

CONFORMED COPY

LOAN NUMBER 3098 IND

(Paiton Thermal Power Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 21, 1989

LOAN NUMBER 3098 IND

LOAN AGREEMENT

AGREEMENT, dated July 21, 1989, 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) part of the Project will be carried out by Perusahaan Umum Listrik Negara (hereinafter called PLN) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PLN part of the proceeds of the Loan as provided in this Agreement;

(C) the Borrower intends to contract, on reasonable terms and from sources outside Indonesia, loans or grants to assist in financing, on a parallel basis, the Project.

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 PLN;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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) "Governing Laws" means Law No. 19 of 1960 and, Law No. 9 of 1969, Government Regulation No. 18 of 1972 and Government Regulation No. 54 of 1981, Government Regulation No. 36 of 1979, Government Regulation No. 3 of 1983, Government Regulation No. 28 of 1983, Law No. 15 of 1985 and any other legal provisions in force at any time governing the organization and operations of PLN as any of them may be amended or supplemented from time to time;

(b) "Project Agreement" means the agreement between the Bank and PLN 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; and

(c) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and PLN 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.

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 fifty-four million dollars (\$354,000,000), 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. 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.

Section 2.03. The Closing Date shall be September 30, 1995 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 percent (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 per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of 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 for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 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: (i) shall cause PLN to perform in accordance with the provisions of the Project Agreement all the obligations of PLN therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PLN to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; and (ii) shall carry out Part C.1 of the Project through its Ministry of Mines and Energy with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project.

(b) The Borrower shall relend a portion of the proceeds of the Loan to PLN under a subsidiary loan agreement to be entered into between the Borrower and PLN, under terms and conditions which shall have been approved by the Bank.

(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. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to the Project Agreement.

(b) With respect to Part C.1 of the Project, and without

limitation on the other aspects of the Schedule to the Project Agreement, the Borrower shall employ consultants in accordance with a time schedule satisfactory to the Bank.

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 A, B and C.2 of the Project shall be carried out by PLN pursuant to Section 2.03 of the Project Agreement.

Section 3.04. The Borrower shall furnish to the Bank by December 31, 1989, a detailed action plan, satisfactory to the Bank, for the supply of coal to the Paiton thermal power plant (described in Part A of Schedule 2 to this Agreement). Such plan shall thereafter be implemented in order to ensure the supply of coal to Paiton at a rate reaching about 2.5 million tons per year commencing March 31, 1994.

Section 3.05. The Borrower shall take, or cause to be taken, steps to ensure the timely supply of sufficient quantities of satisfactory quality coal to the Paiton thermal power plant from sources within or outside the territories of the Borrower; provided that, if such supply is from within the territories of the Borrower, the delivered price for such coal shall not be higher than the long-term contract price for steam coal in the world market, adjusted for coal quality and accounting for transportation and handling costs, to the Paiton thermal power plant.

Section 3.06. The Borrower shall, in accordance with a timetable satisfactory to the Bank:

(a) establish and thereafter maintain a task force consisting of, inter alia, representatives from the Ministry of Finance, the Ministry of Mines and Energy and its National Development Planning Agency (BAPPENAS), to review and advise the Borrower on all price adjustments in the Borrower's energy sector;

(b) establish and thereafter maintain within its Ministry of Mines and Energy, an energy pricing unit, headed by a qualified and experienced officer, such unit to be assigned with such functions as shall be required to enable it to provide analytical and technical support to the task force mentioned in paragraph (a) of this Section; and

(c) prepare and furnish to the Bank, for its review and comments, an action plan for introducing suitable regulatory and contractual measures to utilize some of the captive (in-house) generating capacity in the industries, along with PLN's facilities, to reduce investment costs and to promote economic cogeneration by industries, and, thereafter, taking into account the Bank's comment, if any, implement such action plan.

ARTICLE IV

Financial and Other 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 C.1 of the Project of the departments or agencies of the Borrower responsible for carrying out such Part of the Project.

(b) The Borrower shall:

(i) have the accounts referred to in paragraph (a) of this Section 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, a certified copy of the report of such audit by the 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 accounts and the audit thereof and said records as the Bank shall from time to time reasonably request.

Section 4.02. Except as the Borrower and the Bank shall otherwise agree, the Borrower shall:

(a) through PLN review annually with the Bank, before the approval of PLN's budget by the Borrower, potential changes in the load growth of electric power of Java and the variations of PLN's development program for Java that are required as a result of such changes and take necessary steps to implement such development program;

(b) review annually with the Bank and PLN, PLN's investment budget for the next fiscal year before its final approval by the Borrower, in order to enable the Bank to express its views on the priorities assigned to the investments included under such budget and on the balance among the generation, transmission and distribution of electric power likely to result from such investments; and

(c) review annually with the Bank and PLN, PLN's development plan and associated financial forecast and financing plan, and take appropriate measures to facilitate the access of PLN to all possible sources of required finance.

Section 4.03. The Borrower shall take all such action as shall be necessary to ensure that amounts owed to PLN for services and electricity provided by it to all departments or agencies of the Borrower are not overdue in the aggregate by more than two months of total billings to such departments and agencies.

Section 4.04. The Borrower shall, not later than March 31, 1990, or such later date as the Bank may otherwise agree, obtain other loans or other financing, on reasonable terms, from sources outside Indonesia to assist in the financing, on a parallel basis, of Parts A and B of the Project. For purposes of this Section, the Borrower shall keep the Bank informed of the progress in arranging such financing, including the terms and conditions thereof, and shall take into account the Bank's comments, if any, thereon.

ARTICLE V

Remedies of the Bank

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

(a) PLN 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 PLN will be able to perform its obligations under the Project Agreement.

(c) Any of the Governing Laws shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PLN to efficiently carry out its activities, including 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 PLN or for the suspension of its operations.

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

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

(A) The right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower 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 to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower 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) the 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 of the events specified in paragraphs (c), (d) and (e) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of that Section.

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 PLN.

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 PLN is legally binding upon PLN in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly

authorized or ratified by the Borrower and PLN and is legally binding upon the Borrower and PLN 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

Representative 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:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 139
Jakarta, Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

44319 DEPKEU IA
45799 DJMLN IA

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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ A. Karaosmanoglu
Regional Vice President
Asia

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) Equipment and materials	220,000,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost)
(2) Marine works	50,000,000	55%
(3) Consultants' services		100%
(a) Part C.1	1,000,000	
(b) Other than Part C.1	46,000,000	
(4) Unallocated	37,000,000	
TOTAL	354,000,000	

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; and

(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.

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 expand PLN's generating capacity in Java: to promote the economic use of coal for electricity generation and develop an efficient domestic coal industry; to develop PLN's institutional capacity; and to strengthen the Borrower's environmental monitoring capability as well as its ability to formulate and enforce environmental standards in the energy sector.

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:

Construction and installation of, and provision of equipment and materials for, two 400 MW coal-fired thermal generating units

at Paiton in East Java, including necessary support and related infrastructure to accommodate an ultimate plant capacity of 4,000 MW.

Part B:

Construction of a 500 kV double-circuit transmission line between Paiton and Krian with associated substations, and a 150 kV transmission line between Probolinggo-Paiton-Situbondo, with associated substations.

Part C:

1. Provision of technical assistance to strengthen the Borrower's capabilities to develop environmental management and control plans for the energy sector, including formulation of environmental regulations and quality standards; development of standard methodologies for controlling various environmental impacts; development of environmental monitoring plans; strengthening enforcement procedures and training.

2. Strengthening PLN's engineering and design staff by complementary programs of academic and vocational training and related technical assistance.

* * *

The Project is expected to be completed by March 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
March 15, 1995	6,500,000
September 15, 1995	6,745,000
March 15, 1996	7,005,000
September 15, 1996	7,275,000
March 15, 1997	7,550,000
September 15, 1997	7,840,000
March 15, 1998	8,140,000
September 15, 1998	8,450,000
March 15, 1999	8,775,000
September 15, 1999	9,110,000
March 15, 2000	9,460,000
September 15, 2000	9,820,000
March 15, 2001	10,195,000
September 15, 2001	10,585,000
March 15, 2002	10,990,000
September 15, 2002	11,410,000
March 15, 2003	11,850,000
September 15, 2003	12,300,000
March 15, 2004	12,770,000
September 15, 2004	13,260,000
March 15, 2005	13,770,000
September 15, 2005	14,295,000
March 15, 2006	14,840,000
September 15, 2006	15,410,000
March 15, 2007	16,000,000
September 15, 2007	16,610,000
March 15, 2008	17,245,000
September 15, 2008	17,905,000
March 15, 2009	18,590,000
September 15, 2009	19,305,000

* 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
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

