

CONFORMED COPY

LOAN NUMBER 3482-IND

(Fourth Telecommunications Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 8, 1992

Loan Number 3482-IND

LOAN AGREEMENT

AGREEMENT, dated July 8, 1992, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) by agreement dated November 4, 1991 (the ABN AMRO BANK Loan Agreement), the ABN AMRO BANK has agreed to make a loan (the ABN AMRO BANK Loan) to the Borrower in an aggregate principal amount equivalent to one hundred fifty million Dutch Guilders (NLG150,000,000) to assist in financing the rehabilitation of the switching equipment under Part B (i) of the Project, and the installation of the new switching equipment under Part B (ii) of the Project on the terms and conditions set forth in the ABN AMRO BANK Loan Agreement;

(C) by agreement dated March 22, 1991 (the Sumitomo Corporation Suppliers Credit Agreement), the Sumitomo Corporation has agreed to make a suppliers credit (the Sumitomo Corporation Suppliers Credit) to the Borrower and PT. Telekomunikasi Indonesia

in an aggregate principal amount equivalent to eight billion eight hundred twenty nine million five hundred eighty four thousand six hundred thirty two Yen (8,829,584,632) to assist in financing the rehabilitation of the switching equipment under Part B (i) of the Project, and the installation of the new switching equipment under Part B (ii) of the Project on the terms and conditions set forth in the Sumitomo Corporation Suppliers Credit Agreement;

(D) by agreement dated March 13, 1992 (the KfW Loan Agreement I), the Kreditanstalt f r Weideraufbau (the KfW) has agreed to make a loan (the KfW Loan I) to the Borrower in an aggregate principal amount equivalent to forty five million Deutsche Marks (DM45,000,000) to assist in financing the customer distribution telecommunication network under Part B (ii) of the Project on the terms and conditions set forth in the KfW Loan Agreement I;

(E) the Borrower intends to contract from the Kreditanstalt f r Weideraufbau (the KfW) a loan in an amount of seventy six million three hundred thousand Deutsche Marks (DM76,300,000) (the KfW Loan II) to assist in financing the installation of the new switching equipment under Part B (i) of the Project on the terms and conditions set forth in the agreement (the KfW Loan Agreement II) to be entered into between the Borrower and the KfW;

(F) the Borrower intends to contract from the Government of Spain (Spain) a loan in an amount of fifty million dollars (\$50,000,000) (the Spain Loan) to assist in financing the rehabilitation of the switching equipment under Part B (i) of the Project, and the installation of the new switching equipment under Part B (ii) of the Project on the terms and conditions set forth in the agreement (the Spain Loan Agreement) to be entered into between the Borrower and Spain;

(G) by agreement dated December 3, 1991 (the US EXIMBANK Loan Agreement I), the United States Export-Import Bank (the US EXIMBANK) has agreed to make a loan (the US EXIMBANK Loan I) to the Borrower in an aggregate principal amount equivalent to fourteen million eight hundred fifteen thousand six hundred ninety six dollars (\$14,815,696) to assist in financing the establishment of the telecommunication management network system under Part B (v) of the Project on the terms and conditions set forth in the US EXIMBANK Loan Agreement I;

(H) by agreement dated January 28, 1992 (the US EXIMBANK Loan Agreement II), the United States Export-Import Bank (the US EXIMBANK) has agreed to make a loan (the US EXIMBANK Loan II) to the Borrower in an aggregate principal amount equivalent to sixty million dollars (\$60,000,000) to assist in financing the rehabilitation of the switching equipment under Part B (i) of the Project, and the installation of the new switching equipment under Part B (ii) of the Project on the terms and conditions set forth in the US EXIMBANK Loan Agreement II;

(I) by agreement dated September 25, 1991 (the OECF Loan Agreement), the Overseas Economic Cooperation Fund (Japan) has agreed to make a loan (the OECF Loan) to the Borrower in an aggregate principal amount equivalent to three billion five hundred fifty six million Yen (3,556,000,000) to assist in financing Part B (iii) of the Project on the terms and conditions set forth in the OECF Loan Agreement;

(J) the Borrower intends to contract from the Credit Lyonnais Bank a loan in an amount of one hundred two million French Franks (FF102,000,000) (the Credit Lyonnais Loan) to assist in financing the installation of the terrestrial microwave telecommunication transmission facilities under Part B (iv) (a) of the Project on the terms and conditions set forth in the agreement (the Credit Lyonnais Agreement) to be entered into between the Borrower and the Credit Lyonnais Bank;

(K) by agreement dated November 30, 1991 (the French

Financial Protocol 1991-92), the Government of France has agreed to make a loan (the French Loan) to the Borrower in an aggregate principal amount equivalent to two hundred one million seven hundred thousand French Franks (FF201,700,000) to assist in financing the installation of the terrestrial microwave telecommunication transmission facilities under Parts B (iv) (b) and B (iv) (c) of the Project on the terms and conditions set forth in the French Financial Protocol 1991-92; and

(L) Parts B and C of the Project will be carried out by PT. Telekomunikasi Indonesia with the Borrower's assistance and, as part of such assistance, the Borrower will make available to TELKOM a portion of the proceeds of the Loan as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and PT. Telekomunikasi Indonesia;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MTPT" means the Borrower's Ministry of Tourism, Post and Telecommunications;

(b) "PT. Telekomunikasi Indonesia" and the acronym "TELKOM" mean the limited liability company established and operating pursuant to its Articles of Association dated September 24, 1991, published in the State Gazette No. 5 dated January 17, 1992, pursuant to the Borrower's legislation, including the Borrower's Regulation No. 25 dated May 1, 1991;

(c) "Project Agreement" means the agreement between the Bank and PT. Telekomunikasi Indonesia of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(d) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and TELKOM pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement, and the term "Subsidiary Loan" means the loan provided to TELKOM under the Subsidiary Loan Agreement;

(e) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(f) "TELKOM's Fiscal Years 1992-96 Investment Program" means the investments to be undertaken by the TELKOM during its Fiscal Years 1992-96, as the same may be revised pursuant to the provisions of paragraph 1 (b) of Schedule 2 to the Project Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of three hundred seventy five million dollars (\$375,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account in Bank Indonesia on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as

provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall: (i) carry out Part A of the Project, through MTPT, with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project; and (ii) cause TELKOM to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable TELKOM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend to TELKOM out of the proceeds of the Loan an amount equivalent to \$373,000,000 under a subsidiary loan agreement to be entered into between the Borrower and TELKOM, under terms and conditions which shall have been approved by the Bank which include the following principal terms and conditions: (i) TELKOM shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a variable rate per annum equal to the average six months interest rate per annum of Bank Indonesia's Sertifikat Bank Indonesia (SBI) with a three-month maturity plus one percent (1%). Such rate to be adjusted on January 1 and July 1 of each year, commencing on July 1, 1992, and calculated based on the average of SBI three-month maturity quotations during the preceding six months; provided, however, that the interest on the Subsidiary Loan for the period from the date of the Subsidiary Loan Agreement through December 31, 1992, shall be determined

on the basis of the average of the per annum interest rate of SBI three-month maturity quotations during the six months preceding July 1, 1992; provided further that on July 1 of each year, commencing on July 1, 1993, the Borrower and the Bank shall review the above-mentioned basis for determining that the on-lending interest rate under the Subsidiary Loan Agreement reflects the commercial cost of borrowing to TELKOM; (ii) the principal amount of the Subsidiary Loan shall be repaid over 20 years including five years grace; and (iii) the foreign exchange risk to be borne by the Borrower.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. To assist MTPT in carrying out Part A of the Project, the Borrower 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.

Section 3.03. The Bank and the Borrower hereby agree that 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 Parts B and C of the Project shall be carried out by TELKOM pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall, by June 30, 1993, prepare and furnish to the Bank for its review and comments, a time-bound action plan to address structural issues in the telecommunication sector aimed, inter alia, at promoting competition and participation of the private sector in the provision of telecommunication services, and enhancing the regulatory framework, and, thereafter, taking into account the Bank's comments, implement such action plan.

Section 3.05. The Borrower shall, by November 15, 1992, prepare and furnish to the Bank, for its approval, a training program for the MTPT staff, and thereafter, implement such training program as approved by the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part A of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account 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 nine months after the end of each such year, 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 and accounts and 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 Borrower 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 or payment out of the Special 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. The Borrower shall take all such action as shall be necessary, including annual reviews and adjustments of TELKOM's tariffs, if any, to enable TELKOM to comply its obligations under Section 4.03 and paragraphs 6 and 7 of Schedule 2 to the Project Agreement.

Section 4.03. The Borrower shall take all such action as shall be necessary to provide, or cause TELKOM to be provided, in a timely manner, with funds, including foreign exchange, required to enable TELKOM to carry out the TELKOM's Fiscal Years 1992-96 Investment Program.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) TELKOM shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that TELKOM will be able to perform its obligations under the Project Agreement.
- (c) Either the Articles of Association of TELKOM or the Government Regulation No. 25 of 1991 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of TELKOM to perform any of its obligations under the Project Agreement.
- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment

of TELKOM or for the suspension of its operations.

(e) TELKOM shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by TELKOM or by others whereby any of the property of TELKOM shall or may be distributed amongst its creditors.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower or TELKOM to withdraw the proceeds of any loan or grant made for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower or TELKOM to perform any of its respective obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower or TELKOM from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(g) Either the KfW Loan Agreement II or the Spain Loan Agreement shall have failed to become effective by January 31, 1993, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds to assist in financing the rehabilitation of the switching equipment under Part B (i) of the Project and the installation of the new switching equipment under Part B (ii) of the Project, as the case may be, are available to the Borrower or TELKOM from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(h) Credit Lyonnais Loan Agreement shall have failed to become effective by June 30, 1993, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds to assist in financing the installation of the terrestrial microwave telecommunication transmission facilities under Part B (iv) (a) of the Project are available to the Borrower or TELKOM from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower;

(b) any event specified in paragraphs (c), (d) and (e) of Section 5.01 of this Agreement shall occur;

(c) the event specified in paragraph (f) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of such Section; and

(d) any event specified in paragraphs (g) and (h) of Section

5.01 of this Agreement shall occur, subject to the proviso therein set forth.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and TELKOM.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by TELKOM, and is legally binding upon TELKOM in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and TELKOM and is legally binding upon the Borrower and TELKOM in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
c/o Director General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 2458
Jakarta 10710, Indonesia

Cable address:

MINISTRY FINANCE
Jakarta

Telex:

DJMLN JKT 45799
DJMDN JKT 46415
DEPKEU JKT 44319

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)

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.

REPUBLIC OF INDONESIA

By /s/ Abdul Rachman Ramly
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

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

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Outside Plant	289,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
(2) Telecommunications equipment, materials, and software (excluding switching equipment)	27,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local expenditures for other items procured locally
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Computer System (including service arrangements)	20,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 65% of local

		expenditures for other items procured locally
(4) Consultants' services		
(a) under Part A of the Project	2,000,000	100%
(b) under Parts B and C of the Project	14,000,000	100%
(5) Training:		
(a) under Part A of the Project	1,000,000	100%
(b) under Parts B and C of the Project	2,500,000	100%
(6) Unallocated	18,500,000	
	<hr/>	
TOTAL	375,000,000	
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Outside Plant" means the supply, delivery, installation and commissioning of local telecommunication telephone network, pulse code modulation cable, optical fiber cable, transmission equipment (inclusive of microwave equipment), subscriber connections (inclusive of house-wiring and telephone set), and associated infrastructure.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in: (a) improving performance of the telecommunications sector, inter alia, by promoting a regulatory regime conducive to competition in the provision of telecommunication services; and (b) meeting increases in telecommunications service demand by enhancing the quality of service, effective utilization of existing facilities, increasing system efficiency, and modernizing and expanding the telecommunications network.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Provision of technical assistance to MTPT to:

(i) strengthen its capacity to design, assess and implement telecommunication sector policies;

(ii) formulate measures to ensure competition and private sector participation in domestic telecommunications services;

(iii) undertake a comprehensive analysis of domestic and international telecommunication tariffs in Indonesia, and assess and recommend a comprehensive mechanism for establishing such telecommunication tariffs, with due regard, inter alia, to costs, fund flows, demand, installed capacity and international comparators; and

(iv) carry out staff training programs.

Part B: Implementation of the TELKOM's Fiscal Years 1992-96 Investment Program relating to Java, Bali, Nusatenggara, Kalimantan and Sulawesi, including:

(i) rehabilitation of existing switching equipment, local cable, customer distribution and interexchange telecommunication networks, to improve operational efficiency and enhance traffic handling capacity in the domestic telecommunication system;

(ii) installation of switching equipment, associated customer distribution telecommunication network and customer terminal equipment (including about 20,000 pay phones) to connect about 600,000 new customers;

(iii) installation of fiber optic cable and microwave telecommunication transmission facilities to provide interexchange junction facilities in the Jabotabek area;

(iv) installation of terrestrial microwave telecommunication transmission facilities in (a) Java-Bali Phase I, (b) Bali-Nusatenggara Phase I, (c) Trans-Sulawesi Phase II, and (d) Cross-Kalimantan Phase II, all to improve long distance direct-dialling service quality; and

(v) establishment of modern telecommunication network management systems to improve supervision and traffic monitoring.

Part C: Provision of technical assistance to enhance the institutional capacity of TELKOM through, inter alia:

(i) upgrading its accounting and financial policies, systems and procedures;

(ii) strengthening its capability in operations, project design, engineering, implementation and supervision;

(iii) carrying out staff training programs, inter alia, in management, professional human resource development and telecommunications; and

(iv) develop and implement an operational and managerial decentralization program.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
March 1, 1998	6,840,000
September 1, 1998	7,105,000
March 1, 1999	7,375,000
September 1, 1999	7,660,000
March 1, 2000	7,960,000

September 1, 2000	8,265,000
March 1, 2001	8,585,000
September 1, 2001	8,920,000
March 1, 2002	9,260,000
September 1, 2002	9,620,000
March 1, 2003	9,990,000
September 1, 2003	10,380,000
March 1, 2004	10,780,000
September 1, 2004	11,195,000
March 1, 2005	11,630,000
September 1, 2005	12,080,000
March 1, 2006	12,545,000
September 1, 2006	13,030,000
March 1, 2007	13,535,000
September 1, 2007	14,055,000
March 1, 2008	14,600,000
September 1, 2008	15,165,000
March 1, 2009	15,750,000
September 1, 2009	16,360,000
March 1, 2010	16,990,000
September 1, 2010	17,650,000
March 1, 2011	18,330,000
September 1, 2011	19,040,000
March 1, 2012	19,775,000
September 1, 2012	20,530,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 4 (a) and 5 (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Authorized Allocation" means an amount equivalent to \$300,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

