

CONFORMED COPY

LOAN NUMBER 3482-IND

(Fourth Telecommunications Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

PT. Telekomunikasi Indonesia

Dated July 8, 1992

Loan Number 3482-IND

PROJECT AGREEMENT

AGREEMENT, dated July 8, 1992, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PT. Telekomunikasi Indonesia (TELKOM).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Indonesia (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to three hundred seventy five million dollars (\$375,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that TELKOM agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and TELKOM, a portion of the proceeds of the loan provided for under the Loan Agreement will be relent to TELKOM on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS TELKOM, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) TELKOM declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts B and C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and telecommunication practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts B and C of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and TELKOM shall otherwise agree, TELKOM shall carry out Parts B and C of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts B and C of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. TELKOM shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Parts B and C of the Project.

Section 2.04. TELKOM shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, TELKOM shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) TELKOM shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Parts B and C of the project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) TELKOM shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts B and C of the Project, the accomplishment of the purposes of the Loan, or the performance by TELKOM of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of TELKOM

Section 3.01. TELKOM shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and telecommunication practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. (a) TELKOM shall maintain its existence and right to carry on its operations and shall take all steps necessary to acquire, maintain and renew all interest in land and other properties and all rights, powers, privileges and franchises which are necessary or useful in carrying out Parts B and C of the Project or in the conduct of its business.

(b) TELKOM shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and telecommunication practices.

(c) Except as the Bank shall otherwise agree, TELKOM shall not sell, lease, transfer or otherwise dispose of any of its property or assets which shall be required for the efficient operation of its business and undertaking.

Section 3.03. TELKOM shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) TELKOM shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate accounts for Parts B and C of the Project.

(b) TELKOM shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the TELKOM shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Except as the Bank shall otherwise agree, TELKOM shall not incur any debt unless a reasonable forecast of the revenues and expenditures of TELKOM shows that the projected net revenues of TELKOM for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the projected debt service requirement of TELKOM in such year on all debt of TELKOM including the debt to be incurred. For the purposes of this Section:

(a) The term "debt" means any indebtedness of TELKOM maturing by its terms more than one year after the date on which it is originally incurred.

(b) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or further modification of its terms of payment, on the date of such contract, agreement or instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(c) The term "net revenues of TELKOM" means gross revenues of TELKOM from all sources, adjusted to take account of TELKOM's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate, less all operating expenses of TELKOM, including expenses accountable to administration, maintenance and taxes (or payments in lieu of taxes), but before provision for depreciation of assets and interest and other charges on debt.

(d) The term "debt service requirement" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(e) The term "reasonable forecast" means a forecast prepared by TELKOM in the fiscal year in which the debt in question is to be incurred, which both the Bank and TELKOM accept as reasonable and as to which the Bank has notified TELKOM of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of TELKOM.

(f) Whenever for the purposes of this Section it shall be necessary to value, in terms of currency of TELKOM, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, with absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 4.03. (a) Except as the Bank shall otherwise agree, TELKOM shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1992, funds from internal sources equivalent to not less than forty percent (40%) of the annual average of TELKOM's capital expenditures incurred, or expected to be incurred, for that year and the next following fiscal year.

(b) Before November 15 in each of its fiscal years, commencing on November 15, 1992 and thereafter, TELKOM shall, on the basis of forecasts prepared by TELKOM and satisfactory to the Bank,

review whether it would meet the requirements set forth in paragraph (a) of this Section in respect of such year and the next following fiscal year and shall furnish to the Bank a copy of such review upon its completion.

(c) If any such review shows that TELKOM would not meet the requirements set forth in paragraph (a) of this Section for TELKOM's fiscal years covered by such review, TELKOM shall promptly take all necessary measures (including, but not limited to, furnishing to the Borrower proposed adjustments of the structure or levels of its tariffs) in order to meet the 40% requirement set forth in paragraph (a) of this Section.

(d) For the purposes of this Section:

(i) The term "funds from internal sources" means the difference between:

(A) the sum of revenues from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income, any reduction in working capital other than cash, plus cash surpluses from previous years; and

(B) the sum of all expenses related to operations, including administration, adequate maintenance (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) The term "net non-operating income" means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses incurred in the generation of revenues in (A) above.

(iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.

(iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.

(v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vii) The term "capital expenditures" means all expenditures incurred on account of fixed

assets, including interest charged to construction, related to operations.

(viii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

(e) The provisions of this Section supersede the provisions of Section 4.03 (a) of the Project Agreement dated April 30, 1990 entered into between the Bank and Perusahaan Umum Telekomunikasi for purposes of Loan No. 3182-IND (Third Telecommunications Project).

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of TELKOM thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify TELKOM thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

For TELKOM:

Grha Citra Caraka
Jl. Jend Gatot Subroto 52

Telex: 62-21-60751

Jakarta 12150
Indonesia

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of TELKOM may be taken or executed by the President Director or such other person or persons as the President Director shall designate in writing, and TELKOM shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam Kaji
Regional Vice President
East Asia and Pacific

PT. TELEKOMUNIKASI INDONESIA

By /s/ Abdul Rachman Ramly
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Bidders for Outside Plant works shall be prequalified as provided in paragraph 2.10 of the Guidelines.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Indonesia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

Items or groups of items for test equipment and tools, spare parts, software and rehabilitation of existing equipment estimated to cost up to an aggregate amount equivalent to \$17,000,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections

I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

Part D: Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist TELKOM in carrying out Parts B and C of the Project, TELKOM shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 2

Implementation Program

1. On November 15 of each year, commencing on November 15, 1992 and thereafter until the completion of the Project, TELKOM shall:

(a) prepare and furnish to the Bank, for its review and comments, its corporate plan and institutional development plans for the following fiscal year, and, thereafter, taking into account Bank's comments, if any, carry out such plans; and

(b) review and, if required, revise with the prior concurrence of the Bank, the TELKOM's Fiscal Years 1992-96 Investment Program.

The provisions of this paragraph supersede the provisions of paragraph 1 of Schedule 2 to the Project Agreement dated April 30, 1990 entered into between the Bank and Perusahaan Umum Telekomunikasi for purposes of Loan No. 3182-IND (Third Telecommunications Project).

2. TELKOM shall, by November 15, 1993, prepare and furnish to the Bank, for its review and comments, proposed procurement guidelines to be applied in the procurement of goods and services required by TELKOM in the carrying on of its operations (except for goods and services financed out of the proceeds of the Loan), and, thereafter, adopt said guidelines taking into account the Bank's comments.

3. TELKOM shall, by November 15, 1992, prepare and furnish to the Bank, for its approval, an action plan to strengthen TELKOM's capabilities in the areas of: (a) accounting and financial management;

(b) operations; (c) capacity management of both physical and human resources; and (d) training of staff and managers in management techniques and new technology, and, thereafter, implement such action plan as approved by the Bank.

The provisions of this paragraph supersede the provisions of paragraph 5 of Schedule 2 to the Project Agreement dated April 30, 1990 entered into between the Bank and Perusahaan Umum Telekomunikasi for purposes of Loan No. 3182-IND (Third Telecommunications Project).

4. TELKOM shall maintain the Project Implementation Unit, established in September 1991, for the purposes of carrying out Parts B and C of the Project; the Project Implementation Unit shall be headed by a qualified and experienced officer, and vested, at all times, with such power, responsibilities, funds, staff, facilities and other resources as shall be required to undertake its responsibilities in the carrying out of said Parts of the Project.

5. TELKOM shall: (a) by December 31, 1992, prepare and furnish to the Bank, for its approval, a master plan for the implementation of Parts B and C of the Project, which master plan to be prepared in accordance with the critical path method and to include actions to be taken by TELKOM and the relevant Borrower's departments or agencies; and (b) thereafter, carry out said Parts of the Project in accordance with such master plan as approved by the Bank.

6. TELKOM shall:

(a) take all such action as shall be necessary to meet physical and financial performance targets, satisfactory to the Bank, for its Fiscal Years 1992 and 1993;

(b) by November 15 of each year, commencing on November 15, 1993, in consultation with the Borrower, prepare physical and financial performance targets for indicators, satisfactory to the Bank, for the next two TELKOM's Fiscal Years, and, thereafter, take all such action as shall be necessary to meet such performance targets; and

(c) within six months of the end of each of the above-mentioned Fiscal Years, report to the Borrower and the Bank on the results of its actions in meeting such performance targets.

7. TELKOM shall: (a) on November 15 of each year, commencing on November 15, 1992, review the level and structure of its tariffs, and, thereafter, furnish to the Bank, for its review and comments, the results of such review and its proposed tariff changes, if any; and (b) thereafter, taking into account the Bank's comments, furnish to the Borrower, for its consideration, any proposed tariff adjustment.

