

CONFORMED COPY

LOAN NUMBER 7731-ID

Project Agreement

(Indonesia Infrastructure Finance Facility Project)

among

INTERNATIONAL BANK

FOR

RECONSTRUCTION AND DEVELOPMENT

and

PT SARANA MULTI INFRASTRUKTUR (PERSERO)

and

PT INDONESIA INFRASTRUCTURE FINANCE

Dated April 20, 2011

PROJECT AGREEMENT

AGREEMENT dated April 20, 2011, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”), PT SARANA MULTI INFRASTRUKTUR (PERSERO) (“PTSMI”), and PT INDONESIA INFRASTRUCTURE FINANCE (the “Company”), acting as the Project Implementing Entity, (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) No. 7731-ID dated January 15, 2010 between REPUBLIC OF INDONESIA (“Borrower”) and the Bank. The Bank, PTSMI and the Company hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) , insofar as such General Conditions relate directly to PTSMI and the Company, constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Appendix to the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. Each of PTSMI and the Company, acting as the Project Implementing Entity, declares its commitment to the objectives of the Project. To this end, PTSMI shall use commercially reasonable efforts (through the exercise of its rights under the Shareholders Agreement and the Subordinated Loan Agreement) to ensure that the Company carries out the Project in accordance with the provisions of Article V of the General Conditions. The Company shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank, PTSMI and the Company shall otherwise agree, the Company shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. The Company’s Representative is the President Director, or if at any time the Company does not have a President Director, any director of the Company (or any other representatives as may be provided for under the Company’s prevailing Articles of Association

The Company’s Address is:

The Energy Building
15th Floor, Sudirman Central Business District, Lot 11A
Jl. Jend. Sudirman Kav 52-53
Jakarta 12190
Indonesia

Fax: +62-21-250-5709

3.02. PTSMI's Representative is President Director.

The PTSMI's Address is:

BRI II, 29th Floor, Suite 2905
Jl. Jenderal Sudirman Kav. 44-46
Jakarta 10210
Indonesia

Fax: +62-21-570-9460

3.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at Jakarta, Republic of Indonesia, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

/s/: Mark Hagerstrom

By: Mark V. Hagerstrom
Authorized Representative

PT SARNA MULTI INFRASTRUKTUR (PERSERO)

/s/: Emma Sri Martini

By: Emma Sri Martini
Authorized Representative

PT INDONESIA INFRASTRUCTURE FINANCE

/s/: Bibin Busono

By: Bibin Busono
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Subsidiary Loan Agreement

1. To facilitate the carrying out of the Project, PTSMI shall enter into the Subsidiary Loan Agreement with the Borrower, pursuant to which the Borrower shall make the entire proceeds of the Loan available to PTSMI under terms and conditions acceptable to the Borrower and the Bank, which, unless otherwise agreed between the Borrower and the Bank, shall include the following:
 - (a) the terms for relending the proceeds of the Loan shall be, denominated in Rupiah, with a repayment period of at least 24.5 years, including a grace period of at least 9 years, and an interest rate of no more than one-month SBI+1%; and
 - (b) the obligations of PTSMI and the Company to use the proceeds of the Subsidiary Loan Agreement and the Subordinated Loan Agreement, respectively, for the purposes of the Project in accordance with the Project Agreement and the Operations Manual.

B. Subordinated Loan Agreement

1. To facilitate the carrying out of the Project, PTSMI shall make the entire proceeds of the Loan available to the Company through a Subordinated Loan Agreement between PTSMI and the Company, under which repayment obligations of the Company are subordinated to those of certain senior lenders and other terms and conditions acceptable to the Borrower and the Bank, which, unless otherwise agreed between the Borrower and the Bank, shall include the following:
 - (a) the terms for relending the proceeds of the Loan shall be denominated in Rupiah with a repayment period of at least 24.5 years, including a grace period of at least 9 years and an interest rate of not more than 0.5% above the cost of funds to PTSMI under the Subsidiary Loan Agreement plus any actual income taxes payable by PTSMI as a result of lending to the Company; and
 - (b) the terms of the Subordinated Loan Agreement shall require that the Company use the proceeds of the Subordinated Loan Agreement exclusively for the purposes of the Project in accordance with the provisions of the Project Agreement and the Operations Manual.

2. PTSMI shall exercise its rights under the Subordinated Loan Agreement in such manner as to protect the interest of the Borrower, PTSMI and the Bank, and to accomplish the purposes of the Project. Except as the Borrower and the Bank shall otherwise agree, PTSMI shall not to assign, amend, abrogate or waive the Subordinated Loan Agreement or any of its provisions

C. Institutional Arrangements

1. The Company shall perform its obligations under the Project Agreement in accordance with the Operations Manual and shall not take or permit to be taken any action which would prevent or interfere with such performance.
2. **Operations Manual.** Without limitation to the provisions of paragraph B.2 above, the Company shall:
 - (a) adopt, and thereafter carry out the Project, and cause each Sub-project Enterprise to carry out the Project, in accordance with the Operations Manual, reasonably acceptable to the Borrower and the Bank, setting out (i) Sub-project eligibility, due diligence and selection criteria, implementation requirements, and terms and conditions for Sub-Project Agreements; (ii) the ESSF and the requirements for its implementation by the Company and by all Sub-Project Enterprises; (iii) procurement procedures consistent with those set out in Section III of this Schedule 2 including the right of the Bank to undertake review of any contract procured using the proceeds of the Loan upon reasonable prior notice by the Bank to the Borrower; (iv) financial management procedures consistent with those set out in Section II of this Schedule 2; (v) monitoring and evaluation criteria and performance indicators consistent with those referred to in Section II of this Schedule 2, including reporting consistent with that which would be undertaken by a listed company in Indonesia; and (vi) Integrity Due Diligence Procedures and the requirements for their implementation by the Company and by all Sub-Project Enterprises; and
 - (b) provide to each of the Borrower and the Bank for its prior concurrence any revision proposed to be introduced into the Operations Manual and thereafter approve only such revisions to the Operations Manual as shall have been agreed with the Bank and the Borrower.
3. **Environmental and Social Safeguards Framework.** The Company shall ensure that, and PTSMI shall use commercially reasonable efforts (through the exercise of its rights under the Shareholders Agreement and the Subordinated Loan Agreement) to ensure that:

- (a) the ESSF shall at all times include the following provisions:
 - (i) a description of the categories of Sub-projects, including (A) Sub-projects in the early stages of preparation for sites that have not been selected and design options are still open, (B) Sub-projects that have been fully prepared (where construction bids have been invited), (C) Sub-projects that have already been implemented or for which construction is completed, and (D) fee-based advisory services;
 - (ii) (A) environmental screening criteria, environmental assessment, environmental management plan and consultation and disclosure requirements for each type of Sub-project, including analyses of natural habitats, cultural property, forests and safety of dams, as applicable, consistent with the regulations of the Borrower and the policies of the Bank; (B) land acquisition and resettlement plan and compensation criteria, and consultation and disclosure requirements for each type of Sub-project; and (C) screening criteria and actions designed to facilitate a process of free, prior and informed consultation leading to broad community support involving Indigenous Peoples including Indigenous Peoples plans, where required, and consultation and disclosure requirements for each type of Sub-project; in each case consistent with the regulations of the Borrower and the policies of the Bank and acceptable to the Borrower, PTSMI the Bank and the Company;
 - (iii) implementation arrangements, including staffing responsibilities for screening Sub-projects, designing safeguards instruments, arranging for consultations and disclosure, monitoring and evaluation and reporting arrangements and remedial measures; and
 - (iv) institutional capacity planning and strengthening for the Company; and
- (b) the Company shall implement the ESSF and cause each Sub-project Enterprise to implement the ESSF in carrying out its respective Sub-project.

4. **Sub-Project Agreements.** Without limitation to the provisions of paragraph B.3 above, the Company shall finance each Sub-project in accordance with the Operations Manual through a Sub-project Agreement on terms and conditions which shall include:

- (a) that the Company shall obtain rights adequate to protect its interests and those of the Borrower and the Bank, including the right of the Company to suspend or terminate the right of the Sub-project Enterprise to use the proceeds of the Sub-project Agreement and the obligation of the Sub-project Enterprise to refund of all or any part of the amount of the financing provided to the Sub-project Enterprise upon such Sub-project Enterprise's failure to perform any of its obligations under its Sub-project Agreement with the Company or under the Operations Manual;
- (b) the requirement that each Sub-project Enterprise:
 - (i) carry out its Sub-project in accordance with the Operations Manual, including the A) the procedures set out in the ESSF; and (B) the Integrity Due Diligence Procedures;
 - (ii) procure the goods, works and services to be financed out of the proceeds of the Sub-project Agreement in accordance with the provisions of this Agreement;
 - (iii) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards adequate to reflect its operations, resources and expenditures in respect of the Sub-project; and (B) at the Bank's or the Borrower's request, have such financial statements audited (annual audit) by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank;
 - (iv) permit the Borrower and the Bank to inspect the Sub-project, its operation and any relevant accounts, contracts, records and other documents relating to the Sub-project; and
 - (v) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing; and
- (c) that the Company shall exercise its rights under each Sub-project Agreement in such manner as to ensure that the Sub-project is carried out in accordance with the Operations Manual and to protect the interests of the Borrower, PTSMI and the Bank and to accomplish the purposes of the Project.

5. **Shareholders Agreement.** PTSMI shall exercise its voting powers in relation to the Company and all powers of control available in relation to its nominee to the

Board of Commissioners and Board of Directors of the Company (if any) in favor of the Company applying the proceeds of the Loan for the purposes of the Project in accordance with the Operations Manual.

6. Each of PTSMI and the Company shall furnish, as applicable, to the Bank, all such reports and information as the Bank may reasonably request concerning: (a) the Loan and the use of the proceeds thereof; (b) the operations of PTSMI (with respect to Loan disbursement) and the Company; and (c) any other matters relating to the purpose of the Loan.
7. **Financial Covenant.** (a) Except as the Bank shall otherwise agree, the Company shall not incur any subordinated debt, if after the incurrence of such subordinated debt the ratio of subordinated debt to equity shall be greater than 2.5 to 1.
 - (b) For purposes of this paragraph:
 - (i) The term :”subordinated debt” means any indebtedness of the Company under (A) the Subordinated Loan Agreement and (B) the contract, agreement or other instrument between the Company and PTSMI pursuant to which the proceeds of the Co-financing Agreement are made available to the Company.
 - (ii) Subordinated debt shall be deemed to be incurred under the loan contract or agreement or other instrument providing for such subordinated debt or for the modification of its terms of payment, on the date, and to the extent that, the amount of such subordinated debt has become outstanding pursuant to such contract, agreement or instrument.
 - (iii) The term “equity” means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Company not allocated to cover specific liabilities.
 - (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of Rupiah, subordinated debt payable in another currency, such valuation shall be made on the basis of the prevailing Bank Indonesia rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such subordinated debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Borrower and the Bank.

D. Anti-Corruption

The Company shall ensure that, and PTSMI shall use commercially reasonable efforts (through the exercise of its rights under the Shareholders Agreement and the Subordinated Loan Agreement) to ensure that that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines and the Integrity Due Diligence Procedures, which shall be included at all times in the Operations Manual, and the relevant provisions of which shall be included in the Sub-project Agreement and the procurement documents for each respective Sub-project, in each case in a manner satisfactory to the Borrower and the Bank.

E. Safeguards.

1. Without limitation on the provisions of paragraph 4(b)(i) of Section I.B of this Schedule, the Company shall:
 - (a) implement, and cause Sub-project Enterprises to implement, the environmental and social safeguards provisions of the ESSF set out in the Operations Manual, all in a manner satisfactory to the Bank and the Borrower;
 - (b) as may be required pursuant to the provisions of the ESSF, cause Sub-project Enterprises to prepare and implement environmental management plans, resettlement action plans and/or Indigenous Peoples action plans, in a manner satisfactory to the Company, the Bank and the Borrower; and
 - (c) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Bank and the Borrower, the implementation of the ESSF, and all related environmental management plans, resettlement action plans and Indigenous Peoples action plans, as may be the case, and the achievement of their respective objectives.

Section II. Project Monitoring, Reporting and Evaluation.**A. Project Reports**

1. The Company shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of indicators agreed with the Bank. Each such Project Report shall cover the period of one (1) calendar quarter, and shall be furnished by the Company to PTSMI not later than forty (40) days after the end of the period covered by such report, for forwarding by PTSMI to the

Borrower and the Bank not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. Each of PTSMI and the Company shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, the Borrower and PTSMI, both in a manner adequate to reflect the operations and financial condition of PTSMI and the Company, respectively, including the operations, resources and expenditures related to the Project. Each such financial management system shall be an integrated financial management system, including internal control systems and internal audit function with terms of reference satisfactory to the Bank, PTSMI (with respect to the financial management system of the Company) and the Borrower, and shall be established by PTSMI and the Company, respectively, by the date which is no later than 120 days after the Effectiveness Date.
2. Each Project Report referred to in Section II.A paragraph 1 above shall include interim unaudited financial reports of PTSMI and the Company for the Project covering the quarter, in form and substance satisfactory to the Bank, the Borrower and PTSMI.
3. Each of PTSMI and the Company shall have its financial statements referred to above audited by independent auditors acceptable to the Bank and the Borrower, in accordance with consistently applied auditing standards and terms of reference acceptable to the Bank, the Borrower and PTSMI. Each audit of these financial statements shall cover the period of one fiscal year of PTSMI and the Company, respectively. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.