

CONFORMED COPY

LOAN NUMBER 3904-IND

LOAN AGREEMENT

(Telecommunications Sector Modernization Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 11, 1995

LOAN NUMBER 3904-IND

LOAN AGREEMENT

AGREEMENT, dated July 11, 1995, 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) the Borrower has contracted from the Kreditanstalt fur Weideraufbau (the KfW) a series of loans in an aggregate amount equivalent to: (i) forty million one hundred seventy-one thousand seventy Deutsche Marks (DM40,171,070) (the KfW Loans); and (ii) seventy-one million six hundred and seventy-six thousand two hundred forty-four dollars (\$71,676,244) to assist in financing Part C of the Project on the terms and conditions set forth in the agreements (the KfW Loan Agreements) entered into between the Borrower and the KfW;

(C) by agreement dated April 14, 1994, (the Japan EXIMBANK Loan Agreement), the Japan Export-Import Bank (the Japan EXIMBANK) has agreed to make a loan (the Japan EXIMBANK

Loan) to the Borrower in an aggregate principal amount equivalent to four billion five hundred seventy-six million two hundred sixty-nine thousand nine hundred eighteen Yen (4,576,269,918) to assist in financing Part C of the Project, on the terms and conditions set forth in the Japan EXIMBANK Loan Agreement;

(D) the Borrower has contracted from the Overseas Economic Cooperation Fund (OECF) a series of loans in an aggregate principal amount equivalent to twenty-nine billion one hundred fifty-five million eight hundred thousand Yen (29,155,800,000) (the OECF) to assist in financing Part C of the Project on the terms and conditions set forth in the OECF Loan Agreement;

(E) the Borrower has contracted from the Government of the Republic of France (the French Government) a loan (the French Government Loan) in an aggregate principal amount equivalent to three hundred sixty-three million six hundred thirty-six thousand three hundred sixty-four French Francs (FF363,636,364) to assist in financing Part C of the Project on the terms and conditions set forth in the French Government Loan;

(F) by agreement dated November 16, 1994, (the US EXIMBANK Loan Agreement), the United States Export-Import Bank (US EXIMBANK) has agreed to make a loan (the US EXIMBANK Loan) to the Borrower in an aggregate principal amount equivalent to forty-two million dollars (\$42,000,000) to assist in financing Part C of the Project on the terms and conditions set forth in the US EXIMBANK Loan Agreement;

(G) Parts B and C of the Project will be carried out by PT. Telekomunikasi Indonesia (TELKOM) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to TELKOM 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 TELKOM;

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) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(c) 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) "Fiscal year" means the Borrower's fiscal year which runs from April 1 to March 31;

(b) "JOS" means a Joint Operation Scheme, a Build/Joint Operate/Transfer cooperative operation entered into between TELKOM and a JOS investor, as hereinafter defined, for the provision of telecommunications services and the management of existing and the new telecommunications network in the regions of TELKOM pursuant to the terms of the JOS contracts, as hereinafter defined;

(c) "JOS Investor" means any related joint-venture company comprising of Indonesian investors and one or more selected foreign public telephone operators, established and operating under the laws of the Republic of Indonesia and to which a license has been granted by MTPT;

(d) "JOS contract" means an agreement to be entered into between TELKOM and a JOS Investor for the provision of telephone facilities in any of the five territorial regions of TELKOM;

(e) "MTPT" means the Borrower's Ministry of Tourism, Posts and Telecommunications and any successor thereto;

(f) "Performance Indicators" means those physical and financial indicators designed to measure TELKOM's performance in implementing the physical components of its Investment Program, as hereinafter defined and agreed among the Borrower, TELKOM and the Bank pursuant to paragraph 1 of Schedule 2 to the Project Agreement;

(g) "Policy Letter" and the acronym "PL" mean the letter dated April 13, 1995, from the Borrower to the Bank describing a program of actions, objectives and policies designed to achieve the modernization of the Borrower's telecommunications sector;

(h) "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;

(i) "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;

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

(k) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and TELKOM pursuant to Section 3.01 (c) 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;

(l) "TELKOM's fiscal year" means the fiscal year of TELKOM which runs from January 1 to December 31; and

(m) "TELKOM's Investment Program" means the Program of investments to be undertaken by TELKOM during TELKOM's fiscal years 1994-98, as the same may be revised from time to time.

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 twenty-five million dollars (\$325,000,000), 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 may, 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 June 30, 2001 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 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 the Bank's investments; and 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) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) The Borrower shall relend to TELKOM out of the proceeds of the Loan the amounts allocated from time to time to Categories (1) and (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, 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 and which shall include, inter alia, the following:

- (i) TELKOM shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time of the rate payable under Section 2.05 of this Agreement and an additional one-half of one percent (1/2 of 1%);
- (ii) TELKOM shall pay commitment charges at the rate payable under Section 2.04 of this Agreement;
- (iii) TELKOM shall repay the principal amount of the Subsidiary Loan over 20 years including five years grace; and
- (iv) the principal amount of the Subsidiary Loan repaid by TELKOM shall be the equivalent in dollars (determined as of the respective dates of repayment) of the amounts withdrawn from the Loan Account under said Categories (1) and (2).

(d) 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. In order to assist MTPT in carrying out Part A of the Project:

(a) The Borrower shall procure consultants' services under contracts awarded in accordance with the provisions 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 (the Consultants Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

(b) Notwithstanding the provisions of paragraph (a) of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection proce-dures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to:

- (i) contracts for the employment of consulting firms estimated to cost less than one hundred thousand dollars (\$100,000) equivalent each; or
- (ii) contracts for the employment of individual consultants estimated to cost less than fifty thousand dollars (\$50,000) equivalent each.

However, said exceptions to prior Bank review shall not apply to:

- (A) the terms of reference for such contracts;
- (B) single-source selection of consulting firms;
- (C) assignments of a critical nature, as reasonably determined by the Bank;
- (D) amendments to contracts for the employment of consulting firms raising the contract value to one hundred thousand dollars (\$100,000) equivalent or above; or
- (E) amendments to contracts for the employment of individual consultants raising the contract value to fifty thousand dollars (\$50,000) equivalent or above.

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(a) of the Project Agreement.

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 Part A of 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 six months after the end of each such year, commencing on October 30, 1996, 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. Section 4.02 of the Loan Agreement dated July 8, 1992 entered into between the Borrower and the Bank for purposes of Loan No. 3482-IND (Fourth Telecommunications Project) is hereby amended by deleting the phrase ",including annual reviews and adjustments of TELKOM's tariffs, if any,".

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) The Articles of Association of TELKOM of September 24, 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, the right of the Borrower to withdraw the proceeds of the KfW Loan, the Japan Exim Bank Loan, the OECF Loan, the French Government Loan and the US EXIMBANK Loan made to the Borrower for the financing of Part C the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Agreements providing therefor.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower established to the satisfaction of the Bank that:
 - (A) such suspension, cancellation or termination is not caused by the failure of the

Borrower to perform any of its obligations under the agreement concerned; and

- (B) adequate funds for Part C of 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) the events specified in paragraphs (c) and (d) of Section 5.01 of this Agreement shall occur; and

(c) any of the events in paragraph (f) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of such 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 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

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:

Minister of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P.O. Box 139
Jakarta 10710

Indonesia

Cable address:

Telex:

FINMINISTRY
Jakarta

45799 DJMLN-IA,
44319 DEPKEU-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:

Telex:

INTBAFRAD
Washington, D.C.

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

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/ Budiman Darmosutanto
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marianne Haug
Acting 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. Goods, works and services for external line plant under Part C.1 of the Project	237,000,000	100% of foreign expenditures
2. Telecommunications materials, submarine cable systems and software (excluding	70,000,000	100% of foreign expenditures

switching equipment)		
3. Consultants' Services for MTPT	5,000,000	100%
4. Training for MTPT	2,000,000	100%
5. Unallocated	11,000,000	
	AAAAAAAAAAAA	
TOTAL	325,000,000	
	=====	

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;

(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 "Goods, works and services for external line plant under Part C.1 of the Project" means the supply, delivery, installation and commissioning of local telecommunications telephone network, pulse code modulation cable, optical fiber cable, trans-mission equipment (inclusive of microwave equipment), customer access network 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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, under such terms and conditions as the Bank shall specify by notice to the Borrower, for:

(a) training under contracts not exceeding \$100,000 equivalent;

(b) the employment of consulting firms estimated to cost less than \$100,000; and

(c) the employment of individual consultants, estimated to cost less than \$50,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the implementation of the long-term sector development program for its telecommunications sector aimed at enhancing its international competitiveness through:

(a) the formulation and implementation of a sectoral legal and regulatory framework; and

(b) the modernization of the Borrower's telecommunications services and 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: Strengthening the Policy and Institutional Building Capacities of MTPT

1. Development of the Borrower's legal and regulatory framework to further promote efficient private sector participation in the telecommunications sector.
2. Strengthening MTPT's capacity to oversee the new regulatory framework through the provision of training for MTPT staff in regulatory management techniques.
3. Review of the management and allocation of the radio frequency spectrum to promote the efficient use of said spectrum and of modern technologies.
4. Development of a plan for the provision of rural telephone services on a commercial basis.

Part B: Strengthening the Managerial and Implementation Capacities of TELKOM

1. Strengthening the Project implementation, marketing, customer services and managerial capacities of TELKOM through the provision of specialized marketing and managerial services.
2. Improving TELKOM's managerial capabilities through the implementation of its ongoing restructuring program.

Part C: Improving the Telecommunications Services and Network

1. Installation of local and inter-exchange telecommunication networks aimed at:
 - (a) connecting about one million of new telephone lines; and
 - (b) improving the capacity of switching facilities in the Borrower's cities of Jakarta and Surabaya.
2. Installation of a fiber optic back-bone system between the cities of Jakarta and Surabaya.
3. Upgrading the telecommunication transmission facilities in the Borrower's provinces of Kalimantan and Sulawesi through the installation of submarine optical fiber cable transmission systems.
4. Strengthening TELKOM's business processing capacities through the improvement of its information systems.

* * * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)
March 1, 2001	6,250,000
September 1, 2001	6,470,000
March 1, 2002	6,700,000
September 1, 2002	6,940,000
March 1, 2003	7,185,000
September 1, 2003	7,440,000
March 1, 2004	7,700,000
September 1, 2004	7,975,000
March 1, 2005	8,260,000
September 1, 2005	8,550,000
March 1, 2006	8,855,000
September 1, 2006	9,165,000
March 1, 2007	9,490,000

September 1, 2007	9,830,000
March 1, 2008	10,175,000
September 1, 2008	10,540,000
March 1, 2009	10,910,000
September 1, 2009	11,300,000
March 1, 2010	11,700,000
September 1, 2010	12,115,000
March 1, 2011	12,545,000
September 1, 2011	12,990,000
March 1, 2012	13,450,000
September 1, 2012	13,925,000
March 1, 2013	14,420,000
September 1, 2013	14,930,000
March 1, 2014	15,460,000
September 1, 2014	16,005,000
March 1, 2015	16,575,000
September 1, 2015	17,150,000

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 (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of

Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$800,000.

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 deposit into the Special Account of an amount or amounts 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 into 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 aid 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;

(b) if the Borrower shall have failed to furnish to the

Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to Parts A of 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 for Part A of the Project 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.

SCHEDULE 5

Implementation Program

1. The Borrower shall:

(a) by not later than January 31, 1996 cause TELKOM to finalize and sign the JOS contracts, paying due regard to the Bank's comments on the draft contractual terms submitted to the Bank for its review; and

(b) promptly thereafter furnish such contracts to the Bank.

2. The Borrower shall prior to carrying out the full or partial divestiture of TELKOM or the sale of TELKOM shares in major joint-venture companies providing basic telecommunications services:

(a) afford the Bank a reasonable opportunity to exchange views with the Borrower and TELKOM on such proposed divestiture or sale; and

(b) thereafter, carry out said divestiture or sale, paying due regard to the Bank's comments and recommendations, if any.

3. The Borrower shall throughout Project implementation:

(a) prior to approving revisions to principal tariffs for basic telecommunications services, afford the Bank a reasonable opportunity to exchange views with the Borrower on such proposed revisions; and

(b) thereafter, approve such revisions paying due regard to the Bank's comments and recommendations, if any.

4. The Borrower shall by:

(a) not later than June 30, 1996, select and employ qualified consultants, in accordance with contractual terms acceptable to the Bank, to assist the Borrower in monitoring and evaluating the technical and financial performance of TELKOM and the JOS operations under the JOS contracts; and

(b) not later than June 30, in each year commencing on June 30, 1997, furnish to the Bank for its review and comment, the report prepared by the consultants referred to in paragraph (a) of this Section.

5. The Borrower shall:

(a) by not later than November 30, 1995, and thereafter, by November 30, of each subsequent year until completion of the Project, carry out progress reviews to include, inter alia, the following:

(i) an assessment of the Borrower's telecommunications sector development program including the role of the private sector in said program, pursuant to the terms of the PL;

(ii) an evaluation of the performance of TELKOM in accordance with the Performance Indicators;

(iii) an assessment of the business environment for private participation in the Borrower's telecommunications sector including progress achieved in the development of the legal and regulatory framework referred to under Part A.1 of the Project; and

(iv) a review of TELKOM's Investment Program aimed at:

(A) ensuring its consistency with the Borrower's telecommunications sector development

program and the provisions of the PL;

- (B) achieving a balanced development of the telecommunications sector within the Borrower's territorial regions; and
- (C) ensuring the implementation of TELKOM's plans to increase self-financing from its operations; and

(b) promptly after completing said annual reviews, carry out those recommendations arising out of said reviews, as agreed between the Borrower and the Bank.

