sector instrumentality**” means Bank Indonesia, any other department, ministry or agency of the government of Indonesia or any corporation, trust, financial institution or other entity owned or controlled by the government of Republic or any of the foregoing; and

- (ii) “**control**” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Certificate will also be deemed to be not outstanding if the Certificate has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Certificate has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Trustee or the Republic (as the case may be) has previously satisfied its obligations to make all payments due in respect of the Certificate in accordance with its terms.

In advance of any meeting of Certificateholders, or in connection with any Written Resolution, the Trustee or the Republic (as the case may be) shall provide to the Delegate a copy of the certificate prepared pursuant to Condition 17(d) (*Certificate*), which includes information on the total number of Certificates which are for the time being held by or on behalf of the Trustee or the Republic (as the case may be) or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the Republic (as the case may be) or by any public sector instrumentality of the Trustee or the Republic (as the case may be) and, as such, such Certificates shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Certificateholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Delegate shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

**(j) Publication**

The Trustee or the Republic (as the case may be) shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 17(g) (*Manner of publication*).

**(k) Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the option of the Trustee or the Republic (as the case may be) by way of a mandatory exchange or conversion of the Certificates and each other affected series of securities, as the case may be, into new securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Certificates is notified to Certificateholders at the time notification is given to the Certificateholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Certificateholders.

**17. AGGREGATION AGENT; AGGREGATION PROCEDURES**

**(a) Appointment**

The Trustee or the Republic (as the case may be) will appoint an aggregation agent (the “**Aggregation Agent**”) to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Certificates, and, in the case of a multiple series aggregation, by the required principal amount of outstanding securities of each affected series of Securities Capable of Aggregation. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions, the Master Declaration of Trust or the Agency Agreement in respect of the Certificates and in respect of the terms and conditions or documentation in respect of each other affected series of Securities Capable of Aggregation. The Aggregation Agent shall be independent of the Trustee and the Republic.

**(b) Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Certificateholders to modify any provision of, or action in respect of, these Conditions or the Master Declaration of Trust and other affected series of Securities Capable of Aggregation, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of Securities Capable of Aggregation, have voted in favour of the Extraordinary Resolution such that the

Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

**(c) Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions, the Agency Agreement or the Master Declaration of Trust to modify any provision of, or action in respect of, these Conditions, the Agency Agreement or the Master Declaration of Trust and the terms and conditions of other affected series of Securities Capable of Aggregation, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of Securities Capable of Aggregation, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

**(d) Certificate**

For the purposes of Condition 17(b) (*Extraordinary Resolutions*) and Condition 17(c) (*Written Resolutions*), the Trustee and Republic will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 16(b) (*Modification of a Single Series of Certificates only*), Condition 16 (c) (*Single limb voting*) or Condition 16(d) (*Multiple Series Aggregation – Two limb voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total principal amount of Certificates and, in the case of a multiple series aggregation, the total principal amount of each other affected series of Securities Capable of Aggregation outstanding on the record date; and
- (ii) clearly indicate the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of Securities Capable of Aggregation which shall be deemed not to remain outstanding as a consequence of Condition 16(i) (*Certificates controlled by the Trustee or the Republic*) on the record date identifying the holders of the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of Securities Capable of Aggregation.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

**(e) Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 17 to be notified to the Delegate, the Trustee and the Republic as soon as practicable after such determination. Notice thereof shall also promptly be given to the Certificateholders.

**(f) Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 17 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Trustee, the Republic, the Delegate, the Certificateholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

**(g) Manner of publication**

The Trustee and the Republic will publish all notices and other matters required to be published pursuant to these Conditions, the Master Declaration of Trust and the other Transaction Documents including any matters required to be published pursuant to Condition 16 (*Meetings of Certificateholders; Written*



*Resolutions*), this Condition 17 (*Aggregation Agent; Aggregation Procedures*) and Condition 12 (*Dissolution Events*):

- (i) on the following websites: (A) [www.djpu.kemenkeu.go.id](http://www.djpu.kemenkeu.go.id); and (B) [www.kemenkeu.go.id](http://www.kemenkeu.go.id);
- (ii) through the relevant clearing systems;
- (iii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iv) in such other places and in such other manner as may be customary.

## **18. INDEMNIFICATION AND LIABILITY OF THE DELEGATE**

**18.1** The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction. In particular, in connection with the exercise of any of its rights in respect of the Trust Assets, the Delegate shall in no circumstances take any action unless directed to do so in accordance with Condition 13.2 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

**18.2** The Delegate makes no representation and assumes no responsibility for the validity, sufficiency or enforceability of the obligations of the Issuer or the Republic under the Transaction Documents to which it is a party and shall not under any circumstances have any liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by the Issuer or the Republic but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

**18.3** Each of the Trustee, the Delegate and each Agent is exempted from (a) any liability in respect of any loss or theft of the Trust Assets or any cash, (b) any obligation to insure the Trust Assets or any cash and (c) any claim arising from the fact that the Trust Assets or any cash are held by or on behalf of the Trustee or on deposit or in an account with any depository or clearing system or are registered in the name of the Trustee or its nominee, unless such loss or theft arises as a result of gross negligence, fraud or willful misconduct by the Trustee or the Delegate, as the case may be.

**18.4** Whenever the Delegate is required or entitled by the terms of the Declaration of Trust or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Delegate is entitled, prior to exercising any such discretion or power, taking such action, making any such decision, or giving any such direction, seek directions from Certificateholders by way of an Extraordinary Resolution, and the Delegate is not responsible or liable for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Delegate is seeking such directions.

**18.5** The Delegate shall not (unless and to the extent ordered so to do by a court of competent jurisdiction) be required to disclose to any Certificateholder any information (including, without limitation, information of a confidential, financial or price sensitive nature) made available by the Republic or any other person in connection with these Conditions or the Certificates and no Certificateholder shall be entitled to take any action to obtain from the Delegate any such information.

## **19. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **20. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

**20.1** The Declaration of Trust (including these Conditions), the Certificates and any non-contractual obligations arising out of or in connection with the Declaration of Trust (including these Conditions) or the Certificates, are governed by, and will be construed in accordance with, English law.

**20.2** Each of the Issuer and the Republic has in the Declaration of Trust irrevocably agreed for the benefit of the Trustee, the Delegate and the Certificateholders that the courts of England are to have exclusive jurisdiction to settle any dispute, suit, action or proceeding (together referred to as **Proceedings**) which may arise out of or in connection with the Declaration of Trust (including these Conditions) and any non-contractual

obligations which may arise out of or in connection with the Declaration of Trust (including these Conditions) and accordingly submitted to the exclusive jurisdiction of the English courts.

- 20.3** Each of the Issuer and the Republic has in the Declaration of Trust waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.
- 20.4** Each of the Issuer and the Republic has in the Declaration of Trust appointed an agent for service of process in England (which, as of the Closing Date is the Representative office of Bank Indonesia in the City of London at 10 City Road, London EC1Y 2EH) in respect of any Proceedings and agreed that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.
- 20.5** Subject to Condition 20.6 (*Governing Law and Submission to Jurisdiction*), each of the Issuer and the Republic has in the Declaration of Trust agreed that to the extent that it may claim for itself or its assets or revenues immunity from jurisdiction, enforcement, prejudgment proceedings, injunctions and all other legal proceedings and relief and to the extent that such immunity (whether or not claimed) may be attributed to it or its assets or revenues, it will not claim and has irrevocably and unconditionally waived such immunity in relation to any Proceedings. Further, it has irrevocably and unconditionally consented to the giving of any relief or the issue of any legal proceedings, including, without limitation, jurisdiction, enforcement, prejudgment proceedings and injunctions in connection with any Proceedings.
- 20.6** Notwithstanding anything to the contrary described in Condition 20.5 (*Governing Law and Submission to Jurisdiction*), no waiver of immunity or consent shall be deemed or interpreted to include any waiver of immunity or consent in respect of (i) actions brought against the Issuer or the Republic arising out of or based upon United States federal or state securities laws, (ii) attachment under Indonesian laws, (iii) present or future 'premises of the mission' as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (iv) 'consular premises' as defined in the Vienna Convention on Consular Relations signed in 1963, (v) any other property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere, or (vi) military property or military assets or property or assets of the Republic related thereto; provided that the foregoing limitations shall not preclude any Proceeding to enforce any provision of the Declaration of Trust relating to the Trust Assets.

**AGENTS AND SPECIFIED OFFICES**

**The Principal Paying Agent with respect to  
Certificates held through DTC:**

The Bank of New York Mellon  
101 Barclay Street  
21<sup>st</sup> Floor West  
New York NY 10286  
United States of America

Facsimile: +1 212 815 5915  
Attention: Global Corporate Trust

**The Paying Agent with respect to Regulation S  
Certificates held through Euroclear and/or  
Clearstream, Luxembourg**

The Bank of New York Mellon, London Branch  
One Canada Square  
40<sup>th</sup> Floor  
London E14 5AL  
United Kingdom

Facsimile: +44 (0) 207 964 2536  
Attention: Corporate Trust

**The Registrar and Transfer Agent with respect to  
Certificates held through DTC:**

The Bank of New York Mellon  
101 Barclay Street  
21<sup>st</sup> Floor West  
New York NY 10286  
United States of America

Facsimile: +1 212 815 5915  
Attention: Global Corporate Trust

**The Registrar with respect to Regulation S  
Certificates held through Euroclear and/or  
Clearstream, Luxembourg**

The Bank of New York Mellon (Luxembourg) S.A.  
Vertigo Building - Polaris  
2-4 rue Eugène Ruppert  
L-2453 Luxembourg

Facsimile: +352 24 524 204  
Attention: New Issues Department

**The Transfer Agent with respect to Regulation S  
Certificates held through Euroclear and/or  
Clearstream, Luxembourg**

The Bank of New York Mellon, London Branch  
One Canada Square  
40<sup>th</sup> Floor  
London E14 5AL  
United Kingdom

Facsimile: +44 (0) 207 964 2536  
Attention: Corporate Trust

**All correspondence should be copied to:**

The Bank of New York Mellon,  
Singapore Branch  
One Temasek Avenue  
#03-01 Millenia Tower  
Singapore 039192

Facsimile: +65 6883 0338  
Attention: Global Corporate Trust

## FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Series of Certificates issued under the Program.

[Date]

**Perusahaan Penerbit SBSN Indonesia III**  
**Issue of [Aggregate Face Amount of Series] [Title of Certificate]**  
**Under the**  
**U.S.\$15,000,000,000**  
**Trust Certificate Issuance Program**

### PART A — CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the **Conditions**) set forth in the offering memorandum dated March 13, 2017 (the **Offering Memorandum**). This Pricing Supplement constitutes the final terms of the Certificates and must be read in conjunction with the Offering Memorandum [as supplemented].

*[The following alternative language applies if the first issue of a Series which is being increased was issued under offering memorandum with an earlier date.]*

Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the **Conditions**) set forth in the offering memorandum dated [original date]. This document constitutes the Pricing Supplement of the Certificates and must be read in conjunction with the offering memorandum dated [current date] [and the supplemental offering memorandum dated [•]], save in respect of the Conditions which are extracted from the offering memorandum dated [original date] and are attached hereto.]

*[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]*

- |                                     |  |
|-------------------------------------|--|
| 1. (i) Issuer and Trustee:          | Perusahaan Penerbit SBSN Indonesia III ( <b>PPSI-III</b> )                         |
| (ii) Obligor:                       | Republic of Indonesia (the <b>Republic</b> )                                       |
| 2. (i) Series Number:               | [•]  |
| (ii) [Tranche]:                     | [•]  |
| 3. Specified Currency:              | [•]  |
| 4. Aggregate Face Amount of Series: | [•]  |
| 5. Issue Price:                     | 100.0% of the Aggregate Face Amount  |
| 6. (i) Specified Denominations:     | [•] <i>(this means the minimum integral amount in which transfers can be made)</i> |
| (ii) Calculation Amount:            | [•] <sup>1</sup>   |

<sup>1</sup> The applicable Calculation Amount (which is used for the calculation of periodic distribution amounts and redemption amounts) will be (i) if there is only one Specified Denomination, the Specified Denomination of the relevant Certificates or (ii) if there are several Specified Denominations (e.g., Specified Denominations of €100,000 and multiples of €1,000), the highest common factor of those Specified Denominations (note: there must be a common factor in the case of two or more Specified Denominations).

7. (i) Issue Date: [●]
- (ii) Return Accumulation Commencement Date: [Issue Date][specify other]
8. Scheduled Dissolution Date: *[Specify date or (for Floating Periodic Distribution Certificates) Periodic Distribution Date falling in or nearest to the relevant month and year.]*
9. Periodic Distribution Amount Basis: [[●]% Fixed Periodic Distribution Amount] [*specify reference rate*] +/-[●]% Floating Periodic Distribution Amount] (*further particulars specified below*)
10. Dissolution Basis: Dissolution at par
11. Change of Periodic Distribution Basis: *[Specify details of any provision for convertibility of Certificates another Periodic Distribution Amount basis.]* [Not Applicable]
12. Method of Distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATION TO PERIODIC DISTRIBUTIONS PAYABLE**

13. Fixed Periodic Distribution Provisions: [Applicable/Not Applicable]
- [(If not applicable, delete the remaining subparagraphs of this paragraph)]*
- (i) Rate(s): [●]% per annum [payable [annually/ semi-annually/ quarterly/ monthly] in arrear]
- (ii) Periodic Distribution Date(s): [[ ]] in each year up to and including the Scheduled Dissolution Date] [specify other]
- (iii) Fixed Amount[(s)]: [ ] per Calculation Amount
- (iv) Broken Amount[(s)]: *[Insert particulars of any initial or final broken Periodic Distribution Amounts which do not correspond with the Fixed Amount [(s)] specified under paragraph [13(iii)]]*
- (v) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (vi) Determination Date(s): [ ] in each year
- [Insert regular Periodic Distribution Dates, ignoring Issue Date or Scheduled Dissolution Date in the case of a long or short first or last return accumulation period.*
- N.B. This will need to be amended in the case of regular periodic distribution dates which are not of equal durations.]*
- [N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
- (vii) Other terms relating to the method of calculating Fixed Periodic Distribution Amounts: [Not Applicable/give details]

14. Floating Periodic Distribution Provisions: [Applicable/Not Applicable]
- [(If not applicable, delete the remaining sub-paragraphs of this paragraph)]*
- (i) Specified Periodic Distribution Dates: [ ] [Not Applicable]
- (Specified Period and Specified Periodic Distribution Dates are alternatives. If the Business Day Convention is the Floating Rate Convention, insert Not Applicable)
- (ii) Specified Period: [ ] [Not Applicable]
- (Specified Period and Specified Periodic Distribution Dates are alternatives. A Specified Period, rather than Specified Periodic Distribution Dates, will only be relevant if the Business Day Convention is the Floating Rate Convention. Otherwise, insert Not Applicable)*
- (iii) Business Day Convention: [Floating Rate Convention / Following Business Day Convention / Modified Following Business Day Convention / Preceding Business Day Convention / *[specify other]*]
- (iv) Additional Business Center(s): [Not Applicable/give details]
- (v) Manner in which the Rate(s) is/are to be determined: [Screen Rate Determination (Condition [7.3] (*Screen Rate Determination*)) applies/specify other)
- (vi) Screen Rate Determination: [Applicable/Not Applicable] (If not applicable, delete the remaining sub paragraphs of this paragraph)
- Reference Rate: *[For example, LIBOR or EURIBOR]*
  - Periodic Distribution Determination Date: *[ ] (Second London business day prior to the start of each Return Accumulation Period if LIBOR (other than Sterling or euro LIBOR), first day of each Return Accumulation Period if Sterling LIBOR and the second day on which the TARGET System is open prior to the start of each Return Accumulation Period if EURIBOR or euro LIBOR)*
  - Relevant Screen Page: [ ]
  - Relevant Time: [For example, 11.00am London time]
- (vii) Margin: [+/-] [ ] % per annum
- (viii) Day Count Fraction: [Actual/Actual], [Actual/Actual (ICMA)], [Actual/365 (Fixed), [Actual/360], [30/360] or [30E/360] (See Condition [7] (*Floating Periodic Distribution Provisions*))]
- (ix) Calculation Agent: [Principal Paying Agent] *[specify other]*
- (x) Other terms relating to the method of calculating Floating Periodic Distribution Amounts: [Not Applicable] *[give details]*

## PROVISIONS RELATING TO DISSOLUTION

15. Dissolution Distribution Amount of each Certificate: [        ] per Calculation Amount plus any accrued but unpaid Periodic Distribution Amount
- [specify other] [Applies to early redemption on Dissolution Event, the occurrence of a Tax Event, the occurrence of a Total Loss Event and redemption on the Scheduled Dissolution Date]*

## GENERAL PROVISIONS APPLICABLE TO THE CERTIFICATES

16. Form of Certificates: Registered Certificates
- Global Certificate exchangeable for Certificates in definitive registered form in the limited circumstances specified in the Global Certificate.
17. Additional Business Center(s) relating to payment: [        ]
- [(Note that this item relates to the place of payment and not Return Accumulation Period end dates, to which item [14(iv)] relates)]*

## PROVISIONS IN RESPECT OF THE TRUST ASSETS

18. Issue Structure: [Ijara Series]/[Wakala Series]
19. Assets on the Issue Date: As Scheduled to the Supplemental Purchase Agreement [and Supplemental Procurement Agreement] specified below, a copy of which schedule is set out in the Annex hereto.
20. Trust Assets: [Condition [4.1] (Summary of the Trust) applies] *[specify other]*
21. (i) Details of Transaction Account: [        ] Transaction Account No: [        ] with [        ] for Series No.: [1/2/3 etc.]
- (ii) Currency: [        ]
22. Other Transaction Document Information:
- (i) Supplemental Declaration of Trust: Supplemental Declaration of Trust dated [        ] between the Trustee, the Republic and the Delegate
- (ii) Supplemental Purchase Agreement: Supplemental Purchase Agreement dated [        ] between the Trustee (as Purchaser) and the Republic (as Seller)
- [a(iii) Supplemental Procurement Agreement:] [Supplemental Procurement Agreement dated [        ] between the Trustee (as Purchaser) and the Republic (as Project Seller)]
- ([iii]/[iv]) Supplemental Lease Agreement: Supplemental Lease Agreement dated [        ] between the Trustee (as Lessor) and the Republic (as Lessee)
23. Other terms or special conditions: [Not Applicable/give details]

**DISTRIBUTION**

- 24. (i) If syndicated, names of Dealers: [Not Applicable/*give names*]
- (ii) Stabilizing Manager (if any): [ ]
- (iii) Date of Subscription Agreement: [ ]
- 25. If non-syndicated, name of relevant Dealer: [ ]
- 26. Additional selling restrictions: [Not Applicable/*give details*]

**RESPONSIBILITY**

Each of the Issuer and the Republic accepts responsibility for the information contained in this Pricing Supplement. To the best of the knowledge and belief of each of the Issuer and the Republic (having taken all reasonable care to ensure that such is the case) the information contained in this Pricing Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information. [[ ] has been extracted from [specify source]. Each of the Issuer and the Republic confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

**SIGNED ON BEHALF OF  
PERUSAHAAN PENERBIT SBSN  
INDONESIA III**

**SIGNED ON BEHALF OF  
THE REPUBLIC OF INDONESIA**

By: \_\_\_\_\_  
Duly authorized

By: \_\_\_\_\_  
Duly authorized



## PART B — OTHER INFORMATION

### 1. LISTING

Listing: [ ] (specify)/None]

### 2. RATINGS

Ratings: The Certificates have been rated: [Moody's: [ ]]

[Fitch: [ ]]

[[Standard & Poor's] [ ]]

*[(The above disclosure should reflect the rating allocated to Certificates of the type being issued under the Program generally or, where the issue has been specially rated that rating).]*

### 3. OPERATIONAL INFORMATION

(i) ISIN Code: [ ]

(ii) Common Code: [ ]

(iii) CUSIP: [Not Applicable]

[ ]

(iv) Any clearing system(s) other than The Depository Trust Company or Euroclear SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(v) Delivery: Delivery [against/free of] payment

(vi) Names and address of initial Paying Agent(s): [ ]

(vii) Names and address of additional paying Agent(s): [ ]

(viii) Names and address of Registrar(s): [ ]

**ANNEX I**

**IJARA PROPERTIES [AND PROJECT ASSETS] LIST<sup>2</sup>**

[●]

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<sup>2</sup> Insert for the relevant Series the Properties List contained in relevant Supplemental Purchase Agreement and, in the case of a Wakala Series, the Project Assets specified in the relevant Supplemental Procurement Agreement (including the specifications for the construction of the Project Assets pursuant to the specified Project).

## GLOBAL CERTIFICATES

Each Global Certificate contains provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the relevant Global Certificate, some of which modify the effect of the Conditions. The following is a summary of those provisions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.

### 1. Form of the Certificates

The Certificates sold in offshore transactions in reliance on Regulation S (the **Regulation S Certificates**) will be represented by a global Regulation S certificate in fully registered form (the **Regulation S Global Certificate**), which will, unless otherwise specified in the applicable Pricing Supplement, be deposited with a custodian for and will be registered in the name of a nominee of DTC or a nominee for the common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in the Regulation S Global Certificate may be held through either DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time or through Euroclear or Clearstream, Luxembourg and its direct or indirect participants, as the case may be. See *“Clearance and Settlement — Payments and relationship of participants with clearing systems.”*

The Certificates sold within the United States to QIBs in reliance on Rule 144A (the **Rule 144A Certificates**) will be represented by a global Rule 144A certificate in fully registered form (the **Rule 144A Global Certificate**), which will, unless otherwise specified in the applicable Pricing Supplement, be deposited with a custodian for and will be registered in the name of a nominee of DTC. Beneficial interests in the Rule 144A Global Certificate may only be held through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See *“Clearance and Settlement — Payments and relationship of participants with clearing systems”*. Subject to certain exceptions, beneficial interests in the Rule 144A Global Certificate may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in the Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Certificate. See *“Transfer Restrictions.”*

The Certificates sold within the United States to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof (**Definitive IAI Certificates**). Unless otherwise set forth in the applicable relevant Pricing Supplement, Definitive IAI Certificates will be issued only in minimum denominations of U.S.\$500,000 and integral multiples of U.S.\$1,000 in excess thereof (or the approximate equivalents in the applicable Specified Currency). Definitive IAI Certificates will be subject to the restrictions on transfer set forth therein and will bear the restrictive legend described under *“Plan of Distribution”* and *“Transfer Restrictions”*. Institutional Accredited Investors that hold Definitive IAI Certificates may not elect to hold such Certificates through DTC, Euroclear or Clearstream, Luxembourg, but transferees acquiring such Certificates in transactions exempt from Securities Act registration pursuant to Regulation S or Rule 144A under the Securities Act (if available) may do so upon satisfaction of the requirements applicable to such transfer as described under *“Plan of Distribution”* and *“Transfer Restrictions”*. The Registered Global Certificates and the Definitive IAI Certificates will be subject to certain restrictions on transfer set forth therein and will bear a legend regarding such restrictions.

The Regulation S Global Certificate and the Rule 144A Global Certificate are referred to herein as the **“Global Certificates”**. Beneficial interests in the Global Certificates will be subject to certain restrictions on transfer set out therein and in the Agency Agreement and such Global Certificates will bear a legend as set out under *“Transfer Restrictions”*. Investors may hold interests in the Regulation S Global Certificate, which are deposited with a common depository for and registered in the name of a nominee for the common depository for Euroclear and Clearstream, Luxembourg, through Euroclear or Clearstream, Luxembourg, if they are participants in those systems. Investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in those systems. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global Certificate on behalf of their account holders through customers’ securities accounts in their respective names on the books of their respective depositories. In addition, investors may hold interests in the Regulation S Global Certificates, which are deposited with a custodian for and registered in the name of a nominee of DTC through Euroclear and Clearstream, Luxembourg, if they are participants in those systems. Investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global

Certificate on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositories which in turn will hold such interests in the Regulation S Global Certificate in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in the Rule 144A Global Certificate directly through DTC, if they are DTC participants, or indirectly through organizations which are DTC participants.

No beneficial interest in the Regulation S Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Certificate unless (i) the transfer is to a person that is a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction (and the Registrar shall be entitled to rely on such written certification without further enquiry and will incur no liability for so relying and acting or omitting to act on the basis of such written certification). No beneficial interest in the Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Certificate unless (i) the transfer is in an offshore transaction in reliance on Rule 904 of Regulation S, and (ii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate will, upon transfer, cease to be an interest in the Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificate will, upon transfer, cease to be an interest in the Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Certificates, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Upon receipt of the Global Certificates, DTC or the custodian will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Certificate to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a Global Certificate will be limited to persons who have accounts with DTC or persons who hold interests through participants, including Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Upon receipt of the Global Certificates, Euroclear and/or Clearstream, Luxembourg or the custodian will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Certificate to the accounts of persons who have accounts with Euroclear and/or Clearstream, Luxembourg. Ownership of beneficial interests in the Global Certificates will be limited to persons who have accounts with Euroclear and/or Clearstream, Luxembourg or persons who hold interests through participants. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Certificates.

## **2. Holders**

For so long as all of the Certificates are represented by either or both of the Global Certificates and each Global Certificate is held on behalf of DTC (or its nominee, as the case may be), or Euroclear and/or Clearstream, Luxembourg (or a common depository for Euroclear and/or Clearstream, Luxembourg, as the case may be), each person (other than another clearing system) who is for the time being shown in the

records of any such clearing system as the holder of a particular aggregate face amount of such Certificates (each, a **Certificateholder**) (in which regard any certificate or other document issued by such clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such aggregate face amount of such Certificates (and the expression **Certificateholders** and references to **holding of Certificates** and to **holder of Certificates** shall be construed accordingly) for all purposes other than with respect to payments on such Certificates, the right to which shall be vested, as against the Issuer and the Delegate, solely in the registered holder of the relevant Global Certificate in accordance with and subject to its terms. Each Certificateholder must look solely to DTC (or its nominee, as the case may be), Euroclear or Clearstream, Luxembourg for its share of each payment made to the registered holder of the relevant Global Certificate.

### 3. Cancellation

Cancellation of any Certificate represented by a Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register and by annotation of the appropriate schedule to that Global Certificate, subject to the rules and procedures of DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be.

### 4. Payments

Payments of any Dissolution Amount, Periodic Distribution Amount and any other amount payable in respect of Certificates represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Certificates, against presentation and surrender of the relevant Global Certificate to or to the order of the relevant Registrar or such other Agent as shall have been notified to the holder of the relevant Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Certificates held through DTC or its nominee will to the extent received by or on behalf of the Registrar be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

*For so long as the Certificates are represented by a Global Certificate deposited with a custodian for DTC or, in the case of Certificates issued outside the United States in reliance on Regulation S of the Securities Act, deposited with a common depository for Euroclear and Clearstream, Luxembourg, payments of the Distribution Amount and each Periodic Distribution Amount will be made to the person shown on the relevant Register as the registered Certificateholder represented by such Global Certificate at the close of business on the Clearing System Business Day before the due date for such payment (where **Clearing System Business Day** means a day on which each Clearing System with which the Global Certificate is being held is open for business).*

A record of each payment made in respect of the Certificates will be entered into the relevant Register by or on behalf of the relevant Registrar and shall be prima facie evidence that payment has been made.

### 5. Notices

So long as any of the Certificates are represented by either or both of the Global Certificates and such Global Certificate is held on behalf of DTC (or its nominee, as the case may be), Euroclear or Clearstream, Luxembourg (or a common depository for Euroclear and/or Clearstream, Luxembourg, as the case may be), notices to Certificateholders may be given by delivery of the relevant notice to those clearing systems for communication to entitled holders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which such notice is delivered to the relevant clearing systems.

So long as any of the Certificates is represented by a Global Certificate deposited with a custodian for DTC or, in the case of Certificates issued outside the United States in reliance on Regulation S of the Securities Act, deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices may be given by any holder of a Certificate to the Principal Paying Agent through DTC and/or Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and DTC and/or Euroclear and/or Clearstream, Luxembourg may approve for their purposes.

## 6. Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for DTC or a nominee for the common depository of Euroclear and/or Clearstream, Luxembourg, as the case may be for a period of seven calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

## 7. Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of DTC, Euroclear and/or Clearstream, Luxembourg, as the case may be and their direct and indirect participants in accordance with their respective rules and procedures.

## 8. Exchange for Definitive Certificates

### *Exchange*

The Rule 144A Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form (**Rule 144A Definitive Certificates**) and the Regulation S Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form (**Regulation S Definitive Certificates and, together with the Rule 144A Definitive Certificates, the Definitive Certificates**) upon the occurrence of an Exchange Event.

For these purposes, “**Exchange Event**” means that (i) in the case of Rule 144A Certificates, DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Rule 144A Certificates or DTC ceases to be a “clearing agency” under applicable law or is at any time no longer eligible to act as such or (ii) in the case of Regulation S Certificates issued through Euroclear and/or Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention to cease business or has in fact done so and, in the case of each of (i) and/or (ii), as applicable no qualified successor clearing system satisfactory to the Delegate has been identified within 90 days of receipt of such notice from DTC and/or Euroclear and/or Clearstream, Luxembourg.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate face amount of duly executed Definitive Certificates in or substantially in the form set out in the Declaration of Trust.

### *Delivery*

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrars for completion, authentication and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the relevant Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Definitive Certificates and (ii) in the case of the Rule 144A Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a written certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Certificate shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions.”

### *Legends and transfers*

The holder of a Definitive Certificate may transfer the Certificates represented thereby in whole or in part in the applicable Authorized Denomination by surrendering it at the specified office of the Registrar or any

Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Certificate bearing the legend referred to under “Transfer Restrictions,” or upon specific request for removal of the legend on a Definitive Certificate, the Issuer will deliver only Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act. Rule 144A Definitive Certificates will bear the same legend as the legend for the Rule 144A Global Certificate set out under “Transfer Restrictions”. The Rule 144A Definitive Certificates may not at any time be held by or on behalf of U.S. persons (as defined in Regulation S) that are not QIBs. Before any Regulation S Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Rule 144A Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB purchasing the beneficial interest for its own account or any account of a QIB and (ii) in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of United States or any other jurisdiction. A Regulation S Definitive Certificate will bear the same legend as the legend for the Regulation S Global Certificate set out under “Transfer Restrictions”. Before any Rule 144A Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Regulation S Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person in an offshore transaction in accordance with Rule 904 of Regulation S.

## THE ISSUER

Perusahaan Penerbit SBSN Indonesia III was established in Indonesia on December 22, 2011 by the Republic under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) and Government Regulation No. 56 of 2008 on Perusahaan Penerbit Surat Berharga Syariah Negara as amended by Government Regulation No. 73 of 2012, with its registered office at the Ministry of Finance of the Republic of Indonesia, Frans Seda Building Level 5, Jalan DR. Wahidin Raya No. 1, Jakarta 10710, Indonesia. The Issuer is a special purpose entity formed for the purpose of participating in the transactions contemplated by the Transaction Documents.

The Issuer is wholly-owned by the Republic. Pursuant to Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III*, the paid-up capital of the Issuer is Rp100,000,000 (one hundred million Rupiah). Other than as described herein, as at the date hereof there has been no material change in the capitalization of the Issuer since its establishment.

### Business of the Issuer

The Issuer will issue Certificates under the Program and will not have any substantial liabilities other than in connection with the issue of the Certificates. The Certificates are the obligations of the Issuer alone.

The objects of the Issuer as set out in Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* are to issue Sharia compliant securities in foreign currencies in the international markets in order to finance the Indonesian State Budget in accordance with the prevailing laws and regulations. To satisfy such purposes, the Issuer may issue one or more series of Sharia compliant securities and enter into the transaction documents and other agreements necessary for the performance of its obligations pursuant to the issuance of such Sharia compliant securities.

The Issuer has not engaged, since its establishment, in any material activities other than those regarding or incidental to the issue of the Certificates under the Program and the matters contemplated in this Offering Memorandum and the Transaction Documents and the authorization of its entry into the other transactions and documents referred to in this Offering Memorandum to which it is or will be a party.

The Issuer has no subsidiaries.

### Financial Statements

The fiscal years of the Issuer end on December 31 of each year.

The Issuer prepares unaudited financial statements in respect of the end, and the first six months of, each fiscal year. The Issuer is not required by Indonesian law, and does not intend, to publish audited financial statements for any period.

### Directors

The directors of the Issuer and their principal occupations are as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Suminto (President Director) . . . . .	Director of Sharia Financing, Directorate General of Budget Financing and Risk Management
Dwi Irianti Hadiningdyah . . . . .	Head of Sub-Directorate of Sovereign Sukuk Market Development, Directorate of Sharia Financing, Directorate General of Budget Financing and Risk Management
Mardhanus Rudiyanto . . . . .	Head of Sub-Directorate of Data Analysis and Information on Valuation, Directorate of Valuation, Directorate General of State Assets

The business address of each of the directors is Frans Seda Building Level 5, Jalan DR. Wahidin Raya No. 1, Jakarta 10710, Indonesia.

The Issuer currently has no employees and is not expected to have any employees in the future.



## SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal Transaction Documents in respect of each Series of Certificates issued under the Program. This summary is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the Specified Offices of the Principal Paying Agent (as defined in the Conditions).*

### **Purchase Agreement**

The Master Purchase Agreement was entered into on August 15, 2014 between the Issuer (in its capacity as **Purchaser**) and the Republic (in its capacity as **Seller**). The parties will subsequently enter into a Supplemental Purchase Agreement in relation to the issuance of each Series of Certificates. The Master Purchase Agreement is, and any Supplemental Purchase Agreement will be governed by Indonesian law. The Master Purchase Agreement and each Supplemental Purchase Agreement in relation to a Series of Certificates shall be referred to as the Purchase Agreement.

Pursuant to the Purchase Agreement in relation to the issuance of each Series of Certificates, the Seller will sell to the Purchaser, and the Purchaser will purchase from the Seller, Beneficial Rights over the Ijara Properties for a Purchase Price (as specified in the Supplemental Purchase Agreement, which in the case of a Wakala Series shall be not less than 51.0% of the Issue Price), inclusive of all taxes, if any, free and clear of any encumbrance or any rights of third parties, payable on the Issue Date. The Ijara Properties relating to each Series of Certificates will be identified in the schedule to the relevant Supplemental Purchase Agreement.

“**Beneficial Right**” means, with respect to a property relating to an Ijara Asset or a Project Asset, as the case may be, *hak manfaat* in that property, as stipulated in Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), which is the right to own and to obtain the full right to the usage of certain properties without the requirement to register such ownership and rights.

“**Ijara Properties**” means, in respect of each Series of Certificates, the real properties (including buildings, improvements and fixtures thereon) described in the schedule to the relevant Supplemental Purchase Agreement.

### **Procurement Agreement**

The Master Procurement Agreement was entered into on August 15, 2014 between the Issuer (in its capacity as **Purchaser**) and the Republic (in its capacity as **Project Seller**). The parties will subsequently enter into a Supplemental Procurement Agreement in relation to the issuance of each Wakala Series of Certificates. The Master Procurement Agreement is, and any Supplemental Procurement Agreement will be governed by Indonesian law. The Master Procurement Agreement and each Supplemental Procurement Agreement in relation to a Wakala Series of Certificates shall be referred to as the Procurement Agreement.

Pursuant to the Procurement Agreement in relation to the issuance of each Wakala Series of Certificates, the Project Seller will sell to the Purchaser, and the Purchaser will purchase from the Seller, the Project Assets for a Purchase Price (as specified in the Supplemental Procurement Agreement, which shall be not more than 49.0% of the Issue Price), inclusive of all taxes, if any, free and clear of any encumbrance or any rights of third parties, payable on the Issue Date. The Project Assets relating to each Wakala Series of Certificates will be identified in the schedule to the relevant Supplemental Procurement Agreement.

Further to any such sale and purchase, the Project Seller will undertake to procure the construction of the relevant assets pursuant to the specified Project in respect of such Project Assets and to deliver such assets to the Purchaser upon completion.

PPSI-III may also replace Project Assets under the Procurement Agreement prior to the completion and delivery of the relevant assets pursuant to the specified Project by the amendment of the schedule to the relevant Supplemental Procurement Agreement specifying such Project Assets.

“**Project Assets**” means the Beneficial Rights over the assets specified in the schedule to the relevant Supplemental Procurement Agreement which are either under construction or to be constructed (the construction of such assets being, a **Project**) (including the right to the delivery of such assets upon completion).

## Lease Agreement

The Master Lease Agreement was entered into on August 15, 2014 between the Republic (in its capacity as **Lessee**) and the Issuer (in its capacity as the **Lessor**). The parties will subsequently enter into a Supplemental Lease Agreement in relation to the issuance of each Series of Certificates and, in the case of a Wakala Series, upon the completion and delivery of the relevant Project Assets identified in that Supplemental Lease Agreement. The Master Lease Agreement and any Supplemental Lease Agreement will be governed by Indonesian law. The Master Lease Agreement and the Supplemental Lease Agreement(s) in relation to a Series of Certificates shall be referred to as the “**Lease Agreement**”.

Under the terms of the relevant Lease Agreement, the Lessor will agree to lease to the Lessee, and the Lessee will agree to lease from the Lessor, the Assets during the term commencing on the date of the relevant Supplemental Lease Agreement and terminating on the Scheduled Dissolution Date. The Lease Agreement is subject to earlier termination if the Trust is dissolved early.

“Assets” means, in respect of each Series of Certificates, the Beneficial Rights over the Properties.

“**Properties**” means, in respect of each Series of Certificates, (i) the real properties (including buildings, improvements and fixtures thereon) and/or (ii) the buildings, improvements and fixtures located on real properties (but not including the relevant real properties), as specified in the relevant Supplemental Lease Agreement as may be modified from time to time to give effect to any substitution pursuant to the Substitution Undertaking or to any procurement of Properties by the Servicing Agent or the Wakeel, as the case may be (following a Loss Event or a Total Loss Event, each as defined in the Lease Agreement) pursuant to the Servicing Agency Agreement or the Wakala Agreement, respectively, or to removal of Transferred Assets (as defined in the Transfer Undertaking) pursuant to the Transfer Undertaking.

The Lessee has agreed to use the Properties at its own risk. Accordingly, the Lessee shall from the date of the relevant Lease Agreement bear the entire risk of loss of or damage to the Properties or any part thereof arising from the usage or operation thereof by the Lessee. In addition, the Lessor shall not be liable (and the Lessee has waived any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee’s use or operation of the Properties to the extent that such losses have resulted from the Lessee’s negligence, default, breach of the Lease Agreement or other action or failure to take action.

The Lessee shall, at its own cost and expense, be responsible for the performance of all ordinary maintenance and repair required for the Properties during each rental period under the relevant Lease Agreement.

The Lessor shall be responsible for (i) the performance of all major maintenance and structural repair, (ii) the payment of any proprietorship or other relevant taxes and (iii) insuring the Properties and the Lessee has acknowledged that the Lessor may procure that the Republic (in its capacity as “**Servicing Agent**” or “**Wakeel**”, as the case may be), in accordance with the terms and conditions set out in the Servicing Agency Agreement or the Wakala Agreement, respectively, performs, or procures the performance of, the major maintenance and structural repair on behalf of the Lessor, the payment of such taxes and insuring of the Properties.

During the term of the Lease Agreement, the Lessee shall agree to pay to the Lessor the rentals specified in the Lease Agreement for each rental period specified therein.

The rentals payable under the Lease Agreement in respect of the Ijara Properties will be equal to the Periodic Distribution Amounts payable on the Periodic Distribution Dates in respect of the relevant Series of Certificates.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid in full without any deduction or withholding for or on account of any tax unless required by Indonesian law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding required by Indonesian law, the Lessee shall pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made.

The payment obligations of the Lessee under the Lease Agreement shall constitute direct, unconditional, unsecured and general obligations of the Republic, without preference, granted by the Republic to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Indebtedness (as defined below) of the Republic.

## Servicing Agency Agreement

In respect of each Ijara Series, the Servicing Agency Agreement was entered into on August 15, 2014 by the Republic, as Servicing Agent, and PPSI-III, as Lessor, and is governed by Indonesian law.

Pursuant to the Servicing Agency Agreement, the Servicing Agent will be responsible on behalf of the Lessor for carrying out all major maintenance and structural repair, the payment of Proprietorship Taxes (as defined in the Servicing Agency Agreement) charged, levied or claimed by any relevant taxing authority on the Assets and for effecting all appropriate insurances in respect of the properties underlying the Assets in relation to each Series of Certificates.

In the event of a Total Loss Event where, following the termination of the existing Supplemental Lease Agreement in respect of the properties the subject of the Total Loss Event (the **Original Supplemental Lease Agreement**) in accordance with the Lease Agreement, the Servicing Agent procures new properties, the Servicing Agent shall apply the relevant insurance proceeds (if any) to procure (or purchase) on the date of occurrence of the Total Loss Event new properties in respect of the relevant Series of Certificates, and the Beneficial Rights over these properties shall be acquired on behalf of and for the Lessor (as the sole holder thereof), following which the Lessor and the Lessee shall immediately enter into a new Supplemental Lease Agreement on the same terms as the Original Supplemental Lease Agreement with the exception of the list of properties that are subject to the Lease Agreement which shall be amended to reflect the change in the composition of the properties that are subject to the Lease Agreement.

In the event of one or more Loss Events which do not constitute a Total Loss Event the Servicing Agent shall apply the relevant insurance proceeds (if any) to procure (or purchase) new properties in respect of the relevant Series of Certificates, and the Beneficial Rights over these properties shall be acquired on behalf of and for the Lessor (as the sole holder thereof), following which the Lessor and the Lessee will amend the Lease Agreement to reflect the change in the composition of the properties that are subject to the Lease Agreement.

The occurrence of a Total Loss Event will result in the redemption of the Certificates of the relevant series at an amount equal to the Dissolution Distribution Amount on the Total Loss Dissolution Date and the consequent dissolution of the Trust in the event that the Assets are not substituted as described in the paragraph above.

The Servicing Agent is responsible for ensuring that, in such an event, all insurance proceeds (if any) in respect of the Assets are paid in the Specified Currency directly into the relevant Transaction Account by no later than the close of business in London on the 30th day after the occurrence of the Total Loss Event. However, if the relevant provisions of the Servicing Agency Agreement are not strictly complied with and as a result the amount (if any) credited to the Transaction Account is less than the Reinstatement Value (the difference between such amount in the Specified Currency and the amount credited to the Transaction Account being the **Total Loss Shortfall Amount**), then the Servicing Agent shall be required to pay (unless it proves beyond any doubt that any shortfall in the insurance proceeds is not attributable to its negligence or its failing to comply with the terms of the Servicing Agency Agreement relating to insurance) in same day, freely transferable, cleared funds the Total Loss Shortfall Amount directly to the Transaction Account by no later than close of business in London on the 31st day after the Total Loss Event has occurred. For the avoidance of doubt, the failure by the Servicing Agent to insure the Assets shall not constitute a Dissolution Event, **provided that** it either replaces the Assets or pays the Total Loss Shortfall Amount in accordance with the Servicing Agency Agreement.

Unless the Servicing Agent procures new properties that will be subject to the Lease Agreement, rental under the Lease Agreement shall cease automatically with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the relevant Transaction Account.

Notwithstanding the appointment of the Servicing Agent, the Lessee shall, at its own cost and expense, be responsible for the performance of all ordinary maintenance and repair required for the Properties relating to each Series of Certificates.

**“Total Loss Dissolution Date”** means the earlier of (i) the date specified for redemption of the Certificates in a notice given by the Issuer to the Certificateholders, the Delegate and Principal Paying Agent in accordance with Condition 15 (Notices); and (ii) the 31st day following the occurrence of a Total Loss Event in the event that the Servicing Agent has not procured the full replacement of the Assets.

“**Total Loss Event**” means the total loss or destruction of, or damage to the whole of, the Properties, or any event or occurrence that renders the whole of the Properties permanently unfit for any economic use and (but only after taking into consideration any insurance or other indemnity granted by any third party in respect of the Properties) the repair or remedial work in respect thereof is wholly uneconomical.

### **Wakala Agreement**

In respect of each Wakala Series, the Wakala Agreement was entered into on August 15, 2014 by the Republic, as Wakeel, and PPSI-III, as Lessor, and is governed by Indonesian law. The Wakeel will have the same obligations under the Wakala Agreement as those of the Servicing Agent above under the Servicing Agency Agreement.

In addition, the Wakeel will maintain a separate ledger account and will be responsible for collecting all rental payments payable by the Lessor to the Lessee under the Lease Agreement. The Wakeel will pay to the Transaction Account from the amounts so collected an amount equal to the Periodic Distribution Amounts payable on the Certificates by no later than the time by which such amounts are due and payable under the Certificates. Any remaining such amounts, after all amounts due and payable under the Certificates have been paid in full, may be retained by the Wakeel as an incentive fee for acting as Wakeel.

The Wakeel will also use its best efforts to manage the properties underlying the Assets in respect of each Wakala Series such that the percentage of such properties which are represented by Ijara Assets shall at all times be no less than 51 per cent.

All payments by the Wakeel to the Lessor under the Wakala Agreement shall be paid in full without any deduction or withholding for or on account of any tax unless required by Indonesian law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding required by Indonesian law, the Wakeel shall pay all additional amounts as will result in the receipt by the Lessor of such net amounts as would have been received by it if no deduction or withholding had been made.

The payment obligations of the Wakeel under the Wakala Agreement shall constitute unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Indebtedness of the Republic.

### **Substitution Undertaking**

The Substitution Undertaking was executed as a deed on August 15, 2014 by PPSI-III as issuer of the Certificates and as trustee for the Certificateholders in favor of the Republic, and is governed by Indonesian law.

Pursuant to the Substitution Undertaking, the Republic may, subject to certain conditions, require PPSI-III to accept the substitution of certain new assets (the **New Assets**) in replacement of existing Assets (the **Replaced Assets**) in respect of each Series of Certificates. Upon the Republic giving a notice of substitution to PPSI-III, the Republic and PPSI-III shall enter into a substitution sale agreement (in the form scheduled to the Substitution Undertaking), pursuant to which PPSI-III will sell the Replaced Assets in exchange for the New Assets of a value which is at least equal to or greater than the value of the Replaced Assets, and PPSI-III and the Republic shall amend the relevant Supplemental Lease Agreement to reflect the change in composition of the Properties to give effect to this substitution. If the value of the Replaced Assets as certified by the Republic is more than 20 per cent. of the aggregate outstanding face amount of the Certificates of such Series then the existing Supplemental Lease Agreement in respect of the relevant Replaced Assets shall be terminated and the Lessee and the Lessor shall immediately enter into a new Supplemental Lease Agreement in respect of the New Assets.

### **Purchase Undertaking**

The Purchase Undertaking was executed as a deed on August 15, 2014 by the Republic in favor of PPSI-III as issuer of the Certificates and as trustee for the Certificateholders and the Delegate and is governed by English law.

The Republic will irrevocably undertake in favor of PPSI-III and to the Delegate to purchase all of PPSI-III's rights, title, benefits and entitlements in, to and under the Assets (including any Project Assets prior to (a) the completion and delivery of the Project Assets under construction or to be constructed pursuant to any

Project and (b) the lease of such completed and delivered Project Assets pursuant to the Lease Agreement) as a single portfolio of assets for the relevant Series on the Scheduled Dissolution Date in respect of each Series of Certificates or any earlier due date for dissolution following the occurrence of a Dissolution Event, as the case may be, at an exercise price (the **Exercise Price**) equal to the outstanding face amount of the Certificates plus all accrued and unpaid Periodic Distribution Amounts (if any) relating to the Certificates plus any accrued Supplementary Rental (as defined in the Lease Agreement), in each case on an “as is” basis but free from any Encumbrance (as defined in the Declaration of Trust).

In the Purchase Undertaking, the Republic will undertake that, so long as any Certificate remains outstanding, the Republic will not create or permit the creation of any mortgage, charge, lien, pledge or any other security interest on any of its present or future assets or revenues, or any part thereof, to secure any Public External Indebtedness, unless the Republic shall procure that all amounts payable under the Certificates are secured equally and ratably. Notwithstanding the foregoing, the Republic may create or permit the creation of any Permitted Security Interests.

**“External Indebtedness”** means Indebtedness which is denominated or payable by its terms in, or at the option of the holder thereof payable in, a currency or currencies other than the lawful currency of the Republic.

**“Indebtedness”** means any indebtedness for money borrowed or any guarantee of indebtedness for money borrowed (including any indebtedness in the form of or represented by bonds, debentures, notes, sukuk or other similar instruments) which is issued or incurred by and in the name of the Republic (or any special purpose vehicle subsidiary thereof) and is backed by the full faith and credit of the Republic; as used in this definition, money borrowed “by and in the name of the Republic” shall not include the borrowings of any state-owned enterprise (**SOEs**) or other agency, authority, department or instrumentality which under the laws of the Republic constitutes a juridical entity or statutory body separate from the Republic so long as such Indebtedness does not carry the full faith and credit of the Republic.

**“Permitted Security Interest”** means any Security Interest:

- (a) securing Public External Indebtedness incurred, assumed or guaranteed by the Republic solely to finance or refinance the acquisition, construction or development of the property over which such Security Interest has been created or permitted to be created, provided that such Security Interest does not extend to any other property of the Republic; however, in the case of construction, the Security Interest may extend to:
  - (i) unimproved real property for the construction;
  - (ii) any trust account into which the proceeds of the offering creating such Public External Indebtedness may be temporarily deposited pending use in the construction; and
  - (iii) the revenue to be generated by the operation of, or loss or damage to, the property to be constructed;
- (b) existing on any property or asset at the time of its acquisition (or arising after its acquisition pursuant to an agreement entered into prior to, and not in contemplation of, such acquisition), and extension and renewals of such Security Interest limited to the original property or asset covered thereby and securing any extension or renewal of the original secured financing;
- (c) arising out of the renewal, extension or replacement of any indebtedness permitted under paragraph (b) above; **provided, however, that** the principal amount of such Public External Indebtedness is not increased;
- (d) arising in the ordinary course of borrowing activities of the Republic to secure Public External Indebtedness with a maturity of one year or less;
- (e) in existence as of the date of the issuance of the Certificates;
- (f) pursuant to any order of attachment or similar legal process arising in connection with court proceedings which proceedings are being contested in good faith; or
- (g) arising by operation of law, **provided that** any such Security Interest is not created or permitted to be created by the Republic for the purpose of securing any Public External Indebtedness.

**“Public External Indebtedness”** means External Indebtedness which (i) is publicly issued or privately placed in the capital markets, (ii) is in the form of, or represented by, bonds, debentures, notes, sukuk or other

similar instruments or book entries and (iii) is, or is eligible to be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market.

“**Security Interest**” means any security interest, lien, pledge, mortgage, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind whether in effect on the Closing Date or at any time thereafter.

The international reserves owned by Bank Indonesia are not subject to the foregoing covenant and Bank Indonesia may in the future incur Public External Indebtedness secured by such reserves without amounts payable under the Certificates being secured.

The Republic will agree in the Purchase Undertaking that all payments by it under the Purchase Undertaking will be made without any deduction or withholding for or on account of tax unless required by Indonesian law and without set-off or counterclaim of any kind and, in the event that there is any deduction or withholding required by Indonesian law, the Republic shall pay all additional amounts as will result in the receipt by the Issuer (or the Delegate, if PPSI-III ceases to exist following the Scheduled Dissolution Date but before redemption in full of the Certificates is made) of such net amounts as would have been received by it if no deduction, or withholding had been made.

The payment obligations of the Republic under the Purchase Undertaking will constitute direct, unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Indebtedness of the Republic.

### **Transfer Undertaking**

The Transfer Undertaking was executed as a deed on August 15, 2014 by PPSI-III (in its capacity as issuer of the Certificates and as trustee for the Certificateholders) in favor of the Republic and is governed by English law. Under the terms of the Transfer Undertaking, if at any time the Republic wishes to cancel any Certificates purchased pursuant to Condition 9.5 (*Purchases*), the Republic may, by exercising its right under the Transfer Undertaking and by serving a Transfer Notice on PPSI-III, require PPSI-III to transfer all of PPSI-III's rights, title, benefits and entitlements in, to and under the Transferred Assets to the Republic in consideration for which the Certificates shall be surrendered for cancellation. The transfer of the Transferred Assets will take effect by the Republic and PPSI-III entering into a transfer agreement (in the form scheduled to the Transfer Undertaking). Following the entry into such transfer agreement, PPSI-III shall cancel the relevant Certificates identified for cancellation in the Transfer Notice on the Transfer Date (which shall be a Periodic Distribution Date).

### **Declaration of Trust**

The Master Declaration of Trust was executed as a deed on March 13, 2017 between the Republic, the Issuer, the Trustee and the Delegate and is governed by English law. A Supplemental Declaration of Trust between the same parties shall be entered into on the Issue Date of each Series of Certificates and shall also be governed by English law. The Master Declaration of Trust and any Supplemental Declaration of Trust in relation to a Series of Certificates shall be referred to as the Declaration of Trust.

Pursuant to the Declaration of Trust, PPSI-III will declare a trust for the benefit of the Certificateholders of each Series over all of its rights, title, interest and benefit, present and future, in, to and under the Assets in relation to such Series, all of its rights, title, interest and benefit, present and future, in, to and under the Transaction Documents in relation to such Series, all monies standing to the credit of the transaction account in the Specified Currency opened in the name of the Issuer and maintained and operated by the Principal Paying Agent in relation to such Series (the **relevant Transaction Account**) and all proceeds of the foregoing (the **Trust Assets**).

Pursuant to the Declaration of Trust, PPSI-III will, in relation to the Certificates, *inter alia*:

- (a) hold the Trust Assets on trust absolutely for the Certificateholders as beneficial tenants in common *pro rata* according to the face amount of Certificates held by each Certificateholder; and
- (b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust.

In the Declaration of Trust, the Trustee will irrevocably and unconditionally delegate to the Delegate the performance of certain present and future duties, powers, authorities and discretions vested in the Trustee by the relevant provisions of the Declaration of Trust (including but not limited to the authority to request instructions from any Certificateholders and the power to make any determinations to be made under the Declaration of Trust). The appointment of such delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as trustee. The Delegate will undertake in the Declaration of Trust that, following it being notified of the occurrence of a Dissolution Event in respect of any Certificates and subject to Condition 12 (*Dissolution Events*), it shall (a) promptly notify the Certificateholders of the occurrence of such Dissolution Event, and (b) subject to receiving satisfactory indemnity security and/or pre-funding, take all such steps as are necessary to enforce the obligations of the Republic under the Declaration of Trust, the Purchase Undertaking and any other Transaction Document to which the Republic is a party.

### **Costs Undertaking**

The Costs Undertaking was executed as a deed on August 15, 2014 by the Republic acting in its personal capacity and on a voluntary basis in favor of, among others, the Delegate and the Agents and is governed by English law.

Pursuant to the Costs Undertaking, the Republic will pay certain fees and reimburse certain expenses of, and indemnify against certain liabilities incurred by, among others, the Delegate and the Agents.

## **USE OF PROCEEDS**

The gross proceeds of each Series of Certificates issued under the Program will be applied by the Issuer for the purchase of the Assets relating to the relevant Series from the Republic.

Unless otherwise specified in the Pricing Supplement for each Series of Certificates issued under the Program, the Republic will use the gross proceeds it receives to meet part of its general financing requirements.



## REPUBLIC OF INDONESIA

### Overview

Indonesia, the world's fourth most populous country, with a population of approximately 260 million, is a developing nation in Southeast Asia spread across an archipelago of 17,504 islands.

In recent years, Indonesia has continued its rapid economic growth and consolidated its transformation to a participatory democracy that places greater political power in the hands of local and regional governments.

The following table sets forth certain of the Republic's principal economic indicators as of and for the specified dates and periods.

### Selected Key Economic Indicators

	For the Year Ended December 31,					
	2012 <sup>L</sup>	2013 <sup>L</sup>	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>P</sup>	2017 <sup>B</sup>
National account and prices: . . . . .						
Real GDP growth (year-on-year) . . . . .	6.0%	5.6%	5.0%	4.9%	5.0%	5.1%
Per capita GDP (in thousands of rupiah) . . . . .	35,105	38,366	41,916	45,141	47,957	N/A
Per capita GDP (in U.S. dollars) <sup>(1)</sup> . . . . .	3,741	3,667	3,532	3,374	3,605	N/A
Average exchange rate (rupiah per U.S. dollar) <sup>(2)</sup> . . .	9,348	10,559	11,876	13,392	13,305	13,300
Inflation rate (year-on-year change in CPI) . . . . .	4.3%	8.4%	8.4%	3.4%	3.0%	4.0%
External sector:						
Current account (% of GDP) <sup>(3)</sup> . . . . .	(2.7)%	(3.2)%	(3.1)%	(2.0)%	(1.8)%	N/A
Fiscal account:						
Budget deficit (% of GDP) . . . . .	(1.9)%	(2.3)%	(2.3)%	(2.6)%	(2.5)%	(2.4)%
External debt of the central government (in trillions of rupiah) . . . . .	880	1,112	1,131	1,410	1,438	1,492
Debt service ratio (% of government revenue) . . . . .	19.9%	18.8%	23.7%	25.3%	32.0%	28.1%

Source: BPS, Bank Indonesia and Ministry of Finance

<sup>L</sup> LKPP (Central Government Financial Report/Audited).

<sup>P</sup> Preliminary.

<sup>B</sup> Budget.

(1) Per capita GDP in U.S. dollars has been converted from Rupiah into U.S. dollars and the U.S. dollar amounts of external debt of the central Government have been converted into Rupiah at the following exchange rates per U.S. dollar: Rp9,384 per U.S. dollar for 2012, Rp10,463 per U.S. dollar for 2013, Rp11,868 per U.S. dollar for 2014, Rp13,377 per U.S. dollar for 2015, and Rp13,303 per U.S. dollar for 2016. These exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given period.

(2) Official average exchange rate for the relevant period published by Bank Indonesia in its annual report.

(3) As published by Bank Indonesia in Indonesia's balance of payments report.

N/A Not available.

### Recent Developments

#### *Outlook and Ratings Upgrade*

In December 2016, Fitch affirmed its sovereign credit rating of the Republic at BBB- and changed its outlook to positive from stable, citing the Republic's strong structural reform drive since September 2015 as gradually improving the country's business environment being likely to support the growth outlook in the medium term.

In February 2017, Moody's revised the outlook on Indonesia's government ratings to positive from stable while concurrently affirming Indonesia's Baa3 issuer rating, Baa3 senior unsecured bond ratings and (P)Baa3 senior unsecured MTN program rating. Moody's cited Indonesia's improving resilience to external shocks as a result of measures which narrow current account deficits, its higher foreign exchange reserves, slower rise in private sector external debt, track record of macroeconomic stability and fiscal discipline, and progress in fiscal and regulatory reforms in revising its outlook to positive.

## *Economic Policy Packages in 2015 — 2016*

Since the election of President Joko Widodo in 2014, between September 2015 and December 2016, the Government introduced 14 economic stimulus policy packages to encourage domestic economic growth through the creation of a more conducive business climate. These policies are at various stages of implementation.

The first policy package, announced on September 9, 2015, sought to accelerate budget spending, increase household purchasing power, strengthen competitiveness of domestic products and stimulate domestic growth. Specifically, this package included policies to simplify the process of obtaining businesses permits, accelerate certain national strategic projects, boost low-income housing, increase the allocation of rice for low-income households and implement tax cuts and strengthen downstream products to produce value-added products. Several policies were drafted to stimulate the development of the small to medium enterprise (SME) sector. The package included strategies to strengthen export financing through the National Interest Account project (provision of low-interest export financing) and increase interest subsidies for SME loans.

The second policy package, announced on September 29, 2015, included initiatives to simplify the process for obtaining industrial investment permits, granting of tax incentives by eliminating value added tax (VAT) for selected transportation sector industries, strengthening integrated logistics facilities and maintaining the stability of the Rupiah. This package also simplified the requirements to obtain tax holidays and the approval process for tax allowances.

The third policy package, announced on October 7, 2015, included policies to reduce fuel, gas and industrial electricity subsidies, ease land permit approvals for investment activities, and expand SME commercial loan availability to include salaried employees as eligible recipients.

The fourth policy package, announced on October 15, 2015, included policies to promote a fair, simplified and projectable provincial wage system, subsidize small business loans and expand small business credit to sectors such as farming, fishery, manufacturing, creative businesses and overseas Indonesian workers. The package also included incentives to prevent employee layoffs.

The fifth policy package, announced on October 22, 2015, introduced tax incentives for asset revaluations in order to encourage companies and state-owned-enterprises (SOEs) to revalue their asset base, and also deregulated certain aspects of the Sharia banking sector. It also proposed eliminating the double taxation system for Real Estate Investment Trusts (REITs) in order to attract more domestic REIT issuances.

The sixth policy package, announced on November 5, 2015, introduced tax incentive schemes to encourage development in eight special economic zones (SEZs), adjusted water-based resource processing permits to protect natural resources and shortened the import processes for pharmaceutical products through the use of an online system.

The seventh policy package, announced on December 4, 2015, sought to support the industrial sector through an income tax waiver for workers in labor-intensive sectors, easing restrictions on investment licenses and free leasehold certificates for SMEs operating in 34 state-owned areas.

The eighth policy package, announced on December 21, 2015, introduced policies to exempt airplane spare parts from import duty in order to improve Indonesian airlines' competitiveness, introduced incentives to accelerate oil refinery development across Indonesia, and, through the "one map policy", intended to harmonize all maps in the archipelago nation under one reference map for use in the Government's development projects.

The ninth policy package, announced on January 27, 2016, introduced policies to improve national logistic performance through a single-billing system for port services conducted by SOEs, introduced an "Integrated National Single Window" to simplify the submission of trade documents to a single point of collection; require the use of Rupiah for payments related to transportation activities, and eliminated the price difference between private commercial and state postal services. It also focused on accelerating development of the electricity sector and stabilizing the supply and price of beef.

The tenth policy package, announced on February 11, 2016, included policies to increase foreign investment through the relaxation of the Negative Investment List (see "*— Foreign Investment*") by reducing or eliminating ownership restrictions in several sectors including pharmaceuticals, cold storage, the film industry, and telecommunication providers.

The eleventh policy package, announced on March 29, 2016, sought to reduce dwelling time, or the time from when cargo arrives until it leaves, at Indonesian ports, improve loan schemes for export-oriented SMEs, and introduce tax incentives for REITs and a pharmaceutical industry roadmap.

The twelfth policy package, announced on April 28, 2016, focused on enhancing the ease of doing business (including for small and medium enterprises) in Indonesia by reducing fees and waiting times for business applications, building construction permits, property registration, electricity installation, and access to banks.

The thirteenth policy package, announced on August 28, 2016, included social housing initiatives, such as the acceleration of the “National One Million Housing Program”, as well as additional measures designed to ease the conduct of business in Indonesia, and policies to improve site and environmental planning.

The fourteenth policy package, announced on November 10, 2016, focused on accelerating e-commerce businesses through the implementation of an “Electronic-Based National Trading System”, which will be regulated under a presidential regulation that will include policies related to funding support, tax relaxation, consumer protection, human resources capacity improvement, logistics support, communication infrastructure, cyber-security and the formation of an operation management committee to develop an E-Commerce Roadmap.

### ***Tax Amnesty***

In July 2016, the Government passed a tax amnesty law pursuant to which tax payers with outstanding back taxes, who have obtained tax amnesty certificates, will among other things:

- be exempted from paying any outstanding payable taxes owed (save as the taxes which have already been declared outstanding by virtue of tax assessment letter) during any period before the end of the most recent tax year (i.e., December 31, 2015), as well as any administrative sanctions relating to such obligations;
- not be investigated regarding allegations of tax crime relating to any disclosed outstanding payable tax obligations that occurred up to the most recent tax year; and
- be freed from any ongoing investigation procedures relating to allegations of tax crime which were already underway before a tax amnesty application was submitted. This termination of any ongoing investigation may only be executed by an officer at the Directorate General of Taxation.

The amnesty is available to any individual or corporate taxpayer who meets the requirements and submits their application before March 31, 2017. Applicants must disclose their assets, and pay the relevant penalties, which vary in accordance to the period of submission and whether the relevant offshore assets are repatriated or declared but not repatriated.

616,358 taxpayers have participated in the program by the end of 2016. As of December 31, 2016, Rp4,296.3 trillion in assets had been declared and the Government had collected Rp109.5 trillion as penalties under the scheme. Of the assets declared under the program, 73.2% are onshore, 23.5% are offshore and 3.3% have been repatriated (predominantly from Singapore). Nearly all of the penalties collected, or Rp103.2 trillion of the total as of December 31, 2016, represents “redemption” money, or the fee payable to the Government in exchange for the amnesty.

The Government hopes that the success of the tax amnesty program will continue to improve tax compliance in Indonesia. The submissions of annual tax reports by taxpayers who are required to submit one has risen in tandem with the number of registered taxpayers in the past few years. The compliance rate for annual tax rate submissions was 56.2% in 2013, 59.2% in 2014, 60.4% in 2015 and 62.3% in 2016.

### ***Grasberg Copper Mine***

On February 20, 2017, Freeport-McMoRan Inc., the parent company of PT Freeport Indonesia (**Freeport**), the operator of the Grasberg mine in the province of Papua, announced that Freeport had provided to the Government formal notice of an impending dispute pursuant to the dispute resolutions provisions of the Contract of Work (**CoW**) entered into between Freeport and the Government.

Under Law No. 4 of 2009 on Mineral and Coal Mining enacted by the Government in January 2009 (the **Mining Law**), two new types of licenses were created: *ijin usaha pertambangan* (**IUP**) and *ijin usaha pertambangan khusus* (**IUPK**). Subsequent to the enactment of the Mining Law, the Government issued various regulations thereunder.

Pursuant to the Mining Law, CoWs issued under the prior mining law, including Freeport's CoW, will remain valid until the end of their terms. Under the current regulations, however, CoW holders, including Freeport, are required to refine their mining products in Indonesia and CoW holders, including Freeport, are required to convert their CoW into an IUPK to continue the export of concentrate. Freeport has asked the Government to honor the terms of the CoW.

In light of the above, Freeport has reduced its production at the Grasberg copper mine from normal levels and has announced plans to reduce its workforce and implement cost savings. Grasberg is one of the largest copper and gold mines in the world.

The Government continues to monitor the situation and consider its options.

## **Land and People**

### ***Area***

Situated between Malaysia, Singapore and the Philippines to the north and Australia to the south, the Republic of Indonesia covers a total land area of approximately 1,913,579 square km, comprising approximately 17,504 islands (of which an estimated 957 are inhabited) and forming part of the world's largest archipelago.

The main islands of Indonesia are Sumatera, Java, Bali, Kalimantan (also known as Borneo, the northern part of which belongs to Malaysia and Brunei), Sulawesi and Papua (the eastern part of which belongs to Papua New Guinea). Indonesia extends 5,120 km across the equator from Nanggroe Aceh Darussalam (**Aceh**) in the west to Papua in the east. Jakarta, Indonesia's capital and largest city, is located on the northern coast of the western part of Java.

Because of its location in a geologically active part of the world, Indonesia is subject to various forms of natural disasters. These include earthquakes, tsunamis, volcanic eruptions, floods and landslides that can result in major losses of life and property, such as the 2004 Indian Ocean Tsunami that devastated the province of Aceh, and therefore have significant economic and developmental effects.

In recent years, the Government has implemented various measures to address haze and other adverse effects caused by forest and field fires related to land clearance for agriculture in the islands of Sumatera and Kalimantan.

### ***Population***

Indonesia has a population of approximately 260 million and is the fourth most populous country in the world, after China, India and the United States. The population is primarily concentrated in Java (projected at approximately 146.7 million in 2016). In 2016, Jakarta, the capital, was projected to have a population of approximately 10.3 million.

Indonesia's population is young and growing. The Government estimates that, in 2016, approximately 27.1% of the population was under 15 years of age and approximately 44.0% was under 25 years of age. The population growth rate during the period of 2010 to 2016 was 1.4% per annum.

According to the 2010 census, approximately 87.2% of the Indonesian population is Muslim and 9.9% is Christian, with the remaining population consisting of Hindus, Buddhists and followers of other religions. Indonesia's population is primarily of Malay descent, but consists of more than 300 ethnic groups, including the Acehnese, Batak and Minangkabau in Sumatera; the Javanese and Sundanese in Java; the Madurese in Madura; the Balinese in Bali; the Sasak in Lombok; the Minahasan, Makassar, Toraja and Bugis in Sulawesi; the Dayak in Kalimantan; and the Dani and Asmat in Papua. The country's population also includes people of Chinese, Arab, Eurasian, Indian and Pakistani backgrounds.

The national language is Bahasa Indonesia, which is based on the Malay language. English is widely used and taught in most secondary schools. In total, approximately 500 languages and dialects are spoken throughout Indonesia.

## Government and Political Developments

### *Political History and Development of Political Parties*

From 1605 until its independence in 1945, Indonesia was under almost continuous Dutch colonial rule and was known as the Netherlands East Indies. The period of Dutch administration was interrupted by a short period of British colonial rule in the 19th century and ended by the Japanese occupation, which lasted from 1942 to 1945.

Indonesia proclaimed its independence on August 17, 1945 and adopted its Constitution in that year. The Constitution has been amended several times and remains in place today (despite being replaced from 1949 until its re-adoption in 1959). In 1966, executive power was transferred from President Soekarno to General Soeharto. General Soeharto served as Indonesia's President until 1998, when he resigned in the aftermath of social unrest that followed the 1997 Asian financial crisis, which coincided with the country's worst drought in 50 years, falling prices for export commodities, severe depreciation in the value of the Rupiah and rapid inflation.

The post-Soeharto era, which is known in Indonesia as the *Reformasi*, led to changes in various governmental institutions, reforms upon the structures of the judiciary, legislature, and executive office. Between 1999 and 2002, the Constitution was amended to strengthen constitutional checks and balances, a separation of powers and provide for a more direct democracy. Prior to the amendments, and throughout the period of President Soeharto's administration, Indonesia's Government had been highly centralized. Power during the Soeharto period was concentrated in the Presidency and the military exerted significant influence over the Government including by holding a specified number of allocated seats in the legislature. The major goals of the amendments and other political reforms since the end of the Soeharto regime have been to (i) increase the level of direct democracy; (ii) reduce the influence of the military in the Government; (iii) disperse power to regional and local government authorities; and (iv) improve the transparency and integrity of the judicial system.

Indonesia's most recent presidential election was held in July 2014. In this election, President Joko Widodo and Vice President Muhammad Jusuf Kalla were elected and will serve until 2019. Although presidential candidates are nominated individually (along with their respective vice-presidential candidates), relationships with and support from political parties have a considerable effect on the result. Therefore, the legislative election results are an important indicator of the outcome of the presidential elections.

A total of 15 parties (including three local parties in Aceh) took part in the 2014 legislative election. In addition to presidential and legislative elections, each of Indonesia's 34 provinces conducts their own gubernatorial elections, with governors serving five-year terms.

### *Central Government*

Indonesia's Government is based on the Constitution, under which the Republic is structured as a unitary republic. The Constitution enshrines a set of fundamental principles known as *Pancasila* (the five principles), encompassing belief in one supreme God, humanity, the unity of Indonesia, democracy led by the wisdom of deliberations among representatives and social justice for all.

The Constitution vests the sovereignty in the country's people and establishes the office of the President, the People's Consultative Assembly (*Majelis Permusyawaratan Rakyat* or **MPR**) (which consists of the People's Representative Council (*Dewan Perwakilan Rakyat* or **DPR**) and the Regional Representatives' Council (*Dewan Perwakilan Daerah* or **DPD**)), the Supreme Audit Agency (*Badan Pemeriksa Keuangan* or **BPK**), the Supreme Court (*Mahkamah Agung*), the Constitutional Court (*Mahkamah Konstitusi*) and the Judicial Commission (*Komisi Yudisial*).

The MPR has the authority to amend the Constitution, inaugurate and dismiss the President. The MPR has a bicameral structure, consisting of the DPR, which is the principal legislative body, and the DPD. The DPR has 560 members. The DPD has four members from each province, which currently amounts to 132 members.

Members of the DPR are elected by a proportional representation system. The DPD members are elected in non-partisan elections based on a plurality of votes within the relevant electorate.

Each of the DPR and the President has the power to initiate legislation. All legislation, including the Republic's budget, must be approved by both the DPR and the President. While the DPD is able to initiate legislation regarding regional matters, this is subject to approval from both the DPR and the President.

The President has the authority and responsibility for the conduct of the administration of the Republic. This includes the authority to declare war, make peace, conclude treaties with other states and propose statutes; these presidential actions must, however, be approved by the DPR before taking effect. Constitutional amendments in 1999 restrict the President and Vice President to a maximum of two five-year terms.

The President is assisted in the administration of his responsibilities by ministers who are appointed and dismissed by the President and who are responsible only to the President.

### ***Judicial System***

The Constitution states that the Indonesian judicial system must be independent and that judicial authority is to be exercised by the courts free from the influence of non-judicial power. The Republic's judicial power is exercised by the Supreme Court, various lower courts and the Constitutional Court. The courts below the Supreme Court are organized by subject matter jurisdiction. These courts include the general, religious, military and administrative courts. The general district courts have jurisdiction over all criminal and civil cases not within the limited jurisdiction of any of the special courts. The religious courts have jurisdiction over cases such as family law among Muslims. The military courts have jurisdiction over cases involving military personnel. The administrative courts have jurisdiction over actions involving certain Government decisions.

Furthermore, there are several special courts under the general courts and the administrative courts such as (i) commercial courts, which have jurisdiction over bankruptcy cases and intellectual property rights cases (except trade secrets); (ii) juvenile courts, which have jurisdiction over child cases; (iii) human rights courts, which have jurisdiction over gross violations of human rights cases; (iv) corruption courts, which have jurisdiction over corruption cases; (v) labor courts, which have jurisdiction over industrial relations cases; (vi) fishery courts, which have jurisdiction over criminal fishery cases; and (vii) tax courts which have jurisdiction over tax disputes. The Supreme Court also has the authority to issue opinions on legal matters to various Government authorities and officials, to order a court to adjudicate a particular matter or to set aside an unlawful decision. The Constitutional Court has exclusive jurisdiction with respect to questions of constitutional law.

### ***Regional Governments and Regional Autonomy***

Indonesia has 34 provinces, including the special region of the capital of Jakarta. Each province is headed by a governor and consists of several subdivisions. There are two types of subdivisions, namely *kabupaten*, or regencies, and *kota*, or municipalities. Political and governmental arrangements in regencies and municipalities are generally similar, but municipalities tend to be more urban. Regencies and municipalities are divided into *kecamatan*, or districts, which in turn are further divided into villages or *kelurahan*, or sub-districts.

Over the past decade or so, the central Government has promoted regional autonomy through legislation. Under current law, government matters are divided into three areas:

- (i) matters that are solely under the authority of the Central Government, such as foreign affairs, defense, security, judicial, national fiscal and monetary matters, and religion;
- (ii) matters that are concurrently implemented between the Central Government, Provincial Governments and Regency/Municipality Governments. These include:
  - (a) basic services such as education, health, public works, social issues, manpower and housing as well as other matters such as land policy, micro and medium enterprises, investment, culture, communication environment, food sustainability and information;
  - (b) matters that relate to potential development of a region, such as maritime and fisheries, tourism, forestry, energy and mineral resources, trade, industry and transmigration; and
- (iii) matters that are solely under the authority of the President as head of Government (such as Army, Navy and Air Force affairs, the appointment and the replacement of ambassadors and consuls, the granting of pardon and rehabilitation, amnesty and abolition, award of titles, decorations and other marks of state honor).

The provinces of Aceh, Jakarta, Yogyakarta, Papua and West Papua enjoy special autonomy from the central Government. In Papua, the Government has tried to address the concerns of certain groups seeking greater independence by expanding the powers of the local government, investing in infrastructure, improving judicial access, instituting affirmative action programs, working to resolve differences among local ethnic

groups, increasing welfare programs and infrastructure development and fostering business growth and investment in areas populated by these groups.

### ***Terrorism***

Several terrorism-linked bombing incidents have taken place in Indonesia over the years, including incidents linked to ISIS and the Jemaah Islamiah, a Southeast Asian terrorist network linked to other terrorist organizations outside the region. In response to these incidents, security forces and the judiciary took action to bring the perpetrators to justice and have targeted terrorist networks. Indonesia's counter-terrorism efforts include laws in respect of counter-terrorism and money laundering, training efforts for polices and security officers (including sending officers to Canada and the United States for training). Indonesia also participates in regional counter-terrorism efforts through the Association of South East Asian Nations (ASEAN) and global efforts through the United Nations.

### **Foreign Relations and International and Regional Organizations**

Indonesia maintains close diplomatic relationships with neighboring countries and its major economic partners.

The Republic is one of the five founding members of ASEAN, an organization that was established to ensure regional stability and is now committed to reducing development gaps among its member states (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam), which have entered into various agreements on mutual assistance and cooperation in several areas.

The Republic's other principal memberships in international and regional organizations include:

- United Nations;
- the International Monetary Fund (IMF);
- the World Bank and certain World Bank-related organizations;
- the Asian Development Bank;
- ASEAN+3 (ASEAN nations and China, Japan and South Korea);
- The Group of Twenty (G20), in which it is the only ASEAN member state that concurrently enjoys membership;
- the Islamic Development Bank;
- World Trade Organization;
- the Asia Pacific Economic Cooperation (APEC), where it was one of the 12 founding economies and continues to play an important role; and
- the Asian Infrastructure Investment Bank, an initiative by the government of China that aims to support the building of infrastructure in the Asia-Pacific region.

Indonesia also seeks to lead other developing countries through its membership in the following organizations of developing countries: the Non-Aligned Movement, the Organization of the Islamic Conference, the Group of 77 and China, the Developing 8, the Group of 15, and as observer at the G-24 Forum.

The Republic has been a member of OPEC since 1962. In view of the shift in its status from a net exporter to a net importer of oil, the Republic suspended its full membership in OPEC effective January 2009. The Republic reactivated its OPEC membership effective January 2016, but due to policy considerations and its continuing status as a net importer of oil, the Republic decided to suspend its OPEC membership during the November 30, 2016 OPEC meeting.

The following table shows Indonesia's capital participation in major international financial organizations as of December 31, 2016.

<u>Name of organization</u>	<u>Date of admission</u>	<u>As of December 31, 2016 contributed capital</u>	
		<u>Subscribed</u>	<u>Paid in</u>
		<u>(in millions of U.S. dollars)<sup>(1)</sup></u>	
Asian Development Bank .....	1966	8,878.9	388.6
IMF <sup>(1)</sup> .....	1996 <sup>(2)</sup>	6,249.1	6,249.1
World Bank Group			
International Bank for Reconstruction and Development .....	1966 <sup>(2)</sup>	2,303.1	167.2
International Development Association .....	1968	26.1	20.72
International Finance Corporation .....	1968 <sup>(3)</sup>	31.6	31.6
Multilateral Investment and Guarantee Agency .....	1986	18.5	3.79
Islamic Development Bank <sup>(4)</sup> .....	1975	1,588.4	172.8
International Islamic Trade Finance Corporation .....	1992	2.1	2.1
The Islamic Corporation for the Insurance of Investment and Export Credit .....	1992	0.7	0.2
Islamic Corporation For The Development Of The Private Sector ....	1992	21.8	7.1
International Fund for Agricultural Development .....	1977	62.0	64.9
Common Fund for Commodities .....	1980	1.3	1.3
Credit Guarantee and Investment Facility .....	2012	12.6	12.6
ASEAN Infrastructure Investment Bank .....	2015	672,148.0	268.8
ASEAN Infrastructure Fund <sup>(5)</sup> .....	2012	120.0	120.0
International Rubber Consortium Limited .....	2002	4.0	4.0

*Source:* Bank Indonesia and Ministry of Finance

- (1) Denominated in SDR of the IMF. As of Friday, December 30, 2016, U.S.\$1.344 = SDR 1.
- (2) Before Indonesia rejoined the IMF and The International Bank for Reconstruction and Development in 1966, it had become a member of these organizations in 1954 and had resigned its memberships in 1965.
- (3) Before Indonesia rejoined the International Finance Corporation in 1968, it had become a member in 1956 and had resigned its membership in 1961.
- (4) Denominated in ID (ID 1 = SDR 1). See footnote (1) above.
- (5) As of January 2015.

### ***Foreign Relations***

Indonesia embraces a foreign policy that is free and active while remaining committed to playing an important role in the maintenance of peace and security in the world. This policy is ingrained in Indonesia's Constitution and is further testament that the aspirations of the international community as enshrined in the Charter of the United Nations is aligned to that of Indonesia. In this respect, Indonesia assumes leadership roles in advancing the interests of not just certain blocs of like-minded countries as is likely the norm in international relations but rather continuously and persistently assumes the bridge-building negotiating role in constructing platforms that accommodate the interests of all countries for the common benefit of all.

Indonesia continues its active participation in the forums deemed crucial to how life would turn out for the billions in the world for decades to come. In this context, Indonesia has shown active participation in the Third International Conference on Financing for Development in Addis Ababa, Ethiopia, from July 13 to 16, 2015, the United Nations Sustainable Development Summit in New York, United States of America, from September 25 to 27, 2015, the G-20 Summit in Antalya, Turkey, from November 15 to 16, 2015, the 21<sup>st</sup> session of the Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France, from November 30, 2015 to December 11, 2015, the G-20 Summit in Hangzhou, China from September 3 to 5, 2016 and the APEC Summit in Lima, Peru from November 19 to 20, 2016.

In recognition of Indonesia's active role in reducing hunger and malnutrition in the country as mandated by the Millennium Development Goals (MDGs), the Government received an award from the United Nations Food and Agriculture Organization which was presented during a special event on June 7, 2015 with the theme Completing the MDGs Round: Recognizing Achievements in the Fight Against Hunger.

In recent times, Indonesia has enjoyed increasingly close and strong relations with Australia. In August 2014, the two countries signed a reaffirmation of the 2006 "Lombok Treaty", which provided a framework for security cooperation. The 2014 agreement further emphasized the importance of intelligence and security



cooperation based on the principles of mutual trust and respect between the two countries. Following the signing of the agreement, information sharing and the exchange of intelligence cooperation, joint coordinated patrol and military exercises and cooperation against human trafficking have been restored.

Indonesia and China encourage the implementation of the ASEAN-China Maritime Cooperation Year 2015 as stipulated in the 17<sup>th</sup> ASEAN — China Summit in Nay Pyi Taw.

### ***Maritime Boundaries Delimitation***

The Government has a nine priority agenda, known as *Nawa Cita* (nine objectives), to implement the vision of “realization of sovereign, independent, and characteristically Indonesia, based on mutual cooperation”. In line with the *Nawa Cita*, the Government has conducted border diplomacy with its neighboring countries, namely, India, Thailand, Malaysia, Singapore, Vietnam, the Philippines, Palau, Papua New Guinea, Timor Leste, and Australia.

Indonesia has agreed on the following maritime boundaries:

- Territorial Sea with Malaysia, Singapore, and Papua New Guinea;
- Exclusive Economic Zone with the Philippines, Australia, and Papua New Guinea; and
- Continental Shelf with India, Thailand, and Vietnam.

Indonesia still has to negotiate the following maritime boundaries:

- Territorial Sea with Timor-Leste;
- Exclusive Economic Zone with India, Thailand, and Vietnam; and
- Continental Shelf with the Philippines, Palau, and Timor Leste.

Indonesia and Malaysia have, from time to time, held discussions regarding the delimitation of certain maritime borders in the Celebes Sea. Negotiations commenced in 1969 and the most recent discussions were held in December 2014.

## **Economy and Gross Domestic Product**

### ***Introduction***

Indonesia has a balanced and diversified economy. The main challenges currently facing Indonesia’s economy include uncertainty in relation to the global economic recovery and commodity prices, which are crucial factors in determining the Republic’s export performance.

Domestically, factors that affect the economy are demographic growth and job creation, the country’s progress in implementing its infrastructure programs, maintaining relatively stable and low inflation and balancing domestic budgetary pressures against the burden of serving external debt.

### ***Principal Sectors of the Economy***

Indonesia’s principal economic sectors are manufacturing industry (including coal, oil and gas); agriculture, forestry and fishery; wholesale and retail trade, repair of motor vehicles and motorcycles; construction; and mining and quarrying.

The tables below show the composition of Indonesia's GDP by sector at current market prices and constant market prices, respectively, for the periods indicated.

**Gross Domestic Product by Industry**  
(at current market prices 2010 series)

	Year ended December 31,									
	2012	%	2013	%	2014	%	2015	%	2016 <sup>P</sup>	%
	(in billions of rupiah and percentage of GDP)									
Manufacturing Industry										
Coal Industry and Oil and Gas										
Refining . . . . .	298,403	3.5	314,216	3.3	337,201	3.2	320,330	2.8	286,061	2.3
Non-Coal, Oil and Gas Manufacturing Industries . . . . .	1,549,748	18.0	1,693,211	17.7	1,890,383	17.9	2,098,047	18.2	2,258,515	18.2
Total Manufacturing Industry . . . . .	1,848,151	21.5	2,007,427	21.0	2,227,584	21.1	2,418,376	21.0	2,544,576	20.5
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles . . . . .	1,138,484	13.2	1,261,146	13.2	1,419,239	13.4	1,535,288	13.3	1,635,960	13.2
Agriculture, Forestry, and Fishery										
Agriculture, Livestock, Hunting, & Agriculture Services . . . . .	902,126	10.5	994,778	10.4	1,089,550	10.3	1,183,971	10.3	1,266,361	10.2
Forestry and Logging . . . . .	65,882	0.8	69,599	0.7	74,618	0.7	82,860	0.7	85,545	0.7
Fishery . . . . .	184,254	2.1	210,671	2.2	245,488	2.3	288,917	2.5	317,092	2.6
Total Agriculture, Forestry, and Fishery . . . . .	1,152,262	13.4	1,275,048	13.4	1,409,656	13.3	1,555,747	13.5	1,668,998	13.5
Mining and Quarrying										
Oil, Gas and Geothermal Mining . . . . .	492,894	5.7	520,088	5.4	509,783	4.8	384,516	3.3	369,354	3.0
Coal and Lignite Mining . . . . .	270,519	3.1	281,193	2.9	259,767	2.5	229,974	2.0	231,698	1.9
Metal Ore . . . . .	100,845	1.2	98,468	1.0	93,615	0.9	74,264	0.6	73,301	0.6
Other Mining and Quarrying . . . . .	136,050	1.6	149,996	1.6	176,258	1.7	192,940	1.7	219,595	1.8
Total Mining and Quarrying . . . . .	1,000,308	11.6	1,050,746	11.0	1,039,423	9.8	881,694	7.6	893,947	7.2
Construction . . . . .	805,208	9.3	905,991	9.5	1,041,950	9.9	1,177,084	10.2	1,287,659	10.4
Government Administration, Defense; Compulsory Social Security . . . . .	340,568	4.0	372,195	3.9	404,630	3.8	450,233	3.9	478,636	3.9
Information and Communication . . . . .	311,362	3.6	341,009	3.6	369,457	3.5	405,992	3.5	449,141	3.6
Transportation and Warehousing . . . . .	313,156	3.6	375,306	3.9	466,969	4.4	579,060	5.0	647,154	5.2
Financial and Insurance Service . . . . .	320,534	3.7	370,132	3.9	408,439	3.9	465,020	4.0	520,926	4.2
Education Service . . . . .	270,372	3.1	307,862	3.2	341,818	3.2	388,042	3.4	418,258	3.4
Other* . . . . .	929,294	10.8	1,041,470	10.9	1,177,068	11.1	1,312,730	11.4	1,418,520	11.4
Gross Value Added at Basic Prices . . . . .	8,429,700	97.8	9,308,332	97.5	10,306,232	97.5	11,169,265	96.9	11,963,776	96.4
Taxes less Subsidies on Products . . . . .	186,005	2.2	237,802	2.5	263,473	2.5	362,452	3.1	443,034	3.6
Total GDP . . . . .	8,615,705	100.0	9,546,134	100.0	10,569,705	100.0	11,531,717	100.0	12,406,810	100.0

Source: BPS

<sup>P</sup> Preliminary.

\* Includes the Procurement of Electricity and Gas; Procurement of Water, Management of Trash, Waste and Recycle; Accommodation and Food Beverages Supply; Real Estate; Corporate Services; Health Service and Social Activity; and Other Services sectors.

**Gross Domestic Product by Industry**  
(at constant market prices 2010 series)

	Year ended December 31,									
	2012	%	2013	%	2014	%	2015	%	2016 <sup>P</sup>	%
	(in billions of rupiah and percentage of GDP)									
Manufacturing Industry										
Coal Industry and Oil and Gas										
Refining . . . . .	227,456	2.9	221,450	2.7	216,751	2.5	214,312	2.4	221,263	2.3
Non-Coal, Oil and Gas										
Manufacturing Industries . . . . .	1,470,331	19.0	1,550,512	19.0	1,637,506	19.1	1,720,221	19.2	1,796,293	19.0
Total Manufacturing Industry . . . . .	1,697,787	22.0	1,771,962	21.7	1,854,257	21.6	1,934,533	21.5	2,017,555	21.4
Wholesale and Retail Trade; Repair of										
Motor Vehicles and Motorcycles . . . . .	1,067,912	13.8	1,119,272	13.7	1,177,298	13.7	1,207,751	13.4	1,255,225	13.3
Agriculture, Forestry, and Fishery										
Agriculture, Livestock, Hunting, &										
Agriculture Services . . . . .	816,304	10.6	847,764	10.4	880,390	10.3	906,805	10.1	935,455	9.9
Forestry and Logging . . . . .	58,872	0.8	59,229	0.7	59,574	0.7	60,757	0.7	59,709	0.6
Fishery . . . . .	164,264	2.1	176,149	2.2	189,090	2.2	204,017	2.3	214,523	2.3
Total Agriculture, Forestry, and										
Fishery . . . . .	1,039,441	13.5	1,083,142	13.3	1,129,053	13.2	1,171,579	13.0	1,209,687	12.8
Mining and Quarrying										
Oil, Gas and Geothermal Mining . . . . .	323,632	4.2	313,328	3.8	307,162	3.6	307,326	3.4	315,504	3.3
Coal and Lignite Mining . . . . .	230,589	3.0	247,595	3.0	251,074	2.9	232,725	2.6	223,099	2.4
Metal Ore . . . . .	91,615	1.2	98,609	1.2	98,258	1.1	87,703	1.0	89,303	0.9
Other Mining and Quarrying . . . . .	125,726	1.6	131,523	1.6	137,996	1.6	139,573	1.6	147,580	1.6
Total Mining and Quarrying . . . . .	771,562	10.0	791,054	9.7	794,490	9.3	767,327	8.5	775,486	8.2
Construction . . . . .	728,226	9.4	772,720	9.5	826,616	9.7	879,164	9.8	925,063	9.8
Government Administration, Defense										
Compulsory Social Security . . . . .	282,235	3.7	289,449	3.5	296,330	3.5	310,054	3.5	319,953	3.4
Information and Communication . . . . .	316,279	4.1	349,150	4.3	384,476	4.5	421,741	4.7	459,170	4.9
Transportation and Warehousing . . . . .	284,663	3.7	304,506	3.7	326,933	3.8	348,774	3.9	375,764	4.0
Financial and Insurance Service . . . . .	280,896	3.6	305,515	3.7	319,826	3.7	347,309	3.9	378,235	4.0
Education Service . . . . .	232,704	3.0	250,016	3.1	263,685	3.1	283,020	3.2	293,878	3.1
Other* . . . . .	858,558	11.1	916,526	11.2	978,408	11.4	1,028,927	11.5	1,086,176	11.5
Gross Value Added at Basic										
Prices . . . . .	7,560,263	97.8	7,953,312	97.5	8,351,369	97.5	8,700,179	96.9	9,096,191	96.4
Taxes less Subsidies on Products . . . . .	166,821	2.2	203,186	2.5	213,498	2.5	282,332	3.1	336,844	3.6
Total GDP . . . . .	7,727,083	100.0	8,156,498	100.0	8,564,867	100.0	8,982,511	100.0	9,433,034	100.0

Source: BPS

<sup>P</sup> Preliminary.

\* Includes the Procurement of Electricity and Gas; Procurement of Water, Management of Trash, Waste and Recycle; Accommodation and Food Beverages Supply; Real Estate; Corporate Services; Health Service and Social Activity; and Other Services sectors.

**Manufacturing Industry**

Indonesia's principal manufactured goods include paper, automobiles, yarn, motorcycles and pulp. Other major manufactured goods include automobile tires, assembled televisions and fertilizer. Manufacturing has been the largest contributor to economic growth since the 1980s. The manufacturing industry sector consists of the sub-sectors of (i) coal industry and oil and gas refining and (ii) non-coal, oil and gas manufacturing industries.

In 2014, Indonesia's manufacturing industries grew by 4.6%, compared to a rate of 4.4% in the previous year. Non-coal, oil and gas manufacturing industries grew by 5.6% during 2014 mainly driven by the food and beverage manufacturing sub-sector, which grew by 9.5%. Coal, oil and gas manufacturing industries declined by 2.1% in 2014, primarily due to contraction in the LNG manufacturing and petroleum refinery sub-sector, which was partially offset by growth of 6.4% in the coal manufacturing sub-sector.

In 2015, Indonesia's manufacturing industries grew by 4.3%, compared to 4.6% in the previous year. Non-coal, oil and gas manufacturing industries grew by 5.1% during 2015 mainly driven by the metal goods industry, computers, electronics, optics, and electrical equipment sub-sector, which grew by 7.8%. Coal, oil, and gas

manufacturing industries declined by 1.1% in 2015, primarily due to contraction in the LNG manufacturing and petroleum refinery sub-sector, , which was partially offset by growth of 6.6% in the coal manufacturing sub-sector.

In 2016, Indonesia's manufacturing industries grew by 4.3%, slightly lower compared to the previous year. Non-coal, oil and gas manufacturing industries grew by 4.4% during 2016, mainly driven by growth in the food and beverage manufacturing sub-sector, which grew by 8.5%. Coal, oil, and gas manufacturing industries grew by 3.2% during 2016 compared to the previous year.

### ***Wholesale and retail trade; repair of motor vehicles and motorcycles***

The wholesale and retail trade; repair of motor vehicles and motorcycles sector includes wholesale and retail trade, as well as the repair of motor vehicles, including motorcycles. In recent years, this has generally been the third largest segment of the economy, behind manufacturing and agriculture, forestry, and fishery.

In 2014, the wholesale and retail trade; repair of motor vehicles and motorcycles sectors grew by 5.2%. This growth was driven by the wholesale — non cars and motorcycles sub-sector, which grew by 5.2% and the sale of cars, motorcycles, and repairs sub-sector, which grew by 5.0% in 2014 compared to the previous year.

In 2015, the wholesale and retail trade; repair of motor vehicles and motorcycles sectors grew by 2.6%, compared to 5.2% growth in 2014. Growth in this sector was mainly driven by the wholesale — non cars and motorcycles sub-sector, which grew by 3.1%. The sale of cars, motorcycles, and repairs sub-sector grew by 0.3% in 2015 compared to the previous year.

In 2016, the wholesale and retail trade; repair of motor vehicles and motorcycles sector grew by 3.9%. This growth was mainly driven by the sale of non-cars and motorcycles sub-sector, which grew by 4.0%. The wholesale of cars, motorcycles, and repairs sub-sector also grew by 3.8% in 2016 compared to 2015.

### ***Agriculture, forestry and fishery***

The agriculture, forestry and fishery sector consists of the sub-sectors of (i) agriculture, livestock, hunting, & agriculture services, (ii) forestry and logging and (iii) fishery.

In 2014, the agriculture, forestry, and fishery sector grew by 4.2%, the same rate as in 2013. This growth was mainly driven by the fishery sub-sector, which grew by 7.4% in 2014 compared to the previous year. The agriculture, livestock, hunting & agriculture services sub-sector and the forestry sub-sector grew by 3.9% and 0.6%, respectively, in 2014 compared to the previous year.

In 2015, the agriculture, forestry, and fishery sector grew by 3.8%, slower than its growth of 4.2% in 2014. This growth was mainly driven by the fishery sub-sector, which grew by 7.9% in 2015, compared to the previous year. The agriculture, livestock, hunting & agriculture services sub-sector, and the forestry sub-sector grew by 3.0% and 2.0%, respectively, in 2015 compared to the previous year.

In 2016, the agriculture, forestry, and fishery sector grew by 3.3% compared to 2015. This growth was mainly driven by the fishery sub-sector, which grew by 5.2% in 2016. The agriculture, livestock, hunting & agriculture services sub-sector, grew by 3.2%, while the forestry sub-sector contracted by 1.7% in 2016.

The following table sets forth production statistics for Indonesia's most important agricultural products in the periods indicated.

### Production of Principal Agricultural Products by Sub-sectors

	Year ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in thousands of tons)				
<b>Food Crops</b>					
Rice . . . . .	69,056	71,280	70,846	75,398	79,141
Cassava . . . . .	24,177	23,937	23,436	21,801	20,637
Corn . . . . .	19,387	18,512	19,008	19,612	23,165
Sweet Potato . . . . .	2,483	2,387	2,383	2,298	2,084
Soybeans (shelled) . . . . .	843	780	963	963	886
Peanuts (shelled) . . . . .	713	702	639	605	561
Mungbean . . . . .	284	205	245	271	279
<b>Estate cash crops</b>					
Dry Rubber . . . . .	3,012	3,237	3,153	3,145	3,158
Coffee . . . . .	691	676	644	639	639
Cocoa . . . . .	741	721	728	593	657
Tea . . . . .	146	153	154	133	144
Sugarcane . . . . .	2,592	2,551	2,579	2,498	2,223
Tobacco . . . . .	261	164	198	194	196
Palm Oil . . . . .	26,016	27,782	29,278	31,070	33,229
<b>Livestock</b>					
Meat . . . . .	2,669	2,882	2,925	3,057	3,175
Eggs . . . . .	1,629	1,728	1,753	1,896	1,971
Milk . . . . .	960	787	801	835	853
<b>Fish Products</b>					
Captured Fish . . . . .	5,829	6,115	6,200 <sup>P</sup>	N/A	N/A
Farmed Fish . . . . .	9,676	5,199 <sup>P</sup>	N/A	N/A	N/A
<b>Forestry<sup>(1)</sup></b>					
Logs . . . . .	49,112	50,437	31,703	49,590	23,894 <sup>(2)</sup>
Sawn Timber . . . . .	1,027	1,228	801	3,436	2,483 <sup>(2)</sup>
Plywood . . . . .	3,188	3,262	2,091	75,398	79,141

Sources: BPS, Ministry of Agriculture, Ministry of Marine Affairs and Fishery, and Ministry of Environment and Forestry

<sup>P</sup> Preliminary.

<sup>F</sup> Forecast.

<sup>N/A</sup> Not available.

(1) All units are in thousands of cubic meters.

(2) As of September 30, 2016.

### Mining and Quarrying

In 2014, the mining and quarrying sector grew by 0.4% compared to the previous year, primarily due to growth in the other mining and quarrying and the coal and lignite mining sub-sectors, which grew by 4.9% and 1.4%, respectively. This was partially offset by contraction in the oil, gas and geothermal mining and the metal ore sub-sectors, which contracted by 2.0% and 0.4%, respectively.

In 2015, the mining and quarrying sector contracted by 3.4% compared to the previous year, primarily due to contraction in the metal ore and the coal and lignite mining sub-sector, which contracted by 10.7% and 7.3%, respectively. This was partially offset by growth in the other mining and quarrying and the oil, gas and geothermal mining sub-sector which were 1.1% and 0.1%, respectively.

In 2016, the mining and quarrying sector grew by 1.1% compared to the previous year, primarily due to growth in the other mining and quarrying and the oil, gas and geothermal mining, and the metal ore sub-sector, which grew by 5.7% and 2.7% and 1.8%, respectively. This was partially offset by a 4.1% contraction in the coal and lignite mining sub-sector in 2016.

## Oil and Natural Gas

Oil and gas exports are Indonesia's largest exports, contributing approximately 8.9% of total exports in 2016, and approximately 5.2% of the Government's domestic revenue (inclusive of income tax revenue from the oil and gas sub-sector) in 2016. Pertamina, an SOE, plays an important role in the production of oil and gas in Indonesia. In 2012, 2013, 2014, 2015 and 2016, average oil production was 859,860, 825,000, 790,255, 779,000 and 829,000 barrels per day, respectively. As products in the mining and quarrying sector are internationally traded commodities with prices set by the world markets, the performance of this sector is primarily affected by international market prices. See “— Foreign Trade and Balance of Payments — Exports and Imports.”

The following table sets forth crude oil production by source for the periods indicated.

### Crude Oil Production by Source<sup>(1)</sup>

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. dollars)				
Pertamina .....	47	44	42	100	84
Production sharing contracts <sup>(2)</sup> .....	268	257	246	686	747
Total .....	<u>315</u>	<u>301</u>	<u>288</u>	<u>786</u>	<u>831</u>

Source: Ministry of Energy and Mineral Resources

<sup>P</sup> Preliminary.

(1) Includes production of crude oil condensate.

(2) Most of the production under production sharing contracts is provided to Pertamina.

The following table sets forth Indonesia's crude oil exports by source for the periods indicated.

### Crude Oil Exports<sup>(1)</sup>

	Year Ended December 31,				Nine Months Ended
	2012	2013	2014	2015 <sup>P</sup>	September 30, 2016 <sup>P</sup>
	(in millions of barrels)				
Production sharing contracts <sup>(2)</sup> .....	85	96	96	123	100
Government and government-designated <sup>(3)</sup> .....	20	21	14	5	0
Total .....	<u>105</u>	<u>117</u>	<u>110</u>	<u>128</u>	<u>100</u>

Source: Ministry of Energy and Mineral Resources

<sup>P</sup> Preliminary.

(1) Includes exports of crude oil condensate.

(2) Most of the production under production sharing contracts is provided to Pertamina.

(3) Exports by Pertamina and entities designated by SKK Migas are reported together.

The following table sets forth the average price of Indonesian crude oil, measured by the ICP, for the periods indicated.

### Average Price of Indonesian Crude Oil

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in U.S. dollars per barrel)				
ICP <sup>(1)</sup> .....	112.7	106.0	97.0	49.2	40.2

Sources: Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources

<sup>P</sup> Preliminary.

(1) For a description of the ICP, see “Certain Defined Terms and Conventions”.

The following table sets forth natural gas production by source for the periods indicated.

### Natural Gas Production by Source<sup>(1)</sup>

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in billions of cubic feet)				
Pertamina .....	360	376	382	1,015	989
Production sharing contracts <sup>(2)</sup> .....	2,623	2,591	2,617	7,063	6,949
Total .....	<u>2,983</u>	<u>2,967</u>	<u>2,999</u>	<u>8,078</u>	<u>7,938</u>

Source: Ministry of Energy and Mineral Resources

<sup>P</sup> Preliminary.

(1) Includes LPG.

(2) Most of the production under production sharing contracts is provided to Pertamina.

#### Minerals

The Republic's major mineral products are tin, nickel, bauxite, copper and coal, and it has substantial resources of each of these minerals. In recent years, the Government has pursued policies designed to increase the production and export of value-added products using these mineral resources.

#### Construction

In 2014, the construction sector grew by 7.0% compared to a growth of 6.1% in 2013, primarily due to an increase in the production of construction raw materials.

In 2015, the construction sector grew by 6.4% compared to the previous year, primarily due to an acceleration of the implementation of Government development projects in the fourth quarter of 2015.

In 2016, the construction sector grew by 5.2% compared to a growth of 6.4% in 2015, primarily due to several infrastructure projects conducted by the public and private sectors such as airports, industrial zones, bridges, and highways.

#### Other sectors

None of the other sectors shown in the tables above comprised more than 5% of GDP at either current market prices or constant market prices for the periods indicated.

#### Gross Domestic Product

In this Offering Memorandum, Gross Domestic Product (**GDP**) is shown in both current and constant market prices. GDP at current market prices value a country's output using the actual prices for each year, while GDP at constant market prices (also referred to as "real" GDP) value output using the prices from a base year, thereby eliminating the distorting effects of inflation and deflation.

The following table shows the distribution of GDP in the Indonesian economy by expenditure for the periods indicated (at current market prices).

	Year ended December 31, <sup>(1)</sup>									
	2012	%	2013	%	2014	%	2015	%	2016 <sup>P</sup>	%
	(in billions of rupiah and percentage of GDP)									
GDP .....	8,615,705	100.0	9,546,134	100.0	10,569,705	100.0	11,531,717	100.0	12,406,810	100.0
Add: Imports of goods and services . . . .	2,152,937	25.0	2,359,212	24.7	2,580,508	24.4	2,389,633	20.7	2,271,178	18.3
Total supply of goods and services .....	10,768,642	125.0	11,905,346	124.7	13,150,213	124.4	13,921,350	120.7	14,677,988	118.3
Less: Exports of goods and services . . . .	2,118,979	24.6	2,283,777	23.9	2,501,425	23.7	2,439,107	21.2	2,367,332	19.1
Total domestic expenditure . . . . .	8,649,663	100.4	9,621,569	100.8	10,648,789	100.7	11,482,243	99.6	12,310,656	99.2
Allocation of total domestic expenditure:										
Household consumption expenditure . . . .	4,768,745	55.3	5,321,088	55.7	5,915,194	56.0	6,477,577	56.2	7,009,577	56.5
NPISHs consumption expenditure . . . . .	89,586	1.0	103,929	1.1	124,242	1.2	130,951	1.1	144,470	1.2
Government consumption expenditure .....	796,848	9.2	908,574	9.5	996,197	9.4	1,124,812	9.8	1,172,420	9.4
Total consumption .....	5,655,179	65.6	6,333,591	66.3	7,035,634	66.6	7,733,339	67.1	8,326,468	67.1
Gross domestic fixed capital formation .....	2,819,027	32.7	3,051,496	32.0	3,436,924	32.5	3,782,143	32.8	4,040,498	32.6
Change in inventories (residual) <sup>(2)</sup> . . . . .	175,457	2.0	236,482	2.5	176,231	1.7	-33,239	-0.3	-56,310	-0.5
Total domestic expenditure . . . . .	8,649,663	100.4	9,621,569	100.8	10,648,789	100.7	11,482,243	99.6	12,310,656	99.2

Source: BPS

<sup>P</sup> Preliminary.

(1) Calculated with calendar year 2010 as the Base Year.

(2) Includes statistical discrepancies.

### Inflation

The Government sets inflation targets periodically and targeted an inflation rate of 4.0%(±1.0%) in 2016. The 2017 Budget targets an inflation rate of 4.0%. Bank Indonesia enacts and implements policies to achieve the inflation target in coordination with the Government.

In addition, the Inflation Management and Monitoring Team (*Tim Pemantauan dan Pengendalian Inflasi* or **TPI**) is responsible for identifying and analyzing the sources of inflation and making policy recommendations to maintain low and stable inflation levels in the medium-to-long term. The TPI at the national level consists of a number of governmental authorities, including Bank Indonesia, the Ministry of Finance, the Ministry of Transportation, the Ministry of Trade, the Ministry of Agriculture, the Ministry of Energy and Mineral Resources, and the Coordinating Ministry of Economic Affairs. Since 2010, the TPI has also been formed in various regions to strengthen policy coordination, particularly in monitoring and controlling regional inflation.

The following table shows the Consumer Price Index (CPI) as of the end of the periods indicated and the percentage change against the previous period.

### Changes in Consumer Price Index

	Year ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
CPI .....	135.5 <sup>(1)</sup>	146.8 <sup>(1)</sup>	119.0 <sup>(2)</sup>	123.0 <sup>(2)</sup>	126.7 <sup>(2)</sup>
Annual percentage year-on-year .....	4.3%	8.4%	8.4%	3.4%	3.0%

Source: BPS

<sup>P</sup> Preliminary.

(1) Calculated on the basis of 2007 CPI = 100.

(2) Calculated on the basis of 2012 CPI = 100.



The following table shows changes in the CPI for certain commodities for the periods indicated.

### Inflation by Commodity

	Year ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
Food .....	5.7%	11.4%	10.6%	4.9%	5.7%
Processed food, beverages and cigarettes .....	6.1%	7.5%	8.1%	6.4%	5.4%
Housing .....	3.4%	6.2%	7.4%	3.3%	1.9%
Clothing .....	4.7%	0.5%	3.1%	3.4%	3.1%
Health .....	2.9%	3.7%	5.7%	5.3%	3.9%
Education, recreation and sports .....	4.2%	3.9%	4.4%	4.0%	2.7%
Transportation, Communication, and Financial Services .....	2.2%	15.4%	12.1%	(1.5)%	(0.7)%

Source: BPS

<sup>P</sup> Preliminary.

### Privatization of State-Owned-Enterprises

The sale by the Government of SOE shares to private investors has been an important means for the Government to promote private investment and to improve the efficiency, transparency, public accountability and corporate governance of the SOEs.

The following table sets forth significant full and partial privatizations since 2011 (including prior periods where relevant):

### State-Owned-Enterprises Privatizations

SOE	Year of offering	Government equity interest after offering	Proceeds to the Government	Proceeds to SOE
		(percentages)	(in billions of Rupiah (Rp))	
PT Bank Tabungan Negara (Persero) Tbk .....	2009	72.9	—	1,819
	2012 <sup>(3)</sup>	60.0	135.9	1,870
PT Garuda Indonesia (Persero) Tbk .....	2011	69.1	—	3,187
	2014 <sup>(3)</sup>	60.5	11.2	1,448.9
PT Kertas Basuki Rachmat Tbk <sup>(1)</sup> .....	2011	—	2.6 <sup>(2)</sup>	—
PT Atmindo Tbk <sup>(1)</sup> .....	2011	—	9.0 <sup>(2)</sup>	—
PT Jakarta International Hotel Development, Tbk <sup>(1)</sup> .....	2011	—	18.5 <sup>(2)</sup>	—
PT Waskita Karya (Persero) Tbk .....	2012	68.0	—	1,171
PT Semen Baturaja (Persero) Tbk .....	2013	76.2	—	1,309
PT Sarana Karya (Persero) <sup>(4)</sup> .....	2013	—	48.2	—
PT Kertas Padalarang (Persero) <sup>(5)</sup> .....	2013	—	12.1	—
PT Waskita Karya (Persero) Tbk <sup>(6)</sup> .....	2015	68.0	—	5,289
PT Aneka Tambang (Persero) Tbk <sup>(6)</sup> .....	2015	65.0	—	5,381
PT Adhi Karya (Persero) Tbk <sup>(6)</sup> .....	2015	51.0	—	2,727
PT Wijaya Karya (Persero) Tbk <sup>(6)</sup> .....	2016	65.0	—	6,149 <sup>(7)</sup>
PT Krakatau Steel (Persero) Tbk <sup>(6)</sup> .....	2016	80.0	—	1,875 <sup>(7)</sup>
PT Pembangunan Perumahan (Persero) Tbk <sup>(6)</sup> .....	2016	51.0	—	4,412 <sup>(7)</sup>
PT Jasa Marga (Persero) Tbk <sup>(6)</sup> .....	2016	70.0	—	1,786 <sup>(7)</sup>

Source: Ministry of State-Owned-Enterprises

(1) Minority Ownership by Government.

(2) Sale of unsold shares from 2007.

(3) Rights issue through the issuance of new shares.

(4) Pursuant to Government Regulation No. 91 of 2013, sales of shares held by the Republic in PT Sarana Karya (Persero) have been made using strategic sales method to PT Wijaya Karya (Persero), Tbk. with total gross proceeds of Rp50 billion on December 30, 2013.

- (5) Pursuant to Government Regulation No. 35 and 36 of 2013, sales of shares held by the Republic in PT Kertas Padalarang (Persero) have been made using strategic sales method to Perum Peruri with total gross proceeds of Rp13 billion on December 18, 2013.
- (6) Rights issues carried out through the execution of pre-emptive rights using the addition of State Capital Investment Fund (PMN) from Government.
- (7) Subject to ongoing verification of costs associated with privatization.

## Labor and Employment

### Labor

The following table sets forth the number and the proportion of the employed labor force in each sector of the economy as of the period indicated.

Sector	As of February		As of August		As of February		As of August		As of February		As of August		As of February		As of August		
	2012	2013 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(2)</sup>	2014 <sup>(2)</sup>	2014 <sup>(2)</sup>	2015 <sup>(2)</sup>	2015 <sup>(2)</sup>	2015 <sup>(2)</sup>	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	2016 <sup>(2)</sup>	2016 <sup>(2)</sup>	2016 <sup>(2)</sup>	2016 <sup>(2)</sup>		
	%	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	%	(in millions)	
Agriculture . . . . .	35.2	40.8	35.2	39.2	34.8	40.8	34.6	39	34	40.1	33.2	37.8	32.9	38.3	31.7	37.8	31.9
Industry . . . . .	13.9	15.0	12.9	15.0	13.3	15.4	13.0	15.3	13.3	16.4	13.6	15.2	13.2	16.0	13.2	15.5	13.1
Construction . . . . .	6.1	7.0	6.0	6.4	5.6	7.2	6.1	7.3	6.4	7.7	6.4	8.2	7.1	7.7	6.4	8.0	6.7
Trade . . . . .	20.9	25.3	21.8	24.1	21.4	25.8	21.8	24.8	21.7	26.7	22.1	25.7	22.4	28.5	23.6	26.7	22.5
Transportation, warehouses, and communications	4.5	5.3	4.6	5.1	4.5	5.3	4.5	5.1	4.5	5.2	4.3	5.1	4.4	5.2	4.3	5.6	4.7
Financial . . . . .	2.4	3.1	2.6	2.9	2.6	3.2	2.7	3.0	2.6	3.7	3.0	3.3	2.9	3.5	2.9	3.5	3.0
Public services . . . . .	15.4	17.8	15.3	18.5	16.4	18.5	15.6	18.4	16.1	19.4	16.1	17.9	15.6	19.8	16.4	19.5	16.4
Others (mining, electricity, gas and water) . . . . .	1.6	1.8	1.6	1.7	1.5	1.9	1.6	1.7	1.5	1.7	1.4	1.6	1.4	1.7	1.4	1.8	1.5
Total . . . . .	100	115.9	100	112.8	100	118.2	100	114.6	100	120.9	100	114.8	100	120.7	100	118.4	100

Source: BPS

- (1) Estimation using results of backcasting from population projection weighing results.
- (2) Estimation using population projections weighing results.

Despite improvements in recent years, unemployment is expected to remain a problem in Indonesia if economic growth and job creation fail to keep pace with population growth. The Government has sought to address employment issues through a number of policies and regulations, including efforts to create new areas of work and to develop existing areas of work through employee-employer relationships and entrepreneurial programs. The Government provides various forms of assistance (which, among others, encompass tax relief and infrastructure support) to encourage employers to create jobs for employees while also creating and developing productive and sustainable working opportunities through entrepreneurial programs, the use of technology and encouraging voluntary work.

Regional Governments have the power to establish minimum wage requirements through tripartite wage boards and do so from the beginning of each calendar year. The table below sets out the national average monthly minimum wage for each year and the average increase across the country for each year.

Year	National average minimum wage	Increase in average minimum wage
2012 . . . . .	Rp1,088,902.6	10.1%
2013 . . . . .	Rp1,296,908.5	19.1%
2014 . . . . .	Rp1,584,391.3	14.8%
2015 . . . . .	Rp1,782,211.3	12.8%
2016 . . . . .	Rp1,967,538.8	9.9%

Source: *Kemenaker* (the Ministry of Manpower)

### Pension and Health Funds

In November 2011, the Government enacted a law creating the Social Security Administering Agencies (*Badan Penyelenggara Jaminan Sosial* or **BPJS**). The BPJS consists of the (i) BPJS for Health Coverage (**BPJS**

**Kesehatan**), which provides healthcare services for all citizens and (ii) BPJS for Social Security Benefit for Workers (**BPJS Ketenagakerjaan**), which provides social security benefits for private sector and informal workers. BPJS Kesehatan and BPJS Ketenagakerjaan took over the functions of the other social security administering agencies, namely PT Jamsostek (Persero) and PT Askes (Persero), on January 1, 2014.

### ***Income Distribution***

As of September 2016, Indonesia had a Gini Index of 0.40. The Gini Index is a measure of income distribution that ranges between 0.0 and 1.0, with higher numbers indicating greater inequality.

The percentage of people living below the poverty line in Indonesia has exhibited a decreasing trend since the Asian crisis in 1998. BPS measures poverty using a basic needs approach and defines poverty as an economic inability to fulfill food and non-food basic needs, measured by consumption and expenditure. Based on this methodology, approximately 49.5 million people, or 24.2% of the population, were living below the poverty line in 1998, which decreased to approximately 27.8 million, or 10.7% of the population as of September 2016.

### ***Regional Growth***

As the island with the highest population density, high consumption and an industrial base, Java has historically been the main contributor to Indonesia's economic growth. In 2016, Java contributed 58.5% of the country's GDP, Sumatera contributed 22.0%, Bali Nusa Tenggara contributed 13.1%, Kalimantan contributed 7.9%, Sulawesi contributed 6.0% and Papua contributed 2.5%. Java has also historically grown faster than the national average.

To promote more sustainable and equitable growth in the longer term, the Government allocates and transfers amounts from the central budget to local and regional governments. In practice, this means that in all regions other than Java, the Government's revenues are lower than the Government's expenditures. From 2014 to 2016, net transfers from Java to all the other regions were equivalent to Rp.840 trillion. For more information, see "*—Central Government Revenue and Expenditure*".

### ***Infrastructure Development***

A key priority of the Government is to encourage infrastructure development as a means to accelerate economic growth particularly in rural areas, support further industrial development and improve the lives and economic welfare of Indonesians by reducing unemployment and poverty.

In addition to maintaining and upgrading existing infrastructure, the Government has identified a number of priority infrastructure projects in its National Medium Term Plan for 2015-2019. These projects are in five main sectors: water and sanitation, energy and electricity, transportation, toll roads and information technology. The Government has also introduced a number of sector-specific reforms to encourage infrastructure development, including the requirement that the relevant ministries prepare long-term infrastructure development master plans for their respective sectors. See "*—Recent Developments — Economic Policy Packages in 2015 – 2016*."

Indonesia's infrastructure investment requirements exceed available public sector funding. The Government estimates that the total cost of the priority infrastructure projects under the National Medium Term Plan will be approximately U.S.\$345.1 billion. The Government expects to pay for approximately 40% of this cost using public sector funding, specifically through a special allocation fund and increased rural transfers. These public sector funds would primarily be used to support basic infrastructure projects, food security (e.g., irrigation, dams) and transportation, logistics and connectivity projects.

The Government expects to finance the remaining cost of the priority infrastructure projects through greater private sector participation, specifically: partnerships between the Government and the private sector (i.e., private public partnerships, or **PPPs**), and increased borrowing by the Government and SOEs.

The Government recognizes the important role of PPPs in the development of infrastructure projects and has adopted regulations that provide the legal and regulatory framework for PPPs, from procurement of the PPP concessionaire to the provision of Government support and guarantees. For a discussion of these guarantees, see "*— Public Debt — Contingent Liabilities*."

### ***Transportation-related projects***

The transportation network on the Indonesian archipelago relies heavily on sea and air transportation compared to most other countries of comparable size. Most road networks in and around major cities are heavily congested, while many inter-urban and rural road networks are in poor condition and are in need of repair. Public funds for road maintenance and construction are insufficient, and the Government is encouraging private participation and investment in building toll roads, mostly in Java, Sumatera and Sulawesi.

In the railways sector, by 2030 the railway network is expected to cover 12,000 km and achieve passenger share of approximately 11.0%-13.0%, and freight transport share of approximately 15.0%-17.0%. In addition, the plan provides strategies for the Government to achieve its goals by 2030, such as strategies regarding railway network development, increasing security and safety, technology transfer and industrial development, human resources development, institutional development, investment and financing.

In addition, railway projects are expected to be developed in the provinces of Aceh, North Sumatera, West Sumatera and South Sumatera, as well as in Java and several urban railways in Jakarta, Bandung, Yogyakarta, Surabaya, Medan, Makasar and Manado. The Government is also studying the feasibility of railway projects in Kalimantan, Sulawesi and Papua and an elevated train and subway system in Jakarta. The new Medan Airport commenced operations in July 2013.

Another strategic project is the construction of railway access to airports, including the construction of a railway line into Soekarno-Hatta International Airport. Two lines have been proposed, the Express Line and the Commuter Line. The Express Line will be 33 km long and will be financed through a PPP scheme. The estimated cost is approximately Rp23 trillion. The Commuter Line will be built by SOEs.

Construction of the Jakarta Mass Rapid Transit (**MRT**) (Phase One), connecting Lebak Bulus to Bundaran Hotel Indonesia, commenced in 2013. Phase One constitutes approximately 15.7 km out of a total of approximately 23.8 km and is planned to come into operation in 2019. Phase Two, connecting Bundaran Hotel Indonesia, MRT East-West Line and Kalideres-Ujung Menteng will commence after the completion of Phase One. Construction of the Light Rail Transit in South Sumatera and the Jakarta, Bogor, Depok and Bekasi region commenced in 2015 with operations expected to commence in mid-2018 and mid-2019, respectively. Construction of a high speed train to connect Jakarta and Bandung commenced in 2016. Also, two additional bus-way corridors have been developed; the construction of the remaining sections of the tolled ring road circling the outer city of Jakarta, the Jakarta Outer Ring Road, has been completed.

### ***Energy related projects***

The Government is guided by six policy objectives in developing the electricity sector in Indonesia:

- (i) increasing the country's electrification ratio, or the percentage of Indonesia households that are connected to the nation's electricity grid;
- (ii) increasing the country's power plant capacity;
- (iii) expanding electricity transmission network;
- (iv) optimizing electricity distribution;
- (v) improving the energy mix by reducing oil utilization in power generation; and
- (vi) developing renewable energy sources such as hydro, geothermal, solar and wind.

Electricity consumption in Indonesia increased at a rate of 6.8% per year between 2011 and 2016. As of December 31, 2016, Indonesia's total electricity generating capacity was approximately 58.5 gigawatts.

To achieve the Government's goal of a 97.4% electrification ratio by 2019, the country will need to develop power plants with additional generating capacity of approximately 35 gigawatts. Of this goal, as of January 6, 2017:

- 439 MW were commercially operational;
- 10,162 MW were under construction;
- 7,676 MW has entered into power purchase agreements but not yet completed construction;

- 9,717 MW were in the procurement stage; and
- 7,633 MW were in the planning stage.

### ***Telecommunications***

The Government is also aiming to reduce the digital divide between rural and urban areas. The Indonesia Broadband Plan (**IBP**) consists of a policy document and an implementation plan. The policy document outlines Indonesia's current broadband ecosystem, the use of broadband as a strategy to improve Indonesia's competitiveness, and the policies and strategies for developing Indonesia's broadband. The implementation plan includes a detailed action plan for the broadband infrastructure project and its development. The final draft of the IBP was issued at the end of 2013. Over the period spanning 2013 to 2017, the main infrastructure policies under IBP include developing the national broadband ecosystem and infrastructure, increasing availability of national broadband access, reducing dependency on international systems and driving content development.

### **Foreign Investment**

Indonesia is working to shift towards a value-added industrial economy in which low-cost labor is no longer the primary focus. The Government faces several challenges, including the ability to attract investment to downstream industries which add more value to the economy. Though certain issues still exist, such as underdeveloped infrastructures, the Government continues its comprehensive reform efforts to improve the business climate, including by introducing more investor-friendly investment regulations.

In April 2007, the New Investment Law No.25 of 2007 was enacted to replace and improve upon both the 1967 Foreign Investment Law (as amended by Law No. 11 of 1970) and the 1968 Domestic Investment Law (as amended by Law No. 12 of 1970). The New Investment Law and related regulations unify Indonesia's legal framework for foreign investment and includes limits for foreign participation in certain sectors of the economy, as provided in the most recent Negative Investment List.

The New Investment Law provides certain tax incentives such as income tax deductions and certain deductions or exemptions with respect to import duties and value added tax on purchases of capital goods and raw materials. These tax incentives are granted in accordance with prevailing tax laws and regulations. Companies' income tax holidays or reductions within certain amounts and periods may only be granted to a new investment in a pioneer industry, namely an industry with wide-ranging links that give added value, promotes new technology, and possesses strategic values for the national economy.

The Government has also taken other measures to attract more foreign direct investment, including measures described in the Government's economic policy packages *See "Recent Developments — Economic Policy Packages in 2015-2016."*

### ***Foreign Investment in Indonesia***

Foreign investment in Indonesia is divided into direct investments, portfolio investments and other investments, and information about these types of investments is included in the Republic's reports on its balance of payments published by the Bank Indonesia. Due to the different concept and method of compiling investment statistics, foreign direct investment (**FDI**) statistical data published by Bank Indonesia are not comparable to the "administrative" FDI statistical data published by the Indonesia Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* or **BKPM**) under "*Direct Investments Realizations.*"

The following table sets out the amounts of foreign investments in Indonesia by non-residents.

## Foreign Investment in Indonesia

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. Dollars)				
Direct Investments					
Equity Capital .....	18,615	20,004	21,895	18,822	3,914
Debt instrument .....	2,586	3,278	3,225	957	(152)
Total direct investments .....	21,201	23,282	25,121	19,779	3,762
Portfolio investments:					
Equity securities .....	1,698	(1,856)	3,259	(1,547)	1,319
Debt securities .....	12,976	14,001	20,221	18,998	15,368
Total portfolio investments .....	14,673	12,145	23,480	17,451	16,686
Financial derivatives .....	(320)	(679)	(597)	(647)	(618)
Other investments .....	7,275	2,645	7,699	1,748	(9,820)
Total foreign investment .....	42,829	37,393	55,702	38,332	10,010

Source: Bank Indonesia

<sup>P</sup> Preliminary.

### Foreign Direct Investment

The following table sets out the amounts of foreign direct investments in Indonesia by non-residents.

### Foreign Direct Investments

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. Dollars)				
Equity capital <sup>(1)</sup> .....	18,615	20,004	21,895	18,822	3,914
Debt instruments:					
Inflow .....	60,871	65,746	80,051	75,588	50,328
Outflow .....	(58,284)	(62,468)	(76,826)	(74,631)	(50,480)
Total debt instruments .....	2,586	3,278	3,225	957	(152)
Total direct investments .....	21,201	23,282	25,121	19,779	3,762
<b>Memorandum:</b>					
Direct investment in Indonesia .....	19,138	18,817	21,811	16,641	2,658

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) Includes privatization and banking restructuring.

In 2014, FDI inflows remained robust, boosted by positive investor confidence in Indonesia's economic outlook. FDI was U.S.\$25.1 billion, which was higher than the inflows in 2013, which amounted to U.S.\$23.3 billion. Increased inflows were registered as FDI in the non-oil & gas sector due to, among other things, the acquisition of Bank Mutiara, a substantial debt-to-equity swap transaction concerning a listed company and withdrawals of inter-company loans resulting from the issuance of global bonds by overseas SPVs. Manufacturing, agriculture and mining sectors were the main contributors to the FDI surplus generated in 2014. During this period, the majority of net FDI inflows were from Singapore, Japan and China.

In 2015, sustained foreign investor confidence in the outlook for the Indonesian economy prompted foreign investors to continue investing in Indonesia, resulting in FDI inflows of U.S.\$19.8 billion surplus. Nevertheless, in line with the slowdown in the domestic economy, the 2015 FDI was lower than the previous year's FDI, which reached U.S.\$25.1 billion.

Despite a challenging global economic environment, net inflows of FDI were U.S.\$3.8 billion in 2016. The decrease, as compared to the U.S.\$19.8 billion FDI in 2015, was mainly influenced by divestment activity of a domestic bank, which triggered a lower inflow in direct investment liabilities (also affecting assets).

### **Foreign Portfolio Investment**

The following table sets out the amounts of foreign portfolio investments in Indonesia by non-residents.

#### **Foreign Portfolio Investments**

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. Dollars)				
Equity securities:					
Inflows . . . . .	51,527	61,640	51,200	44,763	52,052
(Outflows) . . . . .	(49,829)	(63,496)	(47,940)	(46,310)	(50,734)
Net equity securities . . . . .	1,698	(1,856)	3,259	(1,547)	1,319
Debt securities (net) . . . . .	12,976	14,001	20,221	18,998	15,368
Total portfolio investments . . . . .	<u>14,673</u>	<u>12,145</u>	<u>23,480</u>	<u>17,451</u>	<u>16,686</u>

Source: Bank Indonesia

<sup>P</sup> Preliminary.

### **Other Foreign Investment**

The following table sets out the amounts of other investments (other than portfolio or foreign direct investments) in Indonesia by non-residents, mainly consisting of loans received and paid.

#### **Other Foreign Investments**

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. Dollars)				
Loans					
Bank sector:					
Disbursements . . . . .	2,836	5,735	8,436	8,663	3,738
Debt repayments . . . . .	(2,440)	(4,051)	(5,885)	(7,402)	(5,307)
Total bank sector . . . . .	396	1,684	2,551	1,261	(1,569)
Corporate sector:					
Disbursements . . . . .	31,360	26,394	29,058	21,710	15,199
Debt repayments . . . . .	(28,358)	(25,283)	(22,824)	(22,088)	(20,363)
Total corporate sector . . . . .	3,001	1,111	6,234	(378)	(5,164)
Other (net) <sup>(1)</sup> . . . . .	3,878	(151)	(1,086)	865	(3,088)
Total other investments . . . . .	<u>7,275</u>	<u>2,645</u>	<u>7,699</u>	<u>1,748</u>	<u>(9,820)</u>

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) Consists of loans of public sector and trade credit, currency and deposits, and other liabilities of private sector and public sector.

### **Direct Investment Realizations**

#### **Foreign Direct Investment**

In 1973, the Republic established the BKPM to accelerate economic growth by attracting foreign capital investment. BKPM's main function is to implement the Government's objectives for investment in the country.

Under Indonesian law, most direct equity investments by foreign persons are subject to approval by the BKPM, regardless of the size of the investment. The BKPM reviews applications for approval based on the Negative Investment List which comprises a list of those business sectors that are closed to foreign investment and those that are open to foreign investment subject to certain conditions, including limits on the percentage of foreign capital ownership; and also based on criteria established by the particular ministry that regulates the

sector in which the foreign investor seeks to invest. Upon receiving approval, a foreign investor may complete the investment, but is not obligated to do so.

Due to the different concept and method of compiling investment statistics, “administrative” FDI statistical data published by the BKPM and “Balance of Payment” FDI statistical data published by Bank Indonesia are not comparable. As the BKPM calculates the amount of realized foreign direct investment using different criteria than those used by Bank Indonesia, the data regarding realized foreign direct investments is not comparable to those under “*Foreign Investment in Indonesia.*”

Beginning in 2010, realized administrative FDI statistics were compiled based on investment progress reports, rather than permanent licenses issued by the BKPM. The objective of this new methodological approach (*Laporan Kegiatan Penanaman Modal*, or **LKPM** methodology) was to provide FDI statistical data of investment activities on the reporting periods. LKPM data is a “flow” concept in which data is collected from quarterly investor progress reports. The LKPM methodology has been adopted for both domestic and foreign capital as it more accurately reflects realized investment flows by recording investments as they occur as opposed to cumulatively, as was previously the case. However, the LKPM methodology still has the effect of understating actual realized FDI because not all investors file investment progress reports regularly. Under the LKPM methodology, investment companies whose projects are still under development need to submit investment progress reports every quarter (instead of every six months, as previously required) and investment companies which have obtained a permanent license are required to submit investment progress reports every six months (instead of annually, as previously required).



The following table sets forth the amount of realized FDI by sector of the economy for the periods indicated.

### Realized Foreign Direct Investment by Sector<sup>(1)</sup>

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. dollars)				
Primary Sector:					
Food Crops & Plantation .....	1,602	1,605	2,207	2,072	1,589
Livestock .....	20	11	31	75	49
Forestry .....	27	29	53	19	78
Fishery .....	29	10	35	53	43
Mining .....	4,255	4,816	4,665	4,071	2,792
Total Primary Sector .....	5,933	6,472	6,991	6,236	9,502
Secondary sector:					
Food Industry .....	1,783	2,118	3,140	1,521	2,115
Textile Industry .....	473	751	422	433	321
Leather Goods & Footwear Industry .....	159	96	211	162	144
Wood Industry .....	76	39	64	47	267
Paper and Printing Industry .....	1,307	1,169	706	707	2,787
Chemical and Pharmaceutical Industry .....	2,770	3,142	2,323	1,956	2,889
Rubber and Plastic Industry .....	660	472	544	694	737
Non Metallic Mineral Industry .....	146	874	917	1,303	1,676
Metal, Machinery & Electronic Industry .....	2,453	3,327	2,472	3,092	3,897
Medical Precision & Optical Instruments, Watches & Clock Industry .....	3	26	7	7	9
Motor Vehicles & Other Transport Equipment Industry .....	1,840	3,732	2,061	1,757	2,369
Other Industry .....	100	112	152	83	75
Total Secondary Sector .....	11,770	15,859	13,019	11,763	16,688
Tertiary sector:					
Electricity, Gas & Water Supply .....	1,515	2,222	1,249	3,029	2,140
Construction .....	240	527	1,384	954	187
Trade & Repair .....	484	606	867	625	670
Hotel & Restaurant .....	768	462	513	650	888
Transport, Storage & Communication .....	2,808	1,450	3,001	3,281	750
Real Estate, Ind. Estate & Business Activities .....	402	678	1,168	2,939	2,321
Other Services .....	646	342	337	294	818
Total Tertiary Sector .....	6,862	6,287	8,519	11,276	7,775
Total .....	24,565	28,617	28,530	29,576	28,964

Source: BKPM

<sup>P</sup> Preliminary.

- (1) Excludes foreign investment in oil and natural gas projects, banking, non-bank financial institutions, insurance, leasing, mining in terms of contracts of work, coal mining in terms of agreement of work, investment in which licenses were issued by a technical/sectoral agency, portfolio as well as household investment.

## Domestic Direct Investment

In addition to direct equity investments by foreign persons, BKPM also approves certain types of domestic direct investments. The following table sets forth the amount of realized domestic direct investment by sector of the economy for the periods indicated.

### Realized Domestic Direct Investment by Sector<sup>(1)</sup>

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of Rupiah)				
Primary sector:					
Food Crops & Plantation	9,631	6,589	12,707	12,041	20,999
Livestock	97	361	651	325	466
Forestry	145	—	—	472	204
Fishery	15	4	22	275	2
Mining	10,481	18,762	3,141	3,947	6,034
Total Primary Sector	20,369	25,716	16,521	17,060	27,705
Secondary sector:					
Food Industry	11,167	15,081	19,596	24,534	32,028
Textile Industry	4,451	2,446	1,451	2,725	3,210
Leather Goods & Footwear Industry	77	80	103	5	69
Wood Industry	57	391	585	1,185	3,151
Paper and Printing Industry	7,561	6,849	4,094	6,529	5,258
Chemical and Pharmaceutical Industry	5,069	8,886	1,314	20,712	30,054
Rubber and Plastic Industry	2,855	2,905	2,117	3,696	3,577
Non Metallic Mineral Industry	10,731	4,625	11,923	20,502	15,405
Metal, Machinery & Electronic Industry	7,226	7,568	5,293	7,938	11,568
Medical Precision & Optical Instruments, Watches & Clock Industry	—	10	—	—	5
Motor Vehicles & Other Transport Equipment Industry	664	2,183	490	1,071	1,714
Other Industry	31	148	68	147	744
Total Secondary Sector	49,889	51,171	47,034	89,044	106,783
Tertiary sector:					
Electricity, Gas & Water Supply	3,797	25,831	36,297	21,947	22,794
Construction	4,587	6,033	12,098	17,165	14,039
Trade & Repair	1,030	2,205	518	1,427	4,513
Hotel & Restaurant	1,015	1,402	1,731	3,977	1,560
Transport, Storage & Communication	8,612	13,178	14,715	21,339	26,770
Real Estate, Ind. Estate & Business Activities	58	2,152	13,112	6,510	9,193
Other Services	2,825	462	1,100	1,001	2,873
Total Tertiary Sector	21,924	51,264	79,571	73,366	81,742
Total	92,182	128,151	155,245	179,466	216,231

Source: BKPM

<sup>P</sup> Preliminary.

- (1) Excludes domestic investment in oil and natural gas projects, banking, non-bank financial institutions, insurance, leasing, mining in terms of contracts of work, coal mining in terms of agreement of work, investment in which licenses were issued by a technical/sectoral agency, portfolio as well as household investment.

## Foreign Trade and Balance of Payments

### *Membership in International and Regional Free Trade Agreements*

The Government supports the liberalization of international trade and investment through its membership in several international and regional trade organizations. Indonesia is a signatory to the GATT 1947 and a founding member of the World Trade Organization through the ratification of Law No. 7 of 1994 on Agreement Establishing the World Trade Organization. ASEAN has served as the forum for the negotiation of a number of regional agreements, and in 2015, ASEAN leaders adopted the ASEAN Economic Community Blueprint 2025, which is a roadmap for strategic integration of the economies of the ASEAN Member States.

ASEAN Member States have entered into six free trade agreements, namely: the ASEAN Trade in Goods Agreement (**ATIGA**), the ASEAN-China Free Trade Agreement (**ACFTA**), the ASEAN-Korea Free Trade Agreement (**AKFTA**), the ASEAN-Japan Closer Economic Partnership (**AJCEP**), the ASEAN-India Free Trade Agreement (**AIFTA**) and the ASEAN-Australia and New Zealand Free Trade Agreement (**AANZFTA**). In addition, Indonesia has entered into two bilateral trade agreements: the Indonesia-Japan Economic Partnership Agreement (**IJ-EPA**) and the Indonesia-Pakistan Preferential Trade Agreement (**IP-PTA**). These free trade agreements covers three core areas, namely: trade in goods, trade in services and investments.

Various regional and bilateral free trade agreements of which Indonesia is a party are currently in different stages of negotiations.

### *Tariff Reforms*

The Minister of Finance is authorized to set rates for import duties. The Republic maintains a policy of using tariff rates to promote the competitiveness of Indonesian products in international markets and to reduce price distortions in order to support the establishment of free trade. The Republic has implemented preferential tariff commitments under the ATIGA, the ACFTA, the AKFTA, the AJCEP, the AIFTA, the AANZFTA, the IJ-EPA and the IP-PTA.

### *Exports and Imports*

Beginning in 2012, the Republic started using a revised methodology in compiling exports and imports data. This revised methodology was implemented in order to comply with international best practices and to improve consistency with other Bank Indonesia publications. As a result of this change, the classification of certain export and import products has changed. Revisions following classification changes were carried out for data published in 2005 onwards. Since March 1, 2014, exporters must declare the value of their exported goods using terms of delivery cost insurance freight in order to enhance the validity and accuracy of freight and insurance data for export activities. The requirements introduced in 2014 have not changed the business process of export transactions, in which the export value is still the real transaction value agreed by exporters and importers.

The following table shows Indonesia's exports and imports for the periods indicated.

	<b>Year Ended December 31,</b>				
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016<sup>P</sup></b>
	(in millions of U.S. dollars)				
Exports:					
Oil and gas exports (f.o.b.) . . . . .	35,571	33,588	28,752	17,184	12,887
Non-oil and gas exports (f.o.b.) . . . . .	<u>151,775</u>	<u>148,501</u>	<u>146,541</u>	<u>131,941</u>	<u>131,554</u>
Total exports . . . . .	187,347	182,089	175,293	149,124	144,441
Total imports (c.i.f.) . . . . .	<u>(189,138)</u>	<u>(186,186)</u>	<u>(177,813)</u>	<u>(142,379)</u>	<u>(135,761)</u>
Balance of trade . . . . .	<u>(1,791)</u>	<u>(4,097)</u>	<u>(2,520)</u>	<u>6,746</u>	<u>8,680</u>

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) Indonesia's trade statistics, which are used as a basis for the balance of payments statistics, are compiled by Bank Indonesia and differ in coverage and timing from similarly titled data compiled by BPS.

In 2014, Indonesia recorded a trade deficit of U.S.\$2.5 billion, which was smaller than the 2013 deficit. This improvement was attributable to a steeper contraction in imports of 4.5% (year-on-year) than in exports of 3.7% (year-on-year). The decline in imports was in line with a moderation in domestic demand. The contraction in exports was largely attributable to a slower than expected global economic recovery and the ongoing decline in global commodity prices.

In 2015, the trade balance recorded a surplus of U.S.\$ 6.7 billion caused by a decrease in imports of 19.9% (year-on-year), which was larger than the decrease in exports of 14.9% (year-on-year). Imports decreased sharply in line with limited domestic demand, while persistently low commodity prices and sluggish growth in trade partner countries, such as the United States, China and Singapore resulted in a contraction in exports.

In 2016, Indonesia recorded a trade surplus of U.S.\$8.7 billion, caused by a decrease in imports of 4.6% (year-on-year) to U.S.\$135.8 billion, which was higher than the decrease in exports of 3.1% (year-on-year) to U.S.\$144.4 billion. Exports contracted at a lower rate compared to 2015, primarily due to improvements in commodity prices such as coal and palm oil resulting in higher coal and palm oil exports, especially during the second half of 2016.

The following table sets forth Indonesia's exports by major commodity groups for the periods indicated.

	<b>Exports by Sector</b>				
	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in thousands of U.S. dollars)				
<b>General merchandise</b> .....	<b>185,337,265</b>	<b>180,293,992</b>	<b>173,759,963</b>	<b>147,724,654</b>	<b>143,060,839</b>
<b>Agricultural</b>					
Coffee bean .....	1,241,922	1,166,406	1,030,826	1,210,617	1,000,542
Tea .....	126,754	131,112	108,843	89,969	85,057
Spices .....	631,746	554,137	577,627	780,981	698,007
Tobacco .....	60,791	93,458	82,397	58,878	49,440
Cocoa bean .....	388,326	443,372	201,407	118,047	85,498
Shrimp and prawn .....	1,111,388	1,467,208	1,786,335	1,331,640	1,441,053
Other agricultural products .....	2,023,351	1,931,996	2,139,877	2,174,509	2,134,901
<b>Total Agricultural products</b> .....	<b>5,584,278</b>	<b>5,787,688</b>	<b>5,927,312</b>	<b>5,764,642</b>	<b>5,494,499</b>
<b>Manufacture products</b>					
Textile and Textile products .....	12,510,222	12,770,966	12,847,055	12,338,750	11,883,622
Processed wood products .....	3,338,150	3,510,392	3,906,760	3,813,415	3,691,546
Palm oils .....	17,685,127	16,518,525	17,461,545	15,402,551	14,357,670
Chemicals .....	3,634,536	3,498,625	3,851,429	2,805,673	3,236,879
Base metal products .....	9,303,974	8,614,179	9,085,294	7,580,115	7,436,785
Electrical apparatus, measuring instruments and others .....	11,157,423	10,716,148	10,108,187	8,777,604	8,386,800
Cement .....	20,050	49,657	37,365	62,539	82,332
Paper and paper products .....	3,938,382	3,732,138	3,779,966	3,599,154	3,442,980
Processed rubber .....	10,368,180	9,306,376	7,022,184	5,843,690	5,538,628
Oil products <sup>(1)</sup> .....	3,270,001	3,846,251	3,165,942	1,401,627	697,558
Liquefied Petroleum Gas <sup>(1)</sup> .....	9,176	10,534	4,538	12,231	44,880
Other manufacture products .....	40,215,423	40,604,203	47,338,146	44,550,999	47,852,770
<b>Total Manufacture products</b> .....	<b>115,450,644</b>	<b>113,177,996</b>	<b>118,608,410</b>	<b>106,188,347</b>	<b>106,652,450</b>
<b>Mining products</b>					
Copper ore .....	2,565,990	2,999,560	1,673,548	3,277,196	3,481,608
Nickel ore .....	1,458,409	1,677,366	85,913	0	0
Coal .....	26,248,270	24,359,167	20,818,030	16,004,035	14,560,768
Bauxite .....	637,597	1,318,775	47,742	744	431
Crude oil <sup>(1)</sup> .....	12,723,142	12,187,863	8,839,625	5,641,245	4,941,223
Natural Gas <sup>(1)</sup> .....	17,670,962	15,689,119	14,941,959	9,338,774	6,575,347
o/w Liquefied Natural Gas .....	11,943,550	10,568,458	10,293,714	6,894,365	4,812,661
Other mining products .....	455,659	591,546	213,410	182,769	179,479
<b>Total Mining products</b> .....	<b>61,760,030</b>	<b>58,823,397</b>	<b>46,620,227</b>	<b>33,444,764</b>	<b>29,738,855</b>
<b>Other merchandise<sup>(2)</sup></b> .....	<b>2,542,314</b>	<b>2,504,910</b>	<b>2,604,014</b>	<b>1,326,902</b>	<b>1,175,035</b>
<b>Other goods<sup>(3)</sup></b> .....	<b>2,009,286</b>	<b>1,795,235</b>	<b>1,532,832</b>	<b>1,399,827</b>	<b>1,380,222</b>
<b>Total Exports</b> .....	<b>187,346,552</b>	<b>182,089,227</b>	<b>175,292,795</b>	<b>149,124,482</b>	<b>144,441,062</b>
<b>Memorandum:</b>					
Non oil & gas exports .....	151,775,044	148,500,805	146,540,725	131,940,836	131,553,661
Oil & gas exports .....	35,571,432	33,588,422	28,752,069	17,183,646	12,887,401

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) As a component of oil and gas exports.

(2) Consists of art goods, goods not elsewhere specified, and goods procured in ports by carriers.

(3) Consists of non-monetary gold and merchanting goods.

The table below sets forth Indonesia's exports by destination for the periods indicated.

### Exports by Destination

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in thousands of U.S. dollars)				
<b>America</b>					
North America					
United States of America .....	14,765,254	15,622,136	16,502,799	15,977,225	16,071,673
Canada .....	787,624	775,984	754,367	724,445	733,241
Other North America .....	1,185	1,626	1,174	1,238	1,533
Total North America .....	15,554,063	16,399,745	17,258,340	16,702,908	16,806,446
Central and South America					
Argentina .....	310,678	448,181	237,167	238,132	219,225
Brazil .....	1,529,742	1,569,342	1,517,378	1,181,702	1,113,545
Mexico .....	594,865	625,022	814,494	802,893	795,730
Other Central and South America .....	1,153,932	1,127,463	1,165,225	1,044,492	1,076,613
Total Central and South America .....	3,589,217	3,770,009	3,734,264	3,267,219	3,205,114
Total America .....	19,143,280	20,169,754	20,992,604	19,970,127	20,011,560
<b>Europe</b>					
European Union					
Netherlands .....	4,546,619	4,099,858	3,981,353	3,432,577	3,245,263
Belgium .....	1,293,102	1,254,708	1,217,227	1,108,544	1,123,078
United Kingdom .....	1,679,815	1,618,871	1,659,576	1,521,994	1,582,664
Italy .....	2,279,791	2,121,981	2,288,020	1,871,943	1,570,726
Germany .....	3,064,521	2,862,481	2,820,475	2,654,242	2,632,319
France .....	1,116,351	1,053,698	1,018,400	971,332	886,124
Spain .....	2,059,230	1,806,692	1,938,255	1,476,585	1,578,057
Other European Union .....	1,814,223	1,886,988	1,996,538	1,763,808	1,816,541
Total European Union .....	17,853,652	16,705,277	16,919,845	14,801,026	14,434,771
Russia .....	866,396	934,132	1,056,775	993,581	1,273,965
Turkey .....	1,361,964	1,537,295	1,447,167	1,159,227	1,022,876
Other Europe .....	819,235	913,110	693,214	1,552,167	2,692,989
Total Europe .....	20,901,247	20,089,814	20,117,001	18,506,001	19,424,601
<b>Asia and Middle East</b>					
ASEAN					
Brunei Darussalam .....	116,854	88,505	98,873	85,589	85,377
Philippines .....	3,667,656	3,774,591	3,887,862	3,920,827	5,260,826
Cambodia .....	290,684	317,085	416,644	429,207	424,465
Lao PDR .....	23,736	5,086	6,212	7,135	5,863
Malaysia .....	11,000,550	10,475,415	9,454,669	7,489,169	6,804,481
Myanmar .....	412,643	576,497	587,710	612,315	606,401
Singapore .....	16,138,033	15,724,945	15,648,800	11,770,922	11,206,614
Thailand .....	6,491,642	6,051,348	5,762,720	5,414,929	5,359,939
Vietnam .....	2,266,667	2,558,864	2,443,990	2,716,595	3,016,677
Total ASEAN .....	40,408,467	39,572,336	38,307,481	32,446,688	32,770,644
Hong Kong SAR .....	2,644,935	2,646,008	2,760,064	2,048,572	2,127,947
India .....	12,500,116	12,969,881	12,242,603	11,635,073	10,076,160
Iraq .....	44,886	171,973	70,480	94,987	91,069
Japan .....	28,968,734	26,677,721	20,802,334	17,455,820	15,653,090
South Korea .....	14,269,724	11,260,652	10,079,871	7,334,452	6,369,515
Pakistan .....	1,377,718	1,412,462	2,048,086	1,988,062	2,017,977
People Republic of China .....	21,523,958	22,425,902	17,301,903	14,611,015	16,675,431
Saudi Arabia .....	1,767,167	1,728,619	2,155,351	2,060,074	1,327,878
Taiwan, Province of China .....	6,044,791	5,792,218	7,924,755	5,573,652	4,214,626
Other Asia and Middle East .....	5,166,760	4,987,194	7,186,956	6,159,489	5,574,304
Total Asia and Middle East .....	134,717,255	129,644,966	120,879,884	101,407,884	96,898,640
<b>Australia and Oceania</b>					
Australia .....	4,718,098	4,344,740	5,000,046	3,652,251	3,202,814
New Zealand .....	356,826	444,951	481,487	446,040	378,687
Other Australia and Oceania .....	373,454	488,064	367,443	345,654	346,086
Total Australia and Oceania .....	5,448,377	5,277,755	5,848,975	4,416,946	3,927,587
<b>Africa</b>					
South Africa .....	1,642,411	1,245,443	1,378,907	665,661	727,757
Other Africa .....	2,951,669	3,156,584	3,479,381	2,838,590	2,294,237
Total Africa .....	4,594,079	4,402,028	4,858,288	3,504,251	3,021,994
Unclassified exports <sup>(1)</sup> .....	2,542,314	2,504,910	2,596,043	1,319,272	1,156,680
<b>Total (fob) .....</b>	<b>187,346,552</b>	<b>182,089,227</b>	<b>175,292,795</b>	<b>149,124,482</b>	<b>144,441,062</b>

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) Consists of goods procured in ports by carriers and merchanting goods.

The following table sets forth Indonesia's imports by major commodity groups for the periods indicated.

### Imports by Sector<sup>(1)</sup>

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in thousands of U.S. dollars)				
<b>General Merchandise</b> .....	<b>189,094,827</b>	<b>186,153,764</b>	<b>177,787,488</b>	<b>141,672,713</b>	<b>134,928,740</b>
<b>Consumption Goods</b>					
Food and beverages, primary, mainly for household .....	1,537,179	1,394,325	1,541,254	1,320,173	1,729,433
Food and beverages, processed, mainly for household .....	2,759,331	2,812,575	2,750,512	2,332,869	3,008,403
Passenger motor cars .....	1,498,307	1,171,510	784,431	583,152	594,982
Transport equipment, nonindustrial ....	367,729	383,485	268,909	243,873	142,456
Durable consumer goods .....	1,592,871	1,624,973	1,415,739	1,073,667	1,208,969
Semi-durable consumer goods .....	1,921,446	2,150,785	1,952,560	1,965,991	2,221,105
Non-durable consumer goods .....	1,910,634	2,154,691	2,158,041	2,023,181	2,154,847
Fuels and lubricants, processed, oil products <sup>(2)</sup> .....	13,720,367	14,736,636	14,504,300	8,181,422	5,146,414
Goods not elsewhere specified .....	224,769	450,718	531,831	737,074	824,708
<b>Total Consumption Goods</b> .....	<b>25,532,632</b>	<b>26,879,699</b>	<b>25,907,577</b>	<b>18,461,404</b>	<b>17,031,317</b>
<b>Raw materials and auxiliary goods</b>					
Food and beverages, primary, mainly for industry .....	4,005,713	4,348,635	4,934,923	4,100,987	4,423,637
Food and beverages, processed, mainly for industry .....	3,317,376	3,294,925	3,247,084	2,726,501	3,463,722
Industrial supplies, primary .....	5,480,589	6,180,739	5,967,884	4,616,310	3,987,153
Industrial supplies, processed .....	58,236,091	56,624,346	56,247,051	49,421,677	47,305,728
Parts and accessories for capital goods .....	18,011,245	17,191,495	15,552,758	14,628,024	15,537,453
Parts and accessories for transport equipment .....	8,267,873	8,980,793	7,128,761	6,139,368	6,384,705
Fuels and lubricants, primary .....	11,008,146	13,322,222	12,896,531	8,011,548	7,197,942
o/w Crude oil <sup>(2)</sup> .....	10,987,073	13,236,094	12,600,220	7,725,385	6,874,010
Fuels and lubricants, processed .....	18,405,384	17,706,610	15,702,783	8,292,444	6,807,557
o/w Oil products <sup>(2)</sup> .....	15,540,944	14,408,358	12,442,784	6,057,936	4,744,722
o/w Liquefied Petroleum Gas <sup>(2)</sup> .....	2,626,816	3,094,502	3,039,246	2,061,615	1,841,452
<b>Total Raw materials and auxiliary goods</b> .....	<b>126,732,417</b>	<b>127,649,765</b>	<b>121,677,775</b>	<b>97,936,858</b>	<b>95,107,896</b>
<b>Capital Goods</b>					
Capital goods (except transport equipment) .....	26,642,473	25,541,302	25,570,739	22,424,297	19,860,202
Passenger motor cars .....	1,498,307	1,171,510	784,431	583,152	594,982
Other transport equipment, industrial ...	7,945,543	4,196,809	3,093,174	1,847,542	1,860,775
<b>Total Capital Goods</b> .....	<b>36,086,323</b>	<b>30,909,621</b>	<b>29,448,344</b>	<b>24,854,992</b>	<b>22,315,959</b>
<b>Other merchandise<sup>(3)</sup></b> .....	<b>743,455</b>	<b>714,679</b>	<b>753,791</b>	<b>419,459</b>	<b>473,567</b>
<b>Other goods<sup>(4)</sup></b> .....	<b>43,071</b>	<b>32,398</b>	<b>25,620</b>	<b>706,213</b>	<b>832,126</b>
<b>Total</b> .....	<b>189,137,898</b>	<b>186,186,162</b>	<b>177,813,107</b>	<b>142,378,926</b>	<b>135,760,866</b>

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) Data collected on a cost, insurance and freight basis.

(2) As a component of oil and gas imports.

(3) Consists of goods procured in ports by carriers.

(4) Consists of nonmonetary golds.

The following table sets forth Indonesia's imports by country of origin for the periods indicated.

### Imports by Place of Origin<sup>(1)</sup>

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in thousands of U.S. dollars)				
<b>America</b>					
North America					
United States of America .....	9,701,647	8,966,943	8,139,708	7,608,621	7,308,424
Canada .....	1,809,859	2,104,103	1,908,631	1,621,298	1,382,027
Other North America .....	15,931	1,094	111,336	1,756	2,008
Total North America .....	11,527,437	11,072,140	10,159,676	9,231,676	8,692,458
Central and South America					
Argentina .....	1,749,601	1,683,663	1,465,715	1,298,541	1,373,780
Brazil .....	1,934,842	2,205,400	2,548,178	2,425,680	2,350,148
Mexico .....	566,649	516,890	186,888	197,406	177,236
Other Central and South America .....	561,260	600,191	540,815	392,383	449,738
Total Central and South America .....	4,812,353	5,006,144	4,741,596	4,314,010	4,350,902
Total America .....	16,339,789	16,078,284	14,901,271	13,545,685	13,043,361
<b>Europe</b>					
European Union					
Netherlands .....	845,501	999,770	912,737	794,586	710,663
Belgium .....	618,879	652,619	583,997	560,461	492,273
United Kingdom .....	1,280,884	1,063,795	899,185	816,947	892,807
Italy .....	1,508,328	1,692,133	1,720,992	1,417,856	1,388,618
Germany .....	4,050,293	4,389,557	4,104,817	3,453,948	3,145,832
France .....	1,638,856	1,568,430	1,334,831	1,337,879	1,360,440
Spain .....	521,227	573,305	555,106	473,990	484,442
Other European Union .....	3,144,422	2,704,189	2,646,741	2,484,948	2,223,053
Total European Union .....	13,608,391	13,643,796	12,758,406	11,340,613	10,698,127
Russia .....	1,743,576	2,038,204	1,583,207	983,680	846,317
Turkey .....	409,525	1,409,107	1,035,394	249,109	308,420
Other Europe .....	1,679,654	1,717,109	1,408,827	1,335,978	1,857,974
Total Europe .....	17,441,145	18,808,216	16,785,834	13,909,380	13,710,837
<b>Asia and Middle East</b>					
ASEAN					
Brunei Darussalam .....	480,349	677,923	610,286	126,168	88,029
Philippines .....	801,738	775,382	694,808	684,289	816,541
Cambodia .....	11,053	17,752	18,722	21,133	25,197
Lao PDR .....	3,278	7,543	51,265	1,027	4,196
Malaysia .....	12,786,250	13,878,131	10,714,357	8,464,345	7,230,947
Myanmar .....	63,359	72,997	122,243	159,685	112,982
Singapore .....	27,435,575	26,687,954	24,699,196	17,784,006	14,519,672
Thailand .....	11,369,461	10,721,002	9,770,883	8,074,329	8,647,336
Vietnam .....	2,543,876	2,686,495	3,399,903	3,146,337	3,228,496
Total ASEAN .....	55,494,939	55,525,180	50,081,662	38,461,319	34,646,395
Hong Kong SAR .....	1,897,323	1,956,494	1,892,903	1,806,733	1,814,999
India .....	4,310,220	3,960,489	3,937,401	2,742,320	2,859,198
Iraq .....	200	49	342	243	106
Japan .....	22,674,852	19,188,165	16,866,526	13,255,694	12,982,659
South Korea .....	12,238,061	11,761,514	11,732,612	8,424,260	6,661,596
Pakistan .....	271,276	162,555	158,655	173,600	156,776
People Republic of China .....	29,486,325	29,792,501	30,631,469	29,381,441	30,682,418
Saudi Arabia .....	5,447,047	6,929,195	6,343,400	3,332,183	2,724,014
Taiwan, Province of China .....	4,731,457	4,488,642	3,748,062	3,145,310	2,878,147
Other Asia and Middle East .....	6,879,661	5,840,125	8,180,995	4,617,161	3,694,152
Total Asia and Middle East .....	143,431,361	139,604,909	133,574,026	105,340,264	99,100,458
<b>Australia and Oceania</b>					
Australia .....	5,227,751	5,088,023	5,637,313	4,811,041	5,242,786
New Zealand .....	692,249	796,396	837,703	637,396	660,959
Other Australia and Oceania .....	69,803	86,192	42,249	29,367	37,844
Total Australia and Oceania .....	5,989,802	5,970,611	6,517,265	5,477,803	5,941,588
<b>Africa</b>					
South Africa .....	650,838	624,337	477,411	231,880	288,465
Other Africa .....	4,541,508	4,385,126	4,803,509	3,454,454	3,202,589
Total Africa .....	5,192,346	5,009,463	5,280,920	3,686,335	3,491,054
Unclassified imports <sup>(2)</sup> .....	743,455	714,679	753,791	419,459	473,567
<b>Total</b> .....	<b>189,137,898</b>	<b>186,186,162</b>	<b>177,813,107</b>	<b>142,378,926</b>	<b>135,760,866</b>

Source: Bank Indonesia



<sup>P</sup> Preliminary.

- (1) Data collected on a cost, insurance and freight basis.
- (2) Consists of goods procured in ports by carriers.

### ***Balance of Payments***

Balance of payments figures measure the relative flow of goods, services and capital into and out of a country as represented in the current account and the capital and financial account. The current account tracks a country's trade in goods and services, as well as income and current transfer transactions. The capital and financial account covers all transactions involving capital transfers, acquisition or disposal of non-produced, non-financial assets, and financial assets and liabilities. A balance of payments surplus indicates a net inflow of foreign currencies, while a balance of payments deficit indicates a net outflow of foreign currencies.

The following table sets forth the Republic's balance of payments for the periods indicated.

### Balance of Payments<sup>(1)</sup>

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. dollars)				
Current account .....	(24,418)	(29,109)	(27,510)	(17,519)	(16,347)
Goods <sup>(2)</sup> .....	8,680	5,833	6,983	14,049	15,390
Total exports (f.o.b.) .....	187,346	182,089	175,293	149,124	144,441
Non-oil and gas exports .....	151,775	148,501	146,541	131,941	131,554
Oil and gas exports .....	35,571	33,588	28,752	17,184	12,887
Total imports (f.o.b.) .....	(178,667)	(176,256)	(168,310)	(135,076)	(129,051)
Non-oil and gas imports .....	(137,857)	(132,959)	(127,729)	(112,189)	(111,341)
Oil and gas imports .....	(40,810)	(43,297)	(40,582)	(22,887)	(17,710)
Services .....	(10,564)	(12,070)	(10,010)	(8,697)	(6,486)
Primary income .....	(26,628)	(27,050)	(29,703)	(28,379)	(29,681)
Secondary income .....	4,094	4,178	5,220	5,508	4,430
Capital account .....	51	45	27	17	9
Financial account .....	24,858	21,926	44,916	16,843	29,188
(i) Public sector .....	7,030	9,730	14,136	17,588	15,082
Portfolio investment .....	4,577	11,105	18,345	17,778	18,629
Assets .....	(4,674)	848	2,965	392	1,795
Liabilities .....	9,251	10,257	15,380	17,386	16,835
Other investment .....	2,453	(1,376)	(4,209)	(190)	(3,547)
Assets .....	(1)	0	0	0	(269)
Liabilities .....	2,453	(1,376)	(4,209)	(190)	(3,279)
Loans .....	(2,220)	(527)	(1,243)	202	(1,484)
Drawings .....	3,332	4,947	4,035	5,139	3,709
Repayments .....	(5,553)	(5,474)	(5,278)	(4,937)	(5,193)
Other liabilities .....	4,674	(848)	(2,965)	(392)	(1,795)
(ii) Private sector .....	17,828	12,196	30,780	(745)	14,106
Direct investment .....	13,716	12,170	14,733	10,704	15,121
Assets .....	(7,485)	(11,112)	(10,388)	(9,075)	11,359
Liabilities .....	21,201	23,282	25,121	19,779	3,762
Portfolio investment .....	4,629	(233)	7,722	(1,595)	243
Assets .....	(793)	(2,121)	(379)	(1,660)	391
Liabilities .....	5,422	1,888	8,100	65	(148)
Financial derivatives .....	13	(334)	(156)	20	(9)
Other investment .....	(530)	593	8,480	(9,874)	(1,249)
Assets .....	(5,352)	(3,427)	(3,427)	(11,812)	5,293
Liabilities .....	4,822	4,020	11,907	1,938	(6,542)
Errors and omissions .....	(275)	(186)	(2,184)	(439)	(762)
Overall balance .....	215	(7,325)	15,249	(1,098)	12,089
Reserves and related items .....	(215)	7,325	(15,249)	1,098	(12,089)
<u>Memorandum</u>					
Reserve asset position .....	112,781	99,387	111,862	105,931	116,362

Source: Bank Indonesia

<sup>P</sup> Preliminary.

- (1) The use of (+) and (-) signs follows BPM5 whereby (+) means inflow and (-) means outflow. In financial account, (+) denotes increase in liabilities or decrease in assets, while (-) represents increase in assets or decrease in liabilities.
- (2) The calculation of export and import figures included in the balance of payments data compiled by Bank Indonesia differs in coverage and timing from the data on export/import trade compiled by BPS.

In 2014, the current account continued to improve, with the deficit falling from U.S.\$29.1 billion or 3.2% of GDP in 2013 to U.S.\$27.5 billion or 3.1% of GDP in 2014. This improvement was mainly the result of new

policies instituted by Bank Indonesia in close cooperation with the Government. The improvement in the current account was also supported by improved performances in the goods trade balance, services and secondary income accounts. Improvements in the trade balance were mainly attributable to an increase in the non-oil and gas trade surplus compared with 2013, as non-oil and gas imports contracted following moderate demand in the domestic market, as reflected in the decrease in imports of consumption goods, raw materials, and capital goods. Meanwhile, non-oil and gas exports contracted in nominal terms due to a weakening in global demand, especially from China, and the ongoing decline in global commodity prices. Nevertheless, the improvement in the trade balance was contained by the widening oil and gas trade deficit. Declines in the oil and gas trade balance were attributable to the high domestic energy needs, boosting oil and gas imports amid the decreasing oil exports, in line with the decline in oil production and the global oil price.

The narrowing deficit in the services account was attributable to reduced payments in transportation services, in line with the decrease in imports of goods, increased receipts of travel services, along with the rise in the number of foreign travelers visiting Indonesia, and the increased receipt of remittances from Indonesian workers abroad. On the other hand, the income account deficit grew, along with the increase in Indonesia's foreign liability position, mainly due to increased interest payments on the Government's debt securities.

Improvement in Indonesia's economic fundamentals led to an increase in FDI in 2014. The capital and financial account posted a record high of foreign capital inflow, mainly in the form of portfolio investments. Foreign capital inflows in 2014 reached U.S.\$23.5 billion, a significant increase from U.S.\$12.1 billion in 2013. The increased inflows of foreign portfolio investments, in addition to the impact of increases in net foreign buying in Rupiah-denominated portfolio instruments, was supported by the Government's steps to issue foreign currency bonds as a source of fiscal financing.

The capital and financial account surplus in 2014 also benefitted from the increased FDI inflows compared with 2013, with the capital and financial account recording a U.S.\$44.9 billion surplus, almost double the surplus of 2013. The lower current account deficit and the higher capital and financial account surplus resulted in the balance of payments in 2014 swinging back to a surplus of U.S.\$15.2 billion from a deficit of U.S.\$7.3 billion in 2013. This surplus in turn increased international reserves from U.S.\$99.4 billion as of December 31, 2013 to U.S.\$111.9 billion as of December 31, 2014.

In 2015, the current account continued to improve, with the deficit falling from U.S.\$27.5 billion or 3.1% of GDP in 2014 to U.S.\$17.6 billion or 2.0% of GDP in 2015. The improvement in the current account was mainly attributed to the narrowing of the oil and gas trade deficit due to the drop in oil imports brought about by the fall in global crude oil prices and the lower consumption of oil based fuels as a positive impact of the Government subsidy reforms. On the other hand, the decline in imports of non-oil and gas was in line with reduced domestic demand. The decline in the services account deficit resulted from a decline in transportation services (freight) in line with fewer imports of goods.

Amid growing uncertainty in the global financial markets, the capital and financial account in 2015 posted a surplus of U.S.\$16.9 billion, lower than the surplus of U.S.\$44.9 billion in 2014. The decrease was primarily due to decline in direct investment inflows and lower corporate funding needs through foreign borrowing in line with slowing domestic economy. In addition, foreign portfolio inflows decreased sharply as uncertainty in the global financial markets increased, although the uncertainty eased in the fourth quarter of 2015. Meanwhile, other investments deficit was also due to increase in private sector deposits in foreign banks as investors' perception of the domestic economy weakened. Indonesia's overall balance of payments in 2015 recorded a deficit of U.S.\$1.1 billion. As a consequence, international reserves decreased from U.S.\$111.9 billion as of December 31, 2014 to U.S.\$105.9 billion as of December 31, 2015.

Indonesia's overall balance of payments in 2016 recorded a surplus of U.S.\$12.1 billion compared to the deficit of U.S.\$1.1 billion in 2015. The current account balance registered a narrower deficit, decreasing from U.S.\$17.5 billion (2.0% of GDP) in 2015 to U.S.\$16.3 billion (1.8% of GDP) in 2016, on gains in the goods and services trade balance. In 2016, the lower import of goods led to a narrower services trade deficit. In addition, the capital and financial account surplus increased significantly to U.S.\$29.2 billion from U.S.\$16.8 billion the previous year, due to increased direct investment and portfolio investment surpluses. As a result, reserve assets grew to U.S.\$116.4 billion at the end of 2016.

## Financial System

### *Indonesia Deposit Insurance Corporation and Liquidity Support*

Since September 2005, the Indonesia Deposit Insurance Corporation (**IDIC**) has acted to protect bank depositors and actively promote financial stability. The prevailing IDIC coverage is up to Rp2 billion for each depositor in any one bank. The IDIC membership is compulsory for every bank conducting business in Indonesia. The IDIC will pay, in accordance with its procedures, deposit insurance claims when a member bank has its license revoked by the Indonesia Financial Service Authority (*Otoritas Jasa Keuangan* or **OJK**). The maximum amount of deposit insured can be adjusted in the event of a crisis that can potentially decrease public trust in the banking system or affect the stability of the financial system.

The Government's policy on addressing sudden reversals in capital flows involves, among others, the implementation of a Crisis Management Protocol, which involves cooperation between the Ministry of Finance, Bank Indonesia, OJK and IDIC. In the event of a financial crisis, policy steps could include executing buybacks for stabilization in the event of a disruption; taking steps to enhance cooperation among Government institutions, Bank Indonesia, IDIC, SOEs, regulators and other market participants to maintain stability of the sovereign bond market; and encouraging the placement of funds in instruments with a longer maturity by issuing longer term securities and debt switching to lengthen debt maturities and reduce risks associated with refinancing.

In April 2016, the parliament passed the Law on Financial System Crisis Prevention and Management, which provides a clear division of responsibilities between the Ministry of Finance, Bank Indonesia, OJK and IDIC in preventing and resolving crises in the financial system through the establishment of a Financial System Stability Committee with representatives from each of the Ministry of Finance, Bank Indonesia, OJK and IDIC.

### *The Banking System*

The Government's policies for the banking sector emphasize the strengthening of the banking system.

The law governing Bank Indonesia was amended in 2004 to, among other things, provide that Bank Indonesia shall conduct monetary policy to achieve an inflation target as determined by the Government in consultation with Bank Indonesia. It also provides for the creation of the Bank Indonesia Supervisory Board (the **Supervisory Board**) to assist the DPR in conducting oversight of Bank Indonesia's internal financial management. The Supervisory Board comprises five members chosen by the DPR and appointed by the President for three-year tenures. The January 2004 amendment also stipulates that Bank Indonesia is the lender of last resort to ensure the stability of the financial system. Bank Indonesia's banking supervision function was transferred to the OJK on December 31, 2013. The latest amendment to the Central Bank Law was in 2008 mainly to amend the collateral requirement on Sharia financing, certain provisions of which were revoked by the Law on Financial System Crisis Prevention and Management enacted in April 2016.

The authorities implement risk mitigation by strengthening micro and macro-prudential surveillance. Micro-prudential surveillance is performed on an individual bank or financial institution in order to ensure the fulfillment of prudential regulations through on-site and off-site supervision. Additionally, macro-prudential surveillance also aims to ensure that prudential regulations are adhered to at the industry level as an aggregate.

Under a framework of strengthening micro-prudential surveillance, a number of measures have been introduced by Bank Indonesia and the OJK to bolster and improve surveillance in order to better anticipate the symptoms of troubled banks on a risk basis, as well as enhance the quality of human resources through training, attachments and certification programs.

In addition, improvements to the tools and methodologies used in surveillance are ongoing in order to reinforce macro-prudential aspects, among others, stress testing, probability of default analysis, transition matrices and other early warning mechanisms. The creation of the financial system safety net also assists authorities to mitigate potential systemic risks that might arise.

OJK has issued banking regulations that are in line with the international standards, such as the Basel framework. In terms of the capital reforms, OJK issued its rule for the Basel III capital framework in December 2013, which was amended in February 2016. These cover (i) raising the quality of regulatory capital, (ii) setting a minimum Tier 1 and CET 1 ratio of 6% and 4.5%, respectively, as well as a minimum capital requirement based on risk profile between 8% to 14%, and (iii) building-up of adequate buffers above the minimum capital requirement based on risk profile (including a capital conservation buffer, countercyclical buffer and capital

surcharge for D-SIBs). In 2015, OJK issued regulation regarding D-SIB methodology and capital surcharge application which was applied for the first time in January 2016.

As of December 31, 2016, total banking assets were Rp6,843.3 trillion, consisting of assets of commercial banks of Rp6,729.8 trillion and assets of rural credit banks of Rp113.5 trillion.

### ***Islamic Financial System***

The Government believes that the Islamic finance banking industry has an opportunity to grow rapidly in Indonesia, which has the largest Muslim population in the world. The industry provides the Muslim community with alternative financial products and services that conform to Sharia principles. To assist with the development and growth of Islamic financial services in Indonesia, these alternative financial products are considered an integral part of the banking industry and contribute to enhancing the stability of the Indonesian financial system by supporting national economic development in Indonesia.

In July 2008, the Sharia Banking Law was enacted to facilitate the expansion of the Indonesian Islamic banking industry. The Sharia Banking Law applies Sharia principles to banking for Sharia banks and Sharia divisions of conventional banks, prohibiting the payment and receipt of interest and providing that returns on funds that are distributed or lent out must be based on the actual profits generated. The Sharia Banking Law also prohibits Islamic banking business and transactions that would support practices or products forbidden or discouraged by Sharia principles. This law also requires existing Sharia divisions of commercial banks to operate as separate Islamic commercial banks if such a division's assets account for at least half of the parent commercial bank's assets or within 15 years of the enactment of the Sharia Banking Law. The Government believes that this legislation will better position Indonesia as a venue for Islamic banking and finance.

The Indonesian Islamic financial industry has been developing under the regulatory authority of OJK (since December 31, 2013) and previously Bank Indonesia, which formulates and publishes a strategic plan for the development of the industry. OJK has established a new strategic plan for the development of the Indonesia's Islamic banking industry for 2015-2019. This new strategic plan is expected to provide guidelines that include detailed initiatives as well as specific objectives for the Sharia banking industry to achieve. This strategic plan for the development of the national Sharia banking industry is recognized as the "Roadmap of Indonesian Islamic Banking 2015-2019" with a view to "establish an Islamic banking industry that provides significant contributions to sustainable economic growth, equitable development, financial system stability and is highly competitive."

OJK and Bank Indonesia have issued various regulations in order to support the growth and development of the Sharia banking industry with due observance to precautionary principles and Sharia principles.

As of December 31, 2016, the assets of Sharia banks were Rp365 trillion, or 5.3% of the country's total banking assets.

The Sharia Non-Bank Financial Industry (*Industri keuangan Non Bank Syariah* or **IKNB Sharia**) is also supervised by OJK and consists of the Sharia Insurance Company, the Sharia Pension Fund, the Sharia Financial Institution and other Sharia Financial Service Institutions. OJK issued a regulation to govern the Sharia pension funds which came into force in September 2016. Under the regulation, management of Sharia pension funds may be conducted by way of: (i) establishment of Sharia pension fund, (ii) conversion of pension fund into Sharia pension fund, (iii) formation of Sharia unit in Employee Pension Fund, or (iv) sale of Sharia investment package in financial institution pension fund. There are currently no established Sharia pension funds in Indonesia.

### ***Anti-Money Laundering Regime***

Various financial regulatory agencies in the Republic were formed to combat money laundering activities within Indonesia. In 2002, the Government enacted an anti-money laundering law (**2002 AML Law**), and established a financial intelligence unit, the Indonesian Financial Transaction Reports and Analysis Centre (**INTRAC/Pusat Pelaporan Analisis Transaksi Keuangan** or **PPATK**). The PPATK's duties were later expanded to include matters relating to countering financing of terrorism, and consequently, the PPATK was appointed to be the focal point of countering money-laundering and financing of terrorism in Indonesia.

Some of the significant progress made in implementing the Government's anti-money laundering laws and countering financing of terrorism (**CFT**) national strategies in the last few years includes: promulgating an Anti-Money Laundering Law, namely, Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering

Crimes (**2010 AML Law**) and the ratification of the UN Convention against Transnational Organized Crime. The 2010 AML Law came into force on October 22, 2010 replacing the 2002 AML Law, as amended, to be in line with current international standards and best practices.

As part of the implementation of the Government's policy to prevent and eradicate the crime of money laundering, the PPATK has issued various regulations as further implementation of the 2010 AML Law.

On March 13, 2013, the DPR adopted the Law No. 9 of 2013 on the Prevention and Eradication of the Financing of Terrorism (**Law No. 9**). Law No. 9 comprehensively regulates: (i) the criminalization of terrorist financing offenses and other offenses related to terrorism financing offenses; (ii) the application of the principle of recognizing users of financial services; reporting and compliance monitoring; (iii) surveillance activities through a remittance transfer system or through other systems by financial service providers; (iv) control disposition of cash and/or other payment instruments into or outside the Indonesian customs area; (v) blocking mechanisms; (vi) the inclusion in the list of suspected terrorists and terrorist organizations; and (vii) the setting of the investigation, prosecution, and examination at trial.

Terrorism financing within the scope of Law No. 9 includes acts committed, directly or indirectly, in order to provide, gather, give, or lend funds to those who are known to intend to commit an act of terrorism. In addition to individuals, Law No. 9 regulates the criminalization of terrorist financing to terrorist organizations. Terrorist organizations within Law No. 9 can include a collection of people who have a common goal and that, based on a court decision, have committed an act of terrorism. Parties that are named in lists of terrorist organizations also fall within the scope of Law No. 9.

### ***Bank Indonesia***

Bank Indonesia is the central bank of the Republic. Its statutory mandate states that "the objective of Bank Indonesia is to achieve and maintain the stability of the Rupiah." Rupiah stability can be measured in terms of its value vis-à-vis either domestic or external goods. Rupiah stability relative to domestic goods is reflected in the inflation rate, while stability relative to external goods is represented by the exchange rate of the Rupiah against other currencies. Market conditions determine the Rupiah exchange rate, consistent with the floating exchange rate system adopted by Bank Indonesia in August 1997. See "*Foreign Exchange and Reserves — Exchange Rates*." Bank Indonesia may, however, continue to use its policy instruments to minimize exchange rate fluctuations.

Bank Indonesia, as a separate legal entity from the Government, has its own assets and its own liabilities. The foreign exchange reserves held by Bank Indonesia are recorded on the assets side of the Bank Indonesia balance sheet, while certain items of foreign debt (such as loans from the IMF) are liabilities of Bank Indonesia.

The following table sets forth the balance sheet of Bank Indonesia and was prepared in accordance with the Monetary and Financial Statistics Manual published by the IMF, as of the dates indicated.

### Analytical Balance Sheet of Bank Indonesia

	Year Ended December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. dollars)				
Base Money (M0) . . . . .	704,843	821,679	918,421	945,916	989,565
Currency in Circulation <sup>(1)</sup> . . . . .	439,720	500,020	528,537	586,763	612,545
Commercial Banks Demand Deposits at Bank Indonesia . . . . .	239,957	253,655	287,484	308,756	288,824
Private sector Demand Deposits . . . . .	133	451	1,397	366	361
Bank Indonesia Certificates (SBI) <sup>(2)</sup> . . . . .	25,033	67,552	101,002	50,031	87,835
Factors Affecting Base Money (M0) . . . . .	704,843	821,679	918,421	945,916	989,565
Net Foreign Assets . . . . .	1,056,084	1,169,689	1,351,402	1,422,446	1,525,701
Claims on Non-Residents . . . . .	1,152,721	1,279,282	1,424,331	1,529,331	1,642,137
Liabilities to Non-Resident . . . . .	(96,636)	(109,593)	(72,929)	(106,886)	(116,436)
Claims on Other Depository Corporations . . . . .	3,226	2,315	1,489	465	362
Liquidity Credits . . . . .	1,137	1,016	978	56	56
Other Claims . . . . .	2,089	1,300	511	409	307
Net claims on Central Government . . . . .	200,520	185,249	168,098	91,814	82,455
Claims on Central Government . . . . .	252,214	245,029	237,218	241,710	207,515
Liabilities to Central Government . . . . .	(51,694)	(59,781)	(69,120)	(149,895)	(125,060)
Claims on Other Sectors . . . . .	13,508	8,116	7,927	7,865	7,505
Claims on Other Financial Institutions . . . . .	202	6	1	0	0
Claims on Private Sectors . . . . .	13,306	8,109	7,926	7,865	7,505
Open Market Operations <sup>(3)</sup> . . . . .	(344,565)	(193,362)	(246,403)	(177,243)	(259,798)
Other Liabilities to Commercial & Rural Banks . . . . .	(50,407)	(68,872)	(74,899)	(83,990)	(80,483)
Deposits included in Broad Money (M2) . . . . .	—	—	—	—	0
Deposits excluded from Broad Money (M2) . . . . .	(35)	(15)	(17)	(192)	(9)
Shares and Other Equity . . . . .	(169,783)	(284,545)	(288,822)	(313,331)	(252,816)
Net Other items . . . . .	(3,705)	3,106	(353)	(1,918)	(33,352)

Source: Bank Indonesia

<sup>P</sup> Preliminary.

- (1) Currency outside banks plus cash in vault.
- (2) SBI which is used to fulfill the secondary statutory reserve requirement of banks and accounted for as primary money supply components. Included in Base Money since October 2009.
- (3) Consists of total SBI after it is reduced by the SBI used to fulfill the secondary statutory reserve requirement of banks, and is accounted for as a primary money supply component (see footnote 1). Such SBI types include: Syariah SBI, Third Party Syariah SBI, Bank Indonesia Facility, Fine Tune Operation, Government Bonds, State Syariah Negotiable Paper, and Reserve Reverse Repo Government Bonds.

#### ***Banks and Other Financial Institutions***

The Indonesian financial system consists of banks and non-bank financial institutions. Non-bank financial institutions consist of, among other things, insurance companies, pension funds, finance companies, venture capital companies, securities companies, mutual funds, credit guarantee companies and pawn shops.

The following table sets forth the total number of financial institutions in operation and their share of total assets of the financial system as of December 31, 2016.

### Indonesian Financial Institutions as of December 31, 2016

	Number of institutions	Assets*	Percentage of total assets
		(in trillions of Rupiah)	(%)
<b>Banking:</b>			
Commercial banks .....	118	6,729.8	74.67
Rural credit banks .....	1,633	113.5	1.26
Total banking .....	1,751	6,843.3	75.93
<b>Insurance:</b>			
Life insurance .....	58	409.7	4.55
General insurance & Reinsurance .....	80	129.2	1.43
Social insurance <sup>(1)</sup> .....	5	410.0	4.55
Total insurance .....	143	948.9	10.53
<b>Pension funds<sup>(2)</sup>:</b>			
Financial institution pension funds .....	25	61.8	0.69
Employer pension funds .....	224	171.9	1.91
Total pension funds .....	249	233.7	2.59
Finance companies <sup>(3)</sup> .....	200	442.8	4.91
Venture capital companies .....	66	11.3	0.13
Securities companies <sup>(4)(5)</sup> .....	114	40.3	0.45
Mutual funds (collective investment schemes, not institutions) ....	1,425	338.8	3.60
Credit guarantee companies .....	23	120.8	1.34
Pawn shops .....	2	47.0	0.52
Total .....	3,948	9,012.6	100.00

Sources: OJK

\* Unaudited other than in respect of Banking, Securities Companies, and Mutual Funds.

- (1) Social insurance encompasses traffic and public transportation, health social security programs, worker social security programs and insurance for civil servants and the armed forces.
- (2) As of November 30, 2016.
- (3) Finance companies provide financing for leasing, factoring, consumer finance and credit cards.
- (4) Excludes 18 securities companies that are not members of a securities exchange but act as broker-dealers.
- (5) Assets as of September 30, 2016.

Indonesian banks are divided into two categories: commercial banks and rural banks. Both commercial and rural banks may operate under either conventional banking principles or under Sharia principles.

The OJK is responsible for the regulation and supervision of the insurance industry. Development of this sub-sector has required the implementation of more robust regulatory requirements and, in particular, improved capital requirements, including requirements to continuously maintain a specified ratio of risk weighted assets to risk weighted liabilities.

Pension funds are divided into two categories: employer pension funds and financial institution pension funds. Employer pension funds may be run either as defined benefit plans or as defined contribution plans, while financial institution pension funds may only be run as defined contribution plans.

Indonesia's other non-bank financial institutions include finance companies, guarantee companies, venture capital companies, Indonesia export credit agencies, infrastructure financing companies and secondary mortgage facilities companies.



## Bank Assets and Liabilities

The following table sets forth the consolidated balance sheets of the commercial banks as of the dates indicated.

### Consolidated Balance Sheet of Commercial Banks

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in trillions of Rupiah)				
<b>Assets</b>					
Loans	2,725.7	3,319.8	3,706.5	4,092.1	4,413.4
Interbank Assets	166.6	171.9	182.4	211.9	207.1
Placements at Bank Indonesia	580.7	506.5	569.0	685.6	717.8
Securities (including Government Bonds)	429.9	520.6	636.7	660.8	860.5
Equity Participation	15.1	15.7	21.0	25.6	33.9
Other Claims	176.5	183.1	245.4	155.5	171.3
Others	168.1	236.9	254.2	297.7	325.8
Total Assets	<u>4,262.6</u>	<u>4,954.5</u>	<u>5,615.2</u>	<u>6,129.4</u>	<u>6,729.8</u>
<b>Liabilities</b>					
Third Party Funds	3,225.2	3,603.6	4,114.4	4,413.1	4,836.8
Liabilities owed to Bank Indonesia	1.9	1.8	2.1	0.7	0.8
Interbank Liabilities	124.7	115.8	133.0	161.1	168.5
Securities	42.1	54.5	54.3	65.5	93.2
Borrowing	75.3	112.9	145.9	177.7	179.7
Other Liabilities	60.3	85.1	120.7	109.6	100.7
Guarantee Deposits	5.0	5.9	5.6	6.3	5.2
Others	202.7	352.2	317.1	383.9	432.2
<b>Capital:</b>					
Paid in Capital	123.3	138.1	153.4	164.3	176.7
Reserves	38.7	50.6	67.6	81.7	64.8
Current Earnings/Loss	92.8	106.7	112.2	104.6	106.5
Retained Earnings/Loss	150.0	201.1	256.6	323.8	411.2
Estimates of Additional Paid in Capital	89.4	92.6	97.9	96.2	111.7
Others	31.2	33.6	34.4	40.9	41.7
Total Liabilities and Capital	<u>4,262.6</u>	<u>4,954.5</u>	<u>5,615.2</u>	<u>6,129.4</u>	<u>6,729.8</u>

Source: Bank Indonesia up to December 31, 2013. OJK from January 1, 2014 onwards.

<sup>P</sup> Preliminary.

The following table shows the average capital adequacy ratio of the banking system for the periods indicated:

### Average Capital Adequacy Ratios

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(%)				
CAR	<u>17.4</u>	<u>18.1</u>	<u>19.6</u>	<u>21.4</u>	<u>22.9</u>

Source: Bank Indonesia and OJK

<sup>P</sup> Preliminary.

## Non-Performing Loans

Since the beginning of 2005, Indonesian banks have been required to calculate their NPLs using international best practices-based standards that require banks to classify as “non-performing” all loans to any borrower if any of that borrower’s loans are non-performing. Banks nationwide are required to apply the same uniform loan classification system to all loans meeting one of three criteria: (i) loans greater than Rp10 billion

that are made to one borrower or one similar project; (ii) loans between Rp1 billion and Rp10 billion that are made to one of the 50 largest debtors of the lending bank; and (iii) loans based on joint financing to one borrower or one project.

The following table shows the gross NPL ratios as of the dates indicated.

### Non Performing Loans Ratios

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
Gross NPL ratio . . . . .	1.9	1.8	2.2	2.4	2.9

Source: Bank Indonesia and OJK

<sup>P</sup> Preliminary.

### Capital Markets and Capital Markets Regulation

The Indonesian capital markets are regulated by the OJK. OJK superseded the Capital Markets and Financial Institutions Supervisory Agency (*Badan Pengawas Pasar Modal dan Lembaga Keuangan* or **Bapepam-LK**) and assumed its duties and functions when Bapepam-LK and the Ministry of Finance's Directorate General of Financial Institution (**DJLK**) were merged into a single unit on December 31, 2012.

The regulatory framework for the Indonesian capital markets is provided by the Capital Markets Law No. 8 of 1995 on Capital Markets (the **Capital Markets Law**). The Capital Markets Law granted the original regulatory authority (and its successors, including OJK) authority in the fields of regulation, development, supervision and law enforcement. The law also provides the authority and responsibilities of self-regulatory organizations, capital market institutions, professionals and firms conducting business in the capital markets. According to the Capital Markets Law, OJK is responsible for the guidance, regulation and day-to-day supervision necessary to implement orderly, fair and efficient capital markets and to protect the interests of investors and the public.

Over the past few years, OJK has introduced rules to strengthen its supervisory and enforcement capacity over Indonesia's capital markets and to promote sound and transparent capital markets. It has exercised its authority over publicly listed companies by issuing new corporate governance regulations to make corporate management and audit committees more directly responsible for financial reports. OJK has also issued revised regulations on the content of listed companies' annual reports, general meeting of shareholders, board of directors and board of commissioners, remuneration and nomination committees, and corporate secretary.

The following table sets forth key indicators regarding the Indonesian Stock Exchange (*Bursa Efek Indonesia* or **IDX**) and any securities traded on the IDX as of December 31, 2016.

### Indonesian Stock Exchange

	IDX
Market capitalization (in trillions of Rupiah) . . . . .	5,753.6
Listed shares (in billions of shares) . . . . .	3,913.7
Average daily transaction value (in billions of Rupiah) . . . . .	7,505.0
Average daily transaction volume (in millions of shares) . . . . .	7,911.7

Source: OJK and IDX

As the largest Muslim country in the world, Indonesia has been engaged in an initiative to establish a legal framework for the development of an investor market in Indonesia for Sharia-compliant securities, which are securities that comply with the tenets of Islamic legal principles. The OJK and Bapepam-LK have issued various regulations on the form and issuance of Sharia-compliant commercial paper and mutual funds to enhance the growth of the Sharia-compliant securities industry and to provide alternative mutual fund products to investors within Indonesia as well as to attract Muslim investors outside Indonesia.

The IDX, a self-regulatory body, has two indices based on Sharia stock, the Jakarta Islamic Index (**JII**) and the Indonesia Sharia Stock Index (**ISSI**).

The JII is a stock market index established on the Indonesian Stock Exchange. The JII launched in 2000 and consists of the 30 largest Sharia-compliant listings by market capitalization. As of December 31, 2016, the market capitalization of the JII was Rp2,035.2 trillion.

The IDX launched the ISSI on May 12, 2011. As of December 31, 2016, the ISSI is comprised of 331 Sharia stocks which are listed on the Indonesia Stock Exchange. As of December 31, 2016, the market capitalization of the ISSI was Rp3,170.1 trillion.

### **Monetary Policy**

Bank Indonesia conducts its monetary policy under two principles: first, inflation targeting framework (**ITF**) was adopted as the anchor of monetary policy. Second, a floating exchange rate system was introduced under which Bank Indonesia may intervene in the foreign exchange market, but the objective of Bank Indonesia's intervention is not to achieve a particular exchange rate level but to avoid excessive volatility.

Bank Indonesia adopted the ITF in July 2005. It replaced the previous monetary policy using base money as the monetary policy target. At the operational level, the monetary policy stance is reflected in the setting of the policy rate (**BI Rate**) with the expectation of influencing money market rates and in turn the deposit rates and lending rates in the banking system. Changes in these rates will ultimately influence inflation. While other factors in the economy are also taken into account, Bank Indonesia will normally raise the BI Rate if future inflation is forecasted ahead of the established inflation target. Conversely, Bank Indonesia will lower the BI Rate if future inflation is predicted below the inflation target.

In order to strengthen its monetary policy framework, Bank Indonesia introduced a new benchmark rate effective from August 19, 2016, namely the Bank Indonesia 7-Day Reverse Repo Rate (the **BI Repo Rate**), to replace the BI Rate. The BI Repo Rate changes the tenor of the policy rate from a 360 day tenor (used in the BI Rate) to 7-day tenor money market rates. The change aims to improve the effectiveness of monetary policy in influencing money market rates and bank rates, both lending and funding rates. The enhancement is directed to strengthen the effectiveness of policy rate setting as a tool to achieve monetary policy operational targets as reflected in the overnight interbank rates.

Implementation of the BI Repo Rate is also complemented by normalization of the interest rate corridor in which the Lending Facility (**LF**) and the Deposit Facility (**DF**) are positioned symmetrically from the BI Repo Rate at a spread of 75 basis points (**bps**). Under the old monetary operations regime (BI Rate), the LF was slightly closer to the BI Rate than the DF, leading to an asymmetrical corridor.

In order to ensure financial and macroeconomic stability, Bank Indonesia also deploys a variety of policy instruments (policy mix approach) which consist of (i) policy rate to anchor inflation expectation complemented by (ii) exchange rate flexibility to lessen pressure on current account, (iii) capital flow management to dampen short-term excessive volatility of exchange rate, (iv) appropriate macro-prudential measures, and (v) ensure good communication to the public. Bank Indonesia also pursues financial market deepening to support the stability of the Rupiah exchange rate and enhance the effectiveness of transmission of monetary policy.

In October 2016, Bank Indonesia lowered the BI Repo Rate by 25 bps from 5.00% to 4.75%, while also lowering the DF and LF rates by 25 bps to 4.0% and 5.5%, respectively. In November 2016, Bank Indonesia held the BI Repo Rate at 4.75% and maintained the DF and LF rates at 4.0% and 5.5%, respectively. The decision reflects BI's response to increasing uncertainty in the global financial markets following the U.S. elections. These measures allowed for a stable domestic macroeconomic environment, as reflected by low inflation and a narrower current account deficit.

In its subsequent monthly meetings, namely in December 2016 and January 2017, Bank Indonesia held the BI Repo Rate at 4.75%, while maintaining the DF and LF rates at 4.00% and 5.50%, respectively. These decisions reflected Bank Indonesia's efforts to maintain macroeconomic and financial system stability, while preserving the recovery momentum of the domestic economic in light of the uncertain direction of US policies, the geopolitical risks in Europe, and domestic risks related to the impact of administered prices in response to inflation.

### **Money Supply**

Bank Indonesia tracks several different measures of money supply. Base money includes currency (bank notes and coins in circulation) and demand deposits of commercial banks at Bank Indonesia (**Base Money**). Narrow money consists of currency plus Rupiah-denominated demand deposits in commercial banks, interbank

transfers for customers which have not cleared through the banking system and matured (but uncollected) time deposits at commercial banks (**Narrow Money**). Broad money consists of Narrow Money plus quasi-money, which includes time deposits and savings deposits in Rupiah and deposits in foreign currencies (**Broad Money**).

The following table sets forth the money supply for the periods indicated.

<u>End of period</u>	<b>Money Supply</b>					
	<u>Base Money</u>	<u>Currency</u>	<u>Demand deposits</u>	<u>Total<sup>M1</sup></u>	<u>Quasi-money</u>	<u>Total<sup>M2</sup></u>
	(in billions of Rupiah)					
2012 .....	704,843	361,897	479,755	841,652	2,455,435	3,307,508
2013 .....	821,679	399,609	487,475	887,084	2,820,521	3,730,409
2014 .....	918,421	419,262	522,960	942,221	3,209,475	4,173,327
2015 .....	945,916	469,534	585,906	1,055,440	3,479,961	4,548,800
2016P .....	989,565	508,124	729,519	1,237,643	3,753,809	5,004,977

Source: Bank Indonesia

M1 Narrow Money

M2 Broad Money.

<sup>P</sup> Preliminary.

<u>End of period</u>	<b>Factors affecting money supply</b>			
	<u>Foreign assets (net)</u>	<u>Claims on central Government (net)<sup>(1)</sup></u>	<u>Claims on business sectors</u>	<u>Other items (net)<sup>(2)</sup></u>
	(in billions of Rupiah)			
2012 .....	965,442	389,827	2,581,327	17,778
2013 .....	1,011,361	406,611	3,098,305	34,147
2014 .....	1,105,783	416,608	3,488,677	49,733
2015 .....	1,176,638	491,127	3,822,128	57,313
2016P .....	1,298,938	519,065	4,115,821	79,272

Source: Bank Indonesia

(1) Claims on the Government are Rupiah-denominated claims which are included net of the Government's deposits with the banking system.

(2) Includes capital accounts, SDR allocations and inter-system accounts.

<sup>P</sup> Preliminary.

In 2014, Broad Money grew by 11.9% (year-on-year) to Rp4,173.3 trillion resulting from slower Government expansion. Quasi money growth slowed to 13.8% (year-on-year) from the 2013 level of 14.9% (year-on-year) primarily due to sharp decline in foreign currency deposits (consisting of, time deposits, saving deposits and demand deposits). Narrow Money growth increased by 6.2% (year-on-year) driven by increasing growth of Rupiah demand deposits.

In 2015, Broad Money growth slowed to 8.9% (year-on-year) to Rp4,548.8 trillion due to lower growth in quasi-money. Quasi-money growth decreased from 13.8% (year-on-year) in 2014 to 8.4% (year-on-year) in 2015. Narrow Money growth increased from 6.2% (year-on-year) in 2014 to 12.0% (year-on-year) in 2015. Increase in currency outside commercial and rural banks as well as Rupiah demand deposits contributed to Narrow Money growth.

In 2016, Broad Money grew by 10.0% (year-on-year) to Rp5,004.9 trillion due to accelerated growth in Narrow Money. Narrow Money growth increased from 12.0% (year-on-year) in 2015 to 17.3% (year-on-year) in 2016. Increase in currency outside commercial and rural banks as well as Rupiah demand deposits contributed to Narrow Money growth. On the other hand, growth of quasi-money decreased from 8.4% (year-on-year) in 2015 to 7.9% (year-on-year) in 2016.

## **Government Budget**

### ***Fiscal Policy***

Since 2001, the focus of the Government's fiscal policy has been to promote fiscal consolidation and reduce Government debt gradually in order to achieve fiscal sustainability. As a result of the overall macroeconomic situation and current policy challenges, since 2006, the Government has also focused fiscal policy on providing a modest degree of stimulus to the overall economy, within the constraints of the Government's overall fiscal situation.

## Central Government Revenue and Expenditure

	Year Ended December 31,						
	2012 <sup>L</sup>	2013 <sup>L</sup>	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>R</sup>	2016 <sup>P</sup>	2017 <sup>B</sup>
	(in trillions of Rupiah)						
Revenues and grants:							
Domestic revenue							
Tax revenue	980.5	1,077.3	1,146.9	1,240.4	1,539.2	1,284.9	1,498.9
Non-tax revenue	351.8	354.8	398.6	255.6	245.1	262.0	250.0
Total domestic revenue	1,332.3	1,432.1	1,545.5	1,496.0	1,784.2	1,547.0	1,748.9
Grants	5.8	6.8	5.0	12.0	2.0	8.2	1.4
Total revenues and grants	1,338.1	1,438.9	1,550.5	1,508.0	1,786.2	1,555.2	1,750.3
Expenditures:							
Central government expenditures	1,010.6	1,137.2	1,203.6	1,183.3	1,306.7	1,150.2	1,315.5
Transfer to regions and rural fund <sup>(1)</sup>	480.6	513.3	573.7	623.1	776.3	710.4	764.9
Total central and transfer expenditures	1,491.2	1,650.5	1,777.3	1,806.4	2,082.9	1,860.7	2,080.5
Suspend <sup>(2)</sup>	0.2	0.1	(0.1)	0.1	—	—	—
Total expenditures	1,491.4	1,650.6	1,777.2	1,806.5	2,082.9	1,860.7	2,080.5
Primary balance <sup>(3)</sup>	(52.8)	(98.6)	(93.3)	(142.5)	(105.5)	(122.7)	(109.0)
Surplus/(deficit)	(153.3)	(211.7)	(226.7)	(298.5)	(296.7)	(305.4)	(330.2)
Financing: <sup>(4)</sup>							
Debt Financing	140.8	223.2	255.7	380.9	371.6	397.5	384.7
Investment Financing	(25.7)	(16.9)	(8.9)	(59.7)	(94.0)	(89.1)	(47.5)
On-Lending	2.8	0.3	2.5	1.5	0.5	3.3	(6.4)
Government Guarantee	—	(0.7)	(1.0)	—	(0.7)	(0.7)	(0.9)
Other Financing	57.3	31.4	0.5	0.3	19.3	19.6	0.3
Total Financing	175.2	237.4	248.9	323.1	296.7	330.6	330.2

Source: Ministry of Finance

<sup>L</sup> LKPP (Central Government Financial Report/Audited).

<sup>B</sup> 2017 Budget.

<sup>R</sup> Revised 2016 Budget.

- (1) Starting from fiscal year 2015, central government allocates rural fund based on law number 6/2014.
- (2) Realized expenditures calculated by the Ministry of Finance differed from the figures calculated by line ministries and such discrepancies have been subtracted and added, respectively, to totals for such years after the fiscal year is over. "Suspend" is not reported in the current year.
- (3) Primary balance represents revenues minus expenditures excluding interest expenditures.
- (4) In 2012, total financing of Rp175.2 trillion exceeded the budget deficit of Rp153.3 trillion and the Government added the difference of Rp21.9 trillion to its reserves. In 2013, total financing of Rp237.4 trillion exceeded the budget deficit of Rp211.6 trillion and the Government added the difference of Rp25.7 trillion to its reserves. In 2014, total financing of Rp248.9 trillion exceeded the budget deficit of Rp226.7 trillion and the Government added the difference of Rp22.2 trillion to its reserves. In 2015, total financing of Rp323.2 trillion exceeded the budget deficit of Rp298.5 trillion and the Government added the difference of Rp24.7 trillion to its reserves. In 2016, total financing of Rp330.6 trillion exceeded the budget deficit of Rp305.4 trillion and the Government added the difference of Rp25.2 trillion to its reserves.

### 2016 Budget

Under the 2016 Budget, the Government established the following fiscal policy strategies:

- strengthening economic stimulus in order to increase production capacity and competitiveness;
- increasing fiscal resilience and supporting prioritized programs; and
- controlling risks and maintaining fiscal sustainability, both in the medium-and long-term.

2016 was the first year in which President Widodo's working cabinet, the *Kabinet Kerja*, fully prepared the budget to reflect its programs and policies. In doing so, *Kabinet Kerja* sought to: (i) develop more targeted subsidy reform; (ii) improve fiscal support to priority programs and spending; (iii) control mandatory spending; (iv) manage the budget deficit; and (v) improve budget and spending practices.

In the 2016 Budget, the Government aimed to achieve revenue optimization through supporting tax revenue and non-tax revenue optimization. Generally, tax revenue policies employed by the Government were directed at: (i) optimizing tax revenue without interrupting business; (ii) maintaining national economic stability and maintaining purchasing power; (iii) increasing the competitiveness and value of national industries by improving tax and industrial policies; (iv) controlling excise-taxed goods by adjusting excise tariffs on tobacco products and alcoholic beverages; and (v) executing various technical tax policies.

For non-tax revenue, the Government sought to optimize revenue by: (i) optimizing natural resources (oil and gas) by, among other things, increasing lifting estimation and target delivery; (ii) adjusting production tariffs and royalties; (iii) intensifying and expanding geothermal exploration and improving geothermal energy laws; (iv) adjusting the imposition of non-tax revenue tariffs and increasing the quality of forestry and environment non-tax revenue management; (v) increasing the role of SOEs as agents of development to support priority programs of the Government; and (vi) improving the services of Public Services Agency to the people.

The 2016 Budget included a target fiscal deficit of 2.2% of the projected GDP in 2016, compared to 1.9% in the Revised 2015 Budget. Total expenditure under the 2016 Budget is estimated at Rp2,095.7 trillion. The 2016 Budget total revenue (including grants) amounts to Rp1,822.5 trillion, an increase of Rp609 trillion compared to its Revised 2015 Budget. Allocation of Transfer to Region is increased to Rp770.2 trillion, close to the Ministry/Agencies allocation of Rp784.1 trillion.

Some policies implemented in the 2015 Revised Budget were continued in the 2016 Budget, for instance, budget allocation for rural areas, to support the idea of “developing from suburbs.” The allocation for health budget is raised to 5.0% in the 2016 Budget, which at Rp104.8 trillion, is an increase from the 2015 Revised Budget of 3.7% of the budget, or Rp74.3 trillion. The education budget remains at 20.0%, or Rp419.2 trillion.

In the 2016 Budget, a village fund was allocated for every village based on its population, poverty level and location. The 2016 Budget allocated Rp770.2 trillion for the transfer to regions and village fund, an increase of 15.9% from the Revised 2015 Budget. The village fund for 2016 has been allocated at Rp47.0 trillion, an increase of Rp26.2 trillion from the 2015 Revised Budget. The Balanced Fund increased to Rp700.4 trillion, while DBH, DAU and DTK amount to Rp106.1 trillion, Rp385.4 trillion and Rp208.9 trillion, respectively.

In order to preserve fiscal sustainability, the deficit target in the 2016 Budget was approximately 2.2% of GDP, within the safe harbor limit of 3.0% of GDP mandated by law. The 2016 Budget projects a deficit of Rp273.2 trillion. The Government expects to finance the projected deficit from both domestic and international sources. In 2016, the incurrence of foreign debt is expected to help reduce the cost of overall loan withdrawals, decrease the market risk of Government securities management, diversify the Government’s loan sources and support the foreign exchange reserve supply.

### ***Revised 2016 Budget***

The Government adopted its Revised 2016 Budget on July 27, 2016 regarding changes concerning state budget fiscal year 2016. The Revised 2016 Budget was executed due to changes in basic macroeconomic assumptions underlying the original 2016 Budget and main fiscal policies having significant impact on the budget.

The key macroeconomic assumptions underlying the Revised 2016 Budget, as compared with the original 2016 Budget, are as follows:

- a real GDP growth rate of 5.2%, compared with 5.3% in the original 2016 Budget;
- an inflation rate of 4.0%, compared with 4.7% in the original 2016 Budget;
- a three-month SPN yield of 5.5%, compared with 5.5% in the original 2016 Budget;
- an exchange rate of Rp13,500 to U.S.\$1, compared with Rp13,900 to U.S.\$1 in the original 2016 Budget;
- average oil production by the Republic of 820,000 barrels of oil per day, compared with 830,000 barrels of oil per day in the original 2016 Budget;
- average gas production by the Republic of 1.15 million barrels of oil equivalent of gas per day, compared with 1.155 million barrels of oil equivalent of gas per day in the original 2016 Budget;

- an average ICP of U.S.\$40 per barrel, compared with U.S.\$50 per barrel in the original 2016 Budget; and
- a revised projected nominal GDP of Rp12,626.5 trillion, compared with Rp12,704.9 trillion in the original 2016 Budget (calculated at current market prices).

The Revised 2016 Budget includes a target fiscal deficit of 2.4% of the projected GDP in 2015, while total expenditure under the Revised 2016 Budget is estimated at Rp2,082.9 trillion, a decrease of Rp12.8 trillion from the original 2016 Budget. The Revised 2016 Budget projected total revenue (including grants) amounts to Rp1,786.2 trillion, a decrease of Rp36.3 trillion as compared to the original 2016 Budget.

The Revised 2016 Budget allocates Rp776.3 trillion for the transfer to regions and rural fund, an increase of 0.79% from the original 2016 Budget. The balanced fund increased to Rp5.0 trillion, while the sharing fund, the general allocation fund and the special allocation fund amounted to Rp109.1 trillion, Rp385.4 trillion and Rp211.0 trillion, respectively. The Revised 2016 Budget also allocates Rp47.0 trillion for the rural fund.

In order to maintain fiscal sustainability, the Revised 2016 Budget projects a deficit of Rp296.7 trillion (2.5% of GDP), Rp23.5 trillion lower than the original 2016 Budget. The Government expects to finance the projected deficit under the Revised 2016 Budget from both domestic and international sources.

### ***Realization of 2016 Budget***

The Government tracks actual economic performance, as compared with its budgeting numbers, and refers to these comparisons as realization.

The key macroeconomic results in 2016, as compared with the key macroeconomic assumptions underlying the Revised 2016 Budget, are as follows:

- a real GDP growth rate of 5.0%, compared with 5.2% in the Revised 2016 Budget;
- an inflation rate of 3.0%, compared with 4.0% in the Revised 2016 Budget;
- a three-month SPN yield of 5.7%, compared with 5.5% in the Revised 2016 Budget;
- an exchange rate of Rp13,307 to U.S.\$1, compared with Rp13,500 to U.S.\$1 in the Revised 2016 Budget;
- average oil production by the Republic of 829,000 barrels of oil per day, compared with 820,000 barrels of oil per day in the Revised 2016 Budget;
- average gas production by the Republic of 1.18 million barrels of oil equivalent of gas per day, compared with 1.12 million barrels of oil equivalent of gas per day in the Revised 2016 Budget; and
- an average ICP of U.S.\$40.2 per barrel, compared with U.S.\$40 per barrel in the Revised 2016 Budget.

In 2016, the realization of total domestic revenue (including grants) was Rp1,555.2 trillion, 87.1% of the targeted amount set out in the Revised 2016 Budget. This was mainly due to lower economic growth in 2016 as compared with the projected growth in the budget. Tax revenue collection increased in 2016 as compared to 2015 due to the success of the tax amnesty program, and tax revenues collected through the program is expected to grow with increased tax compliance and increased data collection for tax purposes. State expenditure realization amounted to Rp1,860.7 trillion or 89.3% of the projected expenditure in the Revised 2016 Budget. The deficit in 2016 was 2.46% of GDP, while the exchange rate of Rp13,307 to U.S.\$1 was stronger than the exchange rate in the Revised 2016 Budget, primarily due to the tax amnesty policy.

### ***2017 Budget***

The Government adopted its budget for state budget year 2017 (the 2017 Budget) on November 18, 2016.

Policies underlying the 2017 Budget are aimed at supporting the development targets, primarily supporting sustainable growth and employment, poverty eradication, and maintaining balance with fiscal resilience and controlling risk.

The main policies underlying the 2017 Budget include: (i) optimization of state revenue, mainly through taxation, (ii) emphasis on priority spending to accelerate infrastructure development and reduction of poverty and the social gap and (iii) stronger risk management, including managing the deficit and debt ratios to achieve fiscal sustainability.

The key macroeconomic assumptions underlying the 2017 Budget, as compared to the Revised 2016 Budget, are as follows:

- a real GDP growth rate of 5.1% in the 2017 Budget, compared to 5.2% in the Revised 2016 Budget;
- an inflation rate of 4.0% in the 2017 Budget, the same as the Revised 2016 Budget;
- three-month SPN yield of 5.3% in the 2017 Budget, compared to 5.5% in the Revised 2016 Budget;
- an exchange rate of Rp13,300 to U.S.\$1 in the 2017 Budget, compared to Rp13,500 to U.S.\$1 in the Revised 2016 Budget;
- average oil production by the Republic of 815,000 barrels of oil per day in the 2017 Budget, compared to 820,000 barrels of oil per day in the Revised 2016 Budget;
- gas production by the Republic of 1.15 million barrels of oil equivalent of gas per day in the 2016 Budget, the same with target in the Revised 2016 Budget;
- an average ICP of U.S.\$45 per barrel in the 2017 Budget, compared to U.S.\$40 per barrel in the Revised 2016 Budget; and
- a revised projected nominal GDP of Rp13,716.7 trillion in the 2017 Budget (calculated at current market prices), compared to Rp16,626.5 trillion in the Revised 2016 Budget (calculated at current market prices).

The Government continues to seek to optimize the contribution of non-tax revenue as one of the sources of state revenue in light of current conditions and expected challenges in 2017. Based on macroeconomic assumptions underlying the 2017 Budget, non-tax revenue is targeted at Rp250.0 billion, an increase of 2.0% compared to the Revised 2016 Budget.

The 2017 Budget includes a target fiscal deficit of 2.41% of the projected GDP in 2016, compared to 2.35% in the Revised 2016 Budget. Total expenditure under the 2017 Budget is estimated at Rp2,080.5 trillion, a decrease of Rp2.5 trillion compared to the Revised 2016 Budget. The 2017 Budget total revenue (including grants) amounts to Rp1,750.3 trillion, a decrease of Rp35.9 trillion compared to the Revised 2016 Budget. Allocation of the transfer to region and rural funds increased to Rp764.9 trillion, higher than the Ministry/Agencies allocation of Rp763.6 trillion in the Revised 2016 Budget.

Tax revenues comprise the biggest portion of revenue targets in the 2017 Budget. In 2017, tax policies primarily aim to (i) optimize tax revenue to improve the tax ratio and fulfillment of state budget needs, (ii) improve people's purchasing power, investment, and the competitiveness of national industries, (iii) encourage the downstreaming of domestic businesses, (iv) control consumption of particular goods with negative externalities, (v) increase tax compliance, (vi) support information transparency in the international taxation field and preventing tax evasion, and (viii) improve the quality of service and competence of human resource in order to optimize tax revenue.

In the 2017 Budget, the main policies underlying the central Government's expenditure are: (i) improvement of public service through bureaucratic reform policies and continuous improvement of the welfare of government officials, (ii) continuous improvement in non-priority spending efficiencies, (iii) allocation of 20% of the state budget to education budget and 5% of the state budget to health, (iv) allocation of a significant portion of the budget to support the acceleration of infrastructure development, (v) supporting the sustainability of social security health programs and accelerating the reduction of inequalities through the expansion of conditional cash transfers, (vi) continuing the development of priority programs in the areas of education, health, agriculture, energy, maritime and marine, tourism and industries.

The 2017 Budget allocates Rp764.9 trillion for the transfer to regions and rural fund, Rp677.1 trillion to the balance fund, Rp92.8 trillion to the revenue sharing fund, Rp410.8 trillion to the general allocation fund and Rp173.4 trillion to the specific purpose fund. The allocation to the rural fund increased from Rp47.0 trillion in the Revised 2016 Budget to Rp60.0 trillion in the 2017 Budget.

To preserve fiscal sustainability, the deficit target in the 2017 Budget is approximately 2.41% of GDP, within the safe harbor limit of 3.0% of GDP mandated by law. The 2017 Budget projects a deficit of Rp330.2 trillion. The Government expects to finance the projected deficit from both domestic and international sources. Rp357.0 trillion in 2017 is expected to be sourced domestically (Rp400.0 trillion is the SBN net target).



## Central Government Finances

The following table sets forth information regarding the revenue and expenditure of the central Government for the periods indicated.

*Central Government Revenue.* The following table sets forth central Government revenue by category for the periods indicated.

### Central Government Revenue

	Year Ended December 31,						
	2012 <sup>L</sup>	2013 <sup>L</sup>	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>R</sup>	2016 <sup>P</sup>	2017 <sup>B</sup>
	(in trillions of rupiah)						
Domestic revenue:							
Tax revenue:							
Domestic tax:							
Income tax:							
Oil and gas	83.5	88.7	87.4	49.7	36.3	36.1	35.9
Non-oil and gas	381.6	417.7	458.7	552.6	819.5	630.1	751.8
Total income tax	465.1	506.4	546.2	602.3	855.8	666.2	787.7
Value added tax (VAT)	337.6	384.7	409.2	423.7	474.2	412.2	493.9
Land and building tax	29.0	25.3	23.5	29.3	17.7	19.4	17.3
Excises	95.0	108.5	118.1	144.6	148.1	143.5	157.2
Other taxes	4.2	4.9	6.3	5.6	7.4	8.1	8.7
Total domestic taxes	930.9	1,029.9	1,103.2	1,205.5	1,503.3	1,249.5	1,464.8
International trade taxes:							
Import duties	28.4	31.6	32.3	31.2	33.4	32.5	33.7
Export tax	21.2	15.8	11.3	3.7	2.5	2.9	0.3
Total international trade taxes	49.7	47.4	43.6	34.9	35.9	35.5	34.1
Total tax revenue	980.5	1,077.3	1,146.9	1,240.4	1,539.2	1,284.9	1,498.9
Non-tax revenue:							
Natural resources:							
Oil	144.7	135.3	139.2	48.0	51.3	32.1	50.1
Gas	61.1	68.3	77.7	30.2	17.4	12.7	13.6
Total oil and gas	205.8	203.6	216.9	78.2	68.7	44.8	63.7
General mining	15.9	18.6	19.3	17.7	16.5	15.8	17.7
Forestry	3.2	3.1	3.7	4.2	4.0	3.8	3.9
Fishery	0.2	0.2	0.2	0.1	0.7	0.4	1.0
Geothermal	0.7	0.9	0.8	0.9	0.6	0.9	0.7
Total non-oil and gas	20.0	22.8	24.0	22.8	21.8	20.8	23.3
Total natural resources	225.8	226.4	240.8	101.0	90.5	65.7	87.0
Profit transfer from SOEs	30.8	34.0	40.3	37.6	34.2	37.1	41.0
Other non-tax revenue	73.5	69.7	87.7	81.7	84.1	117.4	84.4
Public Service Agency (BLU) Income <sup>(1)</sup>	21.7	24.6	29.7	35.3	36.3	41.8	37.6
Total non-tax revenue	351.8	354.8	398.6	255.6	245.1	262.0	250.0
Total domestic revenue	1,332.3	1,432.1	1,545.5	1,496.0	1,784.2	1,547.0	1,748.9
Grants	5.8	6.8	5.0	12.0	2.0	8.2	1.4
Total revenue and grants	1,338.1	1,438.9	1,550.5	1,508.0	1,786.2	1,555.2	1,750.3

Source: Ministry of Finance

<sup>L</sup> LKPP (Central Government Financial Report/Audited).

<sup>R</sup> Revised 2016 Budget.

<sup>P</sup> Preliminary.

<sup>B</sup> Budget.

- (1) Includes Government's share of Bank Indonesia's profits representing amounts in excess of Bank Indonesia's capital ratio requirements, which excess amounts are transferred to the central Government to be used for repayments of certain central Government obligations to Bank Indonesia.

Central Government Expenditure. The following table sets forth the expenditure of the central Government for the periods indicated.

### Central Government Expenditure

	Year Ended December 31,					
	2012 <sup>L</sup>	2013 <sup>L</sup>	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>R</sup>	2017 <sup>B</sup>
	(in trillions of rupiah)					
Central government expenditures:						
Personnel expenditures	197.9	221.7	243.7	281.1	342.4	343.3
Good and services expenditures	140.9	169.7	176.6	233.3	304.2	296.1
Capital expenditures	145.1	180.9	147.3	215.4	206.6	194.3
Interest payments:						
Domestic debt	70.2	98.7	118.8	141.9	174.0	205.5
Foreign debt	30.3	14.3	14.6	14.1	17.2	15.7
Total interest payments	100.5	113.0	133.4	156.0	191.2	221.2
Subsidies:						
Energy subsidies	306.5	310.0	341.8	119.1	94.4	77.3
Non-energy subsidies	39.9	45.1	50.2	66.9	83.4	82.7
Total subsidies	346.4	355.0	392.0	186.0	177.8	160.1
Grant expenditures	0.1	1.3	0.9	4.3	8.5	2.2
Social assistance <sup>(1)</sup>	75.6	92.1	97.9	97.2	53.4	57.0
Other expenditures	4.1	3.4	11.7	10.1	22.5	41.0
Total central Government expenditures	1,010.6	1,137.2	1,203.6	1,183.3	1,306.7	1,315.5
Transfers to Regions and Rural Fund						
Transfer to Regions						
Balanced funds:						
General transfer funds:						
Revenue sharing funds	111.5	88.5	103.9	78.1	109.1	92.8
General allocation funds	273.8	311.1	341.2	352.9	385.4	410.9
Total general transfer funds	385.4	399.6	445.2	430.9	494.4	503.6
Specific allocation funds:						
Physical special allocation fund	25.9	30.8	31.9	54.9	89.8	58.3
Non-physical special allocation fund <sup>(2)</sup>	—	—	—	97.2	121.2	115.1
Total specific allocation funds	25.9	30.8	31.9	152.1	211.0	173.4
Total balanced funds	411.3	430.4	477.1	583.0	705.5	677.1
Regional incentive fund <sup>(3)</sup>	—	—	—	1.7	5.0	7.5
Specific autonomy funds <sup>(4)</sup>	12.0	13.4	16.1	17.1	18.3	19.5
Specific Fund for Special Region of Yogyakarta <sup>(5)</sup>	—	—	0.4	0.5	0.5	0.8
Others <sup>(6)</sup>	57.4	69.5	80.1	97.2	—	—
Total Transfer to Regions	480.6	513.3	573.7	602.4	729.3	704.9
Rural Fund <sup>(7)</sup>	—	—	—	20.8	47.0	60.0
Total transfers to regions and Rural Fund	480.6	513.3	573.7	623.1	776.3	764.9
Suspend <sup>(8)</sup>	0.2	0.1	(0.1)	0.1	—	—
Total expenditures	1,491.4	1,650.6	1,777.2	1,806.5	2,082.9	2,080.5

Source: Ministry of Finance

<sup>L</sup> LKPP (Central Government Financial Report/Audited).

<sup>R</sup> Revised 2016 Budget.

<sup>P</sup> Preliminary.

<sup>B</sup> Budget.

(1) Consists of Social Assistance from Ministries/Agencies Spending and Social Assistance for Disaster Relief.

(2) Included under "Others" before fiscal year (FY) 2016 except the regional incentive fund.

(3) Included under "Others" before FY 2016.

(4) Consists of specific autonomy fund and additional specific infrastructure autonomy fund for Papua and West Papua Provinces.

(5) Starting from FY 2013, central Government allocates a specific fund for Yogyakarta's privilege in other expenditures. In FY 2014, this fund was allocated in specific autonomy and adjustment funds as part of transfer to regions.

- (6) Included under adjustment funds before FY 2014, in 2015 “others” consists of non-physical allocation fund and regional incentive fund.
- (7) Starting from FY 2015, central Government allocates rural fund based on law number 6/2015.
- (8) Realized expenditures calculated by the Ministry of Finance differed from the figures calculated by line ministries and such discrepancies have been subtracted and added, respectively, to totals for such years after the fiscal year is over. “Suspend” is not reported in the current year.

The following table sets forth, by percentage, the allocation of central Government development expenditure by function for the periods indicated.

### Allocation of Central Government Development Expenditure by Function

	Year Ended December 31,						
	2012 <sup>L</sup>	2013 <sup>L</sup>	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>R</sup>	2016 <sup>P</sup>	2017 <sup>B</sup>
				(%)			
General public services .....	64.1	62.1	66.3	52.8	24.7	56.5	27.0
Defense .....	6.1	7.7	7.2	9.0	8.3	8.6	8.2
Public order and safety .....	2.9	3.2	2.9	4.5	9.4	4.5	9.2
Economic affairs .....	10.4	9.5	8.1	15.0	25.3	14.6	23.6
Environmental protection .....	0.9	0.9	0.8	0.8	0.8	0.8	0.9
Housing and community amenities .....	2.6	3.0	2.2	1.4	2.6	1.3	2.3
Health .....	1.5	1.5	0.9	2.0	5.1	2.0	4.7
Tourism and culture .....	0.2	0.2	0.1	0.3	0.4	0.3	0.4
Religion .....	0.3	0.3	0.3	0.4	0.7	0.4	0.7
Education .....	10.4	10.1	10.2	12.1	11.0*	9.3	10.9
Social protection .....	0.5	1.5	1.1	1.8	11.5	1.8	12.0
Total .....	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Ministry of Finance

L LKPP (Central Government Financial Report/Audited).

R Revised 2016 Budget

P Preliminary, based on the calculations of the Directorate General of Budget

B Budget

\* The amount shown in the table is based on the allocation for education under central Government expenditure. Total allocation for education under the Revised 2016 Budget is Rp408.5 trillion.

*Deficit Financing.* The following table sets forth, by amount, information on deficit financing for the periods indicated.

### Deficit Financing

	Year Ended December 31,						
	<u>2012<sup>L</sup></u>	<u>2013<sup>L</sup></u>	<u>2014<sup>L</sup></u>	<u>2015<sup>L</sup></u>	<u>2016<sup>R</sup></u>	<u>2016<sup>P</sup></u>	<u>2017<sup>B</sup></u>
	(in trillions of rupiah)						
<b>Debt financing:</b>							
Government securities (net) . . . . .	159.7	224.7	264.6	362.3	364.9	407.3	400.0
Loans:							
Domestic loans (net) . . . . .	0.8	0.5	0.9	0.8	3.4	1.1	1.5
Foreign loan:							
Gross drawing:							
Program loan . . . . .	15.0	18.4	17.8	55.1	35.8	35.3	13.3
Project loan . . . . .	16.4	36.9	34.8	28.7	37.2	22.6	35.0
Total gross drawing . . . . .	31.4	55.3	52.6	83.8	73.0	57.9	48.3
Amortizations . . . . .	(51.1)	(57.2)	(62.4)	(66.0)	(69.7)	(68.7)	(65.1)
Total foreign loan (net) . . . . .	(19.7)	(1.9)	(9.8)	17.8	3.3	(10.8)	(16.8)
Total loans (net) . . . . .	<u>(18.9)</u>	<u>(1.5)</u>	<u>(8.9)</u>	<u>18.7</u>	<u>6.7</u>	<u>(9.8)</u>	<u>(15.3)</u>
Total debt financing . . . . .	<u>140.8</u>	<u>223.2</u>	<u>255.7</u>	<u>380.9</u>	<u>371.6</u>	<u>397.5</u>	<u>384.7</u>
Investment financing:							
Investment to SOEs . . . . .	(7.6)	(2.0)	(3.0)	(64.5)	(50.5)	(50.5)	(4.0)
Investment to other institutions/agencies . . . . .	—	(1.0)	(1.0)	(7.1)	(10.9)	(10.8)	(6.8)
Investment to other public service agencies . . . . .	(17.3)	(12.9)	(3.5)	(6.9)	(30.2)	(25.3)	(34.7)
Investment to international financial organizations/ institutions . . . . .	<u>(0.9)</u>	<u>(1.0)</u>	<u>(1.4)</u>	<u>(0.3)</u>	<u>(3.8)</u>	<u>(3.8)</u>	<u>(2.0)</u>
Investment for revenue . . . . .	<u>0.1</u>	<u>0.1</u>	<u>0.0</u>	<u>19.1</u>	<u>1.4</u>	<u>1.4</u>	<u>—</u>
Total investment financing . . . . .	<u>(25.7)</u>	<u>(16.9)</u>	<u>(8.9)</u>	<u>(59.7)</u>	<u>(94.0)</u>	<u>(89.1)</u>	<u>(47.5)</u>
Lending . . . . .	—	—	—	—	—	—	—
On-lending to SOEs/local government/institutions/ other agencies . . . . .	2.8	0.3	2.5	2.3	0.5	3.3	(6.4)
Lending reserves . . . . .	—	—	—	(0.8)	(0.1)	—	—
Total lending . . . . .	<u>2.8</u>	<u>0.3</u>	<u>2.5</u>	<u>1.5</u>	<u>0.5</u>	<u>3.3</u>	<u>(6.4)</u>
Mandatory guarantee . . . . .	—	(0.7)	(1.0)	—	(0.7)	(0.7)	(0.9)
Other financing . . . . .	<u>57.3</u>	<u>31.4</u>	<u>0.5</u>	<u>0.3</u>	<u>19.3</u>	<u>19.6</u>	<u>0.3</u>
Total financing (net) . . . . .	<u>175.2</u>	<u>237.4</u>	<u>248.9</u>	<u>323.1</u>	<u>296.7</u>	<u>330.6</u>	<u>330.2</u>

Source: Ministry of Finance

<sup>L</sup> LKPP (Central Government Financial Report/Audited).

<sup>R</sup> Revised 2016 Budget.

<sup>P</sup> Preliminary.

<sup>B</sup> Budget

*Central Government Revenue.* The following table sets forth the revenue of the central Government as (i) audited 2015 revenue as a percentage of the actual 2015 GDP, (ii) projected 2016 revenue as a percentage of projected 2016 GDP (as set forth in the Revised 2016 Budget), (iii) preliminary actual 2016 revenue as a percentage of actual 2016 GDP, and (iv) projected 2017 revenue as set forth in the 2017 Budget as a percentage of actual 2016 GDP, respectively.

### Central Government Revenue

	2015 LKPP Audited	2016 Revised Budget	2016 Preliminary	2017 Budget
	(percentage of 2015 GDP)	(percentage of 2016 GDP)	(percentage of 2016 GDP)	(percentage of 2017 GDP)
<b>Total revenue and grants</b> (in trillions of rupiah) .....	1,508.0	1,786.2	1,555.2	1,750.3
Domestic revenue:				
Tax revenue:				
Domestic tax				
Income tax:				
Oil and gas .....	0.4	0.3	0.3	0.3
Non-oil and gas .....	4.8	6.5	5.0	5.5
Total income tax .....	5.2	6.8	5.3	5.7
Value added tax (VAT) .....	3.7	3.8	3.3	3.6
Land and building tax .....	0.3	0.1	0.2	0.1
Excises .....	1.3	1.2	1.1	1.1
Other taxes .....	0.0	0.1	0.1	0.1
Total domestic taxes .....	10.4	11.9	10.0	10.7
International trade taxes:				
Import duties .....	0.3	0.3	0.3	0.2
Export tax .....	0.0	0.0	0.0	0.0
Total international trade taxes .....	0.3	0.3	0.3	0.2
Total tax revenue .....	10.7	12.2	10.2	10.9
Non-tax revenue:				
Natural resources:				
Oil .....	0.4	0.4	0.3	0.4
Gas .....	0.3	0.1	0.1	0.1
Total oil and gas .....	0.7	0.5	0.4	0.5
General Mining .....	0.2	0.1	0.1	0.1
Forestry .....	0.0	0.0	0.0	0.0
Fishery .....	0.0	0.0	0.0	0.0
Geothermal .....	0.0	0.0	0.0	0.0
Total non-oil and gas .....	0.2	0.2	0.2	0.2
Total natural resources .....	0.9	0.7	0.5	0.6
Profit transfer from SOEs .....	0.3	0.3	0.3	0.3
Other non-tax revenue .....	0.7	0.7	0.9	0.6
Public Service Agency (BLU) Income <sup>(1)</sup> .....	0.3	0.3	0.3	0.3
Total non-tax revenue .....	2.2	1.9	2.1	1.8
Total domestic revenue .....	13.0	14.1	12.3	12.8
Grants .....	0.1	0.0	0.1	0.0
<b>Total Revenue and Grant .....</b>	<b>13.1</b>	<b>14.1</b>	<b>12.4</b>	<b>12.8</b>

*Source:* Ministry of Finance

<sup>(1)</sup> Includes Government's share of Bank Indonesia's profits, representing amounts in excess of Bank Indonesia's capital ratio requirements. The excess amounts are transferred to the central Government to be used for repayments of certain central Government obligations to Bank Indonesia.

*Central Government Expenditure.* The following table sets forth the expenditures of the central Government as (i) audited 2015 expenditures as a percentage of the actual 2015 GDP, (ii) projected 2016 expenditures as a percentage of projected 2016 GDP (as set forth in the Revised 2016 Budget), (iii) preliminary actual 2016 expenditures as a percentage of actual 2016 GDP, and (iv) projected 2017 expenditures as set forth in the 2017 Budget as a percentage of actual 2016 GDP, respectively.

### Central Government Expenditure

	2015 LKPP Audited	2016 Revised Budget	2016 Preliminary	2017 Budget
	(percentage of 2015 GDP)	(percentage of 2016 GDP)	(percentage of 2016 GDP)	(percentage of 2017 GDP)
<b>Total expenditures</b> (in trillions of rupiah)	1,806.5	2,082.9	1,860.7	2,080.5
Central government expenditures:				
Personnel expenditures	2.4	2.7	2.5	2.5
Good and services expenditures	2.0	2.4	2.1	2.2
Capital expenditures	1.9	1.6	1.3	1.4
Interest payments:				
Domestic debt	1.2	1.4	1.4	1.5
Foreign debt	0.1	0.1	0.1	0.1
Total interest payments	1.4	1.5	1.5	1.6
Subsidies:				
Energy subsidies	1.0	0.7	0.9	0.6
Non-energy subsidies	0.6	0.7	0.5	0.6
Total subsidies	1.6	1.4	1.4	1.2
Grant expenditures	0.0	0.1	0.1	0.0
Social assistance	0.8	0.4	0.4	0.4
Other expenditures	0.1	0.2	0.0	0.3
Total central government expenditures	10.3	10.3	9.3	9.6
Transfers to Regions and Rural Fund:				
Transfer to Regions	—	—	—	—
Balanced funds:	—	—	—	—
General transfer funds:	—	—	—	—
Revenue sharing funds	0.7	0.9	0.7	0.7
General allocation funds	3.1	3.1	3.1	3.0
Total general transfer funds	3.7	3.9	3.8	3.7
Specific allocation funds:	—	—	—	—
Physical special allocation fund	0.5	0.7	0.6	0.4
Non-physical special allocation fund <sup>(1)</sup>	0.8	1.0	0.7	0.8
Total specific allocation funds	1.3	1.7	1.3	1.3
Total balanced funds	5.1	5.6	5.2	4.9
Regional incentive fund <sup>(2)</sup>	0.0	0.0	0.0	0.1
Specific autonomy funds	0.1	0.1	0.1	0.1
Specific Fund for Special Region of Yogyakarta	0.0	0.0	0.0	0.0
Others <sup>(3)</sup>	0.8	—	—	—
Total transfer to Regions	5.2	5.8	5.3	5.1
Rural Fund <sup>(4)</sup>	0.2	0.4	0.4	0.4
Total transfers to regions and rural fund	5.4	6.1	5.7	5.6
Suspend <sup>(5)</sup>	0.0	—	—	—
Total expenditures	15.7	16.5	15.0	15.2

Source: Ministry of Finance

- (1) Included under “others” before FY 2016 except regional incentive fund.
- (2) Included under “others” before FY 2016.
- (3) Consists of non-physical allocation fund and regional incentive fund.
- (4) Starting from FY 2015, central Government allocates rural fund based on law number 6/2015.
- (5) Realized expenditures calculated by the Ministry of Finance differed from the figures calculated by line ministries and such discrepancies have been subtracted and added, respectively, to totals for such years after the fiscal year is over. “Suspend” is not reported in the current year.

### *Fuel Prices and Subsidies*

The basic price and retail price of fuel are set by the Government through the Minister of Energy and Mineral Resources taking into consideration fuel purchasing cost, distribution cost, storage cost, and margin. Fuel is subsidized by the Government. Historically, spending on subsidies has consumed a large portion of the Indonesian state budget. However, the Government in recent years has been implementing measures to raise subsidized fuel prices and reduce energy subsidies by controlling the consumption of subsidized fuel through regulations, increased supervision and distribution management. In the past, fuel hike announcements have resulted in protests in major cities across Indonesia.

With recent global and domestic economic challenges, greater emphasis has been placed on improving national competitiveness. The Government is pursuing a more focused subsidy regime to provide direct subsidies to low income households and to allocate a large part of the budget for infrastructure development. Following the adjustment of fuel subsidies, the Government has implemented a conditional cash transfer program for low-income households. “Smart cards” have been introduced to provide improved health care services, better facilities, education assistance and other kinds of social assistance.

The savings from reductions in fuel subsidies have been allocated to more productive Government spending. As compared to average Government spending in the period from 2011 to 2014, spending in the 2015 and Revised 2016 Budgets was up 28.3% for education, 75.4% for health and 103.5% for infrastructure. Spending for energy subsidies declined by 60.7% during the same period.

The table below sets forth the amount of subsidies for the periods indicated.

	Year Ended December 31,					
	2012 <sup>L</sup>	2013 <sup>L</sup>	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>R</sup>	2016 <sup>P</sup>
	(in trillions of rupiah)					
Subsidies:						
Energy subsidies	306.5	310.0	341.8	119.1	94.4	106.8
Non-energy subsidies	39.9	45.1	50.2	66.9	83.4	67.7
Total subsidies	<u>346.4</u>	<u>355.0</u>	<u>392.0</u>	<u>186.0</u>	<u>177.8</u>	<u>174.6</u>

Source: Ministry of Finance

<sup>L</sup> LKPP (Central Government Financial Report/Audited).

<sup>R</sup> Revised 2016 Budget.

<sup>P</sup> Preliminary.



*Central Government Deficit Financing.* The following table sets forth the budgeted deficit financing of the Government, as a percentage of the actual 2015 GDP, the projected 2016 GDP (as set forth in the Revised 2016 Budget), the actual 2016 GDP, and the projected 2017 GDP.

### Deficit Financing

	2015 LKPP Audited (percentages of 2015 GDP)	2016 Revised Budget (percentages of 2016 GDP)	2016 Preliminary (percentages of 2016 GDP)	2017 Budget (percentages of 2017 GDP)
<b>Debt financing</b> (in trillions of Rupiah):				
Government securities (net) .....	3.1	2.9	3.3	2.9
Loans: .....				
Domestic loans (net) .....	0.0	0.0	0.0	0.0
Foreign loan .....	—	—	—	—
Gross drawing .....	—	—	—	—
Program loan .....	0.5	0.3	0.3	0.1
Project loan .....	0.2	—	0.2	—
Total gross drawing .....	0.7	0.6	0.5	0.4
Amortizations .....	(0.6)	(0.6)	(0.6)	(0.5)
Total foreign loan (net) .....	0.2	0.0	(0.1)	(0.1)
Total loans (net) .....	0.2	0.1	(0.1)	(0.1)
Total debt financing .....	3.3	2.9	3.2	2.8
Investment financing .....	—	—	—	—
Investment to SOEs .....	(0.6)	(0.4)	(0.4)	(0.0)
Investment to other institutions/agencies .....	(0.1)	(0.1)	(0.1)	(0.0)
Investment to other public service agencies .....	(0.1)	(0.2)	(0.2)	(0.3)
Investment to international financial organizations/institutions .....	(0.0)	(0.0)	(0.0)	(0.0)
Total investment financing .....	(0.5)	(0.7)	(0.7)	(0.3)
Lending .....	—	—	—	—
On-lending to SOEs/local government/institutions/other agencies .....	0.0	0.0	0.0	(0.0)
Lending reserves .....	(0.0)	(0.0)	—	—
Total lending .....	—	—	0.0	—
Mandatory guarantee .....	—	—	(0.0)	—
Other financing .....	0.0	0.2	0.2	0.0
Total financing (net) .....	2.8	2.4	2.7	2.4

Source: Ministry of Finance

### Public Debt

Over the last eight years, Indonesia has made substantial improvement in its public debt management. The reduction of public debt in percentage-of-GDP terms has been a consistent key fiscal policy objective of the Government. To achieve this objective, the Government's policy has emphasized the strengthening of public debt management, the lengthening and balancing of the maturities of public debt and the growth of public debt at sustainable levels. Pursuant to these policies, the Republic successfully reduced its public debt as a percentage of GDP from 39.0% in 2006 to and 23.0% in 2012. Public debt as a percentage of GDP was 24.9% in 2013, 24.7% in 2014, 27.4% in 2015 and 27.9% in 2016.

As of December 31, 2015, the total public debt was U.S.\$229.4 billion, 23.9% of which consisted of loans and 76.1% of which consisted of securities. As of December 31, 2016, the total public debt was U.S.\$258.0 billion, 21.1% of which consisted of loans and 78.9% of which consisted of securities.

### Public External Debt of the Republic

Public external debt of the Republic consists of central Government debt (other than public domestic debt) and debt of Bank Indonesia owed to creditors outside Indonesia. The disclosure that follows treats the external debt of Bank Indonesia as part of the Republic's external debt. However, SBI, which are issued by Bank Indonesia in its role as formulator and implementer of the Republic's monetary policy, are not considered liabilities of the Republic. Accordingly, SBI are not reflected in the Government debt discussions in this Offering Memorandum. See “— *Financial System — Bank Indonesia.*” The discussion of debt of the Republic in this Section differs from the discussion of “Government debt” elsewhere in this Offering Memorandum, in which

Bank Indonesia debt is excluded and only central Government debt, which depends on central Government revenue for its repayment, is included. See “— *Government Budget — Central Government Finances.*”

The following table sets forth information on the outstanding public external debt of the Republic in terms of creditor type as of the dates indicated.

### Outstanding Public External Debt of the Republic by Source<sup>(1)</sup>

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in billions of U.S. dollars)				
Concessional Loans:					
Multilateral creditors .....	23.8	23.6	23.5	26.1	27.5
Bilateral creditors .....	32.2	27.0	23.1	21.6	20.8
Semi-concessional Loans:					
Export agency creditors .....	7.0	6.0	5.0	4.0	3.2
Leasing .....	—	—	—	—	—
Commercial <sup>(2)</sup> .....	28.0	34.1	39.1	52.2	55.0
Total .....	<u>91.0</u>	<u>90.7</u>	<u>90.6</u>	<u>103.8</u>	<u>106.5</u>
Total public external debt of the Republic, as a percentage of GDP for the period indicated <sup>(3)</sup> .....	<u>10.3%</u>	<u>10.4%</u>	<u>10.7%</u>	<u>12.4%</u>	<u>11.8%</u>

Source: Ministry of Finance

<sup>P</sup> Preliminary.

- (1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.
- (2) Includes securities (bonds and Sukuk) issued in international capital markets and commercial bank borrowings.
- (3) In calculating as a percentage of GDP, GDP in U.S. dollars has been converted from Rupiah into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

### Sources of Public External Borrowing

The sources of the Republic’s public external borrowings are multilateral creditors, bilateral creditors, export agency creditors and commercial creditors, including international bondholders.

The World Bank and the Asian Development Bank (ADB) have been important sources of funds for the Republic, and the Republic has secured substantial commitments from several other creditors in recent years.

In 2014, the Republic had drawn program loans of U.S.\$773.84 million from the World Bank and U.S.\$100 million from Agence Francaise de Developpement, U.S.\$400 million from ADB and U.S.\$200 million from KfW Bankengruppe. In 2015, the Republic drew down program loans of U.S.\$2.1 billion from the World Bank, U.S.\$1.4 billion from ADB, U.S.\$245 million from KfW Bankengruppe and U.S.\$100 million from Agence Francaise de Developpement. Additionally, the Republic utilized the contingency facilities provided by the World Bank in the amount of U.S.\$2 billion and from ADB in the amount of U.S.\$500 million. In 2016, the Republic drew down program loans of U.S.\$1.1 billion from ADB, U.S.\$440 million from KfW Bankengruppe and U.S.\$110 million from Agence Francaise de Developpement.

Since 2012, the Government has expanded its sources of external financing by accessing the international capital markets (including the Islamic financial markets).

The following table sets forth amounts of international development assistance received by the Republic as of the date indicated.

### International Development Assistance<sup>(1)(2)</sup>

	As of December 31,				
	2012	2013	2014	2015	2016
	(in millions of U.S. dollars)				
Bilateral loans	32,186.2	27,016.6	23,095.7	21,555.9	20,847.2
Multilateral loans:					
International Monetary Fund	—	—	—	—	—
International Bank for Reconstruction and Development	10,463.4	11,335.6	12,176.3	14,380.0	15,811.8
Asian Development Bank	10,379.1	9,387.2	8,630.1	9,193.9	9,311.1
International Development Association	2,208.2	2,097.7	1,879.8	1,677.3	1,474.5
Islamic Development Bank	526.5	545.1	581.5	643.4	701.0
Nordic Investment Bank	32.4	27.6	21.9	16.7	12.0
European Investment Bank	58.8	48.9	38.5	27.6	22.0
International Fund for Agricultural Development	130.7	137.7	145.2	155.2	166.2
Multilateral Investment Guarantee Agency	—	—	—	—	—
Total multilateral loans	23,799.2	23,579.8	23,473.4	26,094.2	27,498.6
<b>Total loans</b>	<b>55,985.4</b>	<b>50,596.4</b>	<b>46,569.1</b>	<b>47,650.0</b>	<b>48,345.8</b>

Source: Ministry of Finance

- (1) The term international development assistance includes any concessionary loans provided by international financial institutions or foreign Governments, excluding grants.
- (2) Foreign currency values of international development assistance have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

The following table sets forth the external public debt of the Republic by currency as of the date indicated.

### Outstanding External Public Debt of the Republic by Major Currency

	As of December 31,							
	2013		2014		2015		2016 <sup>P</sup>	
	In millions of original currency	In millions of U.S. dollars <sup>(1)</sup>	In millions of original currency	In millions of U.S. dollars <sup>(1)</sup>	In millions of original currency	In millions of U.S. dollars <sup>(1)</sup>	In millions of original currency	In millions of U.S. dollars <sup>(1)</sup>
U.S. dollars	59,690	59,690	59,993	59,993	70,817	70,817	75,267	75,267
Japanese yen	2,395,310	22,829	2,203,955	18,469	2,126,845	17,657	2,053,751	17,708
Euros	4,260	5,879	5,055	6,150	5,999	6,554	8,676	9,150
SDR	4,517	6,233	4,669	5,680	3,783	5,246	3,585	4,830
British pounds	308	508	246	383	180	267	129	161
Others	Multiple currencies	1,536	Multiple currencies	1,825	Multiple currencies	1,581	Multiple currencies	1,507
Total	N/A	96,675	N/A	92,500	N/A	102,121	N/A	108,624

Source: Bank Indonesia.

<sup>P</sup> Preliminary.

- (1) Calculated based on the applicable BI middle exchange rates as of the date indicated for each column.

The following table sets forth the external debt service requirements of the central Government for the years indicated.

### External Debt Service Requirements of the Central Government<sup>(1)</sup>

Period	Principal repayment	Interest repayment	Total
	(in millions of U.S. dollars)		
2016 .....	6,038.7	3,618.7	9,657.4
2017 .....	6,923.5	3,772.7	10,696.3
2018 .....	7,666.0	3,596.3	11,262.3

Source: Ministry of Finance

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as at December 31, 2016.

### External Debt of Bank Indonesia

Under Indonesian law, Bank Indonesia has the ability to incur external debt primarily to meet balance of payments needs and maintain adequate foreign exchange reserves.

The following table sets forth the outstanding multilateral and commercial external debt of Bank Indonesia by type of credit as of the dates indicated.

### Outstanding Multilateral and Commercial External Debt of Bank Indonesia<sup>(1)</sup>

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
(in millions of U.S. dollars)					
Multilateral .....	3,053	3,050	2,868	2,747	2,654
Commercials <sup>(2)</sup> .....	354	244	223	190	167
Total .....	<u>3,407</u>	<u>3,294</u>	<u>3,092</u>	<u>2,937</u>	<u>2,821</u>

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

(2) Includes bonds issued in international capital markets and commercial bank borrowings but excludes SBI owned by non-residents, currencies and deposits and other liabilities.

The following table sets forth the external debt service requirements of Bank Indonesia for the years indicated.

### External Debt Service Requirements of Bank Indonesia (2016 — 2018)<sup>(1)</sup>

Period	Principal repayment	Interest repayment	Total
	(in millions of U.S. dollars)		
2016 .....	49.2	4.1	53.3
2017 .....	47.8	3.5	51.3
2018 .....	47.8	2.8	50.6

Source: Bank Indonesia

(1) Projected, based on debt outstanding and exchange rates as of December 31, 2016.

In order to strengthen its international reserves and support its balance of payments, the Republic has entered into a swap arrangement with ASEAN as well as bilateral swap arrangements with other countries. See “— Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic.”

## Credit Rating of the Republic

On June 1, 2016, S&P Global Ratings affirmed its BB+ long-term and B short-term sovereign credit ratings on the Republic with a positive outlook and axBBB+/axA-2 ASEAN regional scale rating on the Republic, stating that while Indonesia's fiscal framework has improved, which should improve the quality of public expenditure and lead to more predictable fiscal outcomes, fiscal performance has not improved in tandem for cyclical and structural reasons. The positive outlook reflects the possibility of a ratings upgrade if the improved fiscal framework delivers better fiscal performance, such that deficits decline and borrowings remain low.

In December 2016, Fitch affirmed its sovereign credit rating of the Republic at BBB- and changed its outlook to positive from stable, citing the Republic's strong structural reform drive since September 2015 as gradually improving the country's business environment being likely to support the growth outlook in the medium term.

In February 2017, Moody's revised the outlook on Indonesia's government ratings to positive from stable while concurrently affirming Indonesia's Baa3 issuer rating, Baa3 senior unsecured bond ratings and (P)Baa3 senior unsecured MTN program rating. Moody's cited Indonesia's improving resilience to external shocks as a result of measures which narrow current account deficits, its higher foreign exchange reserves, slower rise in private sector external debt, track record of macroeconomic stability and fiscal discipline, and progress in fiscal and regulatory reforms in revising its outlook to positive.

## External Debt of State-Owned-Enterprises

The following table sets forth the outstanding external debt of SOEs as of the dates indicated.

### Outstanding Direct External Debt of State-Owned-Enterprises<sup>(1)</sup>

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. dollars)				
Financial institutions:					
Bank .....	4,036	3,071	4,082	5,103	4,484
Non-bank .....	957	797	1,583	2,816	3,497
Total financial institutions .....	4,993	3,868	5,665	7,919	7,981
Non-financial institutions .....	14,789	20,806	25,034	24,704	22,883
Total .....	19,782	24,674	30,699	32,623	30,864

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) Foreign currency values of outstanding direct external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

For a discussion of the Republic's guarantee of certain external debt in connection with infrastructure projects in the country, see "*— Public Debt — Contingent Liabilities.*"

## Domestic Debt of the Central Government

The following table sets forth the outstanding domestic debt of the Government as of the dates indicated.

### Domestic Debt of the Central Government

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
Total domestic public debt, in trillions of Rupiah <sup>(1)</sup> .....	1,096.2	1,264.0	1,477.5	1,754.3	2,035.7

Source: Ministry of Finance

<sup>P</sup> Preliminary.

(1) Excludes SBI, which are obligations of Bank Indonesia and not of the Government. See "*— Financial System — Bank Indonesia.*"

## ***Domestic Debt Service Requirements of the Central Government***

The following table sets forth the debt service requirements for the central Government for the years indicated.

### **Direct Domestic Debt Service Requirements of the Central Government<sup>(1)</sup>**

<u>Period</u>	<u>Principal repayment and redemption</u>	<u>Interest repayment</u>	<u>Total</u>
	(in trillions of Rupiah)		
2016 .....	309.8	148.3	458.1
2017 .....	150.6	144.9	295.4
2018 .....	158.9	136.1	295.1

*Source:* Ministry of Finance

(1) Foreign currency values of outstanding direct domestic debt service, which are in U.S. dollars, have been converted into Rupiah based on the exchange rate at December 30, 2016 of U.S.\$1=Rp13,473.

### ***Contingent Liabilities from Government Guarantees***

As part of the Government's policy to prioritize infrastructure development, the Government has provided support to encourage investments in infrastructure projects in the form of credit and investment guarantees. External debts of SOEs are not direct obligations of the Republic, unless such debts are explicitly guaranteed by the Republic.

Starting from 2008 the Government has been allocating a contingent budget with respect to these guarantees. Any unused budget allocation may be transferred to a guarantee reserve fund. This reserve fund, together with the relevant annual budget allocations, serves as reserves for any claim that arises from these guarantees.

As of December 31, 2016, the Government has accumulated an amount of Rp2.3 trillion in the guarantee reserve fund. The credit guarantees that the Government has provided to infrastructure projects include:

- full default risk guarantee on PT PLN's loans for the construction of coal power plants with an aggregate capacity of 10,000 MW and its associated transmission lines;
- partial default risk guarantee for local government-owned water companies' loans in connection with the Millennium Development Goals in water provision;
- co-guarantee scheme between the Government and the Indonesia Infrastructure Guarantee Fund to guarantee PT PLN's financial obligations relating to the Central Java steam power plant (2 x 1,000 MW) PPP Project;
- full default risk guarantee on PT Hutama Karya (Persero)'s loans and bonds for the construction of Sumatera Toll Road; and
- guarantee for infrastructure financing through direct loans from international financial institutions to SOEs.

As of December 31, 2016, no claims from the foregoing guarantees have arisen.

## **Foreign Exchange and Reserves**

### ***Exchange Rates***

From 1978 to 1997, Indonesia maintained a managed floating exchange rate system under which the Rupiah was linked to a basket of currencies, the composition of which was based on Indonesia's main trading partners. Indonesia has adopted a free floating exchange rate system since August 1997, under which market forces determine the exchange rate for the Rupiah. See "*— Monetary Policy.*"

The following table sets forth information on exchange rates between the Rupiah and certain other currencies as of the end of the periods indicated.

### Exchange Rates

	<u>Rupiah per U.S. dollar</u>	<u>Rupiah per 100 Japanese yen</u>	<u>Rupiah per Euro</u>	<u>Rupiah per Singapore dollar</u>
2012 .....	9,670	11,197	12,810	7,907
2013 .....	12,189	11,617	16,821	9,628
2014 .....	12,385	10,364	15,063	9,376
2015 .....	13,785	11,459	15,062	9,765
2016 <sup>A</sup> .....	13,473	11,500	14,169	9,312

Source: Bank Indonesia

<sup>A</sup> As of December 30, 2016.

In the first half of 2014, the Rupiah appreciated 1.8% to Rp11,969 per U.S. dollar. The appreciation of the Rupiah was in line with the appreciation of regional currencies due to an increase in global investors' risk appetite for higher yielding assets. From July 1, 2014 to December 31, 2014, the Rupiah depreciated 3.9% to Rp12,440 per U.S. dollar. Rupiah depreciation was attributed to both external and internal factors, predominantly the slowing down of the global and domestic economy.

In the first half of 2015, the Rupiah depreciated 7.1% to Rp13,333 per U.S. dollar, primarily due to investor anticipation of the proposed U.S. federal funds rate hike in the United States along with quantitative easing implemented by the European Central Bank and the ongoing fiscal negotiations in Greece. In addition, in line with the market reaction to the devaluation of the Renminbi, nearly all global currencies, including the Rupiah, experienced depreciatory pressures. From July 1, 2014 to September 30, 2015, the Rupiah depreciated 8.9% to Rp14,650 per U.S. dollar. The depreciation was in line with the depreciation of its currency peers and was primarily due to external dynamics related to the increase in the U.S. federal funds rate after the improvement in U.S. GDP, as well as the depreciation of the Renminbi and increased demand for the Rupiah domestically in order to service foreign debt which increased the Rupiah overshoot. However, the Rupiah appreciated 4.5% (month-on-month) in October 2015 to Rp13,783 per U.S. dollar on the back of dovish statements from the U.S. Federal Reserve and positive sentiment after the Government launched a series of policy packages to boost economic growth.

From January 1 to December 31, 2016, the Rupiah appreciated 2.3% to Rp13,473 per U.S. dollar. Despite external pressures from uncertainty of the U.S. federal funds rate hike, the result of the UK referendum, the appreciation of the dollar index, and the global markets ahead of and after the U.S. election, domestic factors remained conducive particularly due to low inflation, improved current account deficit and sustained economic recovery. In addition, the successful tax amnesty program further bolstered investor confidence.

### ***Prudential Policies on Foreign Exchange and Rupiah***

Foreign currency is generally freely transferable within or from Indonesia although by regulation most domestic transactions are prohibited from using foreign currency. However, to maintain the stability of the Rupiah, and to prevent the utilization of the Rupiah for speculative purposes by foreign parties, the Rupiah is non-internationalized. Regulations prohibit banks from conducting, among others, the following transactions: (i) extensions of loans or of overdrafts in Rupiah or foreign currencies to foreign parties, (ii) transfers of Rupiah to foreign parties or offshore banks in excess of U.S.\$1 million without underlying transactions, and (iii) purchases of Rupiah-denominated securities issued by foreign parties.

Bank Indonesia has issued several regulations concerning foreign currency transactions relating to the Rupiah in order to deepen financial markets. A deep foreign exchange market is distinguished by adequate liquidity, convenient transactions, fair prices and minimal risk in order to maintain economic stability. Bank Indonesia strives towards the creation of a liquid, efficient and secure domestic foreign exchange market through amendments to regulations concerning foreign exchange transactions.

On January 1, 2015, Bank Indonesia regulations came into effect to mitigate risks relating to external borrowing by non-bank corporations. Under the regulations, corporate issuers of debt must, subject to certain limited exceptions:

- hedge at least 25% of their open foreign exchange positions (i.e., the excess of foreign currency liabilities that fall due within the following three to six months over foreign currency assets);
- maintain a 70% minimum liquidity ratio of foreign currency assets to foreign currency liabilities maturing within three months after the end of a quarter; and
- maintain a minimum credit rating (issuer and/or issue) of BB- by a rating agency acknowledged by Bank Indonesia.

Bank Indonesia may request information concerning the foreign exchange activities of all natural persons and legal entities that are domiciled, or plan to domicile, in Indonesia for at least one year. Bank Indonesia regulations also require all resident banks and non-bank financial institutions, as well as companies with total assets or total annual gross revenue over Rp100 billion, to report to it all data concerning their foreign currency activities.

### ***International Reserves***

The following table sets forth the Republic's total official international reserves, expressed in (i) U.S. dollar equivalents and (ii) the number of months of imports and Government external debt repayments, in each case at the end of the periods indicated. These reserves consist of foreign exchange, gold, SDRs and a reserve position with the IMF. Since May 2000, Indonesia has complied with the IMF's new Special Data Dissemination Standard requirement on international reserves and foreign exchange currency liquidity.

#### **Official International Reserves of the Republic**

	As of December 31,				
	2012	2013	2014	2015	2016 <sup>P</sup>
	(in millions of U.S. dollars, except for months)				
Gold .....	3,935	3,023	3,027	2,661	2,876
SDRs .....	2,715 <sup>(1)</sup>	2,712	2,551	2,442	1,499
Reserve position with the IMF .....	224	224	211	202	1,056
Foreign exchange <sup>(2)</sup> and others .....	105,907	93,247	106,073	100,626	110,931
Total .....	112,781	99,386	111,862	105,931	116,362
Total as number of months of imports and Government external debt repayments .....	6.2	5.5	6.4	7.4	8.4

Source: Bank Indonesia

<sup>P</sup> Preliminary.

(1) The increase in SDRs is due to certain refunds from the IMF.

(2) Converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

Foreign reserves totaled U.S.\$112.8 billion, U.S.\$99.4 billion, U.S.\$111.9 billion, U.S.\$105.9 billion and U.S.\$116.4 billion as of December 31, 2012, 2013, 2014, 2015 and 2016, respectively. Foreign exchange reserves at the end of December 2016 were sufficient to fund 8.4 months of imports and payment of the Government's external debts, and above the international adequacy standard of around three months of imports.

### ***Regional Swap Arrangements of the Republic***

Following the experience of the Asian crisis in 1997 to 1998, ASEAN recognized a need to strengthen regional self-help and support mechanisms in East Asia and endeavored to prevent future financial crises. In 2000, ASEAN members agreed to strengthen the existing cooperative frameworks among monetary authorities through the Chiang Mai Initiative (CMI). The CMI involves an expanded ASA (extending its coverage to all members of ASEAN and increasing the size) and a network of BSAs among ASEAN+3 countries. The objectives of these bilateral swap arrangements are to address short-term liquidity difficulties in the region and to supplement existing international financial arrangements.



The ASA was originally created by five ASEAN member states in 1977 with a size of U.S.\$100 million. After the CMI, it has been enlarged to include all ten ASEAN countries and increased in size to U.S.\$2 billion.

Since CMI's inception in 2000, ASEAN+3 member countries undertook a review to explore ways of enhancing its effectiveness. On 2010, ASEAN+3 member countries entered into a multilateral currency swap contract which covers all ASEAN+3 member countries with a total size of U.S.\$120 billion (the **CMI Multilateralization** or **CMIM**). CMIM was developed from the CMI-BSA network to facilitate prompt and simultaneous currency swap transactions through establishing a common decision making mechanism under a single contract. The CMIM objectives are the same as the BSAs. In May 2012 and in response to the global and regional economic developments, the ASEAN+3 Finance Ministers and Central Bank Governors agreed to strengthen the CMIM as a regional financial safety net by doubling the total size to U.S.\$240 billion and launching a crisis prevention program called the CMIM Precautionary Line (**CMIM-PL**). This arrangement became effective on July 17, 2014. In addition to the role of providing liquidity support for ASEAN+3 member countries, CMIM has contributed to the development of the regional surveillance capacity by establishing the ASEAN+3 Macroeconomic Research Office (**AMRO**) as an ASEAN+3 independent surveillance unit since early 2011.

Under the ASA, BSA, and CMIM, a total of U.S.\$46.1 billion of foreign currency swap is currently available to the Republic as of December 31, 2016. Up to 30.0% of the amount available under the BSAs and CMIM may be activated without participating in any IMF program, but greater amounts requires participation in an IMF program. The Republic also has a U.S.\$22.76 billion swap line in place with Japan. The swap line increased from U.S.\$12.0 billion in December 2013. These swap arrangements will contribute to greater financial stability and sustainable economic growth in the region.

Bank Indonesia has also established a Bilateral Currency Swap Agreement (BCSA) with Korea amounting to KRW 10.7 trillion/Rp 115 trillion which was signed in March 2014.

A BCSA entered into between Bank Indonesia and the Reserve Bank of Australia became effective on December 15, 2015. The BCSA with the Reserve Bank of Australia is for an initial period of three years.

As of December 31, 2016, no drawdowns on existing bilateral and regional swap arrangements have been made.

### Debt-to-GDP Ratios

The following table sets forth the Republic's debt-to-GDP ratio and debt service to GDP ratio as of the dates indicated. Under the State Finances Law No. 17 of 2003, the Republic's debt-to-GDP ratio must remain below 60%.

#### Debt-to-GDP Ratios

	As of December 31,				
	2012	2013	2014 <sup>L</sup>	2015 <sup>L</sup>	2016 <sup>P</sup>
			(%)		
Debt-to-GDP ratio <sup>(1)</sup> . . . . .	23.0	24.9	24.7	27.4	27.9
Debt service to GDP ratio <sup>(1)</sup> . . . . .	3.1	2.8	3.5	3.3	4.0
Total public debt of the central Government (in billion U.S.\$) . . . . .	204.5	194.9	209.7	229.4	258.0
— % in Loans . . . . .	31.2	30.1	26.0	23.9	21.1
— % in Bonds . . . . .	68.8	69.9	74.0	76.1	78.9

Source: Ministry of Finance

(1) Outstanding foreign currency debt was converted to Rupiah using the BI middle exchange rate as of each period indicated in the table.

<sup>L</sup> LKPP (Audited).

<sup>P</sup> Preliminary

## TAXATION

### Indonesian Taxation

The following summary of Indonesian taxation issues deals only with the implications for holders of Certificates who are non-residents for Indonesian taxation purposes.

Generally, an individual is considered a non-resident of Indonesia if the individual neither:

- (i) resides in Indonesia (in determining whether a person resides in Indonesia, consideration will be given to whether the person intends to reside in Indonesia); nor
- (ii) is present in Indonesia for more than 183 days in any 12-month period.

An entity will be considered non-resident if it is established and domiciled outside Indonesia.

If a non-resident has a permanent establishment in Indonesia, the permanent establishment is subject to the ordinary Indonesian corporate income tax at a flat rate of 25.0% on all taxable income, including but not limited to income from foreign sources directly or indirectly attributable to such permanent establishment, except that certain types of income will be subject to final Indonesian income tax at certain rates. In addition, the after-tax taxable income of a permanent establishment is subject to a branch profits tax of 20.0% (which may be reduced under the provisions of most income tax treaties entered into by Indonesia). Under the Republic's income tax treaty with the United States (the **U.S.-Indonesia Treaty**), the branch profits tax on the after-tax taxable income of a permanent establishment is reduced to 10.0%. Unless such profits are reinvested in Indonesia as a founding shareholder in an Indonesian company, as a shareholder in an Indonesian company, acquisition of fixed assets, and acquisition of intangible assets no later than the following fiscal year and other requirements in accordance with the Minister of Finance Regulation No. 14/PMK.03/2011 dated January 24, 2011 concerning Tax Treatment on After Tax Profits of a Permanent Establishment.

### *Taxation of Distributions*

In 2009, the Republic issued GR 25/2009. Pursuant to this regulation, Periodic Distribution Amounts (as defined in the Conditions) arising from the Certificates constitute taxable income.

Based on Government Regulation No. 16/2009 dated February 9, 2009, which was amended by Government Regulation No. 100/2013 dated December 31, 2013 (**GR 16/2009**) and Ministry of Finance Regulation No. 85/PMK.03/2011 dated May 23, 2011, which was amended by Ministry of Finance Regulation No. 07/PMK.011/2012, any amount paid by a company in the form of interest and/or discount (which in general is also treated as interest) in relation to bonds that have a maturity exceeding 12 months will be subject to a final withholding tax under Article 4(2) of the Income Tax Law in Indonesia. Interest is taxed on the gross value, while discount is taxed on the difference between the transfer value (or nominal value if held to maturity date) and acquisition cost of bonds. The definition of discount is the difference between the transfer value and the nominal value of the bonds, and also the difference between the transfer value and the acquisition cost of the bonds. For a resident taxpayer or non-resident taxpayer with a permanent establishment, a final withholding tax of 15% shall apply to interest received on the bonds. For a non-resident taxpayer, a final withholding tax of 20% applies to interest received on the bonds.

Assuming that the Certificates are considered as bonds and the Payment of Periodic Distribution Amounts are considered as interest as stipulated in the above regulation.

Payment of Periodic Distribution Amounts to non-residents will generally be subject to an Indonesian withholding tax of 20.0% of the gross amount of the distribution (unless the Certificates are held and owned by a permanent establishment in Indonesia, as discussed below). Accordingly, subject to certain exceptions, the Republic will be required to pay additional amounts as provided in Condition 9. The 20.0% rate may be reduced under the provisions of any applicable income tax treaty Indonesia has concluded with another jurisdiction. Under the U.S.-Indonesia Treaty, the withholding tax rate is reduced to 10.0%.

The Republic has concluded double taxation treaties with a number of countries, including Japan, The Netherlands, Singapore, the United States and the United Kingdom. To obtain the benefit of the reduced rate under an applicable tax treaty, a Certificateholder must comply with the certification, eligibility, information and reporting requirements in force in Indonesia. Currently under, the prevailing tax regulation to be entitled to tax treaty protection, a Certificateholder would need to provide to PPSI-III (in its capacity as Trustee) a valid

certificate of tax domicile using a specific form issued by the Indonesian tax authority (known as form DGT-1) that is validated by a competent tax authority of the relevant country. (If the withholding tax is payable in Indonesia). For US person, in addition to the form DGT-1 that has been filled in by the recipient of income, a form 6166 issued by the IRS is required to be submitted.

Pursuant to Minister of Finance Regulation No. 187/PMK.03/2015 dated September 30, 2015, a non-resident who has been subjected to withholding tax by an Indonesian withholding tax agent may apply for a tax refund to the Directorate General of Taxation if the tax withheld is not in accordance with the Indonesian income tax law in force and/or any double taxation treaty.

The concept of beneficial owner was introduced in the latest Income Tax Law which was taken into effect as of January 1, 2009. According to the Income Tax Law, a beneficial owner is defined as the person (an individual or a corporation) entitled to directly enjoy the benefits of such income. The domicile country of the beneficial owner is determined based on the actual residence of the individual, in the case of an individual, or the domicile of the corporation (i.e. the country where the owners or more than 50.0% of the shareholders are domiciled or where the effective management is located).

Further, on November 5, 2009, the Directorate General of Tax issued 2 (two) regulations, i.e. Director General of Tax Regulation (**DGT Regulation**) No. Per-61/PJ./2009, regarding Procedures for Implementing Double Tax Avoidance Agreements which was amended by DGT Regulation No. Per-24/PJ/2010 and DGT Regulation No. Per-62/PJ./2009 regarding Prevention of Double Tax Avoidance Agreements Abuse which was amended by DGT Regulation No. Per- 25/PJ/2010 (the **Beneficial Owner Regulations**). Under the Beneficial Owner Regulations, if it is determined that:

- a transaction does not have economic substance and is structured with the sole purpose of enjoying tax treaty benefits;
- a transaction is structured such that the legal form is at variance with the economic substance for the sole purpose of enjoying tax treaty benefits; and
- an income recipient is not the beneficial owner of the income (e.g., the income recipient is merely an agent or a nominee or a conduit company),

a taxpayer's entitlement to withholding tax benefits under an applicable tax treaty will be voided and the 20.0% statutory withholding tax rate will be applied.

Under the Beneficial Owner Regulations, a company can avoid such an adverse determination and qualify for benefits allowed under applicable tax treaties if they are able to satisfy all of the following requirements (the **Requirements**):

- the company's incorporation and transactions are not merely aimed at enjoying tax treaty benefits;
- the management of the company has genuine decision-making authority;
- the company has actual employees;
- the company is engaged in genuine business activities;
- any revenue sourced in Indonesia is subject to tax in the country where the recipient of the income is located; and
- the company does not use more than 50.0% of its total income to fulfill obligations to other parties.

For a tax treaty to apply, the foreign income recipient will be required to provide the Indonesian payer of the income with a valid Certificate of Domicile.

If an individual or entity holds Certificates through a permanent establishment in Indonesia, the permanent establishment will be taxed on distributions at a flat rate of 25.0% under the ordinary Indonesian corporate income tax. Payments of Periodic Distribution Amounts made to the permanent establishment will be subject to a 15.0% withholding tax, which will be withheld by the Republic from the payment of each Periodic Distribution Amounts. This withholding tax is a prepaid tax, which may be credited against the Indonesian annual corporate income tax payable by the permanent establishment at the end of fiscal year. If the permanent establishment in Indonesia is a bank, the payments of Periodic Distribution Amounts on the Certificates shall not be subject to withholding tax.

### ***Taxation of Dispositions***

In general, gains resulting from the sale or other disposition of assets by a non-resident to a non-resident without a permanent establishment in Indonesia will not be subject to income, withholding or capital gains tax, unless the assets are held and owned through a permanent establishment in Indonesia, in which case the permanent establishment will be taxed on any profit at a flat rate of 25.0%.

Based on GR 16/2009 gains from the disposal of the bonds are considered interest that shall be subject to the final withholding tax outlined above.

Gains from the disposal of the bonds derived by a resident taxpayer, whether an individual or a corporation, or by a non-resident taxpayer with a permanent establishment, are subject to final withholding tax at the rate of 15%. Non-resident taxpayers that derive gains from the disposal of the bonds will be subject to 20% final withholding tax, subject to reduction under the provisions of an applicable tax treaty.

Under Article 3A of Minister of Finance Regulation No. 07/PMK.011/2012, any negative discount or loss incurred from the disposal of the bonds can be deducted from the amount of interest income in calculating the withholding tax on interest.

If the Certificates are treated as bonds as set out in GR 16/2009, the sale of the Certificate can be subject to 15% withholding tax for resident taxpayers, or 20% withholding tax for non-resident taxpayers (or subject to tax treaty application).

If the Certificates are held and owned by a permanent establishment in Indonesia, the permanent establishment shall be taxed on the capital gain at a flat rate under the ordinary Indonesian corporate income tax and branch profit tax.

### ***Other Indonesian Duties***

There are no other material Indonesian duties (such as inheritance duties, gift duties, stamp duties or other similar duties) that a holder of Certificates will be required to pay in relation to any of the payments of Periodic Distribution Amounts by the Republic.

### **United States Federal Income Tax Considerations**

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Certificate. This summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the income tax laws of the U.S. federal government. This summary is based on laws, regulations, rulings and decisions in effect as of the date hereof, all of which are subject to change, which change could apply retroactively and could affect the tax consequences described below. This summary deals only with holders that acquire the Certificates at original issuance and that will hold Certificates as capital assets and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, financial institutions, regulated investment companies, tax-exempt entities, insurance companies, dealers or traders in securities or currencies, U.S. branch operations of foreign corporations, holders that are subject to the mark to market rules, persons that will hold Certificates as a position in a hedging, "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction, persons that have a "functional currency" other than the U.S. dollar or persons who hold Certificates through a partnership or other pass-through entity. Furthermore, this summary does not address Medicare contribution or alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of the Certificates or U.S. federal estate and gift tax consequences.

For the purposes of this summary, a "**United States holder**" is a beneficial owner of Certificates that is for U.S. federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation created in, or organized under the laws of, the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a U.S. court and which has one or more United States persons who have the authority to control all substantial decisions of the trust. A "**non-United States holder**" is a beneficial owner of Certificates that is not a United States holder. If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the Certificates, the tax treatment of the partnership and a partner in such partnership generally will depend

on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor regarding the specific consequences of the acquisition, ownership and disposition of the Certificates.

No ruling is being requested from the U.S. Internal Revenue Service (the **IRS**) and no legal opinion is being given regarding the tax consequences of investing in the Certificates and no assurance can be given that the IRS or the courts will agree with the discussions set forth herein. Investors should consult their own tax advisors in determining the tax consequences to them of holding Certificates, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

### ***Overview***

The Issuer intends to treat the Certificates as debt instruments for U.S. tax purposes and the remainder of this discussion assumes that the Certificates will be so treated. Under this characterization, United States holders will not be required to take account of income and expenses incurred at the level of the Trust. The following summary does not discuss Certificates that are issued at more than a de minimis discount for U.S. federal income tax purposes. In the event that the Issuer issues Certificates at more than a de minimis discount, the applicable Pricing Supplement may describe the material U.S. federal income tax consequences thereof.

### ***Periodic Distribution Amounts***

Periodic Distribution Amounts will be subject to taxation under the U.S. tax rules applicable to debt instruments. Accordingly, a United States holder will be required to include Periodic Distribution Amounts in its income as ordinary income at the time that such distributions are accrued or are received (in accordance with the holder's method of tax accounting). Such income will be treated as foreign source income for purposes of calculating that United States holder's foreign tax credit limitation. The limitation on foreign taxes eligible for foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, such income should generally constitute "passive income." Any foreign income taxes withheld from payments of Periodic Distribution Amounts will be included in the income of United States holders as ordinary income and will likewise be deductible to United States holders, or, alternatively, United States holders may be eligible for a U.S. foreign tax credit subject to various limitations. United States holders should consult their own tax advisors regarding the availability of a foreign tax credit and the application of the foreign tax credit rules.

A United States holder utilizing the cash method of accounting for U.S. federal income tax purposes that receives a Periodic Distribution Amount denominated in a currency other than U.S. dollars (a foreign currency) will be required to include in income the U.S. dollar value of that Periodic Distribution Amount, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

If a Periodic Distribution Amount is payable in a foreign currency, an accrual basis United States holder is required to include in income the U.S. dollar value of the Periodic Distribution Amount. Such a United States holder may determine the amount of the accrued Periodic Distribution Amount to be recognized in accordance with either of two methods. Under the first accrual method, the amount of income accrued will be based on the average exchange rate in effect during the accrual period or, with respect to an accrual period that spans two taxable years, the part of the period within the taxable year. Under the second accrual method, the United States holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. If the last day of the accrual period is within five business days of the date the Periodic Distribution Amount is actually received, an electing accrual basis United States holder may instead translate that Periodic Distribution Amount at the exchange rate in effect on the day of actual receipt. Any election to use the second accrual method will apply to all debt instruments held by the United States holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the United States holder and will be irrevocable without the consent of the IRS.

A United States holder utilizing either of the foregoing two accrual methods will recognize ordinary income or loss with respect to accrued income attributable to a Periodic Distribution Amount on the date of receipt of the Periodic Distribution Amount denominated in a foreign currency (including a payment attributable to accrued but unpaid Periodic Distribution Amount upon the sale, exchange or other disposition of a Certificate). The amount of ordinary income or loss will equal the difference between the U.S. dollar value of the Periodic Distribution

Amount received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of the income attributable to a Periodic Distribution Amount that has accrued during that accrual period (as determined under the accrual method utilized by the United States holder).

Foreign currency received as a Periodic Distribution Amount will have a tax basis equal to its U.S. dollar value at the time the Periodic Distribution Amount is received. Gain or loss, if any, realized by a United States holder on a sale, exchange or other disposition of that foreign currency will be ordinary income or loss and generally will be income from sources within the United States for U.S. foreign tax credit limitation purposes.

### ***Sale, Exchange or Retirement of Certificates***

A United States holder's tax basis in a Certificate generally will equal the U.S. dollar cost of such Certificate to such holder. The "**U.S. dollar cost**" of a Certificate purchased with a foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase or, in the case of a Certificate traded on an established securities market (as defined in the applicable U.S. Treasury regulations) that is purchased by a cash basis United States holder (or an accrual basis United States holder that so elects), on the settlement date for the purchase. Upon the sale, exchange or retirement of a Certificate, a United States holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any amounts in respect of accrued Periodic Distribution Amounts, which will be taxable as ordinary income) and the holder's tax basis in such Certificate.

The amount realized on the sale, exchange or retirement of a Certificate for an amount in foreign currency will be the U.S. dollar value of that amount on the date of disposition or, in the case of a Certificate traded on an established securities market (as defined in the applicable U.S. Treasury regulations) that is sold by a cash basis United States holder (or an accrual basis United States holder that so elects), on the settlement date for the sale. Gain or loss recognized by a United States holder on the sale, exchange or retirement of a Certificate that is attributable to changes in currency exchange rates will be ordinary income or loss and will consist of principal exchange gain or loss. Principal exchange gain or loss will equal the difference between the U.S. dollar value of the United States holder's purchase price of the Certificate in foreign currency determined on the date of the sale, exchange or retirement, and the U.S. dollar value of the United States holder's purchase price of the Certificate in foreign currency determined on the date the United States holder acquired the Certificate. The foregoing foreign currency gain or loss will be recognized only to the extent of the total gain or loss realized by the United States holder on the sale, exchange or retirement of the Certificate, and will generally be treated as from sources within the United States for U.S. foreign tax credit limitation purposes.

Any gain or loss recognized by a United States holder in excess of any foreign currency gain or loss recognized by a United States holder generally will be U.S. source capital gain or loss. For United States holders who are individuals, trusts or estates that hold the Certificates for more than one year, capital gains may be taxed at lower rates than ordinary income. The deductibility of capital losses is subject to certain limitations.

A United States holder will have a tax basis in any foreign currency received on the sale, exchange or retirement of a Certificate equal to the U.S. dollar value of the foreign currency at the time of the sale, exchange or retirement. Gain or loss, if any, realized by a United States holder on a sale, exchange or retirement of that foreign currency will be ordinary income or loss and will generally be income or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

### ***Potential Alternative Characterization***

The Issuer believes that it is appropriate to treat the Certificates as representing debt obligations of the Obligor and intends to do so. However, the IRS may seek to characterize the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterization, while the taxation of the income, gain or loss attributable to the Certificates would be essentially the same as the consequences described above, the Issuer and United States holders would be subject to certain information reporting applicable to foreign trusts. United States holders that fail to comply with these information reporting requirements in a timely manner could be subject to significant penalties. A United States holder could also be liable for penalties equal to the greater of \$10,000 or 5.0% of the gross value of the portion of the trust owned by a United States holder at the close of the year, if the Issuer failed to file a U.S. annual information return and provide each United States holder with a foreign grantor trust owner statement. Similar penalties would be applicable to the Issuer for failure to comply. The Issuer does not expect that it will provide information that would allow either itself or United States holders to comply with foreign trust reporting obligations if they were determined to be applicable. United States holders

should consult their own tax advisors as to the potential application of the foreign trust reporting rules and the tax consequences generally with respect to an investment in the Certificates.

### ***Non-United States Holders***

Subject to the backup withholding rules discussed below, a non-United States holder generally should not be subject to U.S. federal income or withholding tax on any payments on the Certificates and gain from the sale, redemption or other disposition of the Certificates unless: (i) that payment and/or gain is effectively connected with the conduct by that non-United States holder of a trade or business in the U.S.; (ii) in the case of any gain realised on the sale or exchange of a Certificate by an individual non-United States holder, that holder is present in the U.S. for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the non-United States holder is subject to tax pursuant to provisions of the U.S. Internal Revenue Code of 1986 applicable to certain expatriates.

### ***Information Reporting and Backup Withholding***

Information returns may be required to be filed with the IRS with respect to payments made to certain United States holders of Certificates. In addition, a United States holder may be subject to backup withholding tax in respect of such payments if such holder fails to provide its taxpayer identification number, to certify that such United States holder is not subject to backup withholding, or otherwise to comply with the applicable requirements of the backup withholding rules. Non-United States holders may be required to comply with applicable certification procedures to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of Certificates generally may be claimed as a credit against such holder's U.S. federal income tax liability **provided that** the required information is furnished to the IRS. Holders of Certificates should consult their own tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Additionally, certain United States holders may be required to report to the IRS certain information with respect to their beneficial ownership of the Certificates. Investors who fail to report required information could be subject to substantial penalties.

### ***Reportable Transactions***

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. A United States holder may be required to treat a foreign currency exchange loss from the Certificates as a reportable transaction if the loss exceeds certain specified thresholds in a single taxable year. Accordingly, if a United States holder realizes a loss on any Certificate (or, possibly, aggregate losses from the Certificates) satisfying such thresholds, the United States holder could be required to file an information return with the IRS, and failure to do so may subject the United States holder to penalties. Prospective purchasers are urged to consult their tax advisors regarding the application of these rules to the acquisition, holding or disposition of Certificates.

### **The Proposed Financial Transactions Tax (FTT)**

On February 14, 2013, the European Commission published a proposal (the **Commission's proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Certificates (including secondary' market transactions) in certain circumstances.

Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Certificates where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Certificates are advised to seek their own professional advice in relation to the FTT.

**THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF CERTIFICATES. PROSPECTIVE PURCHASERS OF CERTIFICATES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.**



## ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), impose certain restrictions on (i) employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Part 4 of Subtitle B of Title I of ERISA, (ii) plans (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, including individual retirement accounts and Keogh plans, (iii) any entities whose underlying assets are deemed to include plan assets by reason of a plan's investment in such entities (each of the foregoing, a **Plan**) and (iv) persons who have certain specified relationships to a Plan or its assets (parties in interest" under ERISA and "disqualified persons" under the Code; collectively, **Parties in Interest**). ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA, and ERISA and Section 4975 of the Code prohibit certain transactions between a Plan and Parties in Interest with respect to such Plan. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and the Code.

ERISA and Section 4975 of the Code prohibit a broad range of transactions involving plan assets and Parties in Interest, unless a statutory or administrative exemption is available. Parties in Interest that participate in a prohibited transaction may be subject to penalties imposed under ERISA and/or excise taxes imposed pursuant to Section 4975 of the Code, unless a statutory or administrative exemption is available. These prohibited transactions generally are set forth in Section 406 of ERISA and Section 4975 of the Code. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any Certificates and the circumstances under which such decision is made. Included among these exemptions are Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to transactions between a person that is a Party in Interest (other than a fiduciary or an affiliate that has or exercises discretionary authority or control or renders investment advice with respect to assets involved in the transaction) solely by reason of providing services to the Plan, **provided that** there is adequate consideration for the transaction), Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). Prospective investors should consult with their advisors regarding the prohibited transaction rules and these exceptions. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving any Certificates. Certain employee benefit plans, including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the prohibited transaction rules of ERISA or the Code but may be subject to substantially similar rules under other applicable laws or regulations. Accordingly, assets of such plans may be invested in the Certificates without regard to the prohibited transaction considerations under ERISA and the Code described below, subject to the provisions of such other applicable federal, state, local or non-U.S. laws or regulations (**Similar Law**).

Each purchaser or transferee of the Certificates using the assets of a Plan, or a governmental plan, church plan or non-U.S. plan that is subject to Similar Law, will be deemed to have represented and agreed that its acquisition, holding and disposition of the Certificates will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. plan, a violation of any Similar Law).

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Certificates should determine whether, under the documents and instruments governing the Plan, an investment in such Certificates is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio. Any Plan proposing to invest in such Certificates (including any governmental, church or non-U.S. plan) should consult with its counsel to confirm that such investment will not constitute or result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental, church or non-U.S. plan, any Similar Law).

The sale of any Certificates to a Plan is in no respect a representation by the Issuer, the Republic, the Arrangers, the Dealers or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the Program Agreement between the Issuer, the Republic, the Arrangers and the Dealers, the Certificates may be offered on a continuous basis by the Republic to the Dealers. The Certificates may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer(s). The Certificates may also be sold by the Republic through the Dealers, acting as agents of the Republic. If a jurisdiction requires that the offering of the Certificates be made by a licensed broker or dealer and the Arrangers and Dealers or any their affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that arranger or dealer or their affiliates on behalf of the Issuer in such jurisdiction. The Program Agreement also provides for Certificates to be issued in syndicated Tranches that are jointly and severally or severally underwritten by two or more Dealers.

The Republic will pay the relevant Dealer a commission as agreed between them in respect of Certificates subscribed by it. The Republic has agreed to reimburse each Arranger for certain of its expenses incurred in connection with the establishment of the Program and the Dealers for certain of their activities in connection with the Program.

The Republic has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Certificates including liabilities under the Securities Act. The Program Agreement entitles the Dealers to terminate any agreement that they make to subscribe Certificates in certain circumstances prior to payment for such Certificates being made to the Republic.

The Arrangers and the Dealers and certain of their affiliates may from time to time engage in transactions with and perform services for the Issuer and the Republic in the ordinary course of their business. The Arrangers, Dealers and their respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Arrangers and Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Republic from time to time. In the ordinary course of their various business activities, the Arrangers, Dealers and their respective affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisors) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Republic, including Certificates issued under the Program, may be entered into at the same time or proximate to offers and sales of Certificates or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Certificates. Certificates issued under the Program may be purchased by or be allocated to any Dealer or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

### **United States**

The Certificates have not been and will not be registered under the Securities Act or under any applicable securities laws or regulations of any state of the United States and, subject to certain exceptions, may not be offered or sold within the United States except to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold only (1) in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act and (2) outside the United States in offshore transactions in reliance on Regulation S under the Securities Act.

The Certificates are being offered and sold outside the United States in reliance on Regulation S. The Program Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the Certificates within the United States only to QIBs in reliance on Rule 144A or Institutional Accredited Investors pursuant to an exemption from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the offering of any Series of Certificates, an offer or sale of such Certificates within the United States by any dealer (whether or not participating in the offering) may

violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act. See “*Transfer Restrictions*” for a description of other restrictions on the transfer or the Certificates.

As used herein, the term “**United States**” has the meaning given to it in Regulation S.

### **United Kingdom**

Each Dealer has represented, warranted and agreed that:

- (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and it has not offered or sold and will not offer or sell the Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act (**FSMA**) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of FSMA) received by it in connection with the issue or sale of the Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer and the Republic; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

### **Hong Kong**

This Offering Memorandum has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. In relation to the Certificates, each Dealer has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell in the Hong Kong Special Administrative Region of the People’s Republic of China (**Hong Kong**), by means of any document, any Certificates (except for Certificates which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) other than (A) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (B) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (b) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made thereunder.

### **Japan**

As the Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**), each relevant Dealer represents and agrees that it will not offer or sell any Certificates, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### **Singapore**

Each Dealer has acknowledged that this Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and

agreed that it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Certificates, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore (the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person as defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) pursuant to Section 276(7) of the SFA; or
- (v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

## **Brunei**

This Offering Memorandum does not, and is not intended to constitute an invitation, offer, sale or delivery of Certificates or other securities in Brunei Darussalam. This Offering Memorandum is not intended to be a prospectus. It is for information purposes only. This Offering Memorandum may not be distributed or redistributed to and may not be relied upon or used by any person in Brunei Darussalam. Any offers, acceptances, subscription, sales and allotments of Certificates, shares or other securities shall be made outside Brunei Darussalam. This Offering Memorandum is neither registered with nor approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Monetary Authority of Brunei Darussalam and the Sharia Financial Supervisory Board. The Certificates, shares or other securities are not registered, licensed or permitted by the authority designated under the Mutual Funds Order 2001, the Securities Order 2001, the Sharia Financial Supervisory Board or by any other government agency or under any law in Brunei Darussalam.

## **United Arab Emirates (excluding the Dubai International Finance Centre)**

Each Dealer has represented and agreed that the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities.

## **Dubai International Financial Centre**

Each Dealer has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

- (a) an “**Exempt Offer**” for the purposes of the Markets Rules (MKT Module) of the Dubai Financial Services Authority (**DFSA**) rulebook; and

- (b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module of the DFSA rulebook.

### **Kingdom of Saudi Arabia**

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a **Saudi Investor**) who acquires Certificates pursuant to any offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the “**Offer of Securities Regulations**” as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated October 4, 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated August 18, 2008 (the **KSA Regulations**). Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that it shall not offer, sell or advertise the Certificates to any person in the Kingdom of Saudi Arabia other than to “Sophisticated Investors” under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Program will be required to represent and agree, that any offer of Certificates will comply with the KSA Regulations.

Each offer of Certificates shall not therefore constitute a “public offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under Article 10 and/or Article 11 of the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made through an authorized person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Certificates are offered or sold to a Sophisticated Investor; (b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

### **State of Qatar**

Each Dealer has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in Qatar, except (a) in compliance with all applicable laws and regulations of Qatar and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar.

### **Kingdom of Bahrain**

Each Dealer has represented, warranted and agreed that it has not offered and will not offer, Certificates to the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) in Bahrain.

### **Kuwait**

The Certificates have not been licensed for offering in Kuwait by the Kuwait Capital Markets Authority. The offering of the Certificates in Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Law No. 7 of 2010 “Establishing of the Capital Markets Authority and the organization of securities activity”, its Executive Regulations and the various Resolutions and Announcements issued pursuant thereto or in connection therewith. No private or public offering of the Certificates is being made in Kuwait, and no agreement relating to the sale of the Certificates will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in Kuwait.

### **Malaysia**

Each Dealer has represented, warranted and agreed that:

- (a) this Offering Memorandum has not been registered with the Securities Commission Malaysia under the Capital Markets and Services Act 2007 of Malaysia (the CMSA); and
- (b) accordingly, the Certificates have not been and will not be offered, sold or delivered, directly or indirectly, nor may any document or other material in connection therewith be distributed in Malaysia, other than to persons falling within any one of the categories of persons specified under Schedule 6 (or Section 229(1)(b)) and Schedule 7 (or Section 230(1)(b)), read together with Schedule 8 and Schedule 9 or Section 257(3)) of the CMSA, subject to any law, order, regulation or official directive of Bank Negara Malaysia, the Securities Commission Malaysia and/or any other regulatory authority from time to time.

Residents of Malaysia may be required to obtain relevant regulatory approvals including approval from the Controller of Foreign Exchange to purchase the Certificates. The onus is on the Malaysian residents concerned to obtain such regulatory approvals and none of the Dealers is responsible for any invitation, offer, sale or purchase of the Certificates as aforesaid without the necessary approvals being in place.

## **Switzerland**

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Certificates. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither this Offering Memorandum nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

## **General**

These selling restrictions may be modified by agreement between the Issuer, the Republic and the Dealers following a change in relevant law, regulation or directive. The distribution of this Offering Memorandum and the offering, sale or delivery of the Certificates is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Memorandum are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Memorandum may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorized. The Certificates may not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor such other material may be distributed or published in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of the Certificates, or possession or distribution of this Offering Memorandum, or any other offering material in any country or jurisdiction where action for that purpose is required.

## **Settlement and Delivery**

The Republic and the Issuer expect that delivery of the Global Certificates will be made against payment therefor on or about the Closing Date, which will be on or about the fifth business day following the date of pricing of the Certificates. Under Rule 15c6-1 of the U.S. Securities Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Certificates initially will settle on or about T+5, to specify alternative settlement arrangements to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own advisor.

In connection with the issue of Certificates in any Series under the Program, subsequent to the issue of Certificates, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Certificates or effect transactions with a view to supporting the market price of the Certificates in such a Series at a level higher than that which might otherwise prevail. However, there is no assurance that a Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization will be conducted in accordance with all applicable laws and regulations.

## TRANSFER RESTRICTIONS

*Due to the following significant transfer restrictions applicable to the Certificates, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of Certificates.*

The Certificates have not been and will not be registered under the Securities Act or any other securities laws, and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold in the United States only to persons reasonably believed to be QIBs in reliance on the registration exemption in Rule 144A of the Securities Act or to Institutional Accredited Investors within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act pursuant to another available exemption from registration under the Securities Act. The international offering is being made outside the United States in offshore transactions pursuant to Regulation S under the Securities Act.

Any reoffer, resale, pledge, transfer or other disposal, or attempted reoffer, resale, pledge, transfer or other disposal, made other than in compliance with the restrictions noted below shall not be recognized by the Republic, the Issuer or the Trustee.

### **Rule 144A Transfer Restrictions**

Each purchaser of the Rule 144A Certificates in the United States will be deemed to have acknowledged, represented and agreed that:

1. It is:
  - (a) a QIB as defined in Rule 144A under the Securities Act;
  - (b) aware, and that each beneficial owner of the Rule 144A Certificates has been advised, that the sale of such Certificates to it is being made in reliance on Rule 144A; and
  - (c) acquiring the Rule 144A Certificates for its own account or for the account of one or more QIBs; and
2. It understands that the Rule 144A Certificates have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may be offered, sold, pledged or otherwise transferred only:
  - (a) outside the United States in an offshore transaction in accordance with Regulation S under the Securities Act;
  - (b) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
  - (c) within the United States to a person whom it reasonably believes is a QIB that is purchasing for its own account or for the account of one or more QIBs, in a transaction meeting the requirements of Rule 144A under the Securities Act; or
  - (d) pursuant to an effective registration statement under the Securities Act,

in each case in accordance with any applicable securities laws of any state of the United States; and

3. Rule 144A Certificates sold in the offering will constitute “restricted securities” within the meaning of Rule 144 under the Securities Act, and for so long as they remain “restricted securities” such Rule 144A Certificates may not be transferred except as described in paragraph (2) above; and
4. Rule 144A Certificates will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AS SET FORTH IN THE FOLLOWING SENTENCE.

BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THE CERTIFICATES REPRESENTED HEREBY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATIONS UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE CERTIFICATES EXCEPT (A) WITHIN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (B) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS CERTIFICATE IS BEING TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE DECLARATION OF TRUST.

ANY RESALE OR OTHER TRANSFER OF THIS CERTIFICATE (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE.;" and

5. The Issuer, the Republic, the Registrar, the other Transfer Agents, the Arrangers, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Certificates for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

### **Definitive IAI Transfer Restrictions**

Each purchaser of the Definitive IAI Certificates in the United States will be deemed to have acknowledged, represented and agreed that:

1. It is:
  - (a) an Accredited Investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D of the Securities Act that is an institution which has delivered an IAI Investment Letter; and
  - (b) acquiring the Definitive IAI Certificates for its own account or for the account of one or more Institutional Accredited Investors; and
2. It understands that the Definitive IAI Certificates have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may be offered, sold, pledged or otherwise transferred only:
  - (a) outside the United States in an offshore transaction in accordance with Regulation S under the Securities Act;
  - (b) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);
  - (c) within the United States to a person whom it reasonably believes is a QIB that is purchasing for its own account or for the account of one or more QIBs, in a transaction meeting the requirements of Rule 144A under the Securities Act; or
  - (d) pursuant to an effective registration statement under the Securities Act,



in each case in accordance with any applicable securities laws of any state of the United States; and

3. Definitive IAI Certificates sold in the offering will constitute “restricted securities” within the meaning of Rule 144 under the Securities Act, and for so long as they remain “restricted securities” such Definitive IAI Certificates may not be transferred except as described in paragraph (2) above; and
4. Definitive IAI Certificates will bear a legend to the following effect, unless the Issuer determines otherwise in compliance with applicable law:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE SECURITIES ACT), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AS SET FORTH IN THE FOLLOWING SENTENCE.

BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS AN INSTITUTIONAL “ACCREDITED INVESTOR” (WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) AND IT IS ACQUIRING THIS CERTIFICATE FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO ANY RESALE OR DISTRIBUTION HEREOF, SUBJECT TO ITS ABILITY TO RESELL THIS CERTIFICATE PURSUANT TO RULE 144A OR REGULATION S UNDER THE SECURITIES ACT OR AS OTHERWISE PROVIDED BELOW AND SUBJECT IN ANY CASE TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE PROPERTY OF ANY PURCHASER SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL.

THE HOLDER OF THIS CERTIFICATE BY ITS ACCEPTANCE HEREOF AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE CERTIFICATES EXCEPT (A) WITHIN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (B) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.

AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE DECLARATION OF TRUST.

ANY RESALE OR OTHER TRANSFER OF THIS CERTIFICATE (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE”; and

5. The Issuer, the Republic, the Registrar, the other Transfer Agents, the Arrangers, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Certificates for the account of one or more Institutional Accredited Investors, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

### **Regulation S Transfer Restrictions**

Each purchaser of the Regulation S Certificates and each subsequent purchaser of such Regulation S Certificates in resales, by accepting delivery of this Offering Memorandum and the Certificates, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Regulation S Certificates are purchased will be, the beneficial owner of such Regulation S Certificates and (a) it is located outside the United States and (b) it is not an affiliate of the Republic or a person acting on behalf of such an affiliate;
2. It understands that such Regulation S Certificates have not been and will not be registered under the Securities Act;
3. It understands that the Regulation S Certificates, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend substantially in the following form:  

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (the **SECURITIES ACT**), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT”; and
4. The Issuer, the Republic, the Registrar, the other Transfer Agents, the Arrangers, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

### **ERISA Transfer Restrictions**

Each purchaser or transferee of the Certificates will be deemed to have acknowledged, represented and agreed that (a) either: (i) it is not, and for so long as it holds the Certificates or interests in the Certificates will not be, an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**)) subject to the provisions of part 4 of subtitle B of Title I of ERISA, a plan to which Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the **Code**), applies, or any entity whose underlying assets include “plan assets” by reason of such an employee benefit plan’s and/or plan’s investment in such entity, or a governmental plan, church plan or non-U.S. plan that is subject to any laws, regulations or rules that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (collectively, **Similar Law**), or (ii) its acquisition, holding or disposition of the Certificates or interests in the Certificates will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan, non-U.S. or other plan, a violation of any Similar Law); and (b) it will not transfer any such Certificates to any person unless such person could itself truthfully make the foregoing deemed acknowledgments, representations and agreements.

## LEGAL MATTERS

The validity of the Certificates will be passed upon for the Republic by the Head of the Legal Bureau of the Ministry of Finance of the Republic and by Hadiputranto, Hadinoto & Partners, Indonesian counsel to the Republic and the Issuer, as to matters of Indonesian law, and by Allen & Overy LLP, international counsel to the Republic and the Issuer, as to matters of U.S. federal and English law. Certain legal matters will be passed upon for the Arrangers and Dealers by AZP Legal Consultants, Indonesian counsel to the Arrangers and Dealers and by Clifford Chance Pte. Ltd., international counsel to the Arrangers and Dealers, as to matters of U.S. federal securities and English law. In rendering their opinions, Allen & Overy LLP will rely as to all matters of Indonesian law upon the opinion of the Head of the Legal Bureau of the Ministry of Finance of the Republic and of Hadiputranto, Hadinoto & Partners and Clifford Chance Pte. Ltd. will rely as to all matters of Indonesian law upon the opinions of Hadiputranto, Hadinoto & Partners and AZP Legal Consultants.

## CLEARANCE AND SETTLEMENT

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Republic, the Arrangers, the Dealers, the Agents or the Delegate takes any responsibility for the accuracy of this section. The Issuer and the Republic only take responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the Issuer, the Republic nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

*The relevant Pricing Supplement will specify the clearing system(s) applicable for each Series.*

### **Book-entry ownership**

The Certificates will be evidenced on issue by the Regulation S Global Certificate (unless otherwise specified in the applicable Pricing Supplement, registered in the name of a nominee of, and shall be deposited with a custodian for, DTC for the accounts of Euroclear and Clearstream, Luxembourg or registered directly in the name of a nominee of, and shall be deposited with the common depository for, Euroclear and Clearstream, Luxembourg) and the Rule 144A Global Certificate (unless otherwise specified in the applicable Pricing Supplement, registered in the name of a nominee of, and shall be deposited with a custodian for, DTC).

Unless otherwise specified in the applicable Pricing Supplement, the Issuer, and a relevant US agent appointed for such purpose that is an eligible DTC participant, will make application to DTC for acceptance in its book-entry settlement system of the Certificates represented by the Regulation S Global Certificate and the Rule 144A Global Certificate. Unless otherwise specified in the applicable Pricing Supplement, the Issuer will also make application to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Certificates to be represented by the Regulation S Global Certificate. The Regulation S Global Certificate and Rule 144A Global Certificate will each have a CUSIP, an ISIN and a Common Code. The Rule 144A Global Certificate and the Regulation S Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under “*Transfer Restrictions.*” In certain circumstances, as described below, transfers of interests in the Rule 144A Global Certificate may be made as a result of which such legend may no longer be required.

Upon the Global Certificates being registered in the name of a nominee of, and deposited with a custodian for, DTC, DTC will electronically record the nominal amount of the Certificates held within the DTC system. Investors may hold their beneficial interests in the Global Certificates directly through DTC if they are participants in the DTC system, or indirectly through organizations (including Euroclear and Clearstream, Luxembourg) which are participants in such system (together, such direct and indirect participants of DTC shall be referred to as **DTC participants**). All interests in the Global Certificates, including those held through Euroclear or Clearstream, Luxembourg may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

Upon the Regulation S Global Certificates being registered in the name of a nominee of, and deposited with a common depository for Euroclear and Clearstream, Luxembourg, Euroclear and Clearstream, Luxembourg will electronically record the face amount of the Certificates held within their respective systems. Investors may hold their beneficial interests in the Regulation S Global Certificates directly through Euroclear and Clearstream, Luxembourg if they are participants in those systems or indirectly through organizations which are participants in such system. The interests held through Euroclear or Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

### **Payments and relationship of participants with clearing systems**

Each of the persons shown in the records of DTC as the holder of a Certificate represented by a Global Certificate must look solely to DTC for his share of each payment made by the Issuer to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC. The Issuer expects that, upon receipt of any

payment in respect of Certificates represented by a Global Certificate, DTC or its nominee will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the face amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in a Global Certificate held through such DTC participants will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Certificates for so long as the Certificates are represented by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Issuer, the Delegate or any Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

### **Transfer of Certificates**

Transfers of interests in the Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Rule 144A Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in the Regulation S Global Certificate may only be held through Euroclear or Clearstream, Luxembourg. In the case of Certificates to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in the Regulation S Global Certificate to a transferee who wishes to take delivery of such interest through the Rule 144A Global Certificate **provided that** any such transfer will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon receipt by any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person that the transferor reasonably believes is a QIB within the meaning of Rule 144A purchasing the Certificates for its own account or any account of a QIB, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Certificates represented by such Regulation S Global Certificate will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Regulation S Global Certificate to the Delegate or other agent of details of that account at DTC to be credited with the relevant interest in the Rule 144A Global Certificate. Transfers at any time by a holder of any interest in the Rule 144A Global Certificate to a transferee who takes delivery of such interest through the Regulation S Global Certificate will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon delivery to any transfer agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Certificates described above and under "*Transfer Restrictions*," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the custodian or common depository of the Global Certificates, the Registrar, the Transfer Agents, the Principal Paying Agent and any other Paying Agents.

On or after the Closing Date, transfers of Certificates between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Certificates between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests between the Global Certificates will be effected through the Principal Paying Agent and other paying

agents, the custodian or common depository of the Global Certificates, the Registrar and any other Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Principal Paying Agent or other paying agent or the Registrar or other Transfer Agent, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of the Certificates, see “*Transfer Restrictions.*”

## **DTC**

DTC is a limited purpose trust company organized under the laws of the State of New York, a “banking organization” under the laws of the State of New York, a member of the US Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerized book- entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

DTC will take any action permitted to be taken by a holder of Certificates only at the direction of one or more DTC participants in whose accounts with DTC interests in the Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Certificate as to which such DTC participant or participants has or have given such direction. However, the custodian of the Global Certificates will surrender the relevant Global Certificate for exchange for individual definitive certificates in certain limited circumstances.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Delegate or any Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While the Global Certificates are lodged with DTC, Certificates represented by individual definitive certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

## **Euroclear and Clearstream, Luxembourg**

Each of Euroclear and Clearstream, Luxembourg holds securities for their account holders and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risks from lack of simultaneous transfers of securities. Euroclear and Clearstream, Luxembourg each provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems which enables their respective account holders to settle trades with each other. Account holders in Euroclear and Clearstream, Luxembourg are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system. An account holder’s contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or

Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under those rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective holders.

### **Individual Definitive Certificates**

Registration of title to Certificates in a name other than a custodian or its nominee for DTC or the common depository for Euroclear and Clearstream, Luxembourg will be permitted only in the circumstances set forth in “Global Certificates — Exchange for Definitive Certificates.” In such circumstances, the Issuer and the Delegate will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Certificate holder. A person having an interest in a Global Certificate must provide the Registrar with certain information as specified in the Agency Agreement.

### **Pre-issue trades settlement**

It is expected that delivery of Certificates will be made against payment therefor on the Issue Date, which could be more than three business days following the date of pricing of the Certificates. Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact the Certificates initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own advisor.

## GENERAL INFORMATION

### Authorization

The entry by the Republic into the transactions contemplated by the Transaction Documents was authorized by (1) Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), (2) Law No. 18 of 2016 on State Budget of 2017 passed on November 18, 2016 and (3) the approval on the use of underlying assets for the issuance of sovereign sukuk from the Minister of Finance on the list of projects of ministries or agencies (**List of Projects**) as underlying assets for the issuance of sovereign sukuk in 2017 on December 29, 2016. The use of underlying assets for the issuance of sovereign sukuk (save for the List of Projects) was provided to the parliament on 30 June 2016 and February 14, 2017. The Issuer was created under Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III* in conjunction with the Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* for the purpose of issuing the Certificates and entering into the Transaction Documents.

### Listing

Application will be made to the SGX-ST for permission to deal in and quotation of any Certificates that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST for the listing of a particular Series will be approved. However, Certificates may be issued under the Program that will not be listed on the SGX-ST or any other stock exchange, and the Pricing Supplement applicable to each Series or Tranche of Certificates will specify whether or not the Certificates will be listed on the SGX-ST or any other stock exchange.

For so long as the Certificates are listed on the SGX-ST and the rules of the SGX-ST so require, the Issuer shall appoint and maintain a Paying Agent in Singapore, where such Certificates may be presented or surrendered for payment or redemption, in the event that any of the Global Certificates representing such Certificates is exchanged for definitive Certificates. In addition, in the event that any of the Global Certificates is exchanged for definitive Certificates, for so long as such Certificates are listed on the SGX-ST, an announcement of such exchange will be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the Paying Agent in Singapore.

It is expected that each Series of Certificates which is to be admitted to the DFSA Official List and to trading on Nasdaq Dubai will be admitted separately as and when issued, subject only to the issue of a Global Certificate initially representing the Certificates of such Series. Application has been made for the Certificates to be admitted to the DFSA Official List and to be admitted to trading on Nasdaq Dubai. However, unlisted Certificates may also be issued pursuant to the Program.

### Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Issuer and, between 9.30am and 3.00pm, Monday to Friday (public holidays excepted), for inspection at the specified office of the Principal Paying Agent in New York:

- (a) the Transaction Documents;
- (b) Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*); Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* as amended by Government Regulation No. 73 of 2012 on the amendment of Government Regulation No. 56 of 2008 on *Perusahaan Penerbit Surat Berharga Syariah Negara* and Government Regulation No. 57 of 2011 on the Establishment of *Perusahaan Penerbit Surat Berharga Syariah Negara Indonesia III*;
- (c) this Offering Memorandum; and
- (d) any future offering circulars, offering memoranda, prospectuses, information memoranda and supplements, including the Pricing Supplement (except that the Pricing Supplement relating to unlisted Certificates will only be available for inspection by a Holder of such Certificate and such Holder must produce evidence satisfactory to the Delegate as to the identity of such Holder) to this Offering Memorandum and any other documents incorporated herein or therein by reference.



**Clearing Systems**

The appropriate common code and ISIN for each Tranche of Certificates allocated by DTC or Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the CUSIP for each Tranche of Certificates allocated by DTC will also be specified in the applicable Pricing Supplement. If the Certificates are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

**Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer and no material adverse change in the financial position or prospects of the Issuer, in each case, since the date of its incorporation. Except as disclosed in this Offering Memorandum, there has been no material adverse change in the information set out in this Offering Memorandum under “*Republic of Indonesia*” since the date of this Offering Memorandum. There have been no recent events relevant to the evaluation of the Republic’s solvency.

**Litigation**

Neither the Issuer nor the Republic is currently, nor have either of them in the 12 months preceding the date of this Offering Memorandum been, involved in any governmental, legal or arbitration proceedings (including any such proceedings that are pending or, except as may be disclosed in this Offering Memorandum, threatened of which either the Issuer or the Republic is aware) that may have, or that in the 12 months preceding the date of this Offering Memorandum have had, a significant effect on the financial position or profitability of the Issuer or the financial position of the Republic.

**Financial Statements**

The fiscal years of the Issuer end on December 31 of each year.

The Issuer prepares unaudited financial statements in respect of the end of, and the first six months of, each fiscal year. The Issuer is not required by Indonesian law to prepare or publish audited financial statements and does not intend to do so. If the Issuer publishes its accounts, it will ensure that copies are made available free of charge at the specified office of the Principal Paying Agent in New York.

The Issuer has no subsidiaries.

**ISSUER**

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