IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS UNDER RULE 144A OR (2) ADDRESSEES OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the Offering Circular (the **Offering Circular**) following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR SOLICITATION IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE U.S. OR OTHER JURISDICTION AND ANY BEARER SECURITIES ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE OR LOCAL SECURITIES LAWS. IN THE CASE OF BEARER NOTES, THE SECURITIES MAY NOT BE DELIVERED, OFFERED OR SOLD TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **INTERNAL REVENUE CODE**)).

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. ANY INVESTMENT DECISION SHOULD BE MADE ON THE BASIS OF THE FINAL TERMS AND CONDITIONS OF THE SECURITIES AND THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your Representation: In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers (**QIBs**) (within the meaning of Rule 144A under the Securities Act) or (2) outside the United States and (in the case of bearer notes) non-U.S. persons (within the meaning of the Internal Revenue Code). This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) outside the U.S. and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the U.S. and (in the case of bearer notes) not a U.S. person (2) that you consent to delivery of such Offering Circular by electronic transmission.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located. If this is not the case, you must return the Offering Circular to us immediately. You may not, nor are you authorized to, deliver or disclose the contents of this Offering Circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Republic of Indonesia, Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc, Standard Chartered Bank, the Dealers, nor any person who controls any of them nor any director, officer, official, employee nor agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc or Standard Chartered Bank.

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U.S.$20,000,000,000
Republic of Indonesia
Global Medium Term Note Program

Under this U.S.$20,000,000,000 Global Medium Term Note Program (the **Program**), the Republic of Indonesia (the **Republic** or **Indonesia**), subject to compliance with all relevant laws, regulations and directives, may, from time to time, issue notes in bearer or registered form (the **Notes**).

The maximum aggregate principal amount of all Notes from time to time outstanding under the Program will not exceed U.S.$20,000,000,000 (or its equivalent in other currencies determined at the time of the agreement to issue), subject to any duly authorized increase. The Notes may be denominated in U.S. dollars, Euros and such other currencies as may be agreed between the Republic and the relevant Dealers (as defined below).

The Notes may be issued on a continuing basis to the Dealers and any additional Dealer(s) appointed under the Program from time to time pursuant to the terms of a Program Agreement dated January 28, 2009 (as the same may be amended from time to time, the **Program Agreement**), which appointment may be for a specific issue or on an ongoing basis (each, a **Dealer** and, together, the **Dealers**). References in this Offering Circular to the **relevant Dealer**, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, shall be to all Dealers agreeing to subscribe for such Notes.

Notes will be issued in Series (each, a **Series**), with all Notes in a Series having the same maturity date and terms otherwise identical (except in relation to issue dates, interest commencement dates, issue prices and related matters). Notes in each Series may be issued in one or more tranches (each, a **Tranche**) on different issue dates. Details applicable to each particular Series or Tranche will be supplied in a pricing supplement to this Offering Circular (each, a **Pricing Supplement**), which will contain the aggregate principal amount of the Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche. This Offering Circular may not be used to consummate sales of Notes unless accompanied by a Pricing Supplement.

The price and amount of Notes to be issued under the Program will be determined by the Republic and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Application will be made to the Singapore Exchange Securities Trading Limited (the **SGX-ST**) for permission to deal in and quotation of any Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained herein. The approval in-principle from, and the admission of any Notes to the Official List of, the SGX-ST are not to be taken as an indication of the merits of the Republic, the Program or the Notes. Unlisted Notes may be issued under the Program. The relevant Pricing Supplement in respect of any Series will specify whether or not such Notes will be listed and, if so, on which exchange(s) the Notes are to be listed. There is no assurance that the application to the Official List of the SGX-ST for the listing of the Notes of any Series will be approved.

Notes of each Series to be issued in bearer form (**Bearer Notes**) will initially be represented by interests in a temporary global Note or by a permanent global Note, in either case in bearer form (each a **Temporary Global Note** and a **Permanent Global Note**, respectively), without interest coupons, which may be deposited on the relevant date of issue (the Issue Date) with a common depositary on behalf of Clearstream Banking, *société anonyme* (**Clearstream**) and Euroclear Bank S.A./N.V. (**Euroclear**) (the **Common Depositary**) or any other agreed clearance system compatible with Euroclear and Clearstream and will be sold in an **offshore transaction** within the meaning of Regulation S (**Regulation S**) under the United States Securities Act of 1933, as amended (the **Securities Act**). The provisions governing the exchange of interests in Temporary Global Notes and Permanent Global Notes (each, a **Bearer Global Note**) for other Bearer Global Notes and individual definitive Bearer Notes (**Definitive Bearer Notes**) are described in "*Forms of the Notes*". Definitive Bearer Notes will only be available in the limited circumstances as described herein.

Notes of each Series to be issued in registered form (**Registered Notes**) sold in an offshore transaction will initially be represented by interests in a global unrestricted Note, without interest coupons (each an **Unrestricted Global Security**), which may be deposited on the issue date with the Common Depositary unless otherwise specified in the applicable Pricing Supplement. Beneficial interests in an Unrestricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by, Euroclear or Clearstream unless otherwise specified in the applicable Pricing Supplement. Notes of each Series sold to a qualified institutional buyer (**QIB**) within the meaning of Rule 144A under the Securities Act (**Rule 144A**), as referred to in, and subject to the transfer restrictions described in, "*Subscription and Sale*" will initially be represented by interests in a global restricted Note, without interest coupons (each a **Restricted Global Security** and together with any Unrestricted Global Certificate, the **Registered Global Securities**), which will be deposited on the relevant issue date with a custodian for, and registered in the name of a nominee of, The Depository Trust Company (**DTC**). Beneficial interests in a Restricted Global Security will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "*Global Clearance and Settlement Systems*."

Notes in definitive registered form will be represented by registered certificates (each, a **Certificated Security**), one Certificated Security being issued in respect of each Holder's entire holding of Notes of one Series and will only be available in the limited circumstances as described herein.

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or (in the case of Bearer Notes) to, or for the account or benefit of, U.S. persons (as defined in the U.S. Internal Revenue Code of 1986, as amended (the **Internal Revenue Code**)). Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*."

Arrangers

DEUTSCHE BANK **J.P. MORGAN** **STANDARD CHARTERED BANK**

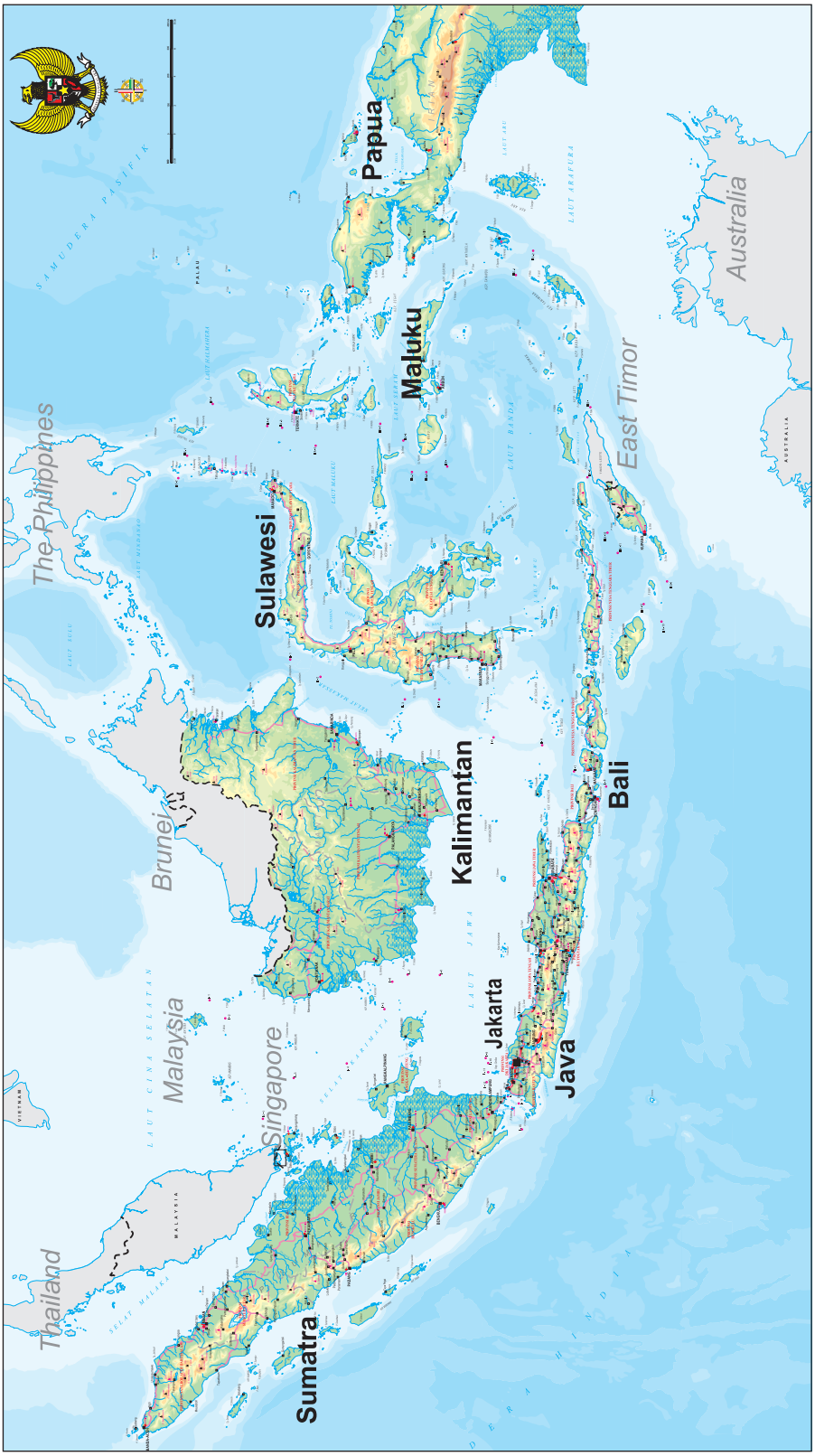
Dealers

BARCLAYS **CITIGROUP** **DEUTSCHE BANK**

J.P. MORGAN **STANDARD CHARTERED BANK**

The date of this Offering Circular is April 8, 2013

Republic of Indonesia



Source: National Coordinating Agency for Surveys and Mapping, with modifications.

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The Notes have not been and will not be registered under the Securities Act, or any state securities laws, or under the securities laws of any other jurisdiction. The Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold or (in the case of Bearer Notes) delivered within the United States or (in the case of Bearer Notes) to, or for the account or benefit of, U.S. persons (as defined in the Internal Revenue Code). See "*Subscription and Sale*." This Offering Circular has been prepared by the Republic for use in connection with the offer and sale of Notes outside the United States in reliance upon Regulation S and with respect to the Notes in registered form only, within the United States (i) to QIBs in reliance upon and as defined in Rule 144A or (ii) to a limited number of Institutional Accredited Investors pursuant to and as defined in Section 4(a)(2) of the Securities Act, or (iii) in transactions otherwise exempt from registration. Prospective purchasers are hereby notified that sellers of Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the Notes, see "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*" and "*Subscription and Sale*."

Purchasers of 4(2) Notes will be required to execute and deliver an investor representation letter. Each purchaser or holder of 4(2) Notes, Notes represented by a Restricted Global Security or any Notes issued in registered form in exchange or substitution therefor will be deemed, by its acceptance or purchase of any such Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale — Selling Restrictions*." Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Forms of the Notes*."

Copies of each Pricing Supplement will be available from the office of the Ministry of Finance and from the specified office of the Paying Agent in Singapore.

The Republic has agreed to comply with any undertakings given by it from time to time to the SGX-ST in connection with Notes in a Series to be listed on the SGX-ST and, without prejudice to the generality of the foregoing, shall in connection with the listing of the Notes on the SGX-ST or any other relevant stock exchange, so long as any Note remains outstanding, prepare a supplement to this Offering Circular, or, as the case may be, publish in a new Offering Circular, whenever required by the rules of the SGX-ST or any other relevant stock exchange and in any event (i) if the maximum aggregate principal amount of Notes that may be issued under the Program is increased, (ii) upon the Republic becoming aware that (A) there has been a significant change (including any change to the Description of the Notes in a Series to be listed on the SGX-ST) affecting any matter contained in this Offering Circular or (B) a significant new matter has arisen, the inclusion of information in respect of which would have been required to be in this Offering Circular if it had arisen before this Offering Circular was issued or (iii) if the terms of the Program are modified or amended in a manner which would make this Offering Circular, as supplemented, materially inaccurate or misleading. In the event that a supplement to this Offering Circular is produced pursuant to such undertakings, a copy of such supplement will accompany this Offering Circular. Any such supplement to this Offering Circular will also be available from the specified office of the Paying Agent in Singapore. See "*General Information — Documents on Display*."

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained in or incorporated by reference to this Offering Circular or any other information provided by the Republic or any other person in connection with the Program or the Notes or their distribution. No Dealer accepts any liability in relation to the information contained or incorporated by reference to this Offering Circular or any other information provided by the Republic in connection with the Program. The statements made in this paragraph are made without prejudice to the responsibility of the Republic under the Program.

No person is or has been authorized to give any information or to make any representation not contained in or not consistent with this Offering Circular, the Program Agreement or any other information supplied in connection with the Program or the Notes and, if given or made, such information or representation must not be relied upon as having been authorized by the Republic or any of the Dealers.

Neither this Offering Circular nor any other information supplied in connection with the Program or any Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or constituting an offer by the Republic or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Program or any Notes should purchase any Notes in any jurisdiction where it is unlawful for such person to make such a recommendation or offer. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs and its own appraisal of the creditworthiness of the Republic. Neither this Offering Circular

nor any other information supplied in connection with the Program or any Notes constitutes an offer or invitation by or on behalf of the Republic or any of the Dealers to any person to whom it is unlawful to make such offer to subscribe for or to purchase any Notes.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall in any circumstance imply that the information contained herein concerning the Republic is correct at any time subsequent to the date hereof or the date as of which it is expressed to be given or that any other information supplied in connection with the Program is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Republic during the life of the Program.

The distribution of this Offering Circular and the offer or sale of Notes may be restricted by law in certain jurisdictions. Neither the Republic nor any of the Dealers represents that this Offering Circular may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Republic or the Dealers which would permit a public offering of any Notes or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations and the Dealers have represented that all offers and sales by them will be made on the same terms. Persons into whose possession this Offering Circular or any Notes come must inform themselves about and observe any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Notes in the United States, the European Economic Area, the United Kingdom, Singapore, Hong Kong and Japan. For a description of these and certain further restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "*Subscription and Sale*" and "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*" below.

The Notes have not been registered with, recommended by or approved or disapproved by the United States Securities and Exchange Commission (the **SEC**) or any other federal or state securities commission in the United States nor has the SEC or any other federal or state securities commission confirmed the accuracy or determined the adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States. The Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable federal or state securities laws pursuant to a registration statement or an exemption from registration. See "*Subscription and Sale*" and "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*" below. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

In making an investment decision regarding the Notes, prospective investors must rely on their own examination of the Republic and the terms of the Program, including the merits and risks involved. None of the Dealers or the Republic makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period.

RESPONSIBILITY STATEMENT

The Republic accepts responsibility for the information contained in this Offering Circular. Having taken all reasonable care to ensure that such is the case, the information contained in this Offering Circular is, to the best of the knowledge and belief of the Republic, in accordance with the facts and contains no omission likely to affect the import of such information.

IN CONNECTION WITH THE ISSUE OF NOTES IN ANY SERIES OR TRANCHE UNDER THE PROGRAM, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILIZING MANAGER(S) (EACH, A "STABILIZING MANAGER") (OR PERSONS ACTING ON BEHALF OF ANY STABILIZING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES IN SUCH A SERIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGER (OR PERSONS ACTING ON BEHALF OF A STABILIZING MANAGER) WILL

UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION WILL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS. SEE "*SUBSCRIPTION AND SALE*."

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED (**RSA**), WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER SUCH RSA CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

PRESENTATION OF INFORMATION

Unless otherwise indicated, all references in this Offering Circular to "rupiah" or "Rp" are to the currency of Indonesia, those to "dollars", "U.S. dollars" or "U.S.$" are to the currency of the United States of America, those to "Euro" or "€" are to the currency of the European Union, those to "SDR" are to Special Drawing Rights of the International Monetary Fund (**IMF**) and those to "ID" are to Islamic Dinars of the Islamic Development Bank. References in this document to "Indonesia" or the "Republic" are to the Republic of Indonesia and to the "government" are to the Government of Indonesia.

For ease of presentation, certain financial information relating to the Republic included herein is presented as translated into U.S. dollars. Unless otherwise specified herein, all translations of rupiah into U.S. dollars or from U.S. dollars into rupiah were made at the middle exchange rate, the mid-point between the buy and sell rate (the **BI middle exchange rate**), between the rupiah and the U.S. dollar, as announced by Bank Indonesia, the Indonesian Central Bank, as of the respective dates to which such information relates. However, these translations should not be construed as a representation that the rupiah amount actually represents such U.S. dollar amount or could be converted into U.S. dollars at the rate indicated or any other rate. The BI middle exchange rate was Rp9,753 = U.S.$1 on April 5, 2013. In addition, unless otherwise specified herein, all translations of rupiah into currencies other than U.S. dollars, or from such other currencies into rupiah, were made at the BI middle exchange rate between the rupiah and such other currencies as announced by Bank Indonesia as of the respective dates to which such information relates.

The following table sets forth information on exchange rates between the rupiah and certain other currencies as of the end of the periods indicated.

Exchange Rates

	Rupiah per U.S. dollar	Rupiah per 100 Japanese yen	Rupiah per Euro	Rupiah per Singapore dollar
2006	9,020	7,580	11,858	5,879
2007	9,419	8,307	13,760	6,502
2008	10,950	12,123	15,432	7,607
2009	9,400	10,170	13,510	6,698
2010	8,991	11,028	11,956	6,981
2011	9,068	11,680	11,739	6,974
2012	9,670	11,197	12,810	7,907
January 2013	9,698	10,676	13,154	7,834
February 2013	9,667	10,460	12,708	7,822

Source: Bank Indonesia

Unless otherwise indicated, all statistical data and figures for 2011 and 2012 or any part thereof are estimates based upon preliminary data and are subject to review and adjustment. Specifically, all GDP, GDP-related and GDP-derived statistical data and figures for 2011 and 2012 are preliminary and subject to further review and adjustment. Final GDP, GDP-related and GDP-derived data and figures for each of 2011 and 2012 will not be announced by the Badan Pusat Statistik (**BPS**) until the BPS publicly announces detailed preliminary GDP statistical data and figures for the full year of each of 2013 and 2014, respectively.

Certain budget figures appear as audited numbers in the relevant year's Central Government Financial Report (*Laporan Keuangan Pemerintah Pusat*, or **LKPP**).

Certain statistical or financial information included in this Offering Circular may differ from previously published information for a number of reasons, including continuing implementation of a debt management system, consultation with the IMF and ongoing statistical revisions. Also, certain monetary amounts included in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Offering Circular constitute forward-looking statements. Statements that are not historical facts are forward-looking statements. Forward-looking statements generally can

be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “target”, “continue” or similar terminology. Among other things, Indonesia’s economy, fiscal condition, debt or prospects may constitute forward-looking statements. These statements are based on the government’s current plans, objectives, assumptions, estimates and projections. Forward-looking statements speak only as of the date that they are made and involve inherent risks and uncertainties. Each of the Republic and the Dealers expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statements contained herein to reflect any change in the Republic’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Therefore, undue reliance should not be placed on them.

DATA DISSEMINATION

Indonesia subscribes to the IMF’s Special Data Dissemination Standard, which is designed to improve the timeliness and quality of information of subscribing member countries. This standard requires subscribing member countries to provide schedules, referred to as the “Advance Release Calendar”, indicating, in advance, the date on which data will be released. For Indonesia, precise dates or “no-later-than-dates” for the release of data are disseminated three months in advance through the Advance Release Calendar, which is published on the Internet under the IMF’s Dissemination Standards Bulletin Board. Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF’s Dissemination Standards Bulletin Board. The internet website for Indonesia’s Advance Release Calendar and metadata is located at http://dsbb.imf.org/Pages/SDDS/ARCCtyCtgList.aspx?ctycode=IDN.

ENFORCEMENT

The Republic is a sovereign nation. Consequently, it may be difficult for holders of Notes to obtain or enforce judgments against the Republic. The Republic has irrevocably waived, to the fullest extent permitted by law, any immunity, including foreign sovereign immunity, from jurisdictions in which it might otherwise be entitled, in any action arising out of or in relation to the Notes, which may be instituted by the Trustee (as defined herein) or a holder of any Notes in any federal court in the Southern District of New York, any state court in the Borough of Manhattan, the City of New York, or in any competent court in Indonesia.

The Republic’s waiver of immunity is a limited and specific waiver for the purposes of the Notes and the Indenture (as defined herein) and under no circumstances should it be interpreted as a general waiver by the Republic or a waiver with respect to proceedings unrelated to the Notes or the Indenture. Furthermore, the Republic specifically does not waive any immunity in respect of:

- actions brought against the Republic arising out of or based upon U.S. federal or state securities laws;
- attachment under Indonesian law;
- present or future premises of the mission as defined in the Vienna Convention on Diplomatic Relations signed in 1961;
- consular premises as defined in the Vienna Convention on Consular Relations signed in 1963;
- any other property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere; and
- military property or military assets or property or assets of the Republic related thereto.

Because the Republic has not submitted to jurisdiction or waived its sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it will not be possible to obtain a judgment in the United States against the Republic based on such laws unless a court were to determine that the Republic is not entitled to sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 (the **Immunities Act**) with respect to such actions. The Republic may assert immunity to such actions or with respect to the property or assets described above. Investors may have difficulty making any claims based upon such securities laws or enforcing judgments against the property or assets described above.

The Republic has appointed the Representative Office of Bank Indonesia in the City of New York as its authorized agent upon whom process may be served in any action arising out of or based on the Notes. Such

appointment is irrevocable until all amounts in respect of the principal and interest, due or to become due on or in respect of the Notes issuable under the Program, have been paid by the Republic to the Trustee or unless and until a successor has been appointed as the Republic's authorized agent and such successor has accepted such appointment. The Republic has agreed that it will at all times maintain an authorized agent to receive such service, as provided above. The Representative Office of Bank Indonesia is not the agent for receipt of service of process for actions under the United States federal or state securities laws.

The Republic is subject to suit in competent courts in Indonesia. However, the Law on State Treasury (Law No. 1 of 2004) prohibits the seizure or attachment of property or assets owned by the Republic. Furthermore, a judgment of a non-Indonesian court will not be enforceable by the courts of Indonesia, although such a judgment may be admissible as evidence in a proceeding on the underlying claim in an Indonesian court. Re-examination of the underlying claim *de novo* would be required before the Indonesian court.

CERTAIN DEFINED TERMS AND CONVENTIONS

Unless otherwise indicated, all references in this Offering Circular to (i) "tons" are to metric tons, each of which is equal to 1,000 kilograms or approximately 2,204.6 pounds, (ii) "barrels" are to U.S. barrels, each of which is equal to 159.0 liters, (iii) "LNG" are to liquefied natural gas and (iv) "LPG" are to liquefied petroleum gas. Measures of distance referred to herein are stated in kilometers, each of which is equal to 1,000 meters or approximately 0.62 miles. Measures of area referred to herein are stated in square kilometers, each of which is equal to approximately 0.39 square miles, or in hectares, each of which is equal to approximately 2.47 acres.

Unless otherwise specified herein, information relating to oil prices in this Offering Circular is based on the "daily basket price" in U.S. dollars per barrel announced by the Organization of Petroleum Exporting Countries (**OPEC**).

The government's Ministry of Energy and Mineral Resources publishes an average monthly and annual price for Indonesian crude oil which is commonly referred to as the Indonesian Crude Price (the **ICP**). Since July 2007, the Department of Oil and Gas of the Ministry of Energy and Mineral Resources has calculated the ICP as the sum of (i) 50.0% of the average price for Indonesian crude oil published by Platts, a division of The McGraw-Hill Companies, and (ii) 50.0% of a crude oil price for Indonesian crude oil published by RIM Intelligence Co. of Japan for the relevant period. The government evaluates the methodology of the calculation of the ICP from time to time and, if appropriate, adjusts the formula to ensure that the ICP closely tracks world market prices for Indonesian crude oil. The government uses the ICP for various accounting and other purposes. For instance, the Ministry of Finance uses the ICP as an assumption underlying the preparation of the government budget. See "*Republic of Indonesia — Government Budget.*"

Statistical information included in this Offering Circular is the latest official data publicly available at the date of this Offering Circular. Financial data provided in this Offering Circular may be subsequently revised in accordance with Indonesia's ongoing maintenance of its economic data. The Republic has no obligation to distribute such revised data to any holder of Notes.

To improve data quality and to comply with generally recognized standards for statistical reporting, beginning in 2004, Indonesia started using a revised methodology in compiling its balance of payments statistics (the **revised BOP reporting system**). Balance of payments statistics have been compiled using the revised BOP reporting system.

The revised BOP reporting system includes, among others, the following changes, including improvements made in 2006:

- including goods in process within the reported merchandise export and import data (under the previous BOP reporting system, these items were not recorded);
- including investment and consumption grants in the capital account data (under the previous BOP reporting system, all grants, both investment and consumption, were included in the current account data);
- recording the asset side of financial account data, which includes direct investments abroad, portfolio investments and other investments, and the investment income received from those assets within the reported services data (under the previous BOP reporting system, these amounts were not recorded);
- recording foreign direct investment in the oil and gas sector in direct investments (under the previous BOP reporting system, these amounts were not recorded);

- including reinvested earnings within the reported direct investment data (under the previous BOP reporting system, these items were not recorded);
- reporting transactions by state-owned enterprises (**SOEs**) in the private sector category (in the previous BOP reporting system, these transactions were reported in the government sector);
- enlarging data coverage by:
  - recording repairs on goods and goods procured in ports by carrier within the reported non-oil and gas merchandise export and import data using data from Bank Indonesia's International Transaction Reporting System (**ITRS**) (under the previous BOP reporting system, these items were not recorded);
  - recording goods procured in ports by carrier within the reported oil and gas export and import data (under the previous BOP reporting system, these items were not recorded); and
  - recording dividends payable to non-residents from their ownership of domestic equity securities within the reported services data using data from the ITRS (under the previous reporting system, these items were not recorded); and
- changing methodology, reporting systems and data sources by:
  - using data from reports filed by importers with customs officials to calculate merchandise imports received by companies in export-bonded zones (under the previous BOP reporting system, these items were calculated based on an interpolation method);
  - changing the estimation methods for remittances from Indonesian workers working abroad within the reported services data to reflect new government estimates of the number of Indonesians working abroad and the level of their wages or salaries;
  - using data from the Bank Indonesia's new External Debt Information System to improve estimates of Indonesia's external debt transactions (such as drawings, principal payments and interest payments), including those related to domestic securities issued abroad by residents; and
  - using data from the ITRS to estimate interest income received by non-bank residents (under the previous BOP reporting system, this item was estimated based on data from the Bank for International Settlements).

In May 2009, Bank Indonesia modified the major commodity classification system of exports. This modification was conducted in order to adapt to the implementation of Harmonized System 2007 (**HS 2007**) and to reconcile discrepancies with BPS trade data. As a result of this change, the classification of certain export products has changed. For example, exports of certain processed tobacco products were reclassified from exports of agricultural products to exports of manufactured products. Revisions to data following classification changes based on HS 2007 were carried out for 2007 and later data, while revisions to 2006 data were based on Harmonized System 2004. See "*Republic of Indonesia — Foreign Trade and Balance of Payments*."

In 2004, BPS, the government agency that compiles statistics regarding the Indonesian economy, adopted the calendar year 2000 as the base year (the **Base Year**) for the calculation of Indonesia's Gross Domestic Product (**GDP**) in both current and constant market prices. All GDP growth rates in this Offering Circular (in aggregate or by sector) and percentage shares of Indonesia's GDP represented by various sectors (unless otherwise noted) are based on constant market prices using the Base Year, which the Republic refers to as **real GDP**.

SUMMARY

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of this Offering Circular as a whole, including any documents incorporated by reference.

Overview

Indonesia, the fourth most populous country in the world with a population of approximately 247 million as of June 2012, is a developing nation in Southeast Asia spread across an archipelago of 17,504 islands. Indonesia is undergoing rapid economic change as it continues its recovery and development following the severe economic shocks it suffered during the Asian financial crisis that began in mid-1997, and which adversely affected several Asian countries. The Republic is simultaneously undergoing fundamental political changes as it transforms itself from a centralized, authoritarian system to a participatory democracy that places greater political power in the hands of local and regional governments.

The following table sets forth certain of the Republic's principal economic indicators as of and for the specified dates and periods. Growth in real GDP and inflation (measured by changes in CPI) are indicated on a year-on-year basis.

Selected Key Economic Indicators

	2007	2008	2009	2010	2011	2012
National account and prices:						
Real GDP growth	6.3%	6.0%	4.6%	6.2%	6.5%	6.2%
Per capita GDP (in thousands of rupiah)	17,179	21,014	23,648	26,788	30,424	33,339
Per capita GDP (in U.S. dollars)(1)	1,902	2,202	2,324	2,977	3,498	3,563
Average exchange rate (rupiah per U.S. dollar)	9,140	9,691	10,408	9,087	8,779	9,384
Inflation rate (change in CPI)	6.6%	11.1%	2.8%	7.0%	3.8%	4.3%
External sector:						
Current account (% of GDP)	2.4%	0.0%	2.0%	0.7%	0.2%	(2.7)%
Fiscal account:						
Budget surplus/(deficit) (% of GDP)	(1.3)%	(0.1)%	(1.6)%	(0.7)%	(1.1)%	(1.8)%
External debt of the central government (in trillions of rupiah)	626	743	817	775	811	877.48
Debt service ratio (% of government revenue)	25.5%	19.6%	24.3%	21.1%	18.9%	22.6%

Sources: BPS, Bank Indonesia and Ministry of Finance

(1) Per capita GDP in U.S. dollars has been converted from rupiah into U.S. dollars and the U.S. dollar amounts of external debt of the central government have been converted into rupiah at the following exchange rates per U.S. dollar: Rp9,034.1 per U.S. dollar for 2007, Rp9,545.0 per U.S. dollar for 2008, Rp10,176.9 per U.S. dollar for 2009, Rp8,997.9 per U.S. dollar for 2010 and Rp8,697.1 per U.S. dollar for 2011 and Rp9,357.9 per U.S. dollar for 2012. These exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given period.

Economic developments in recent periods include:

- substantial economic growth (real GDP growth of 6.3%, 6.0%, 4.6%, 6.2%, 6.5% and 6.2% in 2007, 2008, 2009, 2010, 2011 and 2012, respectively);
- a relatively stable exchange rate (the rupiah exchange rate averaged Rp9,140, Rp9,691, Rp10,408, Rp9,081, Rp8,768 and Rp9,358 to the U.S. dollar in 2007, 2008, 2009, 2010, 2011 and 2012, respectively). Despite appreciating in February 2012, the average rupiah exchange rate depreciated significantly over the course of the year due to high demand for foreign exchange needed for imports and reached Rp9,358 at the end of 2012. In the 2013 Budget the projected exchange rate is Rp9,300 to the U.S. dollar;
- the CPI in 2011 increased by 3.8% compared to 2010 due primarily to higher prices in major food groups, processed foods, utilities and clothing. During 2012, inflation was kept low, within the 4.5%

+/- 1% inflation target. The subdued rate of inflation was a result of a series of Bank Indonesia policies bolstered by steady improvement in policy coordination with the government. Inflation in 2012 was recorded at 4.3% (yoy), curbed mainly by a stable level of core inflation, subdued volatile foods inflation and low inflation in administered prices;

- a balanced and diversified economy with manufacturing; agriculture; trade, hotel and restaurant services; mining and quarrying; and other services as the principal sectors. In 2011 and 2012, the manufacturing sector accounted for the largest portion of GDP (24.3% for 2011 and 23.9% for 2012 at current market prices) followed by agriculture (14.7% for 2011 and 14.4% for 2012 at current market prices) and trade, hotel and restaurant services (13.8% for 2011 and 13.9% for 2012 at current market prices);
- consistently low budget deficits (as a percentage of GDP) of 1.3%, 0.1%, 1.6%, 0.7%, 1.1% and 1.8% for 2007, 2008, 2009, 2010, 2011 and 2012, respectively. In the 2013 Budget, the projected budget deficit is 1.7% of GDP;
- substantial improvement in public debt management with an overall reduction in the debt service ratio (**DSR**) of 25.5%, 19.6%, 24.3%, 21.1%, 18.9% and 20.6% in 2007, 2008, 2009, 2010, 2011 and 2012, respectively;
- net inflows of foreign direct investment (**FDI**) from 2007 through 2012 despite a challenging global economic environment (net FDI surplus of U.S.$6.9 billion, U.S.$9.3 billion, U.S.$4.9 billion, U.S.$13.8 billion, U.S.$19.2 billion and U.S.$19.9 billion in 2007, 2008, 2009, 2010, 2011 and 2012, respectively);
- a current account surplus from 2007 through 2011 (current account surplus of U.S.$10.5 billion, U.S.$126 million, U.S.$10.6 billion, U.S.$5.6 billion and U.S.$1.7 billion for 2007, 2008, 2009, 2010 and 2011, respectively). In 2012, current account posted a deficit of U.S.$24.2 billion; and
- a net increase in official foreign reserves of the Republic from 2007 through 2012. Foreign reserves totaled U.S.$56.9 billion, U.S.$51.6 billion, U.S.$66.1 billion, U.S.$96.2 billion, U.S.$110.1 billion and U.S.$112.8 billion at the end of 2007, 2008, 2009, 2010, 2011 and 2012, respectively.

See "*— Government Budget — Reduction of Government Subsidies for Various Fuel Products and Efforts to Reduce Amounts of Fuel Subsidized by the Government", "— Government Budget — Implementation of Direct Cash Distribution Program and Increases in Food and Educational Assistance Programs*."

In February 2012, Bank Indonesia lowered the Bank Indonesia reference interest rate (**BI Rate**) by 25 basis points to 5.75%. On November 10, 2011, Bank Indonesia lowered the BI Rate by 50 basis points to 6.00%, shortly after it had lowered the BI rate from 6.75% to 6.50% on October 11, 2011. On February 4, 2011, Bank Indonesia had increased the BI Rate from 6.50% to 6.75%. Bank Indonesia had maintained a BI Rate of 6.50% for an extended period of time, ever since the BI Rate was reduced from 6.75% to 6.50% on August 5, 2009. Prior to that, the BI Rate had been reduced several times in 2009. Indonesia historically relied on foreign lending to finance its fiscal deficit, including official development aid from foreign governments and loans from multilateral lending organizations such as the World Bank and the Asian Development Bank (**ADB**). Indonesia's budget policy at that time required that the budget deficit be financed by external aid and foreign loans from official sources. With the onset of the Asian financial crisis in 1997, the government received foreign loans from the IMF intended to support the Republic's balance of payments as official foreign reserves declined and the rupiah weakened. These loans from the IMF were fully prepaid by the Republic in October 2006. Since the crisis, Indonesia has successfully completed three rounds of rescheduling of its debt owed to the Paris Club, an informal intergovernmental forum of official creditors for negotiating debt restructurings, extending its maturity and reducing its amount. Following the earthquake and tsunami that struck Indonesia and other countries in Southeast and South Asia on December 26, 2004, the Paris Club offered a temporary suspension of debt service payments through the end of 2005 to Indonesia (as well as other countries affected by the tsunami). Through a series of bilateral agreements with the Paris Club members, Indonesia reduced its debt service payments by U.S.$2.6 billion in 2005. In 2006, the government resumed debt service payments to the Paris Club members. The government's debt service payments in 2006 and 2007 increased by U.S.$0.4 billion and U.S.$0.7 billion, respectively, compared to payments in 2005 because of both the resumption of payments on the Paris Club debt and because of some deferrals of 2005 Paris Club payments that came due in 2006 and 2007. In 2008, the Republic repaid U.S.$0.8 billion, U.S.$1.8 billion in 2009, U.S.$0.9 billion in 2010 and U.S.$0.9 billion in 2011, of the Paris Club debt. As of December 31, 2011, the remaining Paris Club debt amounted to U.S.$11.3 billion.

In 2012, the Republic repaid U.S.$0.9 billion of its Paris Club debt. As of December 31, 2012, Indonesia's remaining Paris Club debt amounted to U.S.$10.4 billion.

Indonesia no longer relies exclusively on external borrowings. Since 1998, the government has issued domestic debt as part of its program to recapitalize Indonesia's banks and, in 2002, the government began a program of regularly issuing rupiah-denominated bonds in the domestic market. With the development of a regulatory framework and support from the government, a secondary market for the government's domestic debt securities has developed. As part of the government's financial management reforms, the Minister of Finance issued a ministerial decree on December 30, 2010 that sets forth the government's debt management strategy through 2014. This comprehensive strategy covers policies on management of the central government's public debts, external loans and government securities, to assure transparency and accountability. The strategy also addresses coordination between the Ministry of Finance, Bank Indonesia, Bappenas and Line Ministries in debt management. The strategy takes into consideration the macroeconomic framework, the current risk and portfolio profile and the extent to which targets and debt management objectives were achieved under the previous strategy. The Ministry of Finance plans to maintain major elements of its current strategy's policies, for example, minimizing cost and risk of debt to provide for fiscal and debt sustainability, and maximizing domestic sources of financing while preserving debt management best practices.

The Republic held its second direct election for President and Vice President on July 8, 2009, and then-incumbent President Susilo Bambang Yudhoyono (running with Boediono, former Governor of Bank Indonesia) successfully won re-election, defeating both then-incumbent Vice President Muhammad Jusuf Kalla, leader of the Golkar party, and former President Megawati Soekarnoputri, leader of the Indonesia Democratic Party of Struggle. Before the recent period of political reform, Indonesia had been under a centralized authoritarian regime under President Soeharto. Soeharto served as President of the Republic from 1966 until 1998, when he resigned following widespread civil unrest. President Yudhoyono is the fourth President of the Republic since Soeharto's resignation. A series of constitutional amendments adopted in the last few years has increased the level of direct democracy, decreased the influence of the military in civil government, devolved power to regional and local government authorities and sought to improve transparency of the country's judicial system.

Since 1999, there have been a number of significant and politically influential legislative developments in Indonesia. These include laws promoting regional autonomy (see "— *Government and Political Developments — Regional Governments and Regional Autonomy*"), establishment of an independent commission to combat corruption (see "— *Government and Political Developments — Independent Anti-corruption Commission*"), and agreements, laws and arrangements in relation to the provinces of Aceh (see "— *Government and Political Developments — Peace Agreement, Special Autonomy and Integration Projects in Aceh*") and Papua (see "— *Government and Political Developments — Special Autonomy and Activities in Papua*"), both of which had been focuses of domestic unrest.

Overview of the Program

Under the Program, the Republic may, from time to time, issue Notes denominated in U.S. dollars, Euros or in any other currency, subject to the terms more fully set forth herein. A summary of the terms and conditions of the Program and the Notes appears below. The applicable terms of any Notes will be agreed upon by and between the Republic and the relevant Dealer(s) prior to the issue of the Notes and will be set forth in the Description of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under **Forms of the Notes** below.

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in **Forms of the Notes** and **Description of the Notes** shall have the same meanings in this summary.

Summary of the Program and Description of the Notes

Issuer: . . . . . Republic of Indonesia

Arrangers: . . . . . Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc and Standard Chartered Bank

Description:	Global Medium Term Note Program
Dealers:	Barclays Bank PLC, Citigroup Global Markets Inc., Deutsche Bank AG, Singapore Branch, J.P. Morgan Securities plc and Standard Chartered Bank. The Issuer may issue Notes to persons other than Dealers and may terminate the appointment of any Dealer or appoint new dealers for a particular Series of Notes or for the Program.
Trustee:	The Bank of New York Mellon
Paying Agent:	The Bank of New York Mellon
Registrar and Transfer Agent:	The Bank of New York Mellon
Program Size:	Up to U.S.$20,000,000,000 (or its equivalent in any other currency (the **Program Limit**) in aggregate nominal amount of Notes outstanding at any one time). The Republic may increase the amount of the Program Limit in accordance with the terms of the Program Agreement.
Method of Issue:	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each, a **Series**) having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their Issue Price), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each, a **Tranche**) on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be specified in the pricing supplement (the **Pricing Supplement**).
Issue Price:	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more installments.
Form of Notes:	The Notes may be issued in bearer or registered form, as specified in the applicable Pricing Supplement. Certificates representing the Notes that are registered in the name of a nominee for one or more clearing systems are referred to as **Global Securities**. Each Series of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note which, in each case, will be deposited on the Issue Date with a common depositary for Euroclear, Clearstream or any other agreed clearance system compatible with Euroclear and Clearstream. Interests in a Temporary Global Note will be exchangeable, upon request as described therein, for either interests in a Permanent Global Note or Definitive Bearer Notes (as indicated in the applicable Pricing Supplement and subject, in the case of Definitive Bearer Notes, to such notice period as is specified in the applicable Pricing Supplement) upon certification of non-U.S. beneficial ownership as required by United States Treasury regulations (**U.S. Treasury Regulations**). Interests in a Permanent Global Note will be exchangeable, unless otherwise specified in the applicable Pricing Supplement, only in the limited circumstances

described therein, in whole but not in part for Definitive Bearer Notes, upon written notice to the Trustee. Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear, Clearstream and/or any other agreed clearance system, as appropriate.

Notes may be issued with the benefit of a guarantee. Details of any guarantee and the guarantor will be set out in the applicable Pricing Supplement.

Each Series of Registered Notes, which are sold outside the United States in reliance on Regulation S, will, unless otherwise specified in the applicable Pricing Supplement, be represented by an Unrestricted Global Security, which will be deposited on or about its Issue Date with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream. Unrestricted Global Securities will be exchangeable for Certificated Securities only in the limited circumstances more fully described herein.

Any Series of Registered Notes sold in private transactions to QIBs and subject to the transfer restrictions described in **Notice to Purchasers and Holders of Notes and Transfer Restrictions** will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Restricted Global Security, which will be deposited on or about its Issue Date with a custodian for, and registered in the name of a nominee of, DTC. Persons holding beneficial interests in Registered Global Securities will be entitled or required, as the case may be, under the circumstances described in the Indenture, to receive physical delivery of Certificated Securities. Registered Notes initially offered and sold in the United States to institutional accredited investors pursuant to Section 4(a)(2) of the Securities Act or in a transaction otherwise exempt from registration under the Securities Act and subject to the transfer restrictions described in **Notice to Purchasers and Holders of Notes and Transfer Restrictions** will be issued only in definitive registered form and will not be represented by a Global Security.

Bearer Notes will not be exchangeable for Registered Notes, and Registered Notes will not be exchangeable for Bearer Notes.

Clearing Systems: . . . . . DTC, Clearstream, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Republic, the Trustee and the relevant Dealer. See "*Global Clearance and Settlement Systems*."

Currencies: . . . . . Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Republic and the relevant Dealer(s).

Maturities: . . . . . Subject to compliance with all relevant laws, regulations and directives, any maturity.

Specified Denomination: . . . . . Notes in definitive form will be in such denominations as may be specified in the relevant Pricing Supplement save that (i) in the case of any Notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in an EEA State in circumstances which require the publication of a

	prospectus under the Prospectus Directive, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as of the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes:	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes:	Floating Rate Notes will bear interest determined separately for each Series as set out in the Description of the Notes and the relevant Pricing Supplement.
Zero Coupon Notes:	Zero Coupon Notes may be issued at their nominal amount or at a discount to it and will not bear interest.
Dual Currency Notes:	Payments in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.
Interest Periods and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Pricing Supplement.
Redemption:	The relevant Pricing Supplement will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes (including Notes denominated in sterling) which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Redemption by Installments:	The Pricing Supplement issued in respect of each issue of Notes that are redeemable in two or more installments will set out the dates on which, and the amounts in which, such Notes may be redeemed.
Optional Redemption:	The Pricing Supplement issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Republic (either in whole or in part) and/or the Holders, and if so the terms applicable to such redemption.
Status of Notes:	Senior Notes will constitute unsubordinated and unsecured obligations of the Republic.
Negative Pledge:	See "*Description of the Notes — Negative Pledge Covenant of the Republic*."
Ratings:	Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Withholding Tax: . . . . . All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of Indonesia, subject to customary exceptions, all as described in "*Description of the Notes — Taxation*."

Selling Restrictions: . . . . . The United States, Hong Kong, Japan, Singapore, the Public Offer Selling Restriction under the Prospectus Directive (in respect of Notes having a specified denomination of less than €100,000 or its equivalent in any other currency as of the date of issue of the Notes) and the United Kingdom. See "*Subscription and Sale*."

Bearer Notes will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (the **D Rules**) unless (i) the relevant Pricing Supplement states that Bearer Notes are issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(C) (the **C Rules**) or (ii) Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstances in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstances will be referred to in the relevant Pricing Supplement as a transaction to which the Tax Equity and Fiscal Responsibility Act of 1982 (**TEFRA**) is not applicable.

Listing: . . . . . Application will be made to the SGX-ST for permission to deal in and quotation of any Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. There is no assurance that the application to the Official List of the SGX-ST for the listing of a particular Series will be approved. For so long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, such Notes will be traded on the SGX-ST in a minimum board lot size of S$200,000 (or its equivalent in any other currency). The Notes may also be listed on such other or further stock exchange(s) as may be agreed between the Issuer and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued under the Program. The relevant Pricing Supplement will state whether or not the Notes of a Series will be listed on any exchange(s) and, if so, on which exchange(s) the Notes are to be listed.

Governing Law: . . . . . The Notes will be governed by, and construed in accordance with, the laws of the State of New York.

REPUBLIC OF INDONESIA

Overview

Indonesia, the fourth most populous country in the world with a population of approximately 247 million as of June 2012, is a developing nation in Southeast Asia spread across an archipelago of 17,504 islands. Indonesia is undergoing rapid economic change as it continues its recovery and development following the severe economic shocks it suffered during the Asian financial crisis that began in mid-1997, and which adversely affected several Asian countries. The Republic is simultaneously undergoing fundamental political changes as it transforms itself from a centralized, authoritarian system to a participatory democracy that places greater political power in the hands of local and regional governments.

The following table sets forth certain of the Republic's principal economic indicators as of and for the specified dates and periods. Growth in real GDP and inflation (measured by changes in CPI) are indicated on a year-on-year basis.

Selected Key Economic Indicators

	As of and for the year ended December 31					
	2007	2008	2009	2010	2011	2012
National account and prices:						
Real GDP growth	6.3%	6.0%	4.6%	6.2%	6.5%	6.2%
Per capita GDP (in thousands of rupiah)	17,179	21,014	23,648	26,788	30,424	33,339
Per capita GDP (in U.S. dollars)(1)	1,902	2,202	2,324	2,977	3,498	3,563
Average exchange rate (rupiah per U.S. dollar)	9,140	9,691	10,408	9,087	8,779	9,384
Inflation rate (change in CPI)	6.6%	11.1%	2.8%	7.0%	3.8%	4.3%
External sector:						
Current account (% of GDP)	2.4%	0.0%	2.0%	0.7%	0.2%	(2.7)%
Fiscal account:						
Budget surplus/(deficit) (% of GDP)	(1.3)%	(0.1)%	(1.6)%	(0.7)%	(1.1)%	(1.8)%
External debt of the central government (in trillions of rupiah)	626	743	817	775	811	877.48
Debt service ratio (% of government revenue)	25.5%	19.6%	24.3%	21.1%	18.9%	20.6%

Sources: BPS, Bank Indonesia and Ministry of Finance

(1) Per capita GDP in U.S. dollars has been converted from rupiah into U.S. dollars and the U.S. dollar amounts of external debt of the central government have been converted into rupiah at the following exchange rates per U.S. dollar: Rp9,034.1 per U.S. dollar for 2007, Rp9,545.0 per U.S. dollar for 2008, Rp10,176.9 per U.S. dollar for 2009, Rp8,997.9 per U.S. dollar for 2010 and Rp8,697.1 per U.S. dollar for 2011 and Rp9,357.9 per U.S. dollar for 2012. These exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given period.

Economic developments in recent periods include:

- substantial economic growth (real GDP growth of 6.3%, 6.0%, 4.6%, 6.2%, 6.5% and 6.2% in 2007, 2008, 2009, 2010, 2011 and 2012, respectively);
- a relatively stable exchange rate (the rupiah exchange rate averaged Rp9,140, Rp9,691, Rp10,408, Rp9,081, Rp8,768 and Rp9,358 to the U.S. dollar in 2007, 2008, 2009, 2010, 2011 and 2012, respectively). Despite appreciating in February 2012, the average rupiah exchange rate depreciated significantly over the course of the year due to high demand for foreign exchange needed for imports and reached Rp9,358 at the end of 2012. In the 2013 Budget the projected exchange rate is Rp9,300 to the U.S. dollar;
- during 2012, inflation was kept low, within the 4.5% +/- 1% inflation target. The subdued rate of inflation was the result of a series of Bank Indonesia policies bolstered by steady improvement in policy coordination with the government. Inflation in 2012 was recorded at 4.3% (yoy), curbed mainly by a stable level of core inflation, subdued volatile foods inflation and low inflation in administered prices;

- a balanced and diversified economy with manufacturing; agriculture; trade, hotel and restaurant services; mining and quarrying; and other services as the principal sectors. In 2011 and 2012, the manufacturing sector accounted for the largest portion of GDP (24.3% for 2011 and 23.9% for 2012 at current market prices) followed by agriculture (14.7% for 2011 and 14.4% for 2012 at current market prices) and trade, hotel and restaurant services (13.8% for 2011 and 13.9% for 2012 at current market prices);
- consistently low budget deficits (as a percentage of GDP) of 1.3%, 0.1%, 1.6%, 0.7%, 1.1% and 1.8% for 2007, 2008, 2009, 2010, 2011 and 2012, respectively. In the 2013 Budget, the projected budget deficit is 1.7% of GDP;
- substantial improvement in public debt management with an overall reduction in the debt service ratio (**DSR**) of 25.5%, 19.6%, 24.3%, 21.1%, 18.9% and 20.6% in 2007, 2008, 2009, 2010, 2011 and 2012, respectively;
- net inflows of foreign direct investment (**FDI**) from 2007 through 2012 despite a challenging global economic environment (net FDI surplus of U.S.$6.9 billion, U.S.$9.3 billion, U.S.$4.9 billion, U.S.$13.8 billion, U.S.$19.2 billion and U.S.$19.9 billion in 2007, 2008, 2009, 2010, 2011 and 2012, respectively);
- a current account surplus from 2007 through 2011 (current account surplus of U.S.$10.5 billion, U.S.$126 million, U.S.$10.6 billion, U.S.$5.6 billion and U.S.$1.7 billion for 2007, 2008, 2009, 2010 and 2011, respectively). In 2012, current account posted a deficit of U.S.$24.2 billion; and
- a net increase in official foreign reserves of the Republic from 2007 through 2012. Foreign reserves totaled U.S.$56.9 billion, U.S.$51.6 billion, U.S.$66.1 billion, U.S.$96.2 billion, U.S.$110.1 billion and U.S.$112.8 billion at the end of 2007, 2008, 2009, 2010, 2011 and 2012, respectively.

In 2011, the Republic repaid U.S.$0.9 billion of its Paris Club debt. As of December 31, 2011, Indonesia's remaining Paris Club debt amounted to U.S.$11.3 billion. In 2012, the Republic repaid U.S.$0.9 billion of its Paris Club debt. As of December 31, 2012, Indonesia's remaining Paris Club debt amounted to U.S.$10.4 billion.

In March and April 2012, the Republic experienced public protests in Jakarta and other parts of the country against proposed fuel price increases, and there can be no assurance that there will not be further public protests or other domestic unrest in connection with any future adjustments to the price of subsidized fuel. In addition, in May and June 2012, Indonesia's Constitutional Court registered five individual petitions from individuals and non-profit organizations in respect of the provisions in the Revised 2012 Budget relating to the fuel price adjustments. In December 2012, the Constitutional Court's final decision was to reject the petitions entirely.

The Dewan Perwakilan Rakyat (**DPR**) approved the 2013 Budget on October 23, 2012. The 2013 Budget implements the government's policies focusing on, among other things, basic infrastructure and communication, improving healthcare and reducing poverty.

Through its budgeted expenditure in the 2013 Budget, the government intends to continue to focus on the four main targets of its fiscal policy which are to (i) accelerate economic growth; (ii) create and increase employment by giving tax incentives, and increase investment and exports in order to increase capital expenditure and build infrastructure; (iii) improve the welfare of its people through social security nets for the poor with sustainable welfare programs and a more targeted subsidy allocation; and (iv) improve the quality of environmental management.

The 2013 Budget includes a target fiscal deficit of 1.7% of projected GDP. Total expenditure and deficit under the 2013 Budget are projected to be Rp1,683.0 trillion and Rp153.3 trillion, respectively. The government is expected to finance the projected deficit under the 2013 Budget from both domestic and international sources.

See "*Government Budget — 2013 Budget*" for further details.

Key Regulatory Updates

Chairman of Bapepam-LK Decree No. KEP-548/BL/2010 on Internal Control of Securities Company Carrying Out Business Activities of Securities Trading Brokerage

On December 28, 2010, Bapepam-LK issued Chairman of Bapepam-LK Decree No. KEP-548/BL/2010 on Internal Control of Securities Company Carrying Out Business Activities of Securities Trading Brokerage, which

was followed by the issuance of the Bapepam-LK Circular No. SE-16/BL/2012 on December 4, 2012 further elaborating the obligations of securities companies to open securities sub-accounts with a custodian as well as open funding accounts with banks in order to enable their customers to execute securities transactions. These accounts are to be registered in the name of each customer in order to separate the securities companies' internal funding accounts and customers' accounts. Securities companies are also required to provide a Single Investor Identification to customers.

Presidential Regulation No. 6 of 2012 on National Coordinating Committee on Prevention and Eradication of Money Laundering

On January 11, 2012, President Yudhoyono issued Presidential Regulation No. 6 of 2012 on National Coordinating Committee on Prevention and Eradication of Criminal Act of Money Laundering. This regulation mandates the formation of a coordinating committee whose sole task is to coordinate the handling of the prevention and eradication of money laundering. This committee will be chaired by the Coordinating Minister for Political, Law and Security and must hold meetings at least once a year or at any time should it be necessary. A task force led by the Head of Center for Report and Analysis of Financial Transaction (*Pusat Pelaporan dan Analisis Transaksi Keuangan*) will be formed to support the coordination committee. This task force must hold coordination meetings at least once in every six months.

Government Regulation No. 24 of 2012 on Amendment of Government Regulation No. 23 of 2010 concerning Implementation of Mineral and Coal Mining Activities

On February 21, 2012, the Republic issued Government Regulation No. 24 of 2012 on Amendment of Government Regulation No. 23 of 2010 on Implementation of Mineral and Coal Mining Activities. This regulation stipulates that non-Indonesian shareholders of a foreign investment mining concession holder company must gradually divest their share ownership in the foreign investment mining concession holder company to Indonesian shareholders, such that after ten years of commercial production, the maximum share ownership of the non-Indonesian shareholders is 49% of the shares in the foreign investment mining concession holder company.

Foreign investment mining concession holder companies must ensure that the following proportions of shares are held by such Indonesian shareholders according to the following schedule:

- during the 6th year from commencement of production: 20%;
- during the 7th year from commencement of production: 30%;
- during the 8th year from commencement of production: 37%;
- during the 9th year from commencement of production: 44%; and
- during the 10th year from commencement of production: 51%.

The regulation also sets out the order of priority of Indonesian shareholders to whom the divested shares must be sold. Similar to the previously applicable regulation, the order of priority is as follows:

- central government;
- provincial, regency or municipal government;
- central government owned company;
- regional government owned company; and
- private company wholly-owned by Indonesian entities.

Once the shares have been divested to Indonesian shareholders, the proportion of equity held by Indonesian parties may not be diluted by further shares issuance.

Government Regulation No. 14 of 2012 on Power Supply Business

On January 25, 2012, the Republic issued Government Regulation No. 14 of 2012 on Power Supply Business Activities (**GR No. 14/2012**) as an implementing regulation to Law No. 30 of 2009 on Electricity.

GR No. 14/2012 distinguishes between (i) power supply business for public interest and (ii) power supply business for private interest. Companies engaging in the power supply business for public interest must have a

power supply business license (*izin usaha penyediaan tenaga listrik*), whereas companies operating in the power supply business for private interest must have an operation license (*izin operasi*). According to GR No. 14/2012, a power supply business license is valid for a maximum of 30 years (subject to extension), while an operation license is valid for a maximum of 10 years (subject to extension). Further, applicants must fulfill administrative, technical and environmental requirements set out under GR No. 14/2012 in order to obtain the power supply business license and the operation license.

Government Regulation No. 27 of 2012 on Environmental License

On February 23, 2012, the Republic issued Government Regulation No. 27 of 2012 on Environmental License (**GR No. 27/2012**). As introduced by Law No. 32 of 2009 on Protection and Management of Environment, any company that requires an Environmental Impact Analysis (*Analisis Mengenai Dampak Lingkungan* or **AMDAL**) or an Environmental Management Effort and Environmental Monitoring Effort (*Upaya Pengelolaan Lingkungan dan Upaya Pemantauan Lingkungan* or **UKL-UPL**) must obtain an environmental license (*izin lingkungan*). This requirement applies to all types of businesses, except those that do not require an AMDAL or UKL-UPL.

Pursuant to GR No. 27/2012, an environmental license may be issued by the Minister of Environment, governor, regent or mayor, as the case may be. A party applying for the environmental license is required to submit an application to the relevant governmental authority mentioned above, together with an application for the AMDAL or UKL-UPL. Upon receipt, the relevant authority will consult the local community where the applicant's business operation is located before granting the environmental license and approval of the AMDAL or UKL-UPL.

GR No. 27/2012 acknowledges that all environmental-related documents approved prior to this regulation remain in effect and are considered equivalent to an environmental license issued in accordance with GR No. 27/2012.

Minister of Manpower and Transmigration Decree No. 40 of 2012 on Certain Restricted Positions for Foreign Workers

On February 29, 2012, the Minister of Manpower and Transmigration released Decree No. 40 of 2012 on Certain Restricted Positions for Foreign Workers. This decree supplements the provision in Law No. 13 of 2003 on Manpower (the **Manpower Law**) which restricts foreign workers from holding certain positions in the field of human resource management in Indonesian companies. According to the decree, the prohibited positions include personnel director, industrial relations manager, human resources manager, personnel development supervisor, personnel recruitment supervisor, personnel placement supervisor, employee career development supervisor, personal declare administrator, chief executive officer, personnel specialist, career advisor, job advisor, job advisor and counseling, employee mediator, job training administrator, job interviewer, job analyst, occupational safety specialist and personnel and career specialists.

Law No. 2 of 2012 on the Procurement of Land for Development on Public Purposes and Presidential Regulation No. 71 of 2012 on the Implementing Land Procurement for Development on Public Purpose

A new Law No. 2 of 2012 on Procurement of Land for Development on Public Purposes (**Law on Land Provision**) was passed on January 14, 2012 to secure the procurement of land for public purposes in a humane, democratic and fair manner. The land secured will be utilized for public purposes including construction of roadways, highways, railways, airports, sea ports, dams, power plants, geothermal and oil and gas infrastructure, government telecommunication and information networks, state hospitals, education or state schooling infrastructure, sport facilities, housing for low income households and government offices.

On August 8, 2012, the government issued Presidential Regulation No. 71 of 2012 on the Implementation of Land Procurement for Development on Public Purpose (**PR No. 71/2012**), whereby the procurement of land for public purposes by the government will require a land acquiring process of 583 days. The government will compensate land owners based on valuation over the land acquired.

Land procurement carried out prior to and remaining unfinished as of the issuance of PR No. 71/2012 will remain subject to the former land procurement regulations and must be concluded by December 31, 2014.

The Manpower Law and the Recent Constitutional Court Decision on Outsourcing

On January 17, 2012, the Constitutional Court found that outsourced workers on temporary contracts were denied entitlements under the Manpower Law as a result of (i) the possibility of the termination or expiration of the contract between the user of outsourcing services and the outsourcing provider and (ii) the frequent replacement or substitution of outsourcing providers.

Due to the above concerns, the Constitutional Court held that the outsourcing of workers on a temporary contract basis is prohibited unless the employment contract in question provides for the transfer (and continuity) of workers' rights when the original outsourcing company has been replaced by another outsourcing company.

In response to the Constitutional Court decision on outsourcing, the Minister of Manpower and Transmigration issued the Minister of Manpower and Transmigration Regulation No. 19 of 2012 concerning Conditions for Outsourcing of the Implementation of Work to Other Companies on November 14, 2012 (**Outsourcing Regulation**). Under the Outsourcing Regulation, a company may partially outsource its working activities only to outsourcing companies or to labor service providers.

Work that can be outsourced to an outsourcing company is limited to work that (i) is performed separately from the main business activities of a company; (ii) is performed under a direct or indirect order from the user; (iii) supports activities of the company's main business as a whole; and (iv) does not impede on the direct production activities of a company, therefore even without outsourcing, a company will be able to carry out its activities normally. The user of outsourced services must submit its report on the outsourced work, including any changes made to such work, with the relevant local government institution having the authority over such outsourced work, in order to avoid having a direct employment engagement with workers of the outsourcing company assigned to such outsourced work.

Work available to be outsourced to labor service providers must be support services or work that has no direct connection with the production process. Moreover, such work is specifically limited to (i) cleaning services; (ii) catering services; (iii) security services; (iv) supporting services in mining and oil activities; and (iv) labor transportation. A labor service provider should have and maintain or renew its three-year operational license to enable it to perform the outsourcing work.

All outsourcing work performed by outsourcing companies or labor service providers must be based on a written outsourcing agreement that is registered with the relevant local government institution with authority over such outsourced work.

Each outsourcing company and labor service provider should engage its workers on the basis of a written working agreement that secures its workers' rights in accordance with the prevailing regulations.

Minister of Finance Regulation No.236/PMK.08/2012 concerning Repurchase of Government Debt Instrument Denominated in Foreign Currency in International Market

On December 26 2012, the Minister of Finance issued Minister of Finance Regulation No.236/PMK.08/2012 concerning Repurchase of Government Debt Instrument Denominated in Foreign Currency in International Market. Under this regulation, repurchasing government debt instrument may be performed for the purpose of: (i) increasing market liquidity of government debt instruments in foreign currency; (ii) optimizing the portfolio structure of government debt instruments; (iii) relaxing the burden of cost of interest in foreign currency; and (iv) minimizing the risk of refinancing.

Repurchases shall be performed through an appointed buying/exchange agent selected by the Republic from a panel of buying/exchange agents. Under this regulation, the Republic introduced two methods of liability management to bondholders which are: (i) cash buy back, which involves cash settlement over the outstanding debt prior to maturity, and (ii) exchange offer of the subject debt with other outstanding debt, together with a balancing payment to reflect the difference in value between the new debt instrument and the debt instrument to be exchanged.

Flow of Foreign Exchange System and Exchange Rate System

Bank Indonesia Regulation No. 14/21/PBI/2012 dated December 21, 2012 on Foreign Exchange Activity Reporting provides that a person may freely hold and use foreign currency in the Republic of Indonesia. The

transfer of foreign exchange to and from abroad is, however, subject to the disclosure and reporting obligation to Bank Indonesia.

This regulation which became effective on January 1, 2013, revoked the previous foreign exchange regulations, namely Bank Indonesia Regulation No. 13/15/PBI/2011 dated June 23, 2011 as amended by Bank Indonesia Regulation No. 14/4/PBI/2012 dated June 7, 2012 on Supervision of Foreign Exchange Traffic Activities of Non-Bank Institutions. According to PBI 14/21/PBI/2012, the following parties that conduct foreign exchange traffic activities are obliged to report their foreign exchange traffic activities to Bank Indonesia: (a) based on its line of business: (i) financial institutions (bank or non bank financial institutions); (ii) non financial institutions; (b) based on its business ownership: (i) state owned companies; (ii) regional owned companies; (iii) privately owned companies; (iv) other entities; (v) individuals.

The reporting obligations will include, among other things, the required underlying and supporting document, the type of the reporting party (reporting party threshold), the procedures for sanctioning and the procedures and guidelines for the reporting submission.

Single Presence Ownership Regulation

Bank Indonesia issued Bank Indonesia Regulation No.14/24/PBI/2012 concerning Single Presence Ownership in Indonesian Bank on December 26, 2012 (**SPO Regulation**). Bank Indonesia determined that a controlling shareholder is an individual and/or legal entity and/or group of business that either owns 25% or more of the bank's shares with valid voting rights or one who owns less than 25% of the bank's shares with valid voting rights but can be proven to have direct or indirect control over the bank.

Under the single presence ownership policy, no party is allowed to be a controlling shareholder in more than one conventional or sharia bank. However, a shareholder is exempted from the single presence ownership policy if it is a shareholder of (i) two banks with different principles of banking activities with either one being a conventional or a sharia bank; or (ii) two banks with one of them being a joint venture bank between an Indonesian and a non-Indonesian bank.

A non complying controlling shareholder can be banned from controlling a bank and from owning more than 10% of shares with valid voting rights in such bank. The excess shares (if any) will have to be transferred at least one year after the lapse of the period reserved to comply with the SPO Regulation. A shareholder who violates the SPO Regulation may be restricted from acting as a controlling shareholder in Indonesian banks for 20 years.

Bank Minimum Capital Requirements

Bank Indonesia issued Bank Indonesia Regulation No. 14/18/PBI/2012 concerning Bank Minimum Capital Requirement on November 28, 2012, in order to harmonize Indonesian bank capital requirements with international standards and to anticipate the dynamics of the global economy and financial system by allocating capital with financial institutions maintained by branch offices of non-Indonesian banks.

Banks are required to maintain minimum capital in line with their respective risk profiles in order to be able to absorb potential losses resulting from credit risk, market risk, operational risk, liquidity risk and other material risks. Banks are required to maintain a minimum of:

(i) 8% of risk weighted assets for banks with level 1 risk profile;

(ii) 9% to 10% of risk weighted assets for banks with a level 2 risk profile;

(iii) 10% to 11% of risk weighted assets for banks with a level 3 risk profile; and

(iv) 11% to 14% of risk weighted assets for banks with level a 4 or 5 risk profile.

Bank Indonesia is authorized to establish a higher level of minimum capital requirements should it consider that more capital is required for banks to deal with potential losses.

Each bank should have and implement an Internal Capacity Adequacy Assessment Process (**ICAAP**) to calculate the minimum capital that it should maintain in line with its risk profile. ICAAP consists of (a) active supervision of the Board of Commissioners and Board of Directors; (b) capital adequacy assessment; (c) monitoring and reporting; and (d) implementing internal controls. ICAAP will be reviewed by Bank

Indonesia through a Supervisory Review and Evaluation Process (**SREP**) that may result in Bank Indonesia requiring a bank whose minimum capital adequacy is not in line with the risk profile to issue additional capital, improve risk management process quality and/or lower risk exposure. In cases where Bank Indonesia considers that there is a likelihood of a bank's capital decreasing below the minimum capital requirement, SREP also enables it to limit certain banking activities, prevent it from opening new offices and/or limit capital distribution of the bank.

As of June 2013, branch offices of non-Indonesian banks should maintain Capital Equivalency Maintained Assets (**CEMA**) with a minimum of 8% of the total monthly liabilities of such office, or at least in the amount of Rp1 trillion by December 2017 if the minimum CEMA is lower than Rp1 trillion. CEMA will be calculated on a monthly basis and shall be fulfilled at least on the 6th day of the following month.

Provision of Trust Services by Banks

On November 23, 2012, Bank Indonesia issued Bank Indonesia Regulation No.14/17/PBI/2012 concerning Bank Activity of Trust (**BI Trust Regulation**) to support Bank Indonesia's policy on the management of foreign exchange supply to maintain the stability of the rupiah exchange rate and increase domestic bank competitiveness.

Conventional or sharia banks can provide services to manage the assets of their clients by offering trust services. Trust services by a bank shall include services of a paying agent, investment agent and borrowing agent, all under conventional and/or sharia principles. Trust services must be carried out by a separate business unit. The assets entrusted by the settlor are limited to financial assets and must be recorded and reported separately from the bank's assets. If such trustee bank is liquidated then all trust assets shall be separated from bankruptcy assets and returned to the settlor or transferred to a successor trustee appointed by the settlor.

Trust services are performed by a bank based on a written agreement between the bank as trustee and settlor. A trustee shall maintain confidentiality of data and information related to trust activities, except for reporting purposes to Bank Indonesia, and shall at all times comply with the prevailing laws and regulations.

An Indonesian foreign exchange bank or a branch office of a non-Indonesian bank may provide trust services if it has maintained its capital adequacy ratio at no less than 13%. The soundness rating of such bank should not be lower than level 2. Such Indonesian bank or branch office of a non-Indonesian bank is required to have core capital of at least, or meet the CEMA of no less than, Rp5,000,000,000,000.

Failing to meet the above requirements would lead to a restriction on such bank or branch office of a non-Indonesian bank from entering into a new trust agreement and such a bank will be given six months to comply with such requirements. If such failure continues or the branch office of a non-Indonesian bank fails to obtain an Indonesian legal entity status three years after the issuance of the BI Trust Regulation, it must return the trust assets to the settlor or assign such assets to a designated successor trustee.

Trust services should be incorporated under the bank's business plan and are subject to assessment by Bank Indonesia.

Consumer Financing of Motorized Vehicles

The Minister of Finance has issued two regulations concerning consumer financing of motorized vehicles.

Minister of Finance Regulation No.43/PMK.010/2012 on Down Payment of Motorized Vehicle on Consumer Financing by Leasing Company, dated March 15, 2012, requires leasing companies to impose a minimum down payment according to the following guidelines:

(a) for two wheeled motorized vehicles, 20% of the total sales price;

(b) for four wheeled motorized vehicle used for productive purposes in accordance with the applicable licenses, to use the relevant motorized vehicle and business license to operate business in line with the use of such motorized vehicle, 20% of the total sales price; or

(c) for four wheeled motorized vehicle utilized for non-productive purposes, 25% of the total sales price.

If a leasing company fails to impose the above minimum down payment requirements, it may be subject to administrative sanctions including a moratorium or revocation of its business license.

Pursuant to Minister of Finance Regulation No.130/PMK.010/2012 on Registration of Fiduciary Security for the Benefit of Leasing Company on Consumer Financing of Motorized Vehicle with Fiduciary Security, dated August 7, 2012, a leasing company, including a leasing company offering sharia based consumer financing for purchases of motorized vehicles and/or financing by way of channeling or joint financing, is required to register with the fiduciary registry office any fiduciary security over a motorized vehicle financed by such leasing company under consumer financing with fiduciary security within 30 calendar days of the financing date. The leasing company is not allowed to repossess any secured motorized vehicle until it has received the certificate of fiduciary from the fiduciary registry office. Failure by a leasing company to comply with such registration requirement or proper repossession procedures may result in administrative sanctions, including a moratorium or revocation of business license.

Credit Card Ownership

Bank Indonesia issued two circular letters regarding credit card ownership. Pursuant to Circular letter No.14/27/DASP dated September 25, 2012 on Adjustment Mechanism of Credit Card Ownership, Bank Indonesia imposed restrictions on credit card ownership by individuals with a monthly income between Rp3 million to Rp10 million based on certain criteria including minimum age, minimum income per month, maximum credit facility and maximum number of credit cards owned. It is expected that by January 1, 2015, all credit card issuers will have complied with these limitations on credit card ownership.

The regulation also includes obligations requiring: (i) credit card issuers to submit all credit card holder data to the association of credit card issuers; (ii) the association of credit card issuers to compile and identify the identity of credit card holders; (iii) the association of credit card issuers to submit compilation and identification results to credit card issuers; (iv) credit card issuers, based on compilation and identification results, to close out credit card facilities that do not comply with the requirements; and (v) credit card holders to settle outstanding facilities of all closed out credit cards.

Pursuant to Circular letter No.14/34/DASP dated November 27, 2012 on Maximum Limitation of Credit Card Interest Rate, Bank Indonesia sets the maximum credit card interest rate at 2.95% per month or 35.40% per annum for consumption purchases or cash withdrawal transactions.

BAPEPAM-LK Regulation Update concerning Quasi Reorganization

Bapepam-LK issued Regulation No.IX.L.1 on Quasi-Reorganization dated December 28, 2012, to anticipate the revocation of Indonesia General Accounting Principles No.51 on Accounting of Quasi Reorganization which became effective on January 1, 2013. Under these quasi reorganization rules, a publicly listed company must record material negative retained earnings for the last three consecutive years in its audited financial statements, where materiality is qualified as absolute value of more than 60% of paid-up capital of the company and more than 10 times the average of income of current year for the last three consecutive years. Such company will also need to record income from operations and income of the current year in its audited financial statements for three consecutive years and in the audited report used as a basis for quasi-reorganization as evidence that the company has good business prospects.

BAPEPAM-LK Regulation Update concerning Ratings of Debt Securities and/or Sukuk

On December 26, 2012, Bapepam-LK issued Regulation No. IX.C.11 on Ratings over Debt Securities and/or Sukuk, pursuant to which publicly listed companies are required to obtain and publicly announce ratings from ratings agencies on their publicly offered debt securities and/or sukuk with a tenor of more than one year. The ratings must be maintained until all the obligations under such debt securities and/or sukuk are fully settled. Ratings will be required for the issuance of debt securities and/or sukuk, annual ratings for annual review to the extent agreed under the trust agreement, and new ratings for any occurrence of material facts, important events or other factors affecting the issuing company.

Recent Developments

Domestic Bond Issuances

In February 2013, the government issued retail sukuk bonds, called Sukuk Retail Indonesia (**Sukri**), of approximately Rp14.9 trillion to domestic citizens at a coupon rate of 6% per annum and with a maturity date of February 27, 2016. The offering period was from February 7, 2013 to February 22, 2013. The purpose of the Sukri issuance was to finance the 2013 Budget and widen the investor base.

In October 2012, the government issued government retail bond (**ORI**) series ORI009 of approximately Rp12.68 trillion to domestic citizens at a coupon rate of 6.25% per annum and with a maturity date of October 15, 2015. The offering period was from September 21, 2012 to October 5, 2012. The purpose of the ORI009 issuance was to help fund the Revised 2012 Budget and to improve the development of the domestic government bond market through diversification of domestic financing instruments and the expansion of the domestic investor base.

Foreign Direct Investment

According to Indonesia's Investment Coordinating Board (**BKPM**), FDI in the country during the fourth quarter of 2012 (October to December 2012) rose 22.9% year-on-year to Rp56.8 trillion, helped by the metal machinery and electronic, mining, and the transport, storage and communication industries. FDI growth in the fourth quarter of 2012 was higher than the around 22% year-on-year growth achieved in the third quarter of 2012. Indonesia's GDP expanded by 6.2% in 2012 which was lower than the set target of 6.5% for the full year 2012. As Indonesia's credit rating has been upgraded to investment grade by two rating agencies the country has drawn strong portfolio funds and FDI in recent months.

Foreign Currency withdrawals

On September 30, 2011, Bank Indonesia Regulation No. 13/22/PBI/2011 Concerning Report Requirements for Withdrawal of Foreign Exchange from Offshore Debt Obligations was approved. This regulation became effective on January 2, 2012. Article 12 of this regulation was subsequently annulled by Bank Indonesia Regulation No. 14/25/PBI/2012 Concerning Receipt of Export Proceeds and Withdrawal of Foreign Exchange from Offshore Debt. One of the issues currently facing Indonesia is exchange rate volatility arising from instability in the supply of foreign currency on the domestic market. The dominance of foreign ownership in portfolio investments has the potential to render the Indonesian economy more susceptible to sudden capital reversal. In view of this, Bank Indonesia issued the aforementioned regulation requiring foreign exchange from offshore debt to be withdrawn through foreign exchange banks. To ensure an effective policy for withdrawals of foreign exchange from offshore debt, debtors holding offshore debt are required to report withdrawals of foreign exchange from offshore debt to Bank Indonesia under this regulation. Debtors that are late or fail to submit a report may be subject to administrative sanctions imposed as a financial penalty. In addition, offshore debt withdrawals that originate from loan agreements signed before January 2, 2012 are exempted from the reporting requirements.

On December 27, 2012, Bank Indonesia Regulation No. 14/25/PBI/2012 Concerning Receipt of Export Proceeds and Withdrawal of Foreign Exchange from Offshore Debt was approved. The regulation became effective on January 1, 2013. This regulation replaced Bank Indonesia Regulation 13/20/PBI/2011 concerning Receipt of Export Proceeds and Withdrawal of Foreign Exchange from External Debt on December 27, 2012. The regulation was promulgated in response to the risk of sudden capital reversals as a result of the withdrawal of offshore debt from export proceeds that are not executed through domestic foreign exchange banks. In view of this, Bank Indonesia issued the aforementioned regulation requiring foreign exchange from offshore debt be withdrawn through the debtor's domestic foreign exchange bank account. For the purpose of this regulation, foreign bank branches in Indonesia are included in the definition of foreign exchange banks. Administrative sanctions such as financial penalties will be imposed for violations of this regulation. In addition, offshore debt entered into before January 2, 2012 is exempted from the withdrawal requirements and export revenues that have been agreed to be received from a trustee located outside of Indonesia are exempted from the withdrawal requirements until June 2013.

Master Plan for Acceleration and Expansion of Indonesia's Economic Development 2011-2025

On May 27, 2011, President Yudhoyono unveiled the Master Plan for Acceleration and Expansion of Indonesia Economic Development 2011-2025 (**MP3EI**), which aims to create a self-sufficient, advanced, just and prosperous Indonesia. Pursuant to the MP3EI, six economic corridors have been identified as growth centers, with each corridor specializing in economic activities in which it has a comparative advantage. Sumatra will act as a production and processing center of natural resources and energy reserves; Java will act as a driver for industrialization and services; Kalimantan will act as a production and processing center of mining and energy reserves; Sulawesi will act as a production and processing center of agriculture, fisheries, plantation, oil and gas and mining; Bali and Nusa Tenggara will act as a gateway for tourism and national food support, and Papua and Kepulauan Maluku will act as a development center of food, fisheries, energy and mining. In addition, the MP3EI divides the focus of development into eight main programs (i.e. agriculture, mining, energy, industrial, marine, tourism, telecommunication and development of strategic areas), which further divide into 22 main economic activities which are all geographically concentrated along the six corridors. As of December 2012,

184 projects with a valuation of Rp624 trillion have commenced under the MP3EI, and 41 regulations have been amended, with a pipeline of 16 further regulations being considered. 92% and 82% of the projects planned for 2011 and 2012, respectively, were successfully commenced and the government has increased targets for planned projects in 2013 through the Committee for Acceleration and Expansion of Indonesia Economic Development (**KP3EI**). Approximately 146 projects worth Rp546 trillion are planned for 2013, effectively doubling the investment plan for the previous year.

Earthquake and Tsunami in Japan

On March 11, 2011, Japan was struck by an earthquake with a magnitude of 9.0 on the Richter scale, the strongest on record there, and an ensuing tsunami. These disasters resulted in significant loss of life and property damage, including significant damage to nuclear power facilities. The ultimate direct and indirect consequences of these recent events are still being felt inside and outside Japan.

Historically, various public and private Japanese organizations and companies, including the Japan Bank for International Cooperation (**JBIC**) and the Japan International Cooperation Agency (**JICA**), have been significant sources of external financing for, and for investment in, the Republic, particularly in the transportation sector. Japan was also the largest export market for Indonesia for 2008 through 2012. While there is no indication that existing Japanese funding commitments to the Republic will be affected and the Republic has a range of financing sources available to it, there can be no assurance that these organizations and companies will continue to provide financing or investment at historical levels or at all, or that the Japanese market will continue to support Indonesian exports at historical levels. Nevertheless, the Republic does not expect any deterioration in such financing, investment or market to have a material impact on the Republic's financing position generally. For further details of the Republic's current financing arrangements with Japanese organizations and agencies, see "*Public Debt — Public External Debt of the Republic*."

Economic Recession in Developed Markets and Government Responses

From mid-2007, due to the deterioration in asset prices in the United States' sub-prime residential mortgage market which impinged substantially on liquidity in the United States, Europe and Asia and the filing for bankruptcy by Lehman Brothers Holdings Inc. in the United States on September 15, 2008 and the extension of a U.S.$85 billion credit facility (with warrants) by the Federal Reserve Board to insurer American International Group on September 16, 2008, there was a period of extraordinary and intensifying disruption and volatility in global capital and credit markets. Share prices declined sharply globally and such declines, as well as substantial mark-to-market write downs of assets by financial institutions of mortgage-related assets and credit default swaps and other derivative securities, caused many financial institutions to seek new capital, merge with stronger and larger institutions or, in some cases, fail.

Following these disruptions in the financial sector, there has been a significant reduction in business activity in various industries and in consumer spending in developed markets around the world. Consequently, unemployment in these markets has been increasing and some major companies have been experiencing significantly diminished results and, in some cases, bankruptcy or a significant threat of bankruptcy. As of the end of 2008, the United States, various European countries and Japan were all officially declared to be in economic recession, which also affected developing markets, including Association of Southeast Asian Nations (**ASEAN**) countries and the Republic. In particular, there have been capital outflows from some developing markets and reductions in their exports and export revenues, leading certain developing or small economies such as Pakistan, Iceland and Hungary to seek IMF assistance to deal with severe balance of payments difficulties. In November 2009, the government of the Emirate of Dubai, a member of the United Arab Emirates, declared that it would not stand behind the debts of its investment vehicle, Dubai World, when Dubai World requested a six-month standstill on its debt payments from creditors. Throughout Asia, stock market indices, including those of Japan and the Republic of Korea, declined sharply in October and November 2008 and Asian currencies (excluding the Japanese yen) declined sharply against the U.S. dollar in October and November 2008. During 2009, there were significant recoveries in asset prices in some markets from the lows they had reached during this financial crisis, with some of the major developing markets generally performing better than the more developed markets, but liquidity in the credit markets continued to be significantly constrained. In 2010, this trend continued to a lesser extent and with some geographic variations. Recovery has been fragile and partially attributable to the effects of various government economic stimulus efforts.

Governments, central banks and financial regulators in the United States and Europe have taken a number of steps in response to the extraordinary conditions faced by financial institutions in their jurisdictions. These steps

include the partial or complete nationalization of major banks and other financial institutions (including Fannie Mae and Freddie Mac in the United States), the orchestration of bank mergers or asset transfers, the guaranteeing of bank deposits and interbank lending, the creation of a U.S.$700 billion Troubled Assets Relief Program (**TARP**) by the United States Treasury to purchase mortgage-related and other assets from financial institutions, the implementation of coordinated rate cuts and direct purchases of commercial paper. In August 2011, the international credit rating of the United States was downgraded by S&P from AAA to AA+ with a negative outlook. Despite the downgrade, the United States Congress allowed the government to increase the public debt ceiling to avoid a technical default.

In Europe, the sovereign debt crisis that began in 2009 with Greece and Portugal, followed by Ireland, Italy and Spain, has not abated despite concerted actions and aid from other European Union countries. Major international rating agencies have downgraded the sovereign rating of such countries, and the Eurozone debt crisis has contributed to fears of contagion and turmoil in financial markets. Surrounding European Union countries have provided assistance and further aid to such countries and may continue to do so, and the European Commission has proposed policies to reduce the impact of the crisis in the region. In addition, the U.S. Federal Reserve led a coordinated move with other central banks in November 2011 to increase liquidity in the markets by lowering borrowing costs of the U.S. dollar. At the Euro Area Summit in June 2012, heads of state or governments decided to establish a single banking supervisory mechanism run by the European Central Bank, and once this mechanism is created, to provide the European Stability Mechanism (**ESM**) with the possibility to inject funds into banks directly. Spain's bank recapitalization would begin under current rules (i.e., funds are provided by the European Financial Stability Facility (**EFSF**) until the ESM becomes available) and will then be transferred to the ESM without gaining seniority status. It was also agreed that the EFSF/ESM funds can be used flexibly to buy bonds for member states of the European Union that respect their country-specific recommendations and other commitments.

These governments and regulators have proposed various measures that aim to stimulate economic activity. The fiscal burden of rescue and stimulus programs has been significant for governments in Europe, the United States and other countries and this burden may constrain their future ability to resort to further fiscal measures to counteract the effects of the financial crisis.

The Republic and other ASEAN countries have been negatively affected, along with developing countries globally, by the adverse financial and economic conditions in developed countries. The Republic responded to these extraordinary conditions with the aim of maintaining economic stability and public confidence in the Republic's economy.

Although Indonesia's financial services sector remains relatively unaffected by the fragility of global financial markets and the ongoing Eurozone debt crisis, there can be no assurance that it will not be adversely affected in the future. The government has taken several measures to strengthen this sector, beginning with a series of regulations including the following:

- Government Regulation in Lieu of Law (**Perpu**) No. 2 of 2008 on Second Amendment to Law No. 23 of 1999, later enacted as Law No. 6 of 2009 on Bank Indonesia, authorizes Bank Indonesia to give short-term credit or financing based on sharia principles of up to 90 days to any bank, subject to certain criteria to be set by Bank Indonesia. A beneficiary bank is required to give security of at least the value of such credit or financing.
- Perpu No. 4 of 2008 on Financial System Safety Nets, which facilitates medium- to long-term liquidity support for banks. This measure allows banks to apply for credit or financing from an emergency financing facility subject to criteria to be set by Bank Indonesia and approval by the Financial System Stability Committee. In addition, some government funds have been deposited with state-owned banks to increase liquidity in the banking system.
- Perpu No. 3 of 2008 on Amendment to Law No. 24 of 2004 on Indonesia Deposit Insurance Corporation (the **IDIC** or **LPS**), later enacted as Law No. 7 of 2009, which allows deposit insurance coverage to be adjusted as a pre-emptive measure to anticipate potential bank runs which lead to financial crises. The prevailing requirements for adjustment in the coverage are in response to high inflation rates for the past several years, threats of bank runs, and fully covered depositors becoming less than 90% of depositors. Following the enactment of Perpu No. 3 of 2008, the government issued Government Regulation No. 66 of 2008 on Deposit Insurance Coverage, which increased the level of insured deposits from Rp100 million to Rp2 billion for each depositor in a bank. The coverage provides full protection for approximately 99.9% of accounts in the Indonesia banking sector and for about 58% of the total deposits.

- On October 6, 2008, the Capital Markets and Financial Institutions Supervisory Agency (**Bapepam-LK**) issued three regulations relating to so-called capital market supporting professionals, two of which provide for periodic reports to be submitted to Bapepam-LK by accountants and appraisers and the third of which relates to professional standards and independence of appraisers in the conduct of capital markets transactions.
- In 2008 and 2009, Bapepam-LK issued regulations relating to the fair market value of securities in investment fund portfolios in the context of the global economic and financial crisis, revised disclosure regulations applicable to securities companies to provide for more stringent disclosure of information and to increase management accountability for the activities of securities companies and revised certain regulations relating to Guidelines for Asset Backed Securities Collective Investment Contracts, to ensure greater legal certainty in the conduct of securitization transactions and to protect the holders of asset backed securities collective investment contracts. In addition, Bapepam-LK further issued new regulations relating to the establishment of internal audit units for issuers and public companies and to ensure more stringent risk management and better corporate governance practices. On November 25, 2009, Bapepam-LK amended the regulations concerning related parties transactions and transactions involving conflicts of interest in order to protect unaffiliated and independent shareholders. Such amendments require public companies and equity issuers to follow more stringent guidelines in conducting transactions with affiliates, transactions involving conflicts of interest and transactions involving potential financial loss to public companies and equity issuers.
- Since April 13, 2010, Bapepam-LK has required any share buy-backs to be carried out in compliance with Law No. 40 of 2007 on Limited Liability Company (the **Company Law**), which allows buy-backs of up to 10.0% of paid-up capital in public companies. The Company Law requires shareholders' approval for such buy-backs.
- On May 31, 2011, Bapepam-LK amended certain regulations concerning acquisition of public companies, voluntary tender offers, guidelines for management of protected mutual funds, secured mutual funds and index mutual funds.
- On November 28, 2011, Bapepam-LK amended the regulation concerning material transactions and change of core business activities. This regulation protects public shareholders by requiring the disclosure of transactions with a value between 20% and 50% of the equity of public companies and equity issuers and shareholders' approval for transactions with a value of over 50% of the equity of public companies and equity issuers. The amendment relaxes the level of disclosure for issuances of offshore debt securities. It also broadens the application of the law from "subsidiaries" to "controlled companies" in order to include entities which public companies and/or equity issuers directly or indirectly control.
- On March 15, 2012, the Minister of Finance issued regulation No. 43/PMK.010/2012 relating to certain down payment requirements when the financial companies provide loans used in purchasing motor vehicles. This regulation is intended to prohibit unfair competition on down payment requirements by: establishing loan to value ratio requirements, promoting prudent practice in extending financing, minimizing moral hazard and default risks, and providing a level playing field with respect to requiring down payments.
- In order to improve protection for investors and increase the effectiveness of supervision of securities transactions, on June 14, 2012, Bapepam-LK amended and issued new regulations concerning the implementation of Single Investor Identity (**SID**) for all investors (a unique identifier for each investor in order to facilitate trading identification) with scrip securities in Indonesian capital markets.

Various agencies have also taken action in their respective areas of responsibility. On October 7, 2008, Bank Indonesia raised the BI Rate by 0.25% to 9.50% in order to control inflation and conducted other market activities to increase liquidity and enhance stability in the exchange rate. The BI Rate was subsequently revised downward to 9.25% on December 4, 2008, to 8.75% on January 7, 2009, to 8.25% on February 4, 2009, to 7.75% on March 4, 2009, to 7.50% on April 3, 2009, to 7.25% on May 5, 2009, to 7.00% on June 3, 2009, to 6.75% on July 3, 2009, to 6.50% on August 5, 2009. These decisions were made following the easing of inflationary pressures. Bank Indonesia has also required greater disclosure in large purchases of foreign currency to reduce speculative pressure on the rupiah. The BI Rate was maintained at 6.50% until February 4, 2011, when Bank Indonesia increased the BI Rate by 25 basis points to 6.75%. Subsequently, Bank Indonesia lowered the BI Rate by 25 basis points back to 6.50% on October 11, 2011 and by another 50 basis points to 6.00% on November 10, 2011. In February 2012, Bank Indonesia lowered the BI Rate by 25 basis points to 5.75%. For further discussion on other measures taken by Bank Indonesia, see "*Monetary Policy — Monetary Policy*."

The Republic has sought to ensure foreign exchange stability by managing SOEs' foreign exchange transactions to reduce speculation and maintaining a sufficient level of foreign exchange reserves. In line with these goals, Indonesia has entered into an ASEAN Swap Arrangement (**ASA**) with the ASEAN member states as well as bilateral swap agreements (**BSA**s) with Japan. Aside from the ASA and BSAs, Indonesia entered into the Chiang Mai Initiative Multilateralization (**CMIM**) Agreement, an ASEAN+3 reserve pooling arrangement with a total size of U.S.$240 billion (the current size is U.S.$120 billion). Under the ASA, BSAs and CMIM, the equivalent of a total of U.S.$23.98 billion is currently available to the Republic. The total amount available to the Republic will be increased to U.S.$35.36 billion when the revised CMIM Agreement becomes effective. See "*Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic*."

In May 2010, the ASEAN+3 endorsed the establishment of the Credit Guarantee and Investment Facility (**CGIF**) as a trust fund of the Asian Development Bank (**ADB**) with an initial capital of U.S.$700 million. The CGIF aims to develop and strengthen local currencies and regional bond markets so that investment rated corporations may access those markets and avoid currency and maturity mismatches. See "*Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic*."

The Indonesian Stock Exchange (**IDX**) suspended trading in equities and derivatives during the morning session of Wednesday, October 8, 2008 and reopened on Monday, October 13, 2008. This followed declines in the IDX composite index of approximately 10% each on consecutive trading days, and similar declines in indices of other Asian stock exchanges. Prior to this suspension, the IDX banned short selling of stocks for the month of October 2008. The IDX allows short selling of certain listed shares based on criteria in Bapepam-LK regulations. On December 30, 2008, the IDX composite stock price index closed at 1,355.4, a decrease of 50.6% compared to 2,745.8 on December 28, 2007.

Following the steep drop in global oil prices that occurred during the second half of 2008, the government announced price cuts for gasoline on December 1, 2008, December 15, 2008 and January 15, 2009 and price cuts for diesel on December 15, 2008 and January 15, 2009, resulting in the price of gasoline and diesel decreasing approximately by 25.0% and 18.2%, respectively. No price changes for gasoline or diesel were announced in 2010, 2011 or 2012.

On February 25, 2009, the government announced a fiscal stimulus package of approximately Rp73.3 trillion (equivalent to 1.4% of the adjusted projected 2009 GDP), including Rp43.0 trillion relating to reduced income tax rates and income tax benefits for corporates and individuals; Rp13.3 trillion in value added tax (**VAT**) subsidies relating to oil and gas exploration and cooking oil, lower import duties for raw materials and capital goods and income tax benefits for employees as well as for certain sectors; Rp12.2 trillion of financing for infrastructure projects and other fiscal stimulus spending; Rp2.8 trillion relating to diesel subsidies; Rp1.4 trillion relating to tariff discounts for industrially used electricity and Rp0.6 trillion relating to various social benefit programs.

The stimulus package and related programs aimed to achieve three broad economic goals. First, to accelerate job creation and foster the growth of small-scale businesses through the expansion of a national program for poverty alleviation, the expansion of credit programs for small businesses, the reduction of tax rates for small businesses, the provision of employment tax subsidies and the creation of new jobs through additional infrastructure projects. Second, to boost household purchasing power through subsidies on medicine and cooking oil, direct subsidies (such as conditional and unconditional cash transfers) for low income households, expansion of direct and indirect subsidies to the education and the health sectors and the reduction of tax rates applicable to single income households. Third, to stimulate trade and promote entrepreneurship by providing import duty facilities on selected capital goods and materials, providing trade finance facilities, tax rate reductions on corporate income and listed companies, increasing the minimum threshold for employee tax and discounting peak-hour tariffs on electricity for industrial use and reducing diesel fuel prices. See "*— Government Budget — Implementation of Direct Cash Distribution Program and Increases in Food and Educational Assistance Programs*" and "*Infrastructure Development*."

The government is also making an effort to stimulate the economy by lessening the tax burden on individuals with an increase in the non-taxable income threshold for individuals to Rp23,400,000 per annum. The new threshold, which represents a 54% increase from the previous threshold, became effective as of January 1, 2013 and aims to increase the domestic consumption rate in reaction to the slowing of the global economy, which has affected the government's trade balance, especially in relation to exports.

It is not possible to foresee the direct or indirect consequences to the Republic of the adverse and continuing global economic and financial conditions described above. In other countries, these consequences have included major disruptions to the banking system (including effects on bank solvency, capital levels and funding access, and in the most extreme cases, the bankruptcy or near bankruptcy of major banks), major disruptions of liquidity in the financial and other sectors, currency depreciation, increased unemployment and severe fiscal strain arising from remedial measures by governments.

The "Hundred Day Program"

Upon his re-election in 2009, President Yudhoyono appointed a cabinet of 37 ministers, which he called his United Indonesia Cabinet II. These ministers included as Coordinating Minister for the Economy, Hatta Radjasa; as Minister of Trade, Mari Elka Pangestu, who was subsequently replaced by Gita Irawan Wirjawan on October 19, 2011; and as Minister of Finance, Sri Mulyani Indrawati, who resigned in 2010 to become managing director of the World Bank Group and was succeeded by Agus Martowardojo.

At the beginning of his second term, President Yudhoyono outlined 45 programs intended to address Indonesia's most pressing needs during the first one hundred days of his new administration (the **Hundred-Day Program**). Among them, 15 were designated top priorities. These included the removal of members of the judiciary involved in corrupt activities; revitalizing the defense industry; eradicating terrorism; increasing electricity generation; achieving economic growth and improvements in quality of life; reducing poverty; creating jobs; improving infrastructure; and developing agriculture and various industries.

To assist the President in the day-to-day management of policy implementation, President Yudhoyono set up a task force called the Presidential Unit for the Supervision and Control of Development, which works on specific issues related to the execution of a particular policy or major development project that cabinet ministers are not able to address by themselves.

Bond Stabilization Framework

The government's policy on dealing with a sudden reversal in capital flows involves, among others, the implementation of a Crisis Management Protocol, which involves cooperation between the Ministry of Finance, Bank Indonesia and Deposit Insurance Corporation, in the event of a financial crisis; executing buybacks for stabilization in the event of a disruption; taking steps to enhance cooperation among government institutions, the central bank, deposit insurance corporations, SOEs, regulators and other market participants to maintain stability of the sovereign bond market; and encouraging the placement of funds in instruments with a longer maturity by issuing longer-term securities and debt switching to lengthen debt maturities and reduce risks associated with refinancing.

The government has two main lines of defense in stabilizing the domestic bond market should circumstances warrant. First, the Ministry of Finance stands ready to support the domestic bond market using funds allocated from the government's annual budget in the event of substantial capital outflows. The second line of defense consists of taking advantage of the balance sheet of SOEs, funds managed by the Indonesia Investment Agency (**IIA**), idle cash and government cash balances in the form of accumulated cash surpluses approved by DPR. Based on Budget Law No. 11 of 2011, as an amendment to Law No. 10 of 2010, Budget Law No. 22 of 2011 and Budget Law No. 19 of 2012, DPR approved the government's use of accumulated cash surpluses for stabilizing the domestic bond market.

Various policies and proposed policies of the government may be applied as necessary in support of bond market stabilization. These include a memorandum of understanding between the Ministry of Finance and the Ministry of State Owned Enterprises, intended to reduce the concerns of investors in investing in government debt securities by providing confidence to the market that the government together with the relevant SOEs are able to acquire government securities in the secondary market at any time.

To strengthen coordination between the Ministry of Finance (**MOF**) and the Ministry of State Owned Enterprises (**MSOEs**) to support market stability for government debt securities, the MOF and the MSOEs signed Memorandum of Understanding (**MOU**) no. S-715/MK.08/2010 and MOU-09/MBU/2010 about Coordination in Order to Maintain Government Obligation Market Stability on December 30, 2010. The MoU was intended to anticipate a sudden reversal in the government obligation market which may affect macroeconomic stability. The MOU enables the government and related SOEs to purchase government obligation securities in the secondary market in accordance with good corporate governance practices as well as sound risk management principles.

Anti-corruption Measures

In 2012, the Komisi Pemberantasan Korupsi (**KPK**) signed an MOU with the State Army, aiming at improving coordination in prevent corruption activities. The MOU set out a series of detailed measures, including signing a cooperation agreement specifying a broad scope of cooperation. In particular, the State Army will provide the asset list of its members to the KPK and the KPK will assist the State Army in monitoring and investigating corruption activities occurring within the State Army. In addition, the KPK, in 2012, arrested a member of the House of Representatives for allegation of corruption and charged three judges for receiving gifts in relation to criminal proceedings.

The KPK is also engaged with many international forums. It has been an active member of the G20 Anti Corruption Working Group, the Asia-Pacific Economic Cooperation Anti Corruption Task Force, the ADB/OECD, the South East Asia Parties Against Corruption and other multilateral forums. Some of the other organizations with which the country's authorities have entered into bilateral cooperation through MOUs include the Federal Bureau of Investigation (USA), the Serious Fraud Office (UK) and the Independent Commission Against Corruption (Hong Kong).

Meanwhile, as member of the South East Asia Parties Against Corruption (**SEA-PAC**), Indonesia is very active in cooperating with other SEA-PAC members to battle criminal matters under the Mutual Legal Assistance (**MLA**) mechanism. Particularly, with the help of the local authorities in other SEA-PAC member countries, KPK succeeded in scouting, investigating and deporting outlaws in several cases.

Establishment of and Issuance of Sukuk under the Sukuk Program

On November 5, 2012, the Republic established a U.S.$3,000,000,000 Sukuk Program through Perusahaan Penerbit SBSN III, followed by the November 21, 2012 issuance of 10-year U.S.$1,000,000,000 3.30% Sukuk due November 21, 2022 under the Sukuk Program. The purposes of the issuance included, among others, funding the government budget, setting benchmarks, diversifying funding sources, widening the investor base and promoting Indonesia's recent and potential achievements in the international capital markets, especially the Islamic financial market.

Changes in the Cabinet

On January 15, 2013, President Yudhoyono appointed new Minister of Youth and Sport Roy Suryo to replace Andi Alfian Malarangeng, who resigned on December 7, 2012 to focus on the legal process concerning allegations by the Anti Corruption Commission of his involvement in the Hambalang National Training, Development and Sporting School Center corruption case.

Along with the appointment of the new Minister of Youth and Sport, the President also appointed the new Vice Minister of Energy and Mineral Resources Susilo Siswoutomo to replace Rudi Rubiandini who was appointed as the Head of Special Task Force for Upstream Oil and Gas Business Activities, following the dissolution of the Upstream Oil and Gas Regulatory Agency (**BP MIGAS**) as detailed below.

On March 26, 2013, DPR approved the appointment of Agus Martowardojo, currently Minister of Finance, as Governor of Bank Indonesia for the period 2013 until 2018. Agus Martowardojo will remain in his position as Minister of Finance until his inauguration as Governor of Bank Indonesia by the President which will occur after the retirement of Darmin Nasution, the current Governor of Bank Indonesia, on May 22, 2013. The President has not yet announced the future Minister of Finance.

Special Task Force for Upstream Oil and Gas Business Activities (SKK MIGAS)

BP MIGAS was dissolved on November 13, 2012 by Constitutional Court Decision No.36/PUU-X/2012. The Special Task Force Upstream Oil and Gas Business Activities (**SKK MIGAS**) under the Ministry of Energy and Mineral Resources was established as a temporary replacement regulator. On January 14, 2013, the President issued Presidential Regulation No.9 of 2013 concerning the Implementation of Management of Upstream Oil and Gas Activities (**PR 9/2013**) which made SKK MIGAS' appointment permanent.

Under this PR 9/2013, implementation of upstream oil and gas business activities will be performed by SKK MIGAS under the coordination and monitoring of the Minister of Energy and Mineral Resources until a new oil and gas law is in force. This PR 9/2013 introduces a Supervising Committee that will control, supervise and evaluate the oil and gas business activities managed by SKK MIGAS. This Supervising Committee did not exist

during the BP MIGAS regime. The Supervising Committee will consist of the Minister of Energy and Mineral Resources as chairman, the Vice Minister of Finance with state budget authority as vice chairman and the Head of Investment Capital Coordinating Board and the Vice Minister of Energy and Mineral Resources as members.

The Supervising Committee is required to report to the President at least once every six months. The chairman of SKK MIGAS is appointed by and will have direct responsibility to the President. SKK MIGAS staff may come from civil or non civil service, but initially SKK MIGAS will be staffed by ex-BP MIGAS employees. The operational costs of SKK MIGAS in running the management of upstream oil and gas business activities will be funded from the government's portion of each oil and gas upstream activity. The Minister of Energy and Mineral Resources will propose the operational cost figures for the Minister of Finance to approve. In respect thereof, PR 9/2013 will have retrospective effect as of November 13, 2012 to the extent relating to the operational costs of SKK MIGAS in managing upstream oil and gas business activities.

Regional Autonomy in Mining Sector

On November 22, 2012 the Constitutional Court issued a Constitutional Court Decision No. 10/PUU-X2012 which amended certain provisions of Law No. 4 of 2009 on Minerals and Coal Mining (**Mining Law**) relating to the determination of which geographical areas are open for mining activities in Indonesia. The Mining Law called for the central government to determine Indonesia's "Mining Area" (**WP**), being the geographic areas in which mining activities could be carried out. As a sub-set of the WP, the central government was also required to determine (after being coordinated with regional governments and notified to the House of Representatives) which parts of the WP would constitute "Mining Business Area" (or **WUP**), being areas which can be auctioned off and over which mining business licenses could be granted to mining companies. Having determined the WUP, the central government was then tasked to divide the WUP up into actual concession blocks known as Mining Business License Area (or **WIUP**). Having made those determinations, the regional governments were then left to run the auction processes for the WIUP for the stated mineral type. The Constitutional Court decision in essence takes this right of determination out of the hands of the central government and puts its squarely in the hands of the regional governments.

The Constitutional Court decision will not affect mining companies with existing Contracts of Work or legitimate mining business licenses. Its impact relates solely to the granting of new concessions. The Constitutional Court case merely changes the process by which the WP and WIUP maps are determined, and how WIUP blocks are designed.

Land and People

Area

Situated between Malaysia, Singapore and the Philippines to the north and Australia to the south, the Republic of Indonesia covers a total land area of approximately 1,910,931 square kilometers, comprising approximately 17,504 islands (of which an estimated 957 are inhabited) and forming part of the world's largest archipelago. The main islands of Indonesia are Sumatra, Java, Bali, Kalimantan (also known as Borneo, the northern part of which belongs to Malaysia and Brunei), Sulawesi and Papua (the eastern part of which belongs to Papua New Guinea). Indonesia extends 5,120 kilometers across the equator from Nangroe Aceh Darussalam (Aceh) in the west to Papua in the east. Jakarta, Indonesia's capital and largest city, is located on the northern coast of the western part of Java.

Population

Indonesia had a population of approximately 238 million in 2010 (approximately 247 million as of June 2012) and is the fourth most populous country in the world, after China, India and the United States. The population is primarily concentrated in Java (estimated at approximately 137 million in 2010), and Jakarta, the capital, was estimated to have a population of approximately ten million in 2010.

Indonesia's population grew at a rate of 2.0% per annum during the 1980s and 1.4% during the 1990s. The growth rate increased to 1.5% per annum during the period from 2000 to 2010. The rate of growth of Indonesia's population was reduced by the successful implementation of the government's family planning program which started in 1970. Concurrent achievements in health care lowered the infant mortality rate and extended average life expectancy. The government estimates that, in 2010, approximately 28.9% of the population was under 15 years of age and approximately 46.0% was under 25 years of age.

According to the 2010 census, approximately 87% of the Indonesian population is Muslim and 10% is Christian, with the remaining population consisting of Hindus, Buddhists and followers of other religions. Indonesia's population is primarily of Malay descent, but consists of more than 300 ethnic groups, including the Acehnese, Batak and Minangkabau in Sumatra; the Javanese and Sundanese in Java; the Madurese in Madura; the Balinese in Bali; the Sasak in Lombok; the Minahasan, Makassarese, Toraja and Bugis in Sulawesi; the Dayak in Kalimantan; and the Dani and Asmat in Papua. The country's population also includes people of Chinese, Arab, Eurasian, Indian and Pakistani backgrounds.

The national language of Indonesia is Bahasa Indonesia, which is based on the Malay language. English is widely used and taught in most secondary schools. In total, approximately 500 languages and dialects are spoken throughout Indonesia.

Government and Political Developments

Political History and Development of Political Parties

Indonesia proclaimed its independence on August 17, 1945 and adopted its first constitution (the **1945 Constitution**). From 1605 until its independence, Indonesia was under almost continuous Dutch colonial rule and was known as the Netherlands East Indies. The period of Dutch administration was interrupted by a short period of British colonial rule in the 19th century and Japanese occupation from 1942 to 1945.

The Republic's independence was proclaimed by Soekarno and Mohammad Hatta, who then served as the Republic's first President and Vice President, respectively. In 1965, the Indonesian Communist Party unsuccessfully attempted to seize political power and, following this failed attempt, executive power was transferred from President Soekarno to General Soeharto in 1966. In 1967, General Soeharto was declared acting President by the Transitional Assembly (*Majelis Permusyawaratan Rakyat Sementara*), and in 1968, Soeharto was formally elected for the first of six full five-year terms as President. Soeharto served as Indonesia's President until 1998.

In mid-1997, Indonesia, along with many other countries in the region, was affected by the Asian financial crisis which coincided with the country's worst drought in 50 years, falling prices for export commodities, severe depreciation in the value of the rupiah and rapid inflation. In 1998, amid riots calling for his resignation and widespread civil unrest, President Soeharto resigned, and the then-Vice President Baharuddin Jusuf Habibie succeeded him as Indonesia's third President. In 1999, nationwide elections were held and Abdurrahman Wahid was elected President by the People's Consultative Assembly (*Majelis Permusyawaratan Rakyat* or **MPR**). Following President Wahid's impeachment in 2001, the then-Vice President Megawati Soekarnoputri, daughter of Indonesia's first President, Soekarno, succeeded him as President and Hamzah Haz became Vice President. In July 2004 (and a September 2004 run-off election), Indonesians voted in the country's first direct presidential election, electing Susilo Bambang Yudhoyono as President of the Republic and Muhammad Jusuf Kalla as Vice President. President Yudhoyono successfully ran for re-election in July 2009, and along with Vice President Boediono, was inaugurated on October 20, 2009.

During the Soeharto administration, the previously existing political parties consolidated into three parties: Golkar, the Indonesian Democratic Party (*Partai Demokrasi Indonesia*) and the United Development Party (*Partai Persatuan Pembangunan* or **P3**). Subsequently, the formation of other political parties was permitted, and 48 political parties took part in the 1999 elections and 24 political parties in the 2004 elections. In the 2009 elections, 44 political parties fielded candidates, resulting in nine political parties holding 560 seats in the DPR: the Democratic Party (*Partai Demokrat*) with 148 seats (26.4%); Golkar with 106 seats (18.9%); the Indonesian Democratic Party of Struggle (*Partai Demokrasi Indonesia-Perjuangan* or **PDI-P**) with 94 seats (16.8%); the Prosperous Justice Party (*Partai Keadilan Sejahtera*) with 57 seats (10.2%); the National Mandate Party (*Partai Amanat Nasional*) with 46 seats (8.2%); the P3 with 38 seats (6.8%); the National Awakening Party (*Partai Kebangkitan Bangsa*) with 28 seats (5.0%); the Great Indonesia Movement Party (*Partai Gerakan Indonesia Raya*) with 26 seats (4.6%) and the People's Conscience Party (*Partai Hati Nurani Rakyat*) with 17 seats (3.0%). President Yudhoyono is a member of the Democratic Party and Vice-President Boediono is unaffiliated with any political party.

A total of 44 political parties, including six regional parties in Aceh, participated in the last election for members of the MPR on April 9, 2009. The Democratic Party won 150 of the seats (26.8% of the total), followed by the Golkar Party with 107 seats (19.1%), the PDI-P with 95 seats (17.0%), the Prosperous Justice Party with 57 seats (10.2%), the National Mandate Party with 43 seats (7.7%), the United Development Party with 37 seats (6.6%) and three other parties. The April 2009 legislative elections marked the first time in the Republic's history

that voters cast ballots for individual candidates instead of parties. President Yudhoyono's Democratic Party, having secured at least 20% of the seats, was able to nominate a presidential candidate on its own without entering into a coalition with another party.

The basic philosophy of the Indonesian state is embodied in a set of fundamental principles known as Pancasila (the five principles), encompassing belief in one supreme God, humanity, the unity of Indonesia, democracy led by the wisdom of deliberations among representatives and social justice for all.

Central Government

Indonesia's government is based on the 1945 Constitution, as amended (the **Constitution**), under which the Republic is structured as a unitary republic. Between 1999 and 2002, the Constitution was amended four times, creating constitutional checks and balances, a separation of powers and a more direct democracy. Prior to the amendments, and throughout the period of President Soeharto's administration, Indonesia's government had been highly centralized. Power during the Soeharto period was concentrated in the Presidency and the military exerted significant influence over government including by holding a specified number of allocated seats in the legislature. The major goals of the amendments and other political reforms since the end of the Soeharto regime have been to (1) increase the level of direct democracy, (2) reduce the influence of the military in the government, (3) disperse power to regional and local government authorities and (4) improve the transparency and integrity of the judicial system.

The Constitution vests the sovereignty in the country's people and establishes the office of the President, the MPR which consists of the DPR and the Regional Representatives' Council (*Dewan Perwakilan Daerah*), the Supreme Audit Agency (*Badan Pemeriksa Keuangan* or **BPK**), the Supreme Court (*Mahkamah Agung*), the Constitutional Court (*Mahkamah Konstitusi*) and the Judicial Commission (*Komisi Yudisial*).

The MPR has the authority to amend the Constitution, dismiss the President or Vice President and appoint a Vice President (or a President and Vice President) in the event of a vacancy. The MPR has a bicameral structure, consisting of the DPR, which is the principal legislative body, and the Regional Representatives' Council. The DPR has 550 members. The Regional Representatives' Council has four members from each province, which currently amounts to 132 members. The MPR is constitutionally required to sit at least once every five years. The MPR's decisions are taken by majority vote except for any constitutional amendment, which requires a quorum of at least two-thirds and approval by at least 50% plus one member of the MPR.

Members of the DPR are elected by a proportional representation system. The Regional Representatives' Council members are elected in non-partisan elections based on a plurality of votes within the relevant electorate. In the most recent legislative elections held in April 2009, Indonesia's voters elected members of the DPR and the Regional Representatives' Council.

Each of the DPR and the President has the power to initiate legislation. All legislation, including the Republic's budget, must be approved by both the DPR and the President. While the Regional Representatives' Council is able to initiate legislation regarding regional matters, this is subject to approval from both the DPR and the President.

The President has the authority and responsibility for the conduct of the administration of the Republic, including the appointment of the cabinet, and is the supreme commander of the Indonesian armed forces. The President has the authority to declare war, make peace, conclude treaties with other states and propose statutes; these presidential actions must, however, be approved by the DPR before taking effect. Constitutional amendments in 1999 restrict the President and Vice President to a maximum of two five-year terms.

The President is assisted in the administration of his responsibilities by ministers who are appointed and dismissed by the President and who are responsible only to the President. President Yudhoyono's cabinet currently consists of three coordinating ministers and 31 ministers. The cabinet is aided by three non-ministerial officials and a secretary to the cabinet. Each of the three coordinating ministers is responsible for one of the following broad areas of policy and administration: economy; political affairs, law and security; and people's welfare.

Judicial System

The Constitution states that the Indonesian judicial system must be independent and that judicial authority is to be exercised by the courts free from the influence of non-judicial power. This judicial independence was re-

affirmed under a judicial authority and powers law adopted in January 2004 and a subsequent law in October 2009. The Constitution and the new judicial authority law stipulate that the Republic's judicial power is exercised by the Supreme Court, various lower courts and the Constitutional Court. The courts below the Supreme Court are organized by subject matter jurisdiction. These courts include the general, religious, military and administrative courts. The general district courts have jurisdiction over all criminal and civil cases not within the limited jurisdiction of any of the special courts. The religious courts have jurisdiction over cases such as family law among Muslims. The military courts have jurisdiction over cases involving military personnel. The administrative courts have jurisdiction over actions involving certain government decisions. Furthermore there are several special courts under the general courts and the administrative courts such as (a) commercial courts which have jurisdiction over bankruptcy cases and intellectual property rights cases (except trade secrets), (b) juvenile courts which have jurisdiction over child cases, (c) human rights courts which have jurisdiction over gross violations of human rights cases, (d) corruption courts which have jurisdiction over corruption cases, (e) labor courts which have jurisdiction over industrial relations cases, (f) fishery courts which have jurisdiction over criminal fishery cases and (g) tax courts which have jurisdiction over tax disputes. The Supreme Court also has the authority to issue opinions on legal matters to various government authorities and officials, to order a court to adjudicate a particular matter or to set aside an unlawful decision. The Constitutional Court has exclusive jurisdiction with respect to questions of constitutional law.

In 2004, a law was adopted to establish a Judicial Commission (the **Judicial Commission Law**) with the authority to nominate judges of the Supreme Court and the responsibility to maintain judicial integrity. Under the Judicial Commission Law, judicial candidates for Supreme Court judgeships are proposed by the Judicial Commission to the DPR, nominated by the DPR and appointed by the President, and other judges are appointed by the President, acting on proposals by the Chairman of the Supreme Court. In addition to setting forth the rights of the Judicial Commission to propose Supreme Court justices, the 2004 Judicial Commission Law gave the Judicial Commission the responsibility to supervise the activities of judges and bring enforcement actions against judges accused of breaches of judicial codes of ethics. In 2006, 31 Supreme Court justices instituted an action before the Constitutional Court, seeking a declaration that the provisions of the Judicial Commission Law which granted the Judicial Commission the right to oversee the activities of Supreme Court justices were unclear and conflicted with the Constitution. After a judicial review of both laws, in August 2006 the Constitutional Court ruled that a number of the provisions of the Judicial Commission Law were unconstitutional, and resulted in legal uncertainty in the application of the Judicial Commission Law to the supervisory role and responsibilities of the Judicial Commission. This ruling has been addressed through Law No. 48 of 2009 on Judicial Powers, which governs the structure of the Supreme Court, the general courts, the religious courts and the administrative courts.

In 1999, pursuant to Law No. 5 of 1999 on Prohibition on Monopolistic Practices and Unfair Business Competition (the **Anti-Monopoly Law**), the Indonesian Business Competition Supervisory Commission (the **KPPU**) was established as a supervisory body to promote fairness in business competition. The KPPU is authorized to initiate administrative proceedings to combat unfair competition practices. Decisions from KPPU proceedings are appealable to the Supreme Court to promote objective rulings.

Regional Governments and Regional Autonomy

Indonesia has 33 provinces, including the special region of the capital of Jakarta. Each province is headed by a governor and consists of several subdivisions. There are two types of subdivisions, namely *kabupaten*, or regencies, and *kota*, or municipalities. Political and governmental arrangements in regencies and municipalities are generally similar, but municipalities tend to be more urban. Regencies and municipalities are divided into *kecamatan*, or districts, which in turn are further divided into villages. Since 2000, the number of provinces has increased from 27 to 33. Between 2001 and 2011, each of the number of regencies, municipalities, districts and villages also increased. At present, there are 399 regencies, 98 municipalities, 6,694 districts, 8,216 sub-districts and 69,249 villages in Indonesia.

Members of the provincial legislatures and the regency and municipal councils are elected by a proportional representation system. In the most recent legislative elections held in April 2009, Indonesia's voters elected members of the provincial legislatures and the regency and municipal councils.

In 1999, two laws were enacted to provide greater autonomy to provincial, municipal and district governments and allow for revenue sharing between the central government and the regional governments. These laws revised the hierarchical relationship between the central government and the provincial, municipal and district governments. Prior to the enactment of these laws, Indonesia followed a unitary state system of

government, with almost all authority resting with the national government. The two laws passed in 1999 transferred governmental authority to regional governments except authority over foreign affairs, defense, the judicial system, monetary and fiscal policy, religion and other matters of national concern. Under the laws, regional leaders at the provincial, municipal and district level were elected by and were accountable to regional legislatures, rather than to the national and regional governments. These laws also allocated a specified portion of national government revenues, including revenues from taxes and from the sale of natural resources, to the provinces, districts and municipalities. Before the implementation of these laws, the national government decided the amount of revenue allocated to each region in the annual budget. Under these laws, the regional governments were permitted to undertake onshore and offshore borrowings. Onshore borrowings were subject to the approval of the regional legislature, and offshore borrowings were subject to the approval of both the regional legislature and the central government.

In 2004, the central government replaced the 1999 regional autonomy law with a new regional autonomy law, Law No. 32 of 2004 which was further amended by Law No. 8 of 2005 and Law No. 12 of 2008 (the **Autonomy Law**). Under the Autonomy Law, the central government assumed the authority to implement general policies in all sectors of the economy and to recruit and promote civil servants and officials at the local level. The Autonomy Law also stipulates a government hierarchy under which mayors and regents are accountable to the Minister of Home Affairs, through the governor of the province in which their municipality or regency is located, as well as to their municipal or regency legislature. The provincial governors are also accountable to the President, through the Ministry of Home Affairs, and to their provincial legislatures. Furthermore, regional leaders at the provincial, municipal and district level are elected directly by the people of that political unit. The Autonomy Law outlined the division of the local government's and the central government's roles in policymaking and human resource capacity building.

In 2004, the government also replaced the 1999 revenue sharing law between the central government and the regional governments. Under this new revenue sharing law, the regional governments may only borrow onshore funds that originate from the central government, other regional governments, banks, non-bank financial institutions and the public. Onshore borrowings from the public must be in the form of domestic bonds, which a regional government may issue upon obtaining the approval of its regional legislature and the central government. The regional governments may also undertake certain offshore borrowings, called two-step loans (which are made through the Ministry of Finance) after obtaining approval from the Ministry of Home Affairs. Under the 2004 law, the central government is also allowed to fulfill its revenue sharing obligations to the regional governments by giving grants in the form of cash, goods or services. In 2007, the government also established a legal framework for the issuance of municipal bonds. See "*Financial System — Capital Markets and Capital Markets Regulation*."

The provinces of Aceh and Papua enjoy special autonomy, including through special regional assemblies and courts, and receive special autonomy funds from the central government. See "*— Peace Agreement, Special Autonomy and Integration Projects in Aceh*," "*— Special Autonomy and Activities in Papua*" and "*Government Budget — Fiscal Policy*."

Independent Anti-corruption Commission

In December 2002, a new law established the KPK. The primary responsibilities of the KPK are investigating and prosecuting serious cases of corruption that involve losses to the government in excess of Rp1 billion due to the conduct of government officials, especially judicial and law enforcement officers. The KPK is vested with powers to accomplish these objectives. The KPK also coordinates and supervises the anti-corruption efforts of local police and prosecutors, monitors the progress of administrative agencies in implementing policies, works to educate the public on anti-corruption issues and consults with the government on structural changes to curb official corruption based on wealth declaration forms and bribery reports by government officers, as well as research by the KPK. The KPK operates independently of the executive and legislative branches of the government, although its funding is provided through the normal budget process. The KPK's professional staff is comprised of police, auditors, prosecutors and non-civil servant professionals. As of June 30, 2012, the KPK was in the process of reviewing over 54,500 complaints of official corruption that it had received from the public.

From the commencement of operations in 2004 until December 31, 2012, the KPK conducted preliminary investigations in 504 cases, conducted investigations in 283 cases, prosecuted 236 cases, and convicted 203 government officials. As of December 31, 2012, the KPK had successfully recovered over Rp1.07 trillion in misappropriated assets, which were subsequently deposited with the State Treasury. As at December 31, 2012 the

KPK had achieved a conviction rate of 100% of the prosecutions it had brought. Most of the KPK's enforcement actions relate to allegations of corruption relating to public procurement processes, bribery and election law violations and irregularities. The KPK believes it has prevented over Rp156 trillion in potential losses to the government by protecting state-owned assets and funds from misuse or improper transfer and by preventing potential losses of oil and gas business activities. In furthering the government's anti-corruption commitment, the KPK has been effective in combating corruption at high levels. For example, it has obtained the convictions of a former Bank Indonesia governor, a senior prosecutor and a chief of police. The government believes that curbing corruption is necessary to improve the investment climate of Indonesia, and that the work of the KPK is one of the primary means of addressing this problem.

In May 2009, former KPK chairman, Antasari Azhar, was accused of ordering the murder of businessman Nasrudin Zulkarnaen in March 2009. The South Jakarta District Court sentenced him to 18 years in prison after finding him guilty of collusion in the murder, and the Supreme Court declined his appeal. Antasari was a senior official at the Attorney General's Office before heading the KPK in late 2007. In May 2009, he was suspended as KPK's chairman because of the pending murder charge and subsequently dismissed in October 2009, following which, Tumpak Hatorangan Panggabean was appointed as acting chairman. Separately, in September 2009, following a KPK investigation of a police detective in connection with a bribery investigation of a radio communication system in the Department of Forestry, which involved the board of directors of PT Masaro Radiokom, the police arrested and detained two deputy chairmen of the KPK, Chandra M. Hamzah and Bibit Samad Rianto, on charges of abuse of power and extortion in connection with a graft investigation. During an ensuing investigation by a special team appointed by the President, both men were suspended from their positions. The special team found no evidence of their wrongdoing and recommended their reinstatement. Subsequently, on January 24, 2011, the charges were dropped by the Attorney General's office and both men were reinstated by the President. In January 2011, KPK detained 19 current and former Members of DPR over alleged bribery related to the appointment of a central banker. The suspects are accused of receiving various payments to elect a senior deputy governor of Bank Indonesia in 2004. One of the suspects is a sitting PDI-P lawmaker, while the others are former lawmakers from the PDI-P, the Golkar party and the P3.

In March 2010, the House of Representatives rejected the Government Regulation in Lieu of Law pursuant to which Tumpak Hatorangan Panggabean was appointed as KPK's chairman. This caused him to step down from his position. To fill the vacant chairman's role, the President then issued Presidential Decree No. 6 of 2010 on the Establishment of a Select Committee for KPK Chairman Candidates (the **Select Committee**). The Select Committee chose two candidates who were both referred to the House of Representatives by the President. One of them, Muhammad Busyro Muqoddas, was named on December 20, 2010 as chairman of KPK with an initial one-year term of office set until December 2011. On December 2, 2011, the DPR nominated Abraham Samad as the KPK's new chairman and four other board members, namely Bambang Widjojanto, Zulkarnain, Adnan Pandu Pradja and KPK's former chairman, Muhammad Busyro Muqoddas. The new board members of the KPK were then officially appointed on December 16, 2011 by virtue of a presidential decree for a four year term until 2015, except for Muqoddas' term which will end in 2014.

Terrorism

Numerous terrorism-linked bombing incidents have taken place in Indonesia since 2002, including at nightclubs in Bali in October 2002 and October 2005, the JW Marriott Hotel in Jakarta in August 2003, the Australian Embassy in Jakarta in September 2004 and the JW Marriott and Ritz-Carlton hotels in Jakarta in July 2009, resulting in numerous deaths and property damage. The threat of further acts of terrorism has adversely affected transportation, tourism, employment and investment in the Indonesian economy. See "*Principal Sectors of the Economy — Trade, Hotel and Restaurant Services*" and "*Gross Savings and Investment*." In response, security forces and the judiciary have taken action to bring the perpetrators to justice and have attacked terrorist networks. For example, two self-proclaimed leaders of Jemaah Islamiah, a Southeast Asian terrorist network, were sentenced to imprisonment in April 2008 and three perpetrators linked to both the Bali bombings were executed in November 2008. In September 2009, Noordin Mohammad Top, one of Indonesia's and Asia's most-wanted terrorists, was killed by Indonesian security forces. Top was linked to a series of attacks across Indonesia, including the 2002 and 2005 Bali bombings, the 2003 attack on the Marriott Hotel, the 2004 attack on the Australian embassy in Jakarta and the July 2009 hotel bombings in Jakarta. The man thought to have been Noordin's closest ally, Malaysian bomb-maker Azahari Husin, was killed in 2005 by Indonesian security forces.

The government has taken other measures to combat terrorism including establishing a National Counter Terrorism Agency (*Badan Nasional Penanggulangan Terorisme*) pursuant to the Presidential Regulation No. 46 of 2010 on National Counter Terrorism Agency as amended by Presidential Regulation No. 12 of 2012, enacting

new domestic anti-terrorism laws and amending anti-money laundering laws (see "*Financial System — Anti-Money Laundering Regime*"), establishing a special police task force called Detasemen 88, expanding cooperation with foreign law enforcement agencies, participating in bilateral and multilateral counter-terrorism activities and sending police and security officers to the United States and Canada for counter-terrorism training. The government's approach to terrorism includes de-radicalizing captured terrorists and re-integrating them into civil society and establishing prevention-oriented programs in educational settings. The government is also in the process of setting up a new agency separate from the police force to coordinate the government's response to terrorism. The Republic has become a signatory to the ASEAN Convention on Counter-Terrorism, which was signed on January 13, 2007 and ratified by Law No. 5 of 2012 on the ASEAN Convention on Counter Terrorism, the U.S.-ASEAN Joint Declaration on Cooperation to Combat International Terrorism and a number of other ASEAN Joint Declarations on Cooperation to Combat International Terrorism, and it is a party or signatory to six U.N. conventions relating to international terrorism.

On February 12, 2013, DPR passed the Anti Terrorism Financing Act. This Act strengthens the role of the relevant institutions in combating terrorism. The Indonesian Financial Transactions Reports and Analysis Centre (INTRAC/PPATK) (please see *Financial System — Anti Money Laundering Regime*) will be able to block partially or in whole, direct or indirect, known to be or allegedly used or will be used, funds for acts of terrorism and the Police Department will have the authority to investigate suspected terrorist fund sponsors and fund receivers, which if proven guilty could be sentenced to a maximum of 15 years imprisonment and a penalty of Rp1 billion.

Peace Agreement, Special Autonomy and Integration Projects in Aceh

In April 2005, President Yudhoyono announced the establishment of the Agency for Rehabilitation and Reconstruction for the Region and Community of Aceh and Nias (*BRR NAD Nias* or **BRR**) pursuant to Perpu No. 2 of 2005 on the Rehabilitation and Reconstruction Agency for Regions and Livelihood Communities in the Province of Aceh and Nias Archipelago in the Province of Sumatera Utara which was later enacted as Law No. 10 of 2005 on the Stipulation of Perpu No. 5 of 2005 on the Rehabilitation and Reconstruction Agency for Regions and Livelihood Communities in the Province of Aceh and Nias Archipelago in the Province of Sumatera Utara into Law. The BRR was established to accelerate the development of Aceh following the 2004 tsunami. The objectives of the BRR have since been met and the deployment of the BRR in Aceh was terminated on April 16, 2009. Upon the BRR's termination, the previous responsibilities of the BRR have been transferred to local governments and various line ministries. BRR constructed more than 100,000 houses, rehabilitated approximately 78,000 hectares of farm fields, provided approximately 14,000 units of farming tools and machines, distributed approximately 30,000 heads of cattle, constructed approximately 15,000 fish ponds, 4,000 motor boats, 2,000 kilometers of roads and 230 bridges, and provided aid for medium scale enterprises.

In August 2005, the government signed an agreement with the Free Aceh Movement (generally known by its Indonesian initials, **GAM**) to end an armed struggle for an independent Acehnese state that had lasted for more than 30 years. Under the agreement, GAM renounced its claim to independence and the government agreed to an amnesty program for GAM members. As part of the amnesty program, the government released from prison approximately 1,500 GAM members and is continuing the process of reintegrating them into society. As part of the peace process, regional elections in Aceh were held in December 2006, with voter participation of 78.2%. Dr. Irwandi Yusuf and Mohammed Nazar, both former leaders of GAM, were declared winners of the offices of Governor and Vice Governor, respectively, each with 38.2% of the vote.

The gubernatorial elections of Aceh Independent Election Commission (*Komisi Independen Pemilihan Aceh*) took place on April 9, 2012. This is the second gubernatorial election since the 2005 peace agreement. On April 17, 2012, Dr. H. Zaini Abdullah and Muzakir Manaf were elected as Governor and Vice Governor of Aceh, respectively, for the period of 2012 to 2017.

The Aceh government enjoys special autonomy, including through the establishment of local political parties, special provincial government bodies and special provincial courts implementing Islamic law. The government established the Communication and Coordination Forum to act as its representative in Aceh. The central government and the Aceh government have been working together on a program to reintegrate Aceh into the rest of Indonesia by funding livelihood projects to aid former GAM members and victims of violence in obtaining employment or land for farming and providing social security benefits to the disabled, for which an aggregate of Rp0.4 trillion was allotted in the government budgets for 2006 through 2010. No amount was allocated in the 2011 Budget, the 2012 Budget or the Revised 2012 Budget. Six regional parties participated in the last election for members of the Regional People's Representative Council of Aceh Province (*Dewan*

Perwakilan Rakyat Daerah-Nanggroe Aceh Darussalam), held on April 9, 2009 as part of the national legislative elections on the same date.

The government believes that order and security have substantially improved in Aceh. Further, the government has promulgated Law No. 11 of 2006 on Local Government in Aceh, which empowers the people of Aceh to participate in politics through the establishment of local political parties and promotes the rule of law and the economic and social rights of every resident of Aceh. With local autonomy, the Aceh government has been granted broad authority over matters in the region, with the exception of national issues, defense and security, judicial matters, taxation and certain religious issues.

The government has recognized the abundance of natural resources in Aceh and is promoting economic growth, infrastructure development, poverty eradication, employment creation, education and cooperation in the management of natural resources. For example, to promote economic growth and free trade, the Sabang Zone in Aceh was established in 2000 as a free trade and free port zone to take advantage of its strategic geographical position within the shipping industry.

Special Autonomy and Activities in Papua

A separatist movement remains active in the province of Papua, where a small portion of the population has shown support for the Free Papua Movement (generally known by its Indonesian initials, **OPM**). While there have been some violent incidents involving the armed wing of the OPM including those targeting the Indonesian police authorities, the national army and police have taken measures to maintain security and order in the province, and the government has continued its policy of promoting social welfare in Papua. There have been no military operations in Papua since 2004 and the government is currently trying to address the concerns of certain groups in Papua who were seeking greater independence by expanding the powers of the local government, making investments in infrastructure, including the rebuilding of religious buildings, improving judicial access, instituting affirmative action programs, working to resolve differences among local ethnic groups, increasing welfare programs and infrastructure development and fostering business growth and investment in areas populated by these groups. The province of Papua enjoys special autonomy through the establishment of a regional assembly, government protection of indigenous rights and the recognition of indigenous courts. The government has implemented affirmative action and other policies intended to benefit indigenous minorities. The government believes this welfare approach has been successful; in 2007, 850 former members of OPM who had fled to the neighboring country of Papua New Guinea made requests to return to Papua. Regency-level and municipality-level elections held in Papua in 2007 proceeded smoothly with voter participation of over 60%, and both native and non-native people of Papua were elected. The government allocated special autonomy funds to the government of the provinces of Papua and West Papua, and to the local governments of Papua's and West Papua's provinces, totaling Rp4.0 trillion, Rp3.9 trillion, Rp5.1 trillion, Rp5.3 trillion, Rp4.5 trillion, Rp6.4 trillion and Rp7.1 trillion in 2007, 2008, 2009, 2010, 2011, 2012, and 2013 Budget, respectively. The government proposed to introduce a Presidential Decree, consistent with Government Regulation No. 54 of 2004 on the Papuan People's Council as amended by Government Regulation No. 64 of 2008, relating to the establishment of a coordinating body for the management of the special autonomy funds and certain regulations relating to financial management and the Papuan People's Council (*Majelis Rakyat Papua*), a group of Papuan tribal chiefs tasked with considering and approving candidates for the role of governor, approving regional regulations and addressing the needs of the indigenous community, religious community and women in Papua. New council chiefs of the Papuan People's Council for the 2011 to 2015 term were elected in September 2011.

In connection with the economic and social development of Papua, the local government has formulated the New Deal Policy for Papua aimed at accelerating development in the provinces of Papua and West Papua, as contemplated in Presidential Instruction No. 5 of 2007 on the Acceleration of Development of Papua and West Papua. The development priorities contemplated in the New Deal Policy for Papua comprise maintenance of food supply and alleviation of poverty, education, health, infrastructure and special treatment or affirmative action for local residents of Papua. Development efforts are progressing.

Among other measures in Papua, the government has promoted increased interaction between local governments and communities, provided assistance to indigenous peoples and regulated illegal mining by residents. Steps have also been taken for the repatriation of 702 persons from the neighboring country of Papua New Guinea.

In 2011, the government established the Unit for the Acceleration of Development in Papua and West Papua (**UP4B**) based on Presidential Regulation No. 66 of 2011. The role of the UP4B is to coordinate, synchronize,

facilitate, evaluate, and monitor all the government development programs in Papua and West Papua. UP4B is responsible for ensuring that the programs designed by central government in Jakarta fit the needs of the Papuan people.

In 2012, President Yudhoyono issued Presidential Regulation No. 84 of 2012 concerning the Government Procurement of Goods and Services in relation with Acceleration of Development of Papua Province and West Papua Province. This regulation provides greater opportunities to the people of Papua to participate in the government's procurement of goods and services by providing for, among other things: (i) a direct appointment mechanism for qualified local entrepreneurs for procuring goods and construction works and other services with a value ranging from Rp500 million to Rp1 billion in various Papua and West Papua Provinces regions; (ii) in respect of procurement projects with a value of up to Rp5 billion, a tender process in which non-Papua or -West Papua suppliers must establish a partnership or cooperation with local entrepreneurs; and (iii) in respect of procurement projects with a value of more than Rp5 billion, the participation of non-Papua or -West Papua suppliers but with priority being granted to those suppliers who have entered into cooperation with local entrepreneurs.

Human Rights Protections

With respect to the protection of human rights, the government has promulgated, among others, Law No. 39 of 1999 on Human Rights, Law No. 11 of 2005 on the Ratification of the International Covenant on Economic, Social, and Cultural Rights; Law No. 12 of 2005 on the Ratification of the International Covenant on Civil and Political Rights; Law No. 40 of 2008 on the Elimination of Racial and Ethnic Discrimination; Law No. 14 of 2009 on the Ratification of the Protocol to Prevent, Suppress, and Punish Trafficking in Persons, Especially Women and Children, Supplementing the United Nations Convention Against Transnational Organized Crime; and Law No. 15 of 2009 on the Ratification of the Protocol Against the Smuggling of Migrants by Land, Sea and Air, Supplementing the United Nations Convention Against Transnational Organized Crime.

The initial five-year term of office of the commissioners of the National Commission on Human Rights (**NCHR**) expired on August 30, 2012. The president extended the term and reinstated all the commissioners until new commissioners are appointed by the president from candidates selected by the DPR. On October 22, 2012 the DPR appointed 13 new commissioners to hold office from 2012-2017. NCHR commissioners serve for a five-year term and can only be re-appointed one time.

Foreign Relations and International and Regional Organizations

Diplomatic Relationships and Multilateral and Bilateral Agreements

Indonesia maintains close diplomatic relationships with neighboring countries and its major economic partners, which include, among others, the ASEAN member states, Japan, China, the Republic of Korea, the United States and members of the European Union.

Indonesia is a member of a number of international organizations, including the United Nations (and certain of its specialized agencies such as United Nations Economic and Social Commission for Asia and the Pacific, Food and Agriculture Organization, International Civil Aviation Organization, International Labor Organization, International Telecommunication Union, World Meteorological Organization, International Maritime Organization, United Nations World Health Organization, United Nations Education, Scientific and Cultural Organization, United Nations World Tourism Organization, United Nations Office for Outer Space Affairs, United Nations Committee on the Peaceful Uses of Outer Space, United Nations Industrial Development Organization and United Nations Population Fund), the IMF, the World Bank and certain World Bank-related organizations, the ADB and the Islamic Development Bank (**IDB**). Indonesia is a signatory to the General Agreement on Tariffs and Trade (**GATT**) 1947 and the GATT 1994, and is a member of the World Trade Organization (**WTO**). Indonesia is also a member or signatory of other international groups and agreements including, among others, ASEAN, the Asia Pacific Economic Cooperation (**APEC**) forum, Indian Ocean Rim Association for Regional Cooperation (**IOR-ARC**) and Forum for East Asia-Latin America Cooperation (**FEALAC**).

In these organizations, Indonesia has taken an active role by, for example, serving as a non-permanent member of the United Nations Security Council in 2006-2008 and hosting delegates from more than 180 countries at the United Nations Framework Convention on Climate Change in Bali in 2007. As part of Indonesia's commitment to strengthen regional cooperation, Indonesia is talking responsibility to become a member in and to lead some regional organizations, including serving as a member of the International

Telecommunication Union Council for the term from 2011 to 2014. Furthermore, Indonesia is also running for vice-chairmanship of the IOR-ARC for the term from 2013 to 2014.

In 2013, Indonesia will host and assume chairmanship of the APEC forum. Indonesia intends to use this momentum to deliver a meaningful contribution to the regional economic integration process in Asia-Pacific, as it had in 1994. Under the "Resilient Asia-Pacific, Engine of Global Growth" theme, APEC 2013 seeks to ensure that the Asia-Pacific region maintains robust economic growth and resilience, and is able to recover swiftly from economic shocks from other regions.

Indonesia also plays a significant role to enhance and foster sub-regional co-operation in terms of connectivity, food security and other areas, and aims to enhance regional economic activities. The cooperation is achieved through the improvement of physical and institutional infrastructure. Such sub-regional co-operation includes the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (**BIMP-EAGA**) and the Indonesia-Malaysia-Thailand Growth Triangle (**IMT-GT**). The recent summits of the two groups in April 2012 reaffirmed the commitment of the respective heads of state to endorse the implementation Blueprints 2012-2016 that serve as guidelines for the timely completion of projects as well as to monitor the progress of the groups' projects. Indonesia is also a member of the Asia Cooperation Dialogue (**ACD**), and together with Bahrain, China, Philippines, Kazakhstan, and Qatar, became co-prime movers in ACD Energy Cooperation. As one of the co-prime movers, Indonesia is actively involved in various activities in energy cooperation, including the finalization of the Draft of ACD's Plan of Action on Energy. Since 2002, Indonesia has also been an observer state of the Conference on Interaction and Confidence Building Measures in Asia (**CICA**). Indonesia is currently conducting an internal review of the potential to increase its participation status in the CICA from that of an observer state to a member state.

Indonesia also seeks to lead other developing countries through its membership in the following organizations of developing countries: the Non-Aligned Movement, the Organization of the Islamic Conference, the Group of 77 and China, the Developing 8 and the Group of 15. Indonesia is the only ASEAN member state that concurrently enjoys membership of The Group of Twenty Finance Ministers and Central Bank Governors (**G-20**), which brings together leaders of systemically important industrialized and developing economies to discuss key issues in the global economy. Indonesia actively contributes and reflects the interests of developing countries in discussions concerning current global economic and financial affairs.

The Republic has been a member of OPEC since 1962. However, since 2007, Indonesia has been a net importer of oil (determined on an annual basis). In light of the change in its status from that of a net exporter to a net importer of oil, the government suspended its full membership in OPEC with effect from January 2009. The government expects to increase its future oil production by attracting more investment in oil exploration and infrastructure and through using new technology and expects to reactivate its OPEC membership when its production increases and it becomes a net exporter of oil again.

Indonesia is one of the five founding members of ASEAN, an organization that was established to foster economic, social, cultural and scientific relations among its members, and is now committed to reducing trade barriers among its member states. ASEAN now includes Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. The ASEAN member states have entered into various agreements on mutual assistance and cooperation in several areas.

ASEAN seeks to promote its competitive edge in the world market through the elimination of intra-regional tariffs and non-tariff barriers, including through the ASEAN Free Trade Area, which was established in 2002. In order to strengthen the free flow of goods, the ASEAN member states have signed the ASEAN Trade in Goods Agreement (**ATIGA**) which seeks to integrate all existing ASEAN commitments and initiatives and new measures related to trade in goods within a single comprehensive framework. At the 14th ASEAN Summit held in Cha-am Hua Hin, Thailand in 2009, three key agreements were concluded: the ATIGA, the ASEAN Comprehensive Investment Agreement and the Protocol to Implement the Seventh Package of Services Commitments.

In December 1995, the ASEAN member states, including Indonesia, entered into the ASEAN Framework Agreement on Services (**AFAS**) to promote a liberal trading framework for trade in services among member nations. In the fourth quarter of 2008, ASEAN member states signed the seventh AFAS Protocol as part of an ongoing process aimed at eliminating substantially all restrictions on trade in services and to realize the free flow of services by 2015. The ASEAN member states ratified the AFAS on October 28, 2010.

To improve investment flows, the ASEAN member states signed the Framework Agreement for an ASEAN Investment Area in October 1998 to establish the ASEAN region as a competitive investment area by January 2010 and achieve free flow of investments in the region by 2020. In the spirit of this framework, Japan and Indonesia entered into a bilateral economic partnership agreement in August 2007. To improve investment flow, the ASEAN member states signed the ASEAN Comprehensive Investment Agreement (the **ACIA**) on February 26, 2009, which is designed to address the current global economic environment to enable ASEAN to continue to attract investment flows through the adoption of a free and open investment regime. The ACIA is expected to strengthen investment liberalization through extensive promotion and facilitation programs.

During the October 2003 ASEAN summit conference in Bali, the leaders of the ASEAN member states endorsed the Declaration of ASEAN Concord II, or the Bali Concord II, which envisions the establishment by 2020 of an ASEAN Community consisting of three pillars, namely political and security cooperation, economic cooperation and socio-cultural cooperation. The Bali Concord II also reaffirmed the ASEAN Vision 2020, which had been adopted by ASEAN in 1997, to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services and investment, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities by 2020. In November 2004, ASEAN adopted the Vientiane Action Program to serve as a blueprint for the development of ASEAN over the following six years. The Vientiane Action Program seeks to deepen regional integration of the ASEAN states and narrow the development gap between the more developed and less developed ASEAN states.

During the January 2007 ASEAN summit conference in Cebu, Philippines, the ASEAN states agreed to accelerate the development of the ASEAN Community and common trade market by advancing the targeted completion date by five years from 2020 to 2015. At the Cebu summit, ASEAN leaders also signed the ASEAN Convention on Counter-Terrorism, which is ASEAN's first regional anti-terrorism pact, a declaration on the protection and promotion of the rights of migrant workers within member states and a declaration calling for approval of an ASEAN Charter, the association's first, which would formalize the decision-making procedures within the association.

The ASEAN Charter was signed at the 13th ASEAN summit conference held in Singapore in November 2007 and entered into force on December 15, 2008. During the ASEAN summit conference in Singapore, the ASEAN member state leaders also signed the Blueprint on ASEAN Economic Community, which will guide implementation of the ASEAN Economic Community by 2015 to transform ASEAN into (a) a single market and production base; (b) a highly competitive economic region; (c) a region of equitable economic development; and (d) a region fully integrated into the global economy.

At the 14th ASEAN summit conference on March 1, 2009, ASEAN leaders signed the Cha-am Hua Hin Declaration on the Roadmap for the ASEAN Political-Security Community, the ASEAN Economic Community and the ASEAN Socio-Cultural Community, and the Initiative for ASEAN Integration (**IAI**) Strategic Framework and IAI Work Plan 2 (2009-2015).

The ASEAN states have entered into discussions and agreements with their major non-ASEAN trading partners. In November 2002, the ASEAN states signed an economic cooperation agreement with China, agreeing to establish the ASEAN-China Free Trade Area (**ACFTA**) by January 1, 2010 for six ASEAN states, including Indonesia, and by 2015 for the other four ASEAN states. As part of these efforts, in November 2004, ASEAN and China signed the trade in goods chapter of their economic cooperation agreement. In January 2007, ASEAN and China signed the services chapter of their economic cooperation agreement, covering more than 60 services, with the goal of increasing market access for services and service providers and expanding trade in services between ASEAN and China. The ASEAN states and China have also agreed to work together to enter into the investment chapter of their economic cooperation agreement.

In November 2007, the ASEAN states (except Thailand) and the Republic of Korea signed free trade agreements on trade in goods and services. In July 2008, ASEAN and the Republic of Korea agreed to revise the final protocol on the accession of Thailand to the ASEAN-Korean free trade agreement on trade in goods and services. The agreement and its related documents were executed during the ASEAN Economic Ministers meeting in August 2008 in Singapore. In February 2009 in Hua Hin, Thailand joined and signed the Protocols on the Accession of Thailand into the Trade in Goods Agreement and Trade in Services Agreement. The ASEAN-Korea Investment Agreement was signed at the ASEAN-Korea Commemorative Summit in Jeju, Korea in June 2009.

The ASEAN states have also concluded a single-undertaking free trade agreement with Australia and New Zealand (**AANZFTA**), making it the most comprehensive agreement ever concluded by ASEAN with

non-member countries. Indonesia has ratified the AANZFTA on May 6, 2011. ASEAN has also concluded a trade in goods agreement with Japan and India. The negotiations on trade in services and investments between ASEAN member states and India commenced in October 2008 and substantive discussions are ongoing. This is expected to result in an ASEAN-India comprehensive economic cooperation agreement. However, negotiations for a trade in services agreement between ASEAN member states and Japan have stalled. The ASEAN member states are also awaiting developments regarding a possible free trade agreement with the European Union, and are exploring the possibility of enhancing cooperation in areas such as trade and investment with the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and the United Arab Emirates) and with Mercosur (comprising Brazil, Argentina, Paraguay and Uruguay).

ASEAN announced that from December 2005, it will regularly convene an East Asia Summit, which, in addition to the ASEAN member states, will include Australia, China, India, Japan, New Zealand and the Republic of Korea. The 2011 East Asia Summit (**EAS**) was held in Bali, Indonesia from November 14 to November 19, 2011. Leaders from the United States and Russia participated, and U.S. President Barack Obama announced Secretary of State Hilary Clinton's visit to Burma to discuss democratic reforms. Participants also discussed, among other things, breaking down trade barriers, improving infrastructure and building seamless transportation links between countries with vastly different cultural and political beliefs.

As a follow up to the 2011 Summit, the 7th EAS was held in Phnom Penh, Cambodia on November 20, 2012. The 2012 Summit was attended by Heads of State of the ASEAN member states, as well as by representatives from Australia, China, India, Japan, New Zealand, the Republic of Korea and the United States of America. The Russian Federation was represented by its Foreign Minister. The role of the EAS as a forum for strategic dialogue and cooperation on political, security and economic issues was noted by the attendees. The EAS' additional role in acting as a regional forum for bringing together the world's most dynamic economies in order to promote sustained economic growth at regional and global levels was also noted. Furthermore, the EAS leaders reaffirmed their commitment to enhance international coordination and cooperation by collaborating with regional and international financial institutions like the ADB and the IMF.

Indonesia entered into an economic partnership agreement with Japan (the **IJEP**), effective July 1, 2008. The IJEP envisages cooperation between the two countries in the areas of trade in goods and services, rules of origin, customs procedures, investments, movement of natural persons, intellectual property, government procurement, competition, improvement of the business environment and promotion of business confidence. Both countries are to evaluate and renegotiate the IJEP in 2013, focusing on developing centers for manufacturing industries, movement of natural persons and trade in goods.

Indonesia commenced negotiations in 2008 with the United States on a bilateral investment treaty. Indonesia has also been involved in further negotiations with Pakistan and Iran on certain bilateral preferential trade agreements and is exploring the possibility of bilateral preferential trade agreements with India. In the Joint Ministerial Commission meeting between Indonesia and India on July 26-27, 2012, the revision of the tax treaty between the two countries was agreed and signed.

Indonesia and the Republic of Korea started initial negotiations on the Indonesia-Korea Comprehensive Economic Partnership on July 12, 2012 and had a second round of negotiations on December 10-11, 2012. During the second round of negotiations, the parties finalized the terms of reference of the eventual agreement which address the following areas: principles, scope and coverage, structure of negotiations, market access modalities, cooperation and capacity building, administrative arrangements, exchange of data and information and contact persons. The third round of negotiations is scheduled for March 2013.

In 2011, Indonesia began actively participating in negotiations for the Indonesia-EFTA Comprehensive Economic Partnership Agreement (**IE-CEPA**) with the European Free Trade Association (**EFTA**), whose member states include Iceland, Liechtenstein, Norway and Switzerland. The negotiations focus on topics such as trade in goods, trade in services, investment, and government procurement. Initial negotiations were held in Jakarta, Indonesia, from January 31 to February 2, 2011. The following six rounds of negotiation rotated between Indonesia and Switzerland. The most recent round of negotiations was held in Lugano, Switzerland from March 5 to March 8, 2013.

On April 18, 2011, Indonesia and Australia held a round of pre-negotiation consultations in Jakarta to discuss guiding principles for a future Indonesia-Australia Free Trade Agreement (**IAFTA**). Both countries hope to model the agreement as an Economic Partnership Agreement (**EPA**) to reflect wider cooperation between the countries' economic sectors. The first round of negotiations on the EPA was held on September 26-27, 2012 in

Jakarta and focused on finalizing the guiding principles and objectives of the EPA as well as a roadmap for future work. Both countries agreed to communicate between negotiating sessions to refine the issues, and to explore scheduling future rounds of negotiations with the annual meetings of the Indonesia—Australia Working Group on Agriculture, Food and Forestry Cooperation.

On September 24, 2011, ASEAN Finance Ministers and the President of the Asian Development Bank signed a shareholders agreement on the establishment of the ASEAN Infrastructure Fund (the **AIF**) to finance major infrastructure projects across the region. As one of the largest ASEAN-led initiatives, the AIF is aimed toward mobilizing the region's resources by 2015 in order to meet its growing infrastructure requirements. The Infrastructure Fund is being set up with an initial equity contribution of U.S.$485.2 million, of which U.S.$335.2 million will come from nine ASEAN members. The remaining U.S.$150 million is being provided by the ADB. Malaysia has chaired a series of high-level task force meetings since July 2010 to establish the AIF. Indonesia is the 2nd largest ASEAN contributor with a U.S.$120 million equity investment and is currently chairing the AIF for the period 2013-2015. The AIF was established in Malaysia as a limited liability company.

To speed up financial services liberalization together with deepening financial integration in the region, and in order to meet the goals of preventing financial crises and realizing stable economic growth, the ASEAN Finance Ministers have continued the negotiation process on financial services liberalization in the region. On May 4, 2011, ASEAN Finance Ministers signed the Protocol to Implement the Fifth Package of Financial Services Commitments in Hanoi.

Indonesia participates in the Asian Bond Market Initiative (**ABMI**), an initiative sponsored by the ASEAN+3 group and supported by the ADB, to develop efficient bond markets in Asia. In May 2010, the ASEAN+3 endorsed the establishment of the CGIF as a trust fund under the ADB with an initial capital of U.S.$700 million. CGIF aims to develop and strengthen local currency bond markets in the region so that investment-grade rated corporations can access those markets and avoid currency and maturity mismatches. After the endorsement, CGIF started operating in 2012.

On May 3, 2012, in Manila, ASEAN+3 finance ministers and central bank governors agreed to strengthen the Chiang Mai Initiative Multilateralization (CMIM), including doubling its total size, increasing the IMF de-linked portion lengthening its periods of support and introducing a crisis prevention function. They also agreed to enhance the ABMI by adopting a new roadmap. The agreement was reached with the strong belief that strengthened financial cooperation will strengthen the regional financial safety net and promote sustainable growth in the region. Under the new agreement, the ASEAN+3 member countries committed to provide regional financial crisis prevention and resolution facilities to support liquidity and relieve balance of payment difficulties faced by member countries totaling U.S.$240 billion.

During the 21st ASEAN Summit in Phnom Penh, Cambodia in November 2012, the ASEAN members decided that the date of realization of the ASEAN Community would be December 31, 2015. At the Summit, the ASEAN members also adopted the ASEAN Human Rights Declaration as a comprehensive measure to promote and protect the civil, political, economic and cultural rights of the people of ASEAN. In addition, ASEAN leaders also signed and/or adopted the Bali Concord III Plan of Action and the Concept Paper on the Establishment on ASEAN Regional Mine Action Centre to further enhance cooperation among members in this area. Furthermore, ASEAN officially launched the Institute for Peace and Reconciliation (**AIPR**) at the Summit. The AIPR was launched with a view to promote conflict resolution and conflict management, and to enhance peace, security and stability in the ASEAN region.

China has established a mission to ASEAN and appointed its first resident ambassador to ASEAN in 2012. As of August 2012, there were 65 accredited ambassadors to ASEAN from non-member countries. ASEAN also established 34 ACTCs (ASEAN Committee in Third Countries) which consist of ASEAN member state ambassadors in appointed non-member countries. These accomplishments show the strengthening of ASEAN cooperation both internally and externally.

In 2012, Indonesia ratified the second protocol to amend the Agreement on Trade in Goods under the Framework of Comprehensive Economic Cooperation among the government of the member countries of ASEAN and the Republic of Korea. It was ratified under Presidential Regulation No. 61 of 2012.

As of January 1, 2013, the government has entered into avoidance of double taxation agreements with 62 countries, including agreements with Hong Kong and Morocco which entered into force on January 1, 2013.

The following table shows Indonesia's capital participation in major international financial organizations as of December 31, 2011:

Capital Participation in International Financial Organizations

Name of organization	Date of admission	As of December 31, 2011 contributed capital	
		Subscribed	Paid in
		(in millions of U.S. dollars)	
Asian Development Bank	1966	8,402.3	301.8
International Monetary Fund[1]	1996[2]	3,192.3	3,192.3
World Bank Group			
International Bank for Reconstruction and Development	1966[2]	1,697.0	110.3
International Development Association	1968	15.7	15.7
International Finance Corporation	1968[3]	28.5	28.5
Multilateral Investment Guarantee Agency	1986	20.0	3.8
Islamic Development Bank[4]	1975	624.0	190.7
International Islamic Trade Finance Corporation	1992	2.1	2.1
Islamic Corporation for Insurance of Investment and Export Credit	1992	0.4	0.2
International Fund of Agricultural Development	1977	52.0	50.0
Common Fund for Commodities[5]	1980	1.5	1.3
The Islamic Corporation for the Development of the Private Sector	1992	9.5	5.2

Sources: Bank Indonesia and Ministry of Finance

(1) Denominated in SDR of the IMF. Converted to U.S. dollars using the exchange rate on December 31, 2011 of U.S.$1.54 to SDR 1.

(2) Before Indonesia rejoined the IMF and The International Bank for Reconstruction and Development in 1966, it had become a member of these organizations in 1954 and had resigned its memberships in 1965.

(3) Before Indonesia rejoined the International Finance Corporation in 1968, it had become a member in 1956 and had resigned its membership in 1961.

(4) Denominated in Islamic dinars, or ID (ID 1 = SDR 1). See footnote (1).

(5) Denominated in Euro. Converted to U.S. dollars using the exchange rate on December 31, 2011 of €1.0000 to U.S.$1.2939.

Recent disputed Border Issue between Thailand and Cambodia

Thailand and Cambodia agreed on February 22, 2011 to take steps to resolve the recent flare-up of fighting on their disputed border. The sides agreed to let Indonesia, as current chair of the ASEAN, deploy two teams of up to 20 military and civilian observers on both sides of the border to monitor the situation, as well as to allow ASEAN mediation of future negotiations on settling the border.

Ongoing Delimitation Issue with Malaysia

Indonesia and Malaysia have been conducting negotiations regarding the delimitation of the two countries' maritime boundaries in the Technical Meeting on Maritime Delimitation. The most recent discussion occurred in October 2011 during the 11th Joint Commission for Bilateral Cooperation in Kula Lumpur. The technical meetings were a continuation of maritime delimitation negotiations conducted by the two countries since 1969.

The negotiations in the Technical Meeting on Maritime Delimitation between Malaysia and Indonesia pertain to the exclusive economic zone in the Malacca Strait, the territorial sea in the southern part of the Malacca Strait, the South China Sea (exclusive economic zone) and the Sulawesi Sea (territorial sea (exclusive economic zone) and continental shelf). The most recent negotiation was conducted successfully and showed positive progress in the delimitation of the two countries' maritime boundaries.

Mudflow Accident at Sidoarjo, East Java

In May 2006, a drilling accident occurred at a gas exploration site near Sidoarjo, East Java, resulting in a mudflow of approximately 100,000 to 120,000 cubic meters per day, which has not yet been abated. The site is located in the Brantas block, which is owned jointly by Lapindo Brantas, Inc. (**Lapindo**) (50.0% interest), a

subsidiary of PT Energi Mega Persada Tbk; PT Medco E&P Brantas (32.0% interest), a subsidiary of PT Medco Energi International Tbk; and Santos Ltd. of Australia (18.0% interest). Based on information collected by the Sepuluh November Institute of Technology, as of October 2007, the mudflow had inundated approximately 640 hectares of land and destroyed more than 8,300 houses in 12 villages, 300 hectares of rice paddies and 60 hectares of sugar cane, displaced more than 8,400 households and closed 17 schools and 15 factories, resulting in the loss of more than 1,000 jobs.

In September 2006, the government formed a task force to oversee the response to this disaster. On April 8, 2007, President Yudhoyono issued Presidential Regulation No. 14 of 2007 establishing a permanent board, called the Sidoarjo Mudflow Management Board (*Badan Penanggulangan Lumpur Sidoarjo* or **BPLS**), to replace this task force. The BPLS has been mandated with the task of arranging for the reconstruction and rehabilitation of areas adversely affected by the mudflow including the reconstruction of affected infrastructure. Presidential Regulation No. 14 of 2007, as amended by Presidential Regulation No. 48 of 2008, also provided that the government would bear certain costs resulting from the mudflow, including the cost of relocating a toll road, power lines and gas pipelines from the areas now inundated by mud. The Presidential Regulation No. 40 of 2009 on the Second Amendment to Presidential Regulation No. 14 of 2007 shifts the financial and execution responsibility of flowing the mud from the affected area to the Porong River from Lapindo to BPLS. The government is also to provide funds for related land acquisition costs and compensation to victims of the disaster within a designated land area of approximately 86 hectares and comprising three villages, while the government is to hold Lapindo and its shareholders directly responsible for all of the direct property damage, environmental costs and compensation costs to victims of the disaster within a designated land area of approximately 640 hectares.

From January 2008 to December 31, 2012, the government spent approximately Rp3.49 trillion in public funds for a variety of relief, rehabilitation and construction efforts. Such efforts included providing land compensation, constructing a mud reservoir, building new roadways, building drainage and irrigation canals, providing social assistance to affected people (including temporary living, evacuation and house rental assistance) and financing certain geological investigations and socio-economic studies in disaster-affected areas.

For 2013, the government initially allocated Rp2.25 trillion to continue the above-mentioned construction and relief efforts. Due to decreasing development activities after the completion of a main arterial road, the government lowered this allocation to Rp850 billion for 2013. The government estimates that the total direct and indirect losses resulting from the mudflow disaster could reach approximately Rp33.0 trillion. The main targeted BPLS activities are expected to be completed by the end of 2014. Such activities include full compensation for all of the affected households, construction of a mud-dike and its accessories, a new main road, and a pipeline for primary clean water conveyance, among others. Presidential Regulation No. 37/2012 states that the government decided to compensate the affected people in the area currently unsuitable for settlement, which will involve relocating approximately 4,600 households (approximately 16,000 people), at an expected total cost of approximately Rp2.2 to Rp2.5 trillion.

Other Natural Disasters

Indonesia has suffered several other natural disasters in recent years, including earthquakes and flooding. A tsunami in Pangandaran in 2006 caused 645 deaths, destroyed 1,908 homes and caused estimated damage amounting to over Rp1.3 trillion. An earthquake in Jogjakarta, Central Java in May 2007 caused 5,716 deaths, destroyed 306,234 homes and caused damage amounting to Rp29.2 trillion. An earthquake measuring 7.9 on the Richter scale struck Bengkulu and West Sumatra on September 12, 2007, resulting in 25 deaths, numerous injuries and the evacuation of some 115,000 people. Strong earthquakes hit Nusa Tenggara Barat and Gorontalo in August and November 2008, respectively. In January 2009, an earthquake measuring 7.2 on the Richter scale occurred in Manokwari, West Papua. The earthquake resulted in the death of one person, with 4,714 injured, 16,168 displaced and 5,393 buildings destroyed. Total damage and losses from the disaster amounted to Rp954.8 billion. An earthquake measuring 7.2 on the Richter Scale struck Sulawesi on February 12, 2009, damaging hundreds of buildings. Further, on September 30, 2009, an earthquake measuring 7.9 on the Richter scale struck West Sumatra, resulting in 1,195 deaths and the destruction of 279,432 houses. Several powerful earthquakes also struck West Papua, Tasikmalaya in West Java, Jambi and other locations in Indonesia in the same year.

Several regions of Indonesia were hit by floods during the 2006 to 2007 rainy season, including North Sumatra, Nanggroe Aceh Darussalam, Riau, Manggarai and Morowali. Floods in Jakarta in February 2007 caused the deaths of 48 people, led to the evacuation of over 500,000 people and resulted in an estimated

Rp7 trillion of damage. In response, the government of Jakarta conducted a review of the city's design to identify ways to prevent future flooding, such as developing canals and removing houses built in the flood zone of river banks. Flooding and landslides in Central and East Java that occurred between the end of 2007 to early 2008 caused 100 deaths and an estimated Rp2 trillion of damage. Gorontalo and West Java suffered floods and landslides in October and November 2008, respectively. In 2009, floods hit the Regency of Tanah Datar in West Sumatra, Mandailing in North Sumatra and Situ Gintung in Banten, and in 2010 there was flooding in West Papua as described below.

In 2010, there were three large-scale natural disasters. The first was a flash flood in the Gulf Wondama, West Papua where as many as 291 people died with total damages and losses of Rp478.7 billion. This was followed by an earthquake and tsunami in the Mentawai Islands, West Sumatra with a 509 deaths and total damages and losses of Rp1.2 trillion. The eruption of Mount Merapi in Central Java and D.I. Yogyakarta claimed the lives of 386 victims and total damage and losses were estimated at approximately Rp7 trillion.

Total government expenditure related to post-natural disaster relief efforts, rehabilitation and reconstruction (other than expenditure related to the December 2004 earthquake and tsunami and the March 2005 North Sumatra earthquake) was Rp1.9 trillion in 2007, Rp2.9 trillion in 2008, Rp2.2 trillion in 2009 and Rp2.7 trillion in 2010. Rp4.0 trillion was allocated in the 2011 Budget, the Revised 2012 Budget as well as the 2013 Budget towards such expenditure. Total actual government expenditure related to post-natural disaster relief efforts in 2011 was Rp4.0 trillion (100% of the allocation in the Revised 2011 Budget). As of December 31, 2012, the actual post-natural disaster relief efforts was Rp500.0 billion (12.5% of Rp4.0 trillion, the allocation in the Revised 2012 Budget) as no major natural disaster occurred in the year.

Avian Influenza and Swine Flu

Indonesia is one of a number of countries to experience outbreaks of highly pathogenic avian influenza, and like several other countries, Indonesia has seen a substantial number of cases of bird-to-human transmission of the virus. An outbreak of avian influenza occurred in Indonesia in late 2003 and early 2004, when large numbers of birds in Indonesia, including substantial numbers of poultry, died as a result of the avian flu virus. The first human case of avian influenza in Indonesia was detected in July 2005. As of December 31, 2012, the government reported 192 confirmed human cases of the disease in Indonesia, including 160 deaths. In spite of the implementation of avian influenza prevention and control measures, outbreaks in animals, particularly in birds, and in humans are expected to occur from time to time, as long as avian influenza remains endemic in many provinces in Indonesia. Human cases are, however, decreasing every year with 55 cases in 2006, 42 cases in 2007, 24 cases in 2008, 21 cases in 2009, nine cases in 2010 and 12 cases in 2011. To date, no human-to-human transmission of the avian influenza virus has been confirmed in Indonesia.

In addition to its domestic initiatives to prevent the spread of avian influenza within Indonesia, the government is continuing to work in cooperation with foreign governments and international organizations, including the United Nation's World Health Organization (the **WHO**), its Food and Agricultural Organization and its International Labor Organization, the World Bank, the Australian Government's Overseas Aid Program, the Centers for Disease Control and Prevention in the United States, the Canadian International Development Agency, the European Union, ASEAN, Japan's International Cooperation Agency, the Japan Trust Fund, the Netherlands and the Federal Republic of Germany (through the Reconstruction Credit Institute or *Kreditanstalt für Wiederaufbau*). The government continuously reports new cases of avian influenza to the WHO, in line with the WHO's International Health Regulations.

The spread of the influenza A virus subtype H1N1, generally known as "swine flu", was declared a flu pandemic by the WHO in June 2009. The H1N1 is highly contagious and according to WHO as of January 8, 2011, 128 countries were affected, with 18,332 reported deaths globally. H1N1 has had a relatively less severe impact in Indonesia compared to other countries. According to WHO, as of August 2010, there were 1,330 confirmed cases in Indonesia and 10 deaths. Measures taken by the government to limit the spread of the H1N1 virus include distributing health information cards to travelers at ports of entry and thermal screening of visitors on arrival. In addition, the government has prepared the necessary medical staff and logistical support at hospitals, improved tracking and surveillance capabilities at laboratories, maintained records of reported cases and conducted education campaigns. The government has also increased monitoring of pilgrims returning from the hajj and monitors whether a pilgrim contracts H1N1 while traveling.

The government has taken several steps in influenza pandemic preparedness and response such as: (1) providing and strengthening 100 influenza referral hospitals, (2) strengthening epidemiology and virology

laboratories, (3) implementing sentinel and routine surveillance, (4) conducting vaccine development, (5) carrying out ecology and transmission, clinical spectrum, disease management and molecular genetic as well as antigenic research, (6) conducting risk communication programs, (7) implementing training exercises (8) establishing command and coordination procedures, (9) mobilizing and stockpiling logistics, and (10) producing the generic antiviral drug, oseltamivir.

Economy and Gross Domestic Product

Introduction

Indonesia is a developing nation with a relatively diversified economy. The principal sectors of the economy are manufacturing, agriculture, transportation and communication, trade, hotel and restaurant services, construction, financial services and mining and quarrying.

The Asian financial crisis significantly altered Indonesia's economic landscape. Policy initiatives implemented to address crisis-related problems have resulted in economic growth, with real GDP improving from a contraction of 13.1% in 1998 to a growth of 6.0% in 2008, 4.6% in 2009, 6.2% in 2010, 6.5% in 2011 and 6.2% in 2012. Largely as a result of lower levels of growth and insufficient investment, unemployment has remained a persistent problem in Indonesia, climbing to 11.2% in November 2005 before decreasing to 8.4% in August 2008, to 7.1% in August 2010, 6.6% in August 2011 and 6.1% in August 2012, the most recent date for which data is available. Manufacturing is still the largest sector of the economy and non-oil & gas manufacturing has grown higher than the economy as a whole in 2012. Economic growth since the crisis has been primarily driven by consumption and exports, although increased investment has played an increasingly important role since 2004.

The main challenges currently facing Indonesia's economy include uncertainty in relation to global economic recovery and commodity prices, both of which are crucial factors in determining the Republic's export performance, as well as a steady expansion in domestic demand. Furthermore, the Republic's dependence on imported capital goods and raw materials renders it vulnerable to external imbalances.

The following table provides certain key economic indicators for the periods indicated:

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
National account and prices:						
Real GDP growth	6.3%	6.0%	4.6%	6.2%	6.5%	6.2%
Per capita GDP (in thousands of rupiah)	17,179	21,014	23,648	26,788	30,424	33,339
Per capita GDP (in U.S. dollars)[1]	1,902	2,202	2,324	2,977	3,498	3,563
Average exchange rate (rupiah per U.S. dollar)	9,140	9,691	10,408	9,087	8,779	9,384
Inflation rate (change in CPI)	6.6%	11.1%	2.8%	7.0%	3.8%	4.3%
External sector:						
Current account (% of GDP)	2.4%	0.0%	2.0%	0.7%	0.2%	(2.7)%
Fiscal account:						
Budget surplus/(deficit) (% of GDP)	(1.3)%	(0.1)%	(1.6)%	(0.7)%	(1.1)%	(1.8)%
External debt of the central government (in trillions of rupiah)	626	743	817	775	811	868
Debt service ratio (% of government revenue)	25.5%	19.6%	24.3%	21.1%	18.9%	20.6%

Sources: BPS, Bank Indonesia and Ministry of Finance

(1) Per capita GDP in U.S. dollars has been converted from rupiah into U.S. dollars and the U.S. dollar amounts of external debt of the central government have been converted into rupiah at the following exchange rates per U.S. dollar: Rp9,034.1 per U.S. dollar for 2007, Rp9,545.0 per U.S. dollar for 2008, Rp10,176.9 per U.S. dollar for 2009, Rp8,997.9 per U.S. dollar for 2010, Rp8,697.1 per U.S. dollar for 2011 and Rp9,357.9 per U.S. dollar for 2012. These exchange rates are calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given period.

Gross Domestic Product

Indonesia was the hardest-hit economy during the Asian financial crisis, with real GDP contracting 13.1% in 1998. The economy began recovering in 2000, and annual real GDP growth measured 6.3%, 6.0% and 4.6% in 2007, 2008 and 2009, respectively. In 2010, real GDP growth measured 6.2%. In recovering from the crisis over the last several years, Indonesia has made substantial progress towards achieving macroeconomic stability and reducing the economy's sensitivity to external shocks, following which real GDP grew by 6.2% in 2010. Real GDP was 6.5% in 2011 and 6.2% in 2012.

The following table shows the distribution of GDP in the Indonesian economy by expenditure for the periods indicated:

Distribution of Gross Domestic Product by Expenditure
(at current market prices)

	Year ended December 31,							
	2007	2008	2009	2010[P]	2011[P]	%	2012[P]	%
	(in billions of rupiah and percentage of GDP)							
GDP	3,950,893	4,948,688	5,606,203	6,446,852	7,422,781	100.0	8,241,864	100.0
Add: Imports of goods and services	1,003,271	1,422,902	1,197,093	1,476,620	1,851,070	24.9	2,127,545	25.8
Total supply of goods and services	4,954,165	6,371,590	6,803,296	7,923,472	9,273,852	124.9	10,369,409	125.8
Less: Exports of goods and services	1,162,974	1,475,119	1,354,409	1,584,674	1,955,821	26.3	1,999,380	24.3
Total domestic expenditure	3,791,191	4,896,471	5,448,887	6,338,798	7,318,031	98.6	8,370,029	101.6
Allocation of total domestic expenditure:								
Private consumption	2,510,504	2,999,957	3,290,996	3,643,425	4,053,364	54.6	4,496,373	54.6
Public consumption	329,760	416,867	537,589	587,283	668,583	9.0	732,345	8.9
Total consumption	2,840,264	3,416,824	3,828,585	4,230,708	4,721,946	63.6	5,228,718	63.4
Gross domestic fixed capital formation	985,627	1,370,717	1,744,357	2,064,994	2,372,766	32.0	2,733,180	33.2
Change in stocks (residual)[(1)]	(34,700)	108,931	(124,055)	43,096	223,318	3.0	408,130	5.0
Total domestic expenditure	3,791,191	4,896,471	5,448,887	6,338,798	7,318,031	98.6	8,370,029	101.6

Source: BPS

[P] Preliminary.

(1) Includes statistical discrepancies.

In 2007, real GDP grew by 6.3%, an increase from 5.5% in 2006. Positive growth was recorded in 2007 in all sectors of the Indonesian economy, with the lowest growth being in the mining sector at 1.9%. Growth in 2007 was mainly driven by the transportation and communication sector, which experienced growth of 14.0%, followed by the utilities sector, which grew by 10.3%. The largest sector of the economy, manufacturing, grew by 4.7%, below overall GDP growth in this period. The private consumption component of GDP increased to 63.5% in 2007 from 62.7% in 2006, while investment increased slightly to 24.9% of GDP in 2007 from 24.1% in 2006.

In 2008, real GDP grew by 6.0% due to increased investment and export demand, despite higher prices for energy, food and other commodities. All sectors of the Indonesian economy grew in 2008 compared to 2007. The transportation and communication, utilities (electricity, gas and water), financial services, construction, the trade, hotel and restaurant services and the services sectors grew at rates higher than the overall real GDP growth rate in 2008, at 16.6%, 10.9%, 8.2%, 7.6%, 6.9% and 6.2%, respectively, while the agricultural, mining and quarrying and manufacturing sectors grew at rates lower than the overall real GDP growth rate.

In 2009, real GDP grew by 4.6% due to increased public consumption, private consumption and investment of 15.7%, 4.9%, and 3.3%, respectively. All sectors of the Indonesian economy grew in 2009. The transportation and communication, utilities (electricity, gas and water), construction, other services and financial services sector grew at rates higher than the overall GDP growth rate in 2009, at 15.8%, 14.3%, 7.1%, 6.4% and 5.2%, respectively. The agriculture, mining and quarrying and manufacturing sectors grew at rates lower than the overall real GDP growth rate.

Indonesia's real GDP grew by 6.2% in 2010, primarily due to increased exports, investment, and private consumption of 15.3%, 8.5%, and 4.7%, respectively. All sectors of the Indonesian economy grew in 2010. The transportation and communication, trade, hotel and restaurant services, and construction sectors grew at rates higher than the overall real GDP growth rate in 2010, at 13.4%, 8.7%, and 7.0%, respectively. The other services, financial services, utilities (electricity, gas and water), agriculture, mining and quarrying and manufacturing sectors grew at rates lower than the overall real GDP growth rate.

Indonesia's real GDP grew by 6.5% in 2011, primarily due to increased exports, investment, private consumption and public consumption of 13.6%, 8.8%, 4.7% and 3.2%, respectively. All sectors of the Indonesian economy grew in 2011. The transportation and communication, trade, hotel and restaurant services, financial services, other services, and construction sectors grew at rates higher than the overall real GDP growth rate, at 10.7%, 9.2%, 6.8%, 6.7%, and 6.6%, respectively. The manufacturing, utilities (electricity, gas and water), agriculture, mining and quarrying, and manufacturing sectors grew at rates lower than the overall real GDP growth rate.

Indonesia's real GDP grew by 6.2% in 2012, primarily due to increased domestic demand (evidenced by investment, private consumption and public consumption growth of 9.8%, 5.3%, and 1.2%, respectively), while real exports grew at a slower rate than imports. All sectors of the Indonesian economy grew in 2012. The transportation and communication, trade, hotel and restaurant services, construction, financial services and utilities (electricity, gas and water) sectors grew at rates higher than the overall real GDP growth rate in 2012, at 10.0%, 8.1%, 7.5%, 7.1% and 6.4%, respectively. The manufacturing, other services, agriculture and mining and quarrying sectors grew at rates lower than the overall real GDP growth rate.

Inflation

Indonesia measures annual inflation by year-on-year changes in the CPI. Inflation in Indonesia reached a peak of 82.4% (on an annualized basis) in September 1998. In 2007, the inflation rate was 6.6%. In 2008, the CPI increased by 11.1% due to substantial increases in oil, food and other commodity prices in the first half of that year. In 2009, the CPI increased by 2.8% compared to 2008 due primarily to higher prices in processed food, beverages and cigarettes. In 2010, the CPI increased by 7.0% compared to 2009 primarily due to higher prices in major food groups. In 2011, the CPI increased by 3.8% compared to 2010 primarily due to higher prices in major food groups, processed foods, utilities and clothing. In 2012, the CPI increased by 4.3% compared to 2011 primarily due to higher prices in processed food, beverages and cigarettes commodities and foodstuffs.

Inflation targets are set periodically by the government. Under Law No. 23 of 1999 on Central Bank, as amended from time to time (the **Central Bank Law**) it is the main task of the central bank, Bank Indonesia, to achieve and maintain stability in the rupiah's value. The government is targeting an inflation rate of 4.9% (±1%) and 4.5% (±1%) in 2013 and 2014, respectively. In order to maintain the purchasing power of low-income households, the government administers or influences prices for key goods and services, including fuel, rice, crude palm oil, soybeans, fertilizers, electricity, telephone service and water, through the use of subsidies, VAT exemptions, export taxes, limitations on imports and other regulatory measures.

The following table shows the CPI as of the end of the periods indicated and the annual percentage change over the previous period:

Changes in Consumer Price Index

	2007	2008	2009	2010	2011	2012	March 2013
CPI	155.5[1]	113.9[2]	117.0[2]	125.2[2]	129.9[2]	135.5[2]	138.8[2]
Annual percentage year-on-year	6.6%	11.1%	2.8%	7.0%	3.8%	4.3%	2.4%[3]

Source: BPS

(1) Calculated on the basis of 2002 CPI = 100.

(2) Calculated on the basis of 2007 CPI = 100.

(3) Percentage change in CPI from December 2012 to March 2013.

The following table shows inflation for groups of commodities for the periods indicated, in each case on a year-on-year basis:

Inflation by Commodity

	Year ended December 31,						March 31,
	2007	2008	2009	2010	2011	2012	2013
Overall inflation	6.6	11.1	2.8	7.0	3.8	4.3	2.4
Food	11.3	16.4	3.9	15.6	3.6	5.7	7.7
Processed food, beverages and cigarettes	6.4	12.5	7.8	7.0	4.5	6.1	1.3
Housing	4.9	10.9	1.8	4.1	3.5	3.4	1.6
Clothing	8.4	7.3	6.0	6.5	7.6	4.7	(1.0)
Health	4.3	8.0	3.9	2.2	4.3	2.9	1.1
Education, recreation and sports	8.8	6.7	3.9	3.3	5.2	4.2	0.4
Transportation and communication	1.3	7.5	(3.7)	2.7	1.9	2.2	(0.0)

Source: BPS

In 2007, Indonesia's annual inflation rate was 6.6%, which was the same as the 2006 inflation rate. Inflation in food prices, at 11.3%, remained the principal contributor to the inflation rate, mainly due to increases in the prices of cooking oil and rice. Cooking oil prices rose as a result of increasing exports of CPO, while rice prices increased due to shortages primarily in the first half of 2007 arising from adverse weather conditions experienced in 2006. Inflation of 8.8% in the price of education, recreation and sports, primarily due to increases in school fees, was also a significant contributor. Prices of processed food, beverages and cigarettes, housing and health increased at rates under the overall inflation rate, while prices of clothing increased at a rate over the overall inflation rate. The smallest contributor to inflation remained transportation and communication, for which prices rose 1.3% over this period. Prices for transportation remained relatively constant as fuel subsidies maintained the price of fuel. Inflation in 2007 remained within the government's target range of 5% to 7% for 2007.

In 2008, annual inflation was 11.1%, which was significantly higher than the 2007 inflation rate. This rate reflects the substantially higher global prices of energy, food and other commodities and increased domestic demand in the first half of 2008. Substantial increases in food prices contributed the greatest increase in the inflation rate and food prices in 2008 were 16.4% higher on average compared to prices in 2007. The increases were principally in the prices of spices, cayenne pepper, rice, fish and Spanish onion. Compared to 2007 levels, 2008 prices for processed food, beverages, cigarettes and tobacco rose by 12.5%, prices for housing (including utilities) rose by 10.9%, prices for health services rose by 8.0%, prices for clothing rose by 7.3%, and prices for education, recreation and sports rose by 6.7%. Prices for transportation and communications rose by 7.5%, in part due to fuel price increases on May 24, 2008, which averaged 28.7%.

In 2009, annual inflation was 2.8%, which was very low by historic standards in Indonesia and significantly less than the 2008 inflation rate of 11.1%. The largest contributors to inflation in 2009 were substantial increases (on average, 7.8% higher compared to prices in 2008) in processed food, beverages, cigarettes and tobacco prices (amongst these, increases in the prices of processed food and soft drinks were the principal contributors) and clothing prices (on average, 6.0% higher compared to prices in 2008). In addition, prices for food, education, recreation and sports, and health services each rose by 3.9%. On the other hand, prices for transportation and communications declined by 3.7%, in part due to fuel prices being reduced in January 2009 and administered inflation was 3.3% due to the deflation policy in subsidized fuel prices in place since January 15, 2009 (during which premium price decreased from Rp5,000 per liter to Rp4,500 per liter, and solar price fell from Rp4,800 per liter to Rp4,500 per liter).

In 2010, annual inflation was 7.0%, which was significantly higher than the 2009 inflation rate. This rate reflects the substantially higher global prices of energy, food, and other commodities and increased domestic demand in 2010. Substantial increases in food prices contributed the greatest increase in the inflation rate and food prices in 2010 were 15.6% higher on average compared to prices in 2009. The increases were principally in the prices of spices, rice, red pepper, chili, cooking oil, fish and potato. Compared to 2009 levels, 2010 prices for processed food, beverages, cigarettes and tobacco rose by 6.5%, prices for clothing rose by 7.0%, prices for housing (including utilities) rose by 4.1%, prices for education, recreation and sports rose by 3.3%, and prices for health services rose by 2.2%.

In 2011, annual inflation was 3.8%. Substantial increases in clothing prices contributed to the increase in the inflation rate, with clothing prices 7.6% higher on average compared to prices in 2010. Prices for education in 2011 rose by 5.2% compared to prices in 2010, prices for foodstuffs rose by 3.6%, prices for prepared foods, beverage, and tobacco rose by 4.5%, prices for health services rose by 4.2%, prices for housing rose by 3.5%, and prices for transportation and communication rose by 1.9%.

In 2012, annual inflation was 4.3% due primarily to higher prices in processed foods, beverages and cigarettes, foodstuffs and clothing, which were 6.1%, 5.7%, and 4.7% higher, respectively.

In March, 2013, the CPI increased by 2.4% compared to December 2012, due primarily to higher prices in foodstuffs, housing, and processed food, beverages and cigarettes, which were 7.7%, 1.6% and 1.3% higher, respectively.

In 2005, the government formed an Inflation Management and Monitoring Team (*Tim Pemantauan dan Pengendalian Inflasi*) (**TPI**) that is responsible for analyzing and identifying the sources of inflation, as well as for providing policy recommendations to maintain inflation at low and stable levels in the medium-to-long term. The TPI at the national level consists of a number of governmental authorities, including Bank Indonesia, the Ministry of Finance, the Ministry of Transportation, the Ministry of Trade, the Ministry of Agriculture, the Ministry of Energy and Mineral Resources, and the Coordinating Ministry of Economic Affairs. Since 2010, the TPI has also been formed in various regions to strengthen policy coordination, particularly in monitoring and controlling regional inflation. As of December 31, 2012, there were 33 provinces and 54 cities and districts that had established a TPI.

Privatization of State-Owned Enterprises

The sale by the government of SOEs to private investors has been an important means for the government to promote private investment and to improve the efficiency, transparency, public accountability and corporate governance of the country's SOEs. The following table sets forth significant SOEs that have been fully or partially privatized or further privatized from 1998 to December 31, 2012, the government's interest in the SOE after the sale and the proceeds to the government and to the SOEs, respectively, from the sales of the government's shares:

State-Owned Enterprise Privatizations

State-owned enterprise	Year of offering	Government equity interest after offering	Proceeds to the government	Proceeds to state-owned enterprise
		(percentages)	(in billions of rupiah (Rp) and millions of U.S. dollars (U.S.$))	
PT Semen Gresik (Persero) Tbk	1998	51.0	Rp1,317	—
PT Jakarta International Container Terminal[1]	1999	51.0	—	U.S.$190
PT Terminal Petikemas Surabaya[1]	1999	49.0	—	U.S.$157
PT Telekomunikasi Indonesia (Persero) Tbk	1999	66.2	Rp3,188	—
	2001	54.3	Rp3,100	—
	2002	51.2	Rp1,100	—
PT Kimia Farma (Persero) Tbk	2001	90.8	—	Rp110
PT Indofarma (Persero) Tbk	2001	80.2	—	Rp150
PT Socfin Indonesia[2]	2001	10.0	U.S.$45	—
PT Indonesian Satellite Corporation Tbk	2002	14.4	U.S.$608	—
			Rp967	—
PT Tambang Batubara Bukit Asam (Persero) Tbk	2002	84.0	Rp159	Rp16
	2004	65.0	Rp180	—
PT Wisma Nusantara Indonesia[2]	2002	—	Rp255	—
PT Bank Mandiri (Persero) Tbk	2003	80.0	Rp2,547	—
	2004	70.0	Rp2,844	—
	2011	60.0	Rp389.5[4]	Rp11,684[4]
PT Indocement Tunggal Prakarsa Tbk[2]	2003	—	Rp1,157	—
PT Bank Rakyat Indonesia (Persero) Tbk	2003	56.77	Rp2,472	Rp1,537
PT Perusahaan Gas Negara (Persero) Tbk	2003	65.5	Rp935	Rp1,163
	2004	61.0	Rp306	Rp16
	2006	54.6	Rp2,088	—
PT Pembangunan Perumahan (Persero) Tbk	2004	51.0	Rp60	—
	2010	51.0	—	Rp566
PT Adhi Karya (Persero) Tbk	2004	51.0	Rp65	Rp63
PT Bank Negara Indonesia (Persero) Tbk	2007	76.4	Rp3,086	Rp3,854
	2010[3]	73.26	Rp1,355	—
	2010[4]	60	Rp741.6	Rp10,216
PT Wijaya Karya (Persero) Tbk	2007	68.3	—	Rp766
	2012	68.0	—	Rp1,171
PT Jasa Marga (Persero) Tbk	2007	70.0	—	Rp3,362
PT Bank Tabungan Negara (Persero) Tbk	2009	72.9	—	Rp1,819
	2012	60.0	Rp135.87	Rp1,870
PT Krakatau Steel (Persero) Tbk[2]	2010	80.0	—	Rp2,593
PT Kertas Blabak[2]	2010	—	Rp0.54[3]	—
PT Intirub[2]	2010	—	Rp7.0[3]	—
PT Garuda Indonesia (Persero) Tbk	2011	69.14	—	Rp3,187
PT Kertas Basuki Rachmat[2]	2011	—	Rp2.63[3]	—
PT Atmindo[2]	2011	—	Rp9[3]	—
PT Jakarta International Hotel Development, Tbk[2]	2011	—	Rp18.54[3]	—

Source: Ministry of State-Owned Enterprises

(1) Subsidiary of SOE.

(2) Minority Ownership by Government.

(3) Sale of unsold shares from 2007.

(4) Rights issue through the issuance of new shares.

Since 1998, 27 SOEs have been privatized or further privatized in part or in full, including the sale of shares in PT Telekomunikasi Indonesia (Persero) Tbk (Telkom), PT Perusahaan Gas Negara (Persero) Tbk, PT Bank Mandiri (Persero) Tbk (Bank Mandiri), PT Indonesian Satellite Corporation (Persero) Tbk (Indosat) and PT Bank Negara Indonesia (Persero) Tbk and PT Bank Tabungan Negara Tbk. The most recent privatizations of SOEs were of PT Kertas Basuki Rachmat, PT Atmindo, PT Garuda Indonesia (Persero) Tbk and PT Jakarta Hotel Development, Tbk. In addition, the government, through the Indonesian Bank Restructuring Agency (IBRA) and PT Perusahaan Pengelola Aset (Persero) (PPA), has sold its stake in certain non-SOE entities and assets. See "*Financial System — PT Perusahaan Pengelola Aset (Persero)*."

The Ministry of Finance recommended a further 15 SOEs to be privatized in 2007, namely: PT Jasa Marga (Persero), PT Bank Negara Indonesia (Persero) Tbk, PT Wijaya Karya (Persero), PT Permodalan Nasional Madani (Persero), PT Garuda Indonesia (Persero), PT Merpati Nusantara Airlines (Persero), PT Industri Soda Indonesia, PT Industri Gelas (Persero), PT Cambrics Primissima (Persero), PT Atmindo, PT Intirub, PT Prasadha Pamunah Limbah Industri, PT Jakarta International Hotel Development, Tbk, PT Kertas Blabak and PT Kertas Basuki Rahmat. Out of these 15 companies, privatization plans for three companies were effected in 2007 upon consultation with the DPR, namely PT Bank Tabungan Negara Indonesia (Persero) Tbk, PT Wijaya Karya (Persero) Tbk and PT Jasa Marga (Persero) Tbk.

In 2008, the government submitted proposals for the partial or full privatization of 44 SOEs to the DPR. Nine proposals were approved but none were implemented due to unfavorable market conditions. In 2009, the government submitted proposals for the privatization of 19 SOEs to the DPR and three were approved, increasing the number of approved proposals to 12. Of these, the initial public offering of PT Bank Tabungan Negara, Indonesia's largest home lender, was completed in December 2009. The implementation of the other 11 proposals, including the disposal of minority stakes in six SOEs and an initial public offering, was delayed and targeted for completion in 2010. Of these, the disposals of shares in PT Krakatau Steel, PT Kertas Blabak and PT Intirub were completed in 2010 and in 2011 for shares of PT Garuda Indonesia. In 2010, the government submitted proposals for the privatization of eight SOEs to the DPR. Two were approved and one, the PT Bank Negara Indonesia (Persero) Tbk rights issue, was implemented. In 2011, the government submitted proposals for the privatization of four SOEs. Those privatized in 2011 included PT Garuda Indonesia (Persero) Tbk, PT Kertas Basuki Rachmat, PT Atmindo and PT Jakarta International Hotel Development, Tbk.

In 2012, the government privatization program included the proposed privatization of six state-owned enterprises: PT Semen Baturaja, PT Bank Tabungan Negara (Persero) Tbk, PT Iglas, PT Industri Sandang Nusantara, PT Kimia Farma and PT Industri Telekomunikasi. However, the DPR only approved the privatization program for PT Bank Tabungan Negara (Persero) Tbk and PT Waskita Karya. A rights issue for PT Bank Tabungan Negara (Persero) Tbk was subsequently conducted. In addition, the government also privatized PT Waskita Karya through an initial public offering.

In 2013, the privatization program will consist of the five SOE privatization proposals carried over from 2012 in addition to three new proposals.

Principal Sectors of the Economy

Indonesia's major economic sectors include manufacturing (including oil and gas), agriculture, trade, hotel and restaurant services, financial services, mining and quarrying, construction, transport, communications, services and electricity, gas and water supply. The manufacturing sector accounts for the largest portion of GDP. The following tables show GDP by sector at current market prices and constant market prices, respectively, for the periods indicated:

Gross Domestic Product by Major Sectors
(at current market prices)

	Year ended December 31,							
	2007	2008	2009	2010[P]	2011[P]	%	2012[P]	%
	(in billions of rupiah and percentage of GDP)							
Manufacturing:								
Oil and gas	182,324	237,772	209,841	214,433	253,079	3.4	254,408	3.1
Manufacturing (excluding oil and gas)	886,330	1,138,670	1,267,700	1,384,640	1,553,062	20.9	1,718,439	20.9
Total manufacturing	1,068,654	1,376,442	1,477,542	1,599,073	1,806,141	24.3	1,972,847	23.9
Agriculture, livestock, forestry and fisheries:								
Farm food crops	265,091	349,795	419,195	482,377	529,968	7.1	574,330	7.0
Non-food crops	81,664	105,961	111,379	136,049	153,709	2.1	159,754	1.9
Livestock and products	61,325	83,276	104,884	119,372	129,298	1.7	146,090	1.8
Forestry	36,154	40,375	45,120	48,290	51,781	0.7	54,907	0.7
Fisheries	97,697	137,250	176,620	199,383	226,691	3.1	255,332	3.1
Total agriculture, livestock, forestry and fisheries	541,932	716,656	857,197	985,471	1,091,447	14.7	1,190,412	14.4
Trade, hotel and restaurant services	592,304	691,488	744,514	882,487	1,024,009	13.8	1,145,601	13.9
Financial, insurance, real estate and business services	305,214	368,130	405,162	466,564	535,153	7.2	598,523	7.3
Mining and quarrying:								
Oil and gas	234,162	283,283	254,948	290,467	371,823	5.0	382,697	4.6
Mining and quarrying (excluding oil and gas)	206,447	258,051	337,113	429,243	507,628	6.8	587,902	7.1
Total mining and quarrying	440,610	541,334	592,061	719,710	879,505	11.8	970,600	11.8
Construction	304,997	419,712	555,193	660,891	754,484	10.2	860,965	10.4
Transport and communications	264,263	312,190	353,740	423,172	491,283	6.6	549,116	6.7
Services:								
General government	205,344	257,548	318,581	359,841	432,785	5.8	485,535	5.9
Private sector services	192,853	224,301	255,536	300,525	351,185	4.7	403,141	4.9
Total services	398,197	481,848	574,117	660,366	783,971	10.6	888,676	10.8
Electricity, gas and water supply	34,724	40,889	46,680	49,119	56,789	0.8	65,125	0.8
Total GDP	3,950,893	4,948,688	5,606,203	6,446,852	7,422,781	100.0	8,241,864	100.0

Source: BPS

[P] Preliminary.

Gross Domestic Product by Major Sectors
(at constant market prices)

	Year ended December 31,							
	2007	2008	2009	2010[P]	2011[P]	%	2012[P]	%
	(in billions of rupiah and percentage of GDP)							
Manufacturing:								
Oil and gas	47,823	47,663	46,935	47,199	46,758	1.9	45,492	1.7
Manufacturing (excluding oil and gas)	490,262	510,102	523,168	549,936	587,024	238	624,617	23.9
Total manufacturing	538,085	557,764	570,103	597,135	633,782	25.7	670,109	25.6
Agriculture, livestock, forestry and fisheries:								
Farm food crops	133,889	142,000	149,058	151,501	154,154	6.3	158,695	6.1
Non-food crops	43,199	44,784	45,558	47,151	49,260	2.0	51,763	2.0
Livestock and products	34,221	35,425	36,649	38,214	40,040	1.6	41,972	1.6
Forestry	16,548	16,543	16,844	17,250	17,396	0.7	17,423	0.7
Fisheries	43,653	45,866	47,775	50,662	54,187	2.2	57,697	2.2
Total agriculture, livestock, forestry and fisheries	271,509	284,619	295,884	304,777	315,037	12.8	327,550	12.5
Trade, hotel and restaurant services	340,437	363,818	368,463	400,475	437,200	17.7	472,646	18.1
Financial, insurance, real estate and business services	183,659	198,800	209,163	221,024	236,147	9.6	253,023	9.7
Mining and quarrying:								
Oil and gas	94,747	95,168	95,230	96,146	95,155	3.9	91,691	3.5
Mining and quarrying (excluding oil and gas)	76,532	77,329	84,971	91,007	94,606	3.8	100,894	3.9
Total mining and quarrying	171,278	172,496	180,201	187,153	189,761	7.7	192,585	7.4
Construction	121,809	131,010	140,268	150,022	159,993	6.5	171,997	6.6
Transport and communications	142,327	165,906	192,199	217,980	241,298	9.8	265,378	10.1
Services:								
General government	80,778	84,378	88,683	92,803	97,799	4.0	99,563	3.8
Private sector services	100,928	108,671	116,751	125,040	134,739	5.5	145,157	5.5
Total services	181,706	193,049	205,434	217,842	232,538	9.4	244,720	9.3
Electricity, gas and water supply	13,517	14,994	17,137	18,050	18,921	0.8	20,131	0.8
Total GDP	1,964,327	2,082,456	2,178,850	2,314,459	2,464,677	100.0	2,618,139	100.0

Source: BPS

[P] Preliminary.

Manufacturing

Indonesia's principal manufactured goods include paper, automobiles, yarn, motorcycles and pulp. Other major manufactured goods include automobile tires, assembled televisions sets and fertilizer. Manufacturing has been the largest contributor to economic growth since the 1980s. For statistical purposes, the Republic divides the manufacturing sector into the oil and gas manufacturing sub-sector, which measures the level of petroleum refining and LNG production, and the non-oil and gas manufacturing sub-sector, which measures all other manufacturing activities.

In 2007, manufacturing industries grew by 4.7% compared to a rate of 4.6% in 2006. Non-oil and gas manufacturing increased by 5.2% during 2007, primarily due to growth in the transport, equipment and machinery sub-sector, which grew by 9.7%, and the food, beverages and tobacco sub-sector which grew by 5.1%. Oil and gas manufacturing declined in both the petroleum refinery sub-sector and the LNG sub-sector, by 1.9% and 1.5%, respectively.

In 2008, manufacturing industries grew by 3.7% compared to a rate of 4.7% in 2007. Non-oil and gas manufacturing industries increased by 4.0% during 2008, primarily due to growth in the transport, equipment and machinery sub-sector, which grew by 9.8%. Oil and gas manufacturing industries declined by 0.3% in 2008, due to a decline in the LNG manufacturing sub-sector of 1.3%, while the petroleum refinery sub-sector grew by 0.9%.

In 2009, manufacturing industries grew by 2.2% compared to a rate of 3.7% in 2008. Non-oil and gas manufacturing industries increased by 2.6% during 2009, primarily due to growth in the food, beverage, and tobacco sub-sector, which grew by 11.2%. Oil and gas manufacturing industries declined by 1.5% in 2009, mainly driven by a decline in the LNG manufacturing sub-sector of 3.1%. The petroleum refinery sub-sector, however, grew by 0.5% in 2009.

In 2010, manufacturing industries grew by 4.7%, compared to a rate of 2.2% in 2009. Non-oil and gas manufacturing industries grew by 5.1% during 2010, mainly driven by the transport, equipment and machinery sub-sector, which grew by 10.4%. Meanwhile, oil and gas manufacturing industries grew by 0.6% in 2010, primarily driven by the petroleum refinery sub-sector which grew by 1.2%, while the performance of the LNG production sub-sector in 2010 was relatively similar to its production in 2009.

In 2011, manufacturing industries grew by 6.1%, compared to a rate of 4.7% in 2010. Non-oil and gas manufacturing industries grew by 6.7% during this period mainly driven by the metal and steel industry sub-sector, which grew by 13.1%. Oil and gas manufacturing industries declined by 0.9% in this period, primarily due to the LNG manufacturing sub-sector which declined by 2.1%, while the petroleum refinery sub-sector grew by 0.5%.

In 2012, Indonesia's manufacturing industries grew by 5.7%, compared to a rate of 6.1% in the previous year. Non-oil and gas manufacturing industries grew by 6.4% during 2012 mainly driven by the fertilizer, chemical and rubber products industry sub-sector, which grew by 10.3%. Oil and gas manufacturing industries declined by 2.7% in 2012 due to the LNG manufacturing and the petroleum refinery sub-sectors which contracted by 3.5% and 1.7%, respectively.

The following table sets forth selected product groups within the manufacturing sector and their unit annual levels of production for the periods indicated:

Production of Selected Manufactured Goods

	Year ended December 31,					
Product	**2007**	**2008**	**2009**	**2010[P]**	**2011[P]**	**2012[P]**
	(in thousands of tons)					
Cement	35,033	38,532	36,906	37,844	43,985	51,922
Urea fertilizer	5,906	6,296	6,855	6,725	6,688	6,916
Automobiles	412	601	465	703	838	1,066
Motorcycles	4,722	6,265	5,923	7,367	8,006	7,080

Source: BPS
[P] Preliminary.

Agriculture

In 2007, the agriculture sector grew by 3.5%. The highest growth in the agriculture sector during this period was in the fishery sub-sector, at 5.4%, compared to growth of 6.9% in 2006, and the food crops sub-sector, at 3.4%, compared to growth of 3.0% in 2006. The growth in food crops was the result of increased rice production, mostly achieved in the second half of 2007, as agricultural areas recovered from adverse weather effects in 2006 and also due to increased availability of fertilizer. Estate cash crops also grew at 4.6% for 2007, and the livestock sub-sector grew at 2.4%. The forestry sub-sector continued to decline during this period, as increased enforcement of laws combating illegal logging affected production.

In 2008, the agriculture sector grew by 4.8%. This growth was mainly driven by food crops, fishery and estate cash crops, which grew by 6.1%, 5.1% and 3.7%, respectively. Growth in food crops resulted from increased rice, corn and cassava production, while growth in estate cash crops resulted from increased cocoa, rubber, tea and pepper production. In addition, livestock production grew by 3.5%.

In 2009, the agriculture sector grew by 4.0%, the lowest growth in any major sector of the Indonesian economy. This growth was mainly driven by the food crops, fishery and livestock sub-sectors which grew by 5.0%, 4.2% and 3.5%, respectively. In addition, estate cash crops and forestry production grew by 1.7% and 1.8%, respectively.

In 2010, the agriculture sector grew by 3.0%. This growth was mainly driven by the fishery, livestock, and estate crops sub-sectors which grew by 6.0%, 4.3%, and 3.5%, respectively.

In 2011, agriculture sector grew by 3.4%, compared to a rate of 3.0% in 2010. This growth was mainly driven by the fishery, livestock and estate crops sub-sectors which grew by 7.0%, 4.8%, and 4.5%, respectively.

In 2012, Indonesia's agriculture sector recorded growth of 4.0%, higher than its growth of 3.4% in the previous year. This growth was mainly driven by the fishery, estate crops, and livestock sub-sectors which grew by 6.5%, 5.1%, and 4.8%, respectively.

The following table sets forth production statistics for Indonesia's most important agricultural products in the periods indicated:

Production of Principal Agricultural Products by Sub-sectors

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012[P]
	(in thousands of tons)					
Food crops:						
Rice	57,157	60,326	64,399	66,469	65,757	68,956[(1)]
Cassava	19,988	21,757	22,039	23,918	24,044	22,678[(1)]
Corn	13,288	16,317	17,630	18,328	17,643	18,962[(1)]
Sweet potato	1,887	1,882	2,058	2,051	2,196	2,438[(1)]
Soybeans (shelled)	593	776	975	907	851	783[(1)]
Peanuts (shelled)	789	770	778	779	691	709[(1)]
Mungbean	322	298	314	292	341	296[(1)]
Fish products:						
Capture fish	5,045	5,196	5,108	5,384	5,075	N.A.
Farmed fish/aquaculture	3,194	3,855	4,709	6,278	7,538	N.A.
Estate cash crops:						
Dry rubber:						
Large plantation	578	578	498	526	630	679
Small plantation	2,177	2,174	1,942	2,605	2,360	2,361
Coffee:						
Large plantation	24	28	28	28	22	23
Small plantation	652	670	654	655	616	634
Cocoa:						
Large plantation	69	63	68	71	66	67
Small plantation	671	741	742	774	753	778
Tea:						
Large plantation	111	115	112	116	99	99
Small plantation	39	39	45	35	52	52
Sugar cane:						
Large plantation	1,109	1,132	1,190	995	902	915
Small plantation	1,515	1,536	1,327	1,295	1,366	1,523
Tobacco:						
Large plantation	3	3	4	3	2	3
Small plantation	162	165	172	132	212	224
Palm oil:						
Large plantation	11,306	10,617	11,807	12,092	14,229	14,547
Small plantation	6,358	6,923	7,518	7,668	8,798	8,974
Palm kernel:						
Large plantation	2,261	2,124	2,361	2,700	2,860	2,909
Small plantation	1,272	1,385	1,504	1,692	1,760	1,795
Livestock:						
Meat	2,070	2,137	2,205	2,366	2,554	2,691
Eggs	1,382	1,324	1,307	1,366	1,456	1,541
Milk	568	647	827	910	975	1,018
Forestry[(2)]:						
Logs	31,492	32,001	34,321	42,115	47,429	26,193
Sawn timber	587	531	710	885	935	468
Plywood	3,812	3,353	3,005	3,325	3,303	1,431

Sources: BPS, Ministry of Agriculture, Ministry of Marine Affairs and Fishery and Ministry of Forestry

P Preliminary.

(1) Based on the second forecast figures in 2012.

(2) In thousands of cubic meters.

Food Crops. Rice is the most important food crop and the main source of carbohydrates in the Indonesian diet. Rice production grew by 5.0% in 2007, by 5.5% in 2008, by 6.8% in 2009, by 3.2% in 2010, decreased slightly by 1.1% in 2011 and increased by 4.9% in 2012. In early 2004, through the Decree of the Minister of Industry and Trade No. 9/MPP/KEP/1/2004 on the Rice Import Regulation, the government imposed a ban on the importation of rice due to the surplus in the supply of rice from domestic farmers, resulting in an effort to increase the income of rice farmers and to encourage rice farmers not to sell productive rice fields to other users. The government, nevertheless, continued its ban on the importation of rice, except for imports of specialized categories of rice, such as rice for diabetics and glutinous rice. This import restriction and other government policies to revitalize the agriculture sector contributed to an increase in rice production in 2008 and 2009. Soybean production decreased by 20.7% in 2007 due to competition for land use from other crops, notably corn. Soybean production increased by 30.9% in 2008 and by 25.6% in 2009 principally because of increased demand and decreased by 7.0% in 2010 due to a decrease in harvested area. Soybean production decreased by 6.1% in 2011 due to production declining in Java, and further decreased by 7.9% in 2012 due to a decline in harvested area, mainly in Java. In 2007, peanut production decreased by 5.8% compared to production in 2006 due to competition for land use for other crops. Peanut production in 2008 decreased by 2.4% before increasing by 1.0% in 2009 and by 0.1% in 2010. Peanut production decreased by 11.3% in 2011 due to a decline in harvested area but increased by 2.6% in 2012 due to rising productivity and increased harvested area. Corn production increased by 14.5% in 2007, by 22.8% in 2008, by 8.0% in 2009 and by 4.0% in 2010 due to higher demand. Corn production decreased by 3.7% in 2011 due to competition for land use from other crops but increased by 7.5% in 2012 due to increased productivity and harvested area. Production of cassava remained relatively constant in 2007 due to competition for land use from other crops. Production of cassava increased by 8.9% in 2008, by 1.3% in 2009 and by 8.5% in 2010. Production of cassava remained stable in 2011 and declined by 5.7% in 2012. Production of sweet potatoes and mungbean has remained stable in the last few years.

Fisheries. The Indonesian fisheries sector, which includes both capture and aquaculture, plays an important role in the national economy. Productive fishing grounds within Indonesia are located in the Malacca Strait, the South China Sea, the Makassar Strait, the Flores Sea, the Banda Sea, the Arafura Sea, the Tomini Bay, the Maluku Sea and the Indian Ocean. In recent years, fishery products, particularly shrimp, have become important export commodities. From 2007 to 2011, production of farmed fish or aquaculture increased approximately 136% from 3,194 thousand tons in 2007 to 7,538 thousand tons in 2011.

From 2007 to 2011, total fish production increased by 53.1%, from approximately 8,239 thousand tons in 2007 to approximately 12,613 thousand tons in 2012. Fish production increased by 8.2% in 2011 compared to 2010. The country's exports of fish and aquatic products consist of shrimp, skipjack, tuna and other fish and aquatic species such as grouper, tilapia, abalone, seaweeds, sea cucumber, pearls and other mollusks.

Estate Cash Crops. Palm oil is the Republic's most important cash crop, followed by rubber and sugar cane. Large plantations produce the majority of palm oil, palm kernel and tea, while rubber, cocoa, tobacco, sugar cane and coffee are produced primarily by small holders. Exports of palm oil and rubber and, to a lesser extent, coffee and cocoa are significant sources of foreign exchange revenue. Palm oil production increased 46.3% in 2006 due to increases in land area cultivated and higher productivity spurred by high demand for palm oil products in the domestic and international markets. Palm oil production remained relatively steady in 2007, decreased by 0.7% in 2008, by 10.2% in 2009 and by 2.3% in 2010, and increased by 16.5% in 2011 and by 2.1% in 2012. Sugar cane production and cocoa production have both increased steadily since 2007. Rubber production has steadily increased since 2007 because of higher prices and higher demand for natural rubber products.

Livestock. Livestock has maintained a relatively stable portion of total agriculture output since 2007. Growth of livestock output has averaged around 5.5% per year from 2007 to 2012. Livestock production is steadily increasing and is expected to increase along with income levels. Meat production remained relatively constant in 2007, was 2,137 thousand tons in 2008, 2,205 thousand tons in 2009, 2,366 thousand tons in 2010, 2,554 thousand tons in 2011 and 2,691 thousand tons in 2012. Egg production decreased by 4.2% from 1,382 thousand tons in 2007 to 1,324 thousand tons in 2008, decreased to 1,307 thousand tons in 2009, increased to 1,366 thousand tons in 2010, increased to 1,456 thousand tons in 2011 and to 1,541 in 2012. Milk production increased by 13.9% from 568 thousand tons in 2007 to 647 thousand tons in 2008, increased by 27.8% to 827 thousand tons in 2009, increased to 910 thousand tons in 2010, increased to 975 thousand tons in 2011 and increased to 1,018 thousand tons in 2012.

Forestry. Indonesia's forestry sector experienced rapid expansion following the late 1960s, when development of Indonesia's forests first began on a large scale. Principal tropical hardwood resources are located in Kalimantan, Sumatra, Papua and Sulawesi. Although the development of Indonesia's tropical forests is

important to the country's continued development, the preservation of those forests and the establishment of long-term sustainable forest management and renewable forestry resources through the establishment of reforestation programs are also government concerns. Currently, logging companies are only permitted to conduct selective cutting, and they are required to pay reforestation and royalty fees to the government based on the quantity of logs harvested. Logging companies are also required to implement reforestation programs in their forestry concessions. Production of logs increased from 47.139 thousand m^3 in 2011 to 49.112 thousand m^3 in 2012. Plywood products decreased from 3.204 thousand m^3 in 2011 to 3.188 thousand m^3 in 2012.

Trade, Hotel and Restaurant Services

In 2007, the trade, hotel and restaurant services sector recorded growth of 8.9%, primarily due to 9.4% growth in wholesale and retail trade sub-sector. Restaurant services grew at 7.1% during 2007. Hotel services grew at a rate of 5.4%.

In 2008, the trade, hotel and restaurant services sector grew by 6.9%, due to growth in wholesale and retail trade, restaurant and hotel sub-sectors of 7.0%, 6.6% and 4.5%, respectively.

Following the global financial crisis, in 2009, the trade, hotel and restaurant services sector as a whole grew at a lower rate of 1.3%, although the restaurant and hotel sub-sectors grew by 7.6% and 6.6%, respectively. Wholesale and retail trade grew only 0.1% reflecting the impact of the global financial crisis.

In 2010, the trade, hotel and restaurant services sector grew by 8.7%, primarily due to growth in the wholesale and retail trade sub-sector of 9.7%. The hotel services sub-sector grew at a rate of 6.8% while the restaurant services sub-sector grew by 3.3% in 2010.

In 2011, the trade, hotel and restaurant services sector grew by 9.2%, higher than its growth of 8.7% in 2010. The growth was primarily due to the growth at a rate of 10.0% in the wholesale and retail trade sub-sector in 2011 which was higher than the wholesale and retail trade sub-sector's 9.7% growth in 2010. In addition, the hotel and the restaurant services sub-sectors grew by 9.3% and 4.2%, respectively, in 2011.

In 2012, Indonesia's trade, hotel and restaurant services sector recorded growth of 8.1%, slower than its growth of 9.2% in 2011. The wholesale and retail trade and the hotel sub-sector grew at the same rate of 8.7%, respectively. The restaurant sub-sector had a lower growth rate in 2012.

Financial Services

Financial services was the most severely affected sector of the economy during the Asian financial crisis. In 1998, this sector contracted by more than one quarter of its value. Financial services have rebounded since then, and have experienced growth in each of the past several years. The financial services sector includes both banks and non-bank financial institutions such as insurance companies, pension funds, finance companies, venture capital companies, securities companies, mutual funds, credit guarantee companies and pawnshops. See "*Financial System — Banks and Other Financial Institutions*" for more information on the financial services sector.

In 2007, financial services grew at a rate of 8.0%, increasing from growth of 5.5% in 2006. The higher growth rate was mainly due to higher net interest margin and higher overall economic growth, resulting in bank financial services growth of 8.0%. The higher net interest margin was triggered by the downward trend in deposit rates, which was steeper than the decline in lending rates. Non-bank financial institutions, such as consumer financing institutions and leasing companies, also benefited from the decline in interest rates and the increase in overall economic growth. Non-bank financial services grew by 8.1%, an increase from growth of 7.1% in 2006, while growth in other services related to building rental and business services declined to 7.9% and 8.2%, respectively. The banking sub-sector maintained a 34.6% share of the financial services sector in 2007.

In 2008, the financial services sector grew by 8.2%, compared to a growth rate of 8.0% in 2007. This sector was the fourth largest contributor to GDP growth in 2008. Growth in the financial services sector was driven by the banking sub-sector, which grew by 7.4% due to the expansion of credit and wider spreads in lending. The real estate sub-sector grew by 8.9% and was the second largest contributor to the growth of this sector.

In 2009, the financial services sector grew by 5.2%, decreasing from growth of 8.2% in 2008. The lower growth rate was mainly due to slower growth in the non-bank financial services, enterprise services, and real

estate services sub-sectors as compared to 2008, which grew by 9.9%, 9.7%, and 5.2%, respectively. The bank financial services sub-sector grew at a lower rate than the overall financial sector.

In 2010, the financial services sector grew by 5.7% compared to 5.2% in 2009, primarily due to growth in the enterprise services and non-bank financial services sub-sectors, which grew by 7.4% and 6.5%, respectively. The bank financial services and real estate sub-sectors grew at rates lower than the overall financial sector.

In 2011, the financial services sector grew by 6.8%, increasing from growth of 5.7% in 2010. The higher growth rate was primarily due to higher growth rates in the auxiliary financial services, non-bank financial services, enterprise financial services and bank sub-sectors which were 7.9%, 7.3%, 7.3%, and 6.9%, respectively. The real estate services sub-sector grew at a lower rate than the overall financial sector in 2011.

In 2012, Indonesia's financial services sector grew by 7.1%, higher than the 6.8% growth rate in 2011. The higher growth rate was primarily due to higher growth rates in the bank financial services and non-bank financial services sub-sectors which grew by 8.3% and 7.1% respectively. The other sub-sectors grew at a lower rate than the overall financial sector in 2012.

Mining and Quarrying

Indonesia produces a number of natural resources including oil, gas, coal and other minerals, and their exploitation has made an important contribution to the country's economic growth. The oil and gas sub-sector accounts for a steadily declining percentage of revenue of the mining and quarrying sector, and this percentage declined from 42.3% in 2011 to 39.4% in 2012.

Although oil and gas production has declined over the past several years, oil and gas are still Indonesia's largest exports, contributing approximately 17.2%, 18.0%, 18.9% and 19.5% of total exports in 2009, 2010, 2011 and for the eleven months ended November 30, 2012, respectively, and approximately 28.0%, 21.5%, 16.8%, 19.6% and 16.1% of government domestic revenue (inclusive of income tax revenue from the oil and gas sub-sector) in the 2010 Budget, the Revised 2011 Budget, the 2012 Budget, the Revised 2012 Budget and the 2013 Budget, respectively. Indonesia is no longer a net exporter of oil. In 2008, 2009, 2010, 2011 and for the eleven months ended November 30, 2012, Indonesia received U.S.$31.7 billion, U.S.$20.6 billion, U.S.$28.7 billion, U.S.$38.1 billion and U.S.$34.0 billion, respectively, from the export of oil and gas. See "*Foreign Trade and Balance of Payments — Exports and Imports*." As products in the mining and quarrying sector are internationally traded commodities with prices set by the world markets, the performance of this sector is determined primarily by international market prices.

In 2007, the mining and quarrying sector again experienced the lowest growth of any major sector of the Indonesian economy, at 1.9%. The non-oil and gas mining sub-sector grew 5.3%, primarily fueled by increased production of coal, bauxite and nickel ore. The quarrying sub-sector grew by 8.7% in 2007. Reported production volumes in the quarrying sub-sector increased in 2007 due, in part, to changes in the central government's reporting system for mineral and metal production under which the provincial and local governments began reporting to the central government amounts of certain minerals and metals, such as nickel and bauxite, produced under regional and local mining licenses. The oil and gas sub-sector declined 1.2% during 2007.

In 2008, the mining and quarrying sector grew by 0.7%, the lowest growth in any major sector of the Indonesian economy. The non-oil and gas mining sub-sector declined by 1.0%, although the quarrying sub-sector grew by 7.5%. The oil and gas sub-sector grew 0.4%. The low growth was a consequence of decreased production due to the decreasing oil and gas prices in the second half of 2008.

In 2009, the mining and quarrying sector grew by 4.5%, primarily due to growth in the non-oil and gas mining sub-sector and the quarrying sub-sector, which grew by 10.9% and 7.0%, respectively. However, the oil and gas sub-sector grew by 0.1% in 2009.

In 2010, the mining and quarrying sector grew by 3.9%, primarily due to growth in the non-oil and gas mining sub-sector and the quarrying sub-sector, which grew by 7.3% and 6.5%, respectively. The oil and gas sub-sector grew by 0.1% in 2010.

In 2011, the mining and quarrying sector grew by 1.4% as the quarrying and non-oil and gas sub-sectors grew by 7.4% and 2.8%, partially affected by negative growth in the oil and gas mining sub-sector which was minus 1.0%.

In 2012, Indonesia's mining and quarrying sector recorded growth of 1.5%, higher than the 1.4% growth in 2011. The higher growth rate was primarily due to higher growth in the quarrying and the non-oil and gas and mining sub-sectors which grew by 7.7% and 6.3%, respectively. However, the oil and gas mining sub-sector declined by 3.6% in 2012.

Oil and Natural Gas. In 2008, 2009, 2010, 2011 and 2012, average oil production was 977,000, 949,000, 945,000, 1,082,000 and 859,860 barrels per day, respectively.

The following table sets forth crude oil production by source for the periods indicated:

Crude Oil Production by Source[1]

	2007	2008	2009	2010	2011	2012
	(in millions of barrels)					
Pertamina[2]	47.9	42.1	45.8	47.0	54.2	46.6
Production sharing contracts[3]	300.5	315.4	300.5	297.8	340.9	268.1
Total	348.3	357.5	346.3	344.8	395.1	314.7

Source: Ministry of Energy and Mineral Resources
(1) Includes production of crude oil condensate.
(2) In 2003, Pertamina became a state-owned limited liability company.
(3) Most of the production under production sharing contracts is provided to Pertamina.

In 2011, Indonesia produced 395.1 million barrels of crude oil compared to 344.8 million barrels in 2010. In 2012, Indonesia produced 314.7 million barrels of crude oil, mainly reflecting the maturity of oil fields in Indonesia.

The following table sets forth Indonesia's crude oil exports by source for the periods indicated:

Crude Oil Exports[1]

	2007	2008	2009	2010	2011	2012
	(in millions of barrels)					
Production sharing contracts[2]	112	95	111	102	101	84.5
Government and government-designated[3]	23	51	22	43	29	20.5
Total	135	146	133	145	130	105

Source: Ministry of Energy and Mineral Resources
(1) Includes exports of crude oil condensate.
(2) Most of the production under production sharing contracts is provided to Pertamina.
(3) Exports by Pertamina and entities designated by BP Migas were reported together.

Crude oil exports decreased in 2012 due to a decline in crude oil production as a result of operational constraints, including extreme weather and unavailability of shipping.

The following table sets forth the average price of Indonesian crude oil, as measured by the ICP, for the periods indicated:

Average Price of Indonesian Crude Oil

	2007	2008	2009	2010	2011	2012
	(in U.S. dollars per barrel)					
ICP[1]	72.3	96.8	61.6	79.4	111.6	112.73

Sources: Directorate General of Oil and Gas, Ministry of Energy and Mineral Resources
(1) For a description of the ICP, see "Certain Defined Terms and Conventions."

The average monthly ICP rose significantly during the first half of 2008 but decreased in the second half of 2008 in line with international oil prices. The average monthly ICP was U.S.$61.6 per barrel in 2009, U.S.$79.4 in 2010, U.S.$111.6 per barrel in 2011 and U.S.$112.73 per barrel in 2012.

The following table sets forth natural gas production by source for the periods indicated:

Natural Gas Production by Source[1]

	2007	2008	2009	2010	2011	2012
	(in billions of cubic feet)					
Pertamina[2]	285	339	381	381	422	352
Production sharing contracts[3]	2,520	2,546	2,680	3,027	3,268	2,635.1
Total	2,805	2,885	3,061	3,408	3,690	2,987.1

Source: Ministry of Energy and Mineral Resources
(1) Includes LPG.
(2) In 2003, Pertamina became a state-owned limited liability company.
(3) Most of the production under production sharing contracts is provided to Pertamina.

Natural gas production increased by 2.85% in 2008 compared to the 2007 production figures. Natural gas production remained relatively constant in 2008. In mid-2009, natural gas production started to increase due to the development of new gas fields, such as the Tangguh Field and the Grisik Field.

The Cepu block, located between the Central and East Java provinces, is estimated to contain oil reserves of 554 million barrels. Production in the Cepu block commenced in December 2008, with a production volume of about 10,000 to 14,000 barrels per day. Production is expected to reach its peak in 2014 and 2015. The Masela natural gas field is estimated to contain natural gas resources of approximately 9.7 trillion cubic feet. The Masela natural gas project is still in the exploration stage.

As of January 1, 2012, the Ministry of Energy and Mineral Resources estimated oil reserves to be approximately 7,408.24 billion barrels. Based on 2010 data, natural gas reserves were estimated to be approximately 150.70 trillion standard cubic feet as of December 31, 2012, comprising proven reserves of 103.35 trillion standard cubic feet and potential reserves of 47.35 trillion standard cubic feet.

Geothermal. In 2007, investment in the geothermal sector dropped to half the level in 2006; however, installed capacity increased by 15% to 982 MW. Electricity production from geothermal sources in 2007 was 6,898 gigawatt-hours, or 5.3% higher than the 2006 production level. In 2007, government revenue sharing from companies established prior to Law No. 27 of 2003 (which is taken from 34% of net operating income) increased by about 34% from the previous year. In 2008, total investments in the geothermal sector increased 0.7% from 2007. In 2008, total installed capacity from geothermal sources was 1,052 MW as compared to 982 MW in 2007. Electricity production from geothermal sources in 2008 was approximately 8,213 gigawatt-hours, or approximately 19.1% higher than the 2007 production level of 6,898 gigawatt-hours due to a 70 MW increase in installed capacity in 2008. Electricity production from geothermal sources in 2009 was approximately 9,184 gigawatt-hours and installed capacity increased by 13% to 1,189 MW compared to 2008. In 2010, electricity production from geothermal sources was approximately 9,259 gigawatt-hours and total installed capacity as of December 31, 2010 was 1,189 MW. In 2011, electricity production from geothermal sources was approximately 9,253 gigawatt-hours and total installed capacity was approximately 1,189 MW. As of June 2012, total geothermal power plant installed capacity was 1,226 MW and by the end of the year, the installed capacity had risen to 1,341 MW.

As of December 31, 2012, Indonesia had an installed electrical generating capacity of approximately 44,064 gigawatts, with 19.2% coming from gas steam, 12.7% from diesel, 9.2% from hydro power, 10.2% from gas, 2.9% from geothermal power, 45.6% from steam, and 0.2% coming from renewable energy mini scale power plants. PLN owns about 76.0% of the installed capacity, and the rest belongs to Private Power Utility (PPU) and independent power producers (IPP). Indonesian demand for power is expected to grow at a rate of 9.5% per year from 2011 to 2029. To meet this demand, Indonesia will require additional power generation capacity of approximately 156,310 gigawatts by 2029. The electricity sector faces numerous challenges in its development, including (1) a mismatch between the availability of primary energy resources, which are located mostly outside Java and Bali, and demand for electricity, which mostly comes from Java and Bali, (2) high dependence on oil for power generation (15.02%) despite the abundance of coal resources within the country and (3) limited availability of government funds and other resources to finance the construction of new power plants and transmission and distribution networks. In its infrastructure development initiatives, the government has placed special emphasis on the development of power generation plants, particularly coal-fired power plants, in

order to reduce dependence on oil for power generation. One of the government's ten model projects introduced at the Indonesia Infrastructure Conference and Exhibition (**IICE**) in 2006 is a power generation project, the central Java coal-fired power plant. The government issued Presidential Regulation No. 78 Year 2010 regarding Infrastructure Guarantee for Public Private Partnership Projects through the Infrastructure Guarantee Agency, of which The government will give government guarantees to the 2 x 1,000 MW Central Java Coal-Fired Power Plant. The winner of the tender of Central Java Coal-Fired Power Plant was announced by PLN on June 17, 2011. The central Java coal-fired power plant is divided into two units, with the first unit expected to be operational in August 2016, and the second unit to commence operations 6 months later.

Additionally, the government has instructed PLN to accelerate its construction of coal power plants with aggregate capacity of 10,000 MW and associated transmission lines, the total general transmission value of which is estimated at Rp95.89 trillion and for which the government has pledged certain credit support. PLN entered into construction contracts in relation to 34 of the power plants comprising the 10,000 MW power plants program, and the government expects construction of these plants to be completed by the end of 2014. The aggregate value of the construction contracts is approximately U.S.$10 billion (assuming exchange rates of U.S.$1 = Rp9,000 and €1 = Rp12,153.96). As of December 2012, total coal power plants in 10,000 MW Phase 1 have generating capacity of about 4,510 MW (46% of the project total). Additional investment in power generation, transmission and distribution lines and facilities will be required to meet expected demand. The government expects that from 2012 to 2021 the electricity sector will require U.S.$77.38 billion in investment for the development of additional generation capacity, U.S.$15.98 billion in investment for electricity transmission and U.S.$13.77 billion in investment for electricity distribution.

Minerals. The Republic's major mineral products are tin, nickel, bauxite, copper and coal. In 2012, the country's estimated mineral reserves included 28.98 billion tons of coal (an increase from an estimated 28.17 billion tons in 2011), 27.18 million tons of copper (a slight decrease from an estimated 28.17 million tons in 2011), 410,491 tons of tin (an increase from an estimated 396,502 tons in 2011) and 1,162.71 million tons of nickel (a slight decrease from an estimated 1,178.71 million tons in 2011).

The majority of the country's mineral production is exported, accounting for approximately 9.9%, 16.7%, 16.2%, 17.1% and 16.6% of all exports in 2008, 2009, 2010, 2011 and 2012 respectively, compared to an average of 10.7% from 2006 to 2007. Most of the mining activity in Indonesia is conducted by three state-owned companies: PT Tambang Timah (Persero) Tbk (**PT Timah**), a tin mining company; PT Tambang Batubara Bukit Asam (Persero) Tbk, a coal mining company; and PT Aneka Tambang (Persero) Tbk (**PT Aneka Tambang**), a company that mines all minerals other than tin and coal. Under Indonesian foreign investment rules, foreign companies may participate in the exploration and development of minerals as partners in joint ventures with private Indonesian companies.

The table below sets forth selected production statistics for the mining sector:

Production of Principal Mineral Products

	2007	2008	2009	2010	2011	2012
Tin ore concentrate (thousands of metric tons)	66	53	46	44	23	18.5
Nickel ore (thousands of wet metric tons)(1)	10,175	10,634	6,100	6,561	32,889	37,100
Bauxite (thousands of metric tons)(1)	12,055	13,006	5,424	7,148	39,636	29,100
Copper ore concentrate (thousands of dry metric tons)	2,815	2,398	3,484	3,467	2,236	1,927
Coal (thousands of metric tons)	217,409	229,182	254,000	275,000	353,387	386,000
Iron sand concentrate (thousands of wet metric tons)	5	12	28.5	29.1	261	4.9
Gold (metric tons)	118	64	129	111	76	66
Silver (metric tons)	269	226	328	323	200	436

Source: Ministry of Energy and Mineral Resources

(1) Under Indonesian law, regional governments are permitted to grant licenses for nickel and bauxite mining. Prior to 2007, some regional government authorities did not report nickel and bauxite production amounts to the central government. As a result, nickel and bauxite production amounts for years prior to 2007 may be understated. From 2007, the regional government authorities regularly report nickel and bauxite production levels to the central government.

Tin. PT Timah and PT Koba Tin, a joint venture 25% owned by PT Timah, are the two largest tin producers in Indonesia. Indonesia's tin-ore deposits are concentrated in the Belitung and Bangka group of islands located off the eastern coast of Sumatra. Tin production decreased from 2008 to 2010 due to decreased production by PT Koba Tin caused by an illegal mining case. PT Koba Tin's mining contract will expire in 2013. PT Koba Tin applied to extend its mining contract in 2010, and the application was still outstanding as of December 2012. Tin production in Indonesia has been on a declining trend from 2007 through 2012. Tin reserves based on estimates from the government's geological agency in 2010 showed there were reserves of approximately 0.7 million metric tons of tin ore.

Nickel. Indonesia has some of the world's largest reserves of nickel ore, located primarily in Sulawesi, Halmahera Island in the north Moluccas and west Papua. Two companies are currently mining nickel: PT Aneka Tambang in Pomala, Southeast Sulawesi, and PT Vale Indonesia Tbk in Soroako, South Sulawesi. Nickel production increased in 2012 compared to 2010 and 2011 due to an increasing number of companies who have commenced operations and the nickel prices in the first quarter of 2012, which was before the passing of Regulation 7/2012 jo. Regulation 11/2012.

Bauxite. Indonesia's principal bauxite reserves are located on Bintan Island near Singapore and in West Kalimantan. Bauxite production decreased in 2008 due to decreased production in areas outside those operated by PT Aneka Tambang. The overall trend in bauxite production decreased in 2012 due to Regulation 7/2012 jo. Regulation 11/2012, which placed regulatory restrictions on ore exports in 2012.

Copper. Copper deposits are found in Papua, Nusa Tenggara, Sumatra, Java and Sulawesi. The only copper producing companies currently operating in Indonesia are PT Freeport Indonesia and PT Newmont Nusa Tenggara. Copper production decreased in 2008 due to a landslide at PT Freeport Indonesia. Copper production in 2010 was relatively constant compared to 2009. In 2011, copper production decreased compared to 2010, which was mainly due to an employee strike at PT Freeport Indonesia, a major copper producer. The downward trend in copper production continued through 2012 due to a planned decrease in copper production in the mine plans of PT Freeport Indonesia and PT Newmont Nusa Tenggara.

Coal. Indonesia's coal industry has grown dramatically in recent years as the country has diversified its energy sources, decreasing its dependence on oil and making greater use of coal in electricity generation. Coal production increased from 217 million tons in 2007 to 386 million tons in 2012. Most of the coal produced in Indonesia is exported. The majority of coal production that is consumed domestically is used for electricity generation. Increases in coal production reflected strategic production plans of coal companies. Coal production increased from 2011 to 2012 due to increased demand from coal fired power plants and power generation for domestic use.

Gold. Gold exploration in Indonesia has fluctuated in recent years. In 2007, 2008, 2009, 2010, 2011 and 2012, Indonesia produced 118, 64, 129, 111, 76 and 75 tons of gold, respectively. A substantial amount of Indonesia's gold is exported. Gold production remained relatively constant in 2012 as compared to 2011. Although gold production decreased at PT Freeport Indonesia and PT Newmont Nusa Tenggara, three gold mining companies (PT Meares Soputan Mining, PT Tambang Tondano Nusajaya and PT Kasongan Bumi Kencana) commenced their respective gold production activities in 2012.

The Mining Law was enacted on January 12, 2009 and revises the existing licensing and contract system applicable to mining and quarrying activities in Indonesia. The Mining Law only recognizes a single type of mining concession in the form of mining business licenses. Mining licenses issued under the previous law are still recognized but shall be replaced by new mining business licenses within one year of the enactment of the Mining Law. However, contracts under the previous law will remain effective until the expiry of such contracts, subject to the obligation to adjust their terms to conform to the Mining Law within one year of the enactment of the Mining Law. The Mining Law stipulates various conditions to be met by mine operators and with respect to the mining area. It also contemplates for mining in certain mining areas an additional 10.0% income tax on mine operators, 4.0% of which is required to be paid to the central government and the rest to the applicable local government. The Mining Law also provides greater powers to local governments and requires mine operators to process raw materials locally.

Within three years after the enactment of the Mining Law, exports of mineral products such as nickel ore and bauxite have grown significantly. As a result, the government has started to control export activities of mineral products in order to secure the availability of raw materials for the domestic mineral smelting sector and to mitigate the negative impact of excessive mining on the environment.

On February 6, 2012, Mineral Resources Regulation No. 7 of 2012 on the Increase of Added Value to Mineral by way of Mineral Smelting (Regulation 7/2012) was issued for holders of mining concessions for metal minerals, such as gold, copper, tin, bauxite and iron sand; and non- mineral metals such as quartz sand, in order to provide domestic smelting and refining facilities the ability to increase the production of mineral products up to a minimum standard of smelting percentage set forth by the government prior to exporting such commodities. Mining concession holders must adjust their minimum standard smelting percentages in compliance with Regulation 7/2012 within a 3 to 5 year period following the enactment of Regulation 7/2012. In order to facilitate the building of smelter facilities in Indonesia by mining companies that have evinced an intention and provided plans to conduct such activities, the Minister of Energy and Mineral Resources revised Minister Regulation No. 7/2012 to No. 11/2012 on May 16, 2012 (Regulation 11/2012). Regulation 11/2012 allows the export of raw materials or ore to production concession holders and public mining concession holders that have already obtained a recommendation from the Minister of Energy and Mineral Resources c.q. Directorate General of Coal and Minerals. Such recommendation may only be given to production concession holders and public mining concession holders that have a clean and clear mining concession license, have settled their financial obligations to the state and have submitted a working and/or cooperation plan in domestic mineral smelter and refinery. However, the Supreme Court issued Decisions No. 09P/HUM/2012 and No.10P/HUM/2012 both dated September 12, 2012 which ordered the revocation of the provision under Regulation 7/2012 that banned the export of raw materials or ore. There has been no revision to Regulation 7/2012 yet.

Transportation and Communications

In 2007, the transportation and communications sector grew by 14.0%, with growth in the transportation sub-sector and the communications sub-sector of 2.8% and 28.7%, respectively. Growth in the transportation sub-sector was fueled by growth in air transport and road transport, which grew by 8.0% and 3.7%, respectively, offset by a 2.6% decline in sea transport, but in terms of cargo, the sea transport sub-sector grew 3.2%. Growth in air transport in 2007 reflected strong demand for air travel. Strong demand for mobile communications was the primary contributor to the significant growth rate of the communications sub-sector in 2007, as reflected by an increase in the number of mobile phone subscribers from approximately 64 million at the end of 2006 to approximately 93.4 million as of December 31, 2007.

In 2008, the transportation and communication sector grew by 16.6%, compared to 2007, and the communication and the transportation sub-sectors grew by 31.0% and 2.7%, respectively. Growth in the communication sub-sector was due to strong demand for mobile communications products and services. Growth in the transportation sub-sector was fueled primarily by growth in railway transport and air transport, which grew by 14.3% and 2.6%, respectively. In terms of cargo, the sea transport sub-sector grew by 6.1%.

In 2009, the transportation and communication sector grew by 15.5%, primarily driven by growth in the communication and the transportation sub-sectors, which grew by 23.6% and 6.4%, respectively. Growth in the transportation sub-sector was primarily fueled by growth in air transport, rail transport, and road transport, which grew by 11.7%, 9.8%, and 5.7%, respectively. In terms of cargo, the sea transportation sub-sector grew by 7.4%, while land transportation grew by 4.9%.

In 2010, the transportation and communication sector grew by 13.4%, primarily due to growth of 17.8% and 7.2% in the communication and the transportation sub-sectors, respectively. Growth in the communication sub-sector was due to strong demand for mobile communication products and services. Growth in the transportation sub-sector was primarily fueled by growth in air transport and river transport, which grew by 19.0% and 7.4%, respectively. In 2010, sea transport cargo declined by 25.6%. For air transport, the demand for domestic passenger air transport growth was 22.8%, international passenger air transport growth was 20.7% and international cargo air transport growth was 12.5%.

In 2011, the transportation and communication sector grew by 10.7%, decreasing from the growth rate of 13.4% in 2010. This was mainly due to slower growth of 12.6% in the communication sub-sector. However, the transportation sub-sector had growth of 7.7% in 2011, higher than its growth of 7.2% in 2010. Growth in the transportation sub-sector was primarily fueled by growth in air transport, services tied to transport, and road transport, which grew by 14.4%, 6.8% and 6.6%, respectively. In 2011, growth in demand for domestic passenger air transport was 17.7% and international air transport was 12.5%, but international cargo air transport decreased by 11.8%.

In 2012, Indonesia's transportation and communication sector recorded growth of 10.2%, decreasing from a growth rate of 10.7% in 2011. This was mainly due to slower growth of 6.6% in the transportation sub-sector.

The growth in the transportation sub-sector was primarily fueled by growth in air transport, road transport and river transport, which grew by 8.4%, 7.1% and 6.7%, respectively. However, the communication sub-sector grew by 12.1% in 2012, also slower than its 12.6% growth in 2011. For air transport, the demand for domestic passenger air transport growth was 5.9%, international passenger air transport growth was 9.5% and international cargo air transport growth was 6.3%.

Labor and Employment

Labor

The industrial relations environment in Indonesia has changed dramatically since 1998. After three decades of promoting a single union policy approach, political reforms and democratization beginning in 1998 have resulted in improved labor standards and freedom for labor to organize. As of July 2012, there were six labor union confederations, 91 national level labor union federations and 11,852 plant level unions in Indonesia, representing a total of 3,414,455 members. Changes in this environment have also created an opportunity for greater worker participation in the determination of their work conditions and standards, and the government policy is to promote increased communication between employees, labor unions and business owners and participation by all stakeholders. However, these changes have also created new and significant challenges in industrial relations and more frequent labor disputes.

The following table sets forth the proportion of the employed labor force in each sector of the economy for the periods from 2007 through August 2012, together with the actual number employed in each sector as of August 2012:

Sector	August 2007	August 2008	August 2009	August 2010	August 2011	August 2012	
	(percentages)					(in millions and percentages)	
Agriculture	41.2	40.3	39.7	38.3	35.9	38.9	35.1
Industry	12.4	12.2	12.2	12.8	13.3	15.4	13.9
Construction	5.3	5.3	5.2	5.2	5.8	6.8	6.1
Trade	20.6	20.7	20.9	20.8	21.3	23.2	20.9
Transportation, warehouses, and communications	6.0	6.0	5.8	5.2	4.6	5.0	4.5
Financial	1.4	1.4	1.4	1.6	2.4	2.7	2.4
Public services	12.0	12.8	13.4	14.7	15.2	17.1	15.4
Others (mining, electricity, gas and water)	1.2	1.2	1.3	1.4	1.5	1.9	1.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	110.8	100.0%

Source: BPS, National Labor Force Survey

Indonesia's open unemployment rate decreased to 9.1% in August 2007, reflecting continuing improvements in the Indonesian economy which occurred in late 2006 through mid-2007. The number of jobs created from August 2006 to August 2007 was 4.5 million, which absorbed the 3.6 million new workers entering the labor market during that period and reduced the number of people who were actively seeking jobs by 0.9 million. As of August 2007, the working age population reached 164.1 million people, an increase of 3.3 million from August 2006. Of the working age population, 109.9 million, or 67.0%, were members of the work force, consisting of 99.9 million who were employed and 10.0 million who were actively seeking jobs, for an open unemployment rate of 9.1%. The portion of workers who were underemployed remained relatively stable as of August 2007 at 27.6% of the work force, compared to 27.4% as of August 2006.

Indonesia's open unemployment rate decreased to 8.4% in August 2008, reflecting continuing improvements in the Indonesian economy which occurred beginning in late 2007. From August 2007 to August 2008, 2.6 million jobs were created, which absorbed 2.0 million new workers entering the labor market during such period. As of August 2008, the working age population reached 166.6 million people, an increase of 2.5 million from August 2007. Of the working age population, 112.0 million, or 67.2%, were members of the work force, consisting of 102.6 million who were employed and 9.2 million who were actively seeking jobs, for an open unemployment rate of 8.4%. The portion of workers who were underemployed remained relatively stable at 27.8% of the work force as of August 2008, compared to 27.6% as of August 2007.

Indonesia's open unemployment rate decreased to 7.9% in August 2009, reflecting an increase in economic activity accompanying the campaign period for the legislative elections which spanned late 2008 to April 2009.

From August 2008 to August 2009, 2.3 million jobs were created, which absorbed 1.9 million new workers entering the labor market during that period. As of August 2009, the working age population reached 169.3 million people, an increase of 2.7 million from August 2008. Of the working age population, 113.8 million, or 67.2%, were members of the work force, further divided into 104.9 million who were employed and 9.0 million who were actively seeking jobs. The portion of workers who were underemployed remained relatively stable at 27.7% of the work force as of August 2009, compared to 27.8% as of August 2008.

Indonesia's open unemployment rate decreased to 7.1% in August 2010, reflecting an increase in economic activity. From August 2009 to August 2010, 3.3 million jobs were created, which absorbed 2.7 million new workers entering the labor market during that period. As of August 2010, the working age population reached 172.1 million people, an increase of 2.7 million from the population in August 2009. Of the working age population, 116.5 million, or 67.7%, were members of the work force, further divided into 108.2 million who were employed and 8.3 million who were actively seeking jobs. The portion of workers who were underemployed remained relatively stable at 28.6% of the work force as of August 2010, compared to 27.7% as of August 2009.

Indonesia's open unemployment rate decreased to 6.6% in August 2011, reflecting an increase in economic activity. From August 2010 to August 2011, 1.5 million jobs were created, which absorbed 0.8 million new workers entering the labor market during that period. As of August 2011, the working age population reached 171.7 million people. Of the working age population, 117.4 million, or 68.3%, were members of the work force, further divided into 109.7 million who were employed and 7.7 million who were actively seeking jobs. The portion of workers who were underemployed increased to 29.5% of the work force as of August 2011 as employers hired more part-time workers.

Indonesia's open unemployment rate decreased to 6.1% in August 2012, reflecting an increase in economic activity. From August 2011 to August 2012, 1.1 million jobs were created, which absorbed 0.7 million new workers entering the labor market during that period. As of August 2012, the working age population reached 173.9 million people, an increase of approximately 2.1 million from the population in August 2011. Of the working age population, 118.0 million, or 67.9%, were members of the work force, further divided into 110.8 million who were employed and 7.2 million who were actively seeking jobs. The portion of workers who were underemployed remained around 29.0% of the work force as of August 2012.

Despite improvements in recent years, unemployment is expected to remain a problem in Indonesia if economic growth and job creation fail to keep pace with population growth.

Four important changes in labor policy have occurred within the last decade. First, the Trade Union Law, enacted in 2000, sets out certain industrial relations rights and provides support for formulating collective labor agreements and establishing trade unions within companies. Second, the new Manpower Law was enacted in March 2003, reaffirming the core International Labor Organization conventions and regulating minimum wages, dismissals and severance entitlements, and employment contracts. The Manpower Law also establishes clearer rules on union representation in collective bargaining at the enterprise level. On October 28, 2008, the Constitutional Court struck down certain provisions of the Manpower Law which it considered to be detrimental to the well-being of employees, including a provision that allowed employers to terminate employees immediately for "grave misconduct" (a term that included, among others, fraud, theft and embezzlement). Third, the Industrial Disputes Resolution Law, which became effective in January 2004, prescribes procedures for resolving disputes and establishing new specialized labor courts. These three laws provide a modest, positive contribution to the overall policy environment and improve certainty in the industrial relations framework. Fourth, an additional law relating to migrant workers was adopted in October 2004. The law aims to regulate the movement of, and protect, Indonesian migrant workers through the establishment of a special government agency overseeing the placement of migrant workers.

In 2012, the government implemented the Ministry of Labor and Transmigration Regulation No. 17 of 2005 on Component and Implementation Phases to Achieve Decent Living Needs by issuing Ministry of Labor and Transmigration Regulation No. 13 of 2012. The government has committed to make public any verdict of the Constitutional Court that requires an amendment to the Manpower Law.

Regional governments have the power to establish minimum wage requirements through tripartite wage boards and do so from the beginning of each calendar year. The table below sets out the national average minimum wage for each year and the average increase across the country for each year:

Year	National average minimum wage	Average increase in minimum wage
2006	Rp602,701.9	18.5%
2007	Rp673,261.7	12.0%
2008	Rp745,709.2	10.8%
2009	Rp841,529.6	11.3%
2010	Rp908,824.5	8.2%
2011	Rp988,829.4	8.7%
2012	Rp1,088,902.64	10.1%
2013[P]	Rp1,296,908.48	19.1%

Source: Kemennaker Trans (the Ministry of Manpower and Transmigration)

[P] Preliminary figures.

Pension and Health Funds

The pension system in Indonesia consists of compulsory and voluntary pension funds. The compulsory system includes health insurance for government employees (not including employees of SOEs) administered by PT Askes (Persero), pension plans for government employees (not including employees of SOEs) administered by PT Taspen (Persero), old age savings for the police and armed forces administered by PT Asabri and old age security for private sector and SOE employees (in companies that meet minimum requirements stipulated in the relevant law) administered by PT Jamsostek (Persero).

The establishment of pension funds for non-government employees is regulated by a 1992 law that provides for the establishment of two types of pension funds: employer pension funds, which are provided by a private employer to its employees, and financial institution pension funds, which are chosen and obtained by an employee from a financial institution. In addition, the law and several government regulations and decrees specify the types of assets that these pension funds may acquire, as well as the permissible allocation of investments among assets and asset classes. See "*Financial System — Banks and Other Financial Institutions*."

In October 2004, the government adopted Law No. 40 of 2004 on National Social Security System (*Sistem Jaringan Sosial Nasional* or the **SJSN Law**), which establishes a national program designed to ensure social protection and welfare to all Indonesian citizens. When implemented, the SJSN Law will provide health, accident, retirement, old age and death benefits to employees and will be funded by defined contributions from the employee and employer, while payments to lower income persons will be funded by the government. The Ministry of Finance recently arranged three drafts of presidential regulations on retirement, death and old age social insurance and has submitted them to the Coordinating Minister of People's Welfare.

On November 25, 2011, the law on Social Security Administering Agencies (*Badan Penyelenggara Jaminan Sosial* or **BPJS**) was passed to help implement the SJSN Law. BPJS is to consist of two bodies, namely BPJS for Health Coverage (**BPJS Kesehatan**) which will provide universal healthcare for all citizens, and BPJS for Social Security Benefit for Workers (**BPJS Ketenagakerjaan**) which will provide work-related accident insurance, pension payments, old age benefits, and death benefits for all workers (formal and informal).

BPJS is to be established initially by transforming PT ASKES and PT Jamsostek, and, at a later stage, PT Taspen and PT Asabri. BPJS Kesehatan is set to be established and fully operational on January 1, 2014 by the transformation of PT ASKES and will provide healthcare services for all citizens including through those programs that were formerly provided by PT Jamsostek and PT Asabri (the healthcare program for police and armed forces). BPJS Ketenagakerjaan is to be formed in two stages. First, on January 1, 2014 BPJS Ketenagakerjaan is to be established and is targeted to become operational by July 2015 at the latest, in order to provide social security benefits for private sector and informal workers. Once PT Asabri and PT Taspen have been transformed into BPJS Ketenagakerjaan, the agency will provide universal social security benefits for all workers. The second stage is planned to be finalized by 2029, at the latest.

Income Distribution

The following table shows income distribution as of the end of the periods indicated:

Income Distribution
(percentage of total national income)

	As of December 31,				
	2007	2008[1]	2009[1]	2010[1]	2011[1]
Lowest 40.0%	19.1%	19.6%	21.2%	18.1%	17.7%
Middle 40.0%	36.1%	35.7%	37.5%	35.5%	35.9%
Highest 20.0%	44.8%	44.8%	41.2%	45.5%	46.5%
Gini Index[2]	0.36	0.39	0.37	0.38	0.39

Source: BPS (Based on Annual Panel National Socio Economic Survey last conducted in September, 2011)

(1) Starting in 2008, the method of calculation for the Gini index shifted from the household approach to the individual approach.

(2) The **Gini index** is a measure of income distribution that ranges between 0.0 and 1.0, with higher numbers indicating greater inequality. In practice, the lowest values do not go below 0.2; the highest ones may reach 0.6.

Income distribution improved during the Asian financial crisis, as the manufacturing sector suffered the greatest losses, and the agricultural sector performed relatively well by comparison. In addition, the depreciated rupiah provided better returns to primary commodities producers. Because agriculture and primary commodities producers tend to be concentrated in rural areas with lower income levels, the Asian financial crisis reduced income disparity somewhat across different regions and different sectors of society. Income distribution, as measured by the Gini index, has remained relatively constant from 2008 through 2011.

However, the percentage of people living below the poverty line has exhibited a decreasing trend since the Asian crisis in 1998. Approximately 49.5 million people, or 24.2% of the population, were living below the poverty line in 1998, which decreased to approximately 29.1 million as of March 2012, or 12.0% of the population as of March 2012. This percentage decreased in each period from 1998 to 2012, except 2006, when the Republic experienced increases in domestic oil prices in March and in October 2005 that caused annual inflation to rise to 18% in March 2006. The government has implemented policies to further decrease poverty to a targeted 9.5% to 10.5% in 2013 and 8% to 10% in 2014, in accordance with the National Medium Term Development Plan.

The following table shows the number of people and percentage of the population living below the poverty line as of the dates indicated:

People living below poverty line

	Number of people	Percentage of population
	(millions)	
March 2006	39.3	17.8
March 2007	37.2	16.6
March 2008	35.0	15.4
March 2009	32.5	14.2
March 2010	31.0	13.3
March 2011	30.0	12.5
March 2012	29.1	12.0
September 2012	28.6	11.7

Source: Panel National Socio Economic Survey

BPS measures poverty using a basic needs approach and defines poverty as an economic inability to fulfill food and non-food basic needs, measured by consumption and expenditure. BPS sets the poverty line by calculating two components, the Food Poverty Line (**FPL**) and the Non-Food Poverty Line (**NFPL**), and calculates a separate poverty line for urban and for rural areas. The FPL is set using a daily minimum requirement of 2,100 kcal per capita per day. The NFPL is set using a minimum expenditure per month per

capita. In September 2012, the FPL and NFPL for urban areas were approximately Rp194,207 and Rp83,175, respectively, while for rural areas, the FPL and NFPL were approximately Rp185,967 and Rp54,474, respectively, and the total poverty line for urban and rural areas were Rp277,382 and Rp240,441, respectively. Thus, for urban and rural areas combined, the FPL and NFPL in September 2012 were approximately Rp190,758 and Rp68,762, respectively, and the total poverty line was Rp259,520.

Infrastructure Development

The 1997-98 Asian financial crisis placed a great strain on Indonesia's infrastructure. During that crisis, the overall quality of the nation's infrastructure decreased as public spending in real terms was reduced and many planned private infrastructure projects were suspended or cancelled. Although the Asian financial crisis has ended, Indonesia continues to face major challenges in improving its infrastructure at the same time as it seeks to consolidate and accelerate its economic recovery, improve its international competitiveness and increase access to basic public services. A key priority of the government is to encourage infrastructure development as a means to accelerate economic growth particularly in rural areas, support further industrial development and improve the lives and economic welfare of Indonesians by reducing unemployment and poverty. In order to promote infrastructure development, the government allocated Rp2.0 trillion in 2007 for infrastructure development. The Revised Budget 2008 allocated Rp2.8 trillion for investment funds, of which Rp1.0 trillion was allocated for initial capital for the establishment of the Indonesia Infrastructure Fund and Rp0.3 trillion was allocated for allowances for the PT Perusahaan Listrik Negara (Persero) (**PLN**) guarantee relating to the Central Java power plants. In the Revised 2010 Budget, Revised 2011 Budget, the Revised 2012 Budget and the 2013 Budget, the government allocated Rp12.9 trillion, Rp21.1 trillion, Rp19.3 trillion and Rp 12.2 trillion, respectively, for investment funds, which includes funds for infrastructure development. These funds are currently managed by the IIA, but a portion of the funds is expected to be managed by the Indonesia Infrastructure Fund, which commenced operation in January 2010, while the IIA commenced operation in December 2008. In December 2009, the government established PT Penjaminan Infrastuktur Indonesia (Indonesia Infrastructure Guarantee Fund, or **PT PII**) pursuant to Presidential Instruction No. 5 of 2008 on Economic Program Focus of 2008-2009 and Government Regulation No. 35 of 2009 on Capital Participation of the Republic of Indonesia for the Establishment of a Guarantee Company in Infrastructure Business. The government allocated Rp1.0 trillion towards such Guarantee Fund in 2009 as initial capital. To increase the guarantee capability of PT PII, the government allocated an aggregate of Rp3.5 trillion from the state budgets in 2010, 2011, 2012 and 2013. The Guarantee Fund is expected to cover the guarantee of certain risks for infrastructure projects in Indonesia structured as public private partnership projects. To support the guarantee infrastructure mechanism conducted by PT PII, the government has issued Presidential Regulation No. 78 of 2010 on Government Guarantee for Public Private Partnership Infrastructure Projects Performed through Business Entity on Infrastructure Guarantee and Minister Finance Regulation No. 260 of 2010 on Implementation Guideline on Infrastructure Guarantee in Cooperation Projects between the Government and Business Entities.

Due to budgetary constraints, the government's main aim is to concentrate on maintaining and upgrading existing infrastructure and to focus on economically feasible but financially non-viable infrastructure. Additionally, because the government has projected that Indonesia's infrastructure investment requirements are in excess of expected available public sector funding, the government intends to fund the gap through greater private sector participation. Results have been positive with respect to toll road and power generation projects. The government has transferred Rp2.0 trillion to two newly established agencies that aim to support private sector participation in infrastructure: BLU Investment in the Ministry of Finance, which manages government fiscal support for infrastructure, and BLU Land Acquisition in the Ministry of Public Works.

In November 2006, the government held the IICE where it offered 10 major infrastructure projects (the model projects) for public tender valued at more than U.S.$4.5 billion, including three water treatment projects, two power generation projects, two toll road projects, two transportation sector projects and one telecommunications project. These projects are currently at different phases of development, ranging from project definition to construction between the government and the selected bidder. In April 2011, the government also held the Indonesia International Infrastructure Conference and Exhibition. This event focused on inviting investment in the sectors of transportation, power generation, renewable energy development, information technology, water and sanitation.

On May 26 and 27, 2008, the Regional Representatives' Council hosted the Indonesian Regional Investment Forum (**IRIF**), the latest in a series of infrastructure summits to promote private infrastructure investment in Indonesia. At the IRIF, local government representatives were present and approximately 200 infrastructure projects with an aggregate investment value of approximately U.S.$19.0 billion were offered for public tender,

including the proposed Bojonegara International Port and Tanah Ampo Cruise Terminal, Cilegon-Bojonegara Toll Road, Balaraja Agribusiness Terminal, Kaliwungu Port and Industrial Area and Cisolok-Cisukarame and Tampomas Geothermal Power Plants and various water, mining and geothermal and hydroelectric power plants throughout the provinces of Indonesia.

The government continues to prioritize infrastructure development and to promote cooperation between SOEs and the private sector towards this end. Several key infrastructure projects are being built across various sectors, including electricity (such as the Central Java Power Plant Project), ports (such as Tanjung Priok in Jarkarta, Teluk Lamong near Surabaya, Batu Ampar in Batam, Kuala Tanjung International Hub in the Malacca Straits, Sorong West Pacific Hub Port and the Tanah Ampo Cruise Terminal at Kabupaten Karangasem Bali), railways (such as the Manggarai-Soekarno Hatta Railway Track Project and the Central Kalimantan Coal Railway Project), airports (such as the Kertajati Airport Project), toll roads (such as the trans Sumatera Toll Network, comprising the Bakauheni-Palembang-Pekan and Baru-Medan-Banda Aceh main routes as well as the Palembang-Bengkulu, Pekanbaru-Padang and Medan-Sibolga sub-routes, as well as the 16 toll road projects in various regions as well as the trans-Java toll road project), terminals (such as the Karyajaya Integrated Terminal of Palembang and Pekanbaru Cargo Terminal), water supply (such as the Umbulan, Bandar Lampung, Southern Bali and Maros Water Supply Projects) and housing (such as approximately 1,000 multi-storey housing projects in various regions). As of the end of 2010, the government had completed the following infrastructure projects: the spin off of railway management for Jabodetabek and South Sumatera; the Hasanuddin Airport in Makassar; continued expansion of the port facility in Tanjung Priok; rural telephone development in Desa Berdering and Desa Pintar; the development of East Canal Floodways and improvement of West Canal Floodways in Jakarta; as well as development of waste water infrastructure and moderate multi storey housing in various cities. Maritime connectivity is expected to improve with the establishment of the main sea corridor or the Indonesia east-west pendulum, connecting the six ports of Belawan, Batam, Tanjung Priok, Surabaya, Makasar and Sorong. Development of port facilities in Belawan is targeted for completion by 2014. In 2011 and 2012, 16.59 kilometers of toll road were completed. At the end of December 2012, there were approximately 807 kilometers of open toll roads and the sea toll road connecting Nusa Dua-Ngurah Rai Airport-Benoa is in its final stage of completion. The government is in the process of developing a four-lane toll road connecting Jakarta to Surabaya, which is targeted for completion in 2014 (the Trans-Java Toll Road Project). See "— *Transportation*."

The government believes there are opportunities for private sector participation in the solid waste sector such as in transporting solid waste in larger cities such as Jakarta and Surabaya. Private parties may also partner with local governments through Clean Development Mechanism (**CDM**) solid waste management, flaring methane gas in landfills and trading this as carbon credits under applicable international regimes. CDM projects have been in operation in Suwung (Bali), Sumur Batu and Bantar Gebang (Bekasi), Sukowinatan (Palembang), Tamangapa (Makassar), Piyungan (Yogyakarta) and Gianyar (Bali). Solid waste management is governed by Law No. 18 of 2008 on Waste Management and Minister of Public Works Regulation No. 21 of 2006 on National Policy and Strategy on Solid Waste Management System Development.

The government is committed to reforms of regulations that require private investors to enter into concession agreements even when significant uncertainty in the acquisition of land for a project remains. It has established a Land Working Group whose membership consists of the head of the National Land Agency and released regulations, inter alia, Presidential Regulation No. 71 of 2012 on Land Procurement Process for Public Interest Projects designed to shorten the land acquisition process and to cap costs relating to land acquisition.

On January 14, 2012, the government enacted Law No. 2 of 2012 on Land Procurement for Development of Public Interest. This new law sets forth principles of land procurement for development in the public interest in which the central government and/or regional government will guarantee the provision of land and funding. There are 18 definitive fields of development categorized as public interest, including, among others (i) public road, toll road, railways; (ii) seaport, airport and terminals; (iii) oil and gas and geothermal infrastructure; (iv) electricity power generation, transmission and distribution of electricity power and (v) government telecommunication and information network. The government will negotiate compensation for land procurement, based on appraisal valuation. Compensation for land procurement to the land owner may be given in the form of cash, land substitution, relocation, share ownership or any other agreed form. Disputes will be determined initially by district courts and subsequently by the supreme court. The government may award compensation based on such final court judgment in the relevant district court. Funding for land procurement will come from state and/or regency budgets, except in respect of land procurement on behalf of state owned enterprises, which will be sourced internally.

Presidential Regulation No. 71 of 2012 on Land Procurement Process for Public Interest Projects was enacted in January 2012 as the implementing regulation for Law No. 2 of 2012 which replaced the old Presidential Regulation No. 36 of 2005. Under this Presidential Regulation, certain ongoing land acquisition for public interest projects would still need to be completed following the old regulatory regime until December 31, 2014. The transitional provisions of the Presidential Regulation, however, provide that land in an ongoing land acquisition process which has not been acquired by December 31, 2014 can be procured following the procedures set out in the Presidential Regulation. These transitional provisions in the Presidential Regulation seem to indicate that the new land acquisition regulatory regime is only applicable for new land acquisition processes or land acquisition processes in the preparation stage where the land acquisition planning documents are still being processed.

If there are no objections or appeal requests, the land acquisition process will take around 319 working days. If there is an objection or appeal request, the Presidential Regulation sets a maximum of 583 working days from the date the Governor receives the land acquisition plan documents until land certification/registration is completed.

The land title itself is extinguished upon the granting of the compensation or the deposit of the compensation in the court or upon completion of land title release. The Presidential Regulation also allows commencement of construction above the procured land after delivery of the procured land to the institution that needs the land without waiting for the land certificate to be issued.

As stipulated in Presidential Regulation No. 71 of 2012, the National Land Agency (**BPN**), the Ministry of Home Affairs and the MOF are required to issue the implementing regulation for Land Procurement. BPN issued the Head of the National Land Agency Regulation No. 5 of 2012 as technical guidance to the implementation of land acquisition for development for public interest. The Minister of Home Affairs issued Minister of Home Affairs Regulation No. 72 of 2012 regarding operating and support costs involved in the implementation of land acquisition for development for public interest deriving from regional budget (**APBD**) while the Minister of Finance issued Minister of Finance Regulation No. 13/PMK.02/2013 regarding operating and support costs involved in the implementation of land acquisition for development for public interest deriving from the state budget.

Finally, the government has set up a land acquisition revolving fund and has allocated Rp3.85 trillion to this fund in the Revised 2011 Budget. In relation to this, the government allocated Rp4.89 trillion to support a national policy on land capping for 28 toll roads. Under this policy, the government bears the cost of land clearance necessary to prepare land for a project in excess of a set ceiling. This policy is limited to projects that the government has determined to be financially feasible. The Ministry of Public Works is proposing to continue the land capping policy until 2013 due to the delays in the land procurement process. In 2011, the government allocated Rp3.85 trillion for the land revolving fund to the Badan Pengatur Jalan Tol (**BPJT**) and utilized around Rp753 billion. In 2012, the government allocated Rp900 billion for the land revolving fund. From 2007 to 2012 the government allocated Rp7.05 trillion for the land revolving fund and utilized around Rp3.02 trillion to support land acquisition for toll road projects, and utilized around Rp450 million for airport and railway projects.

Prior to 2006, the government had taken the position that it would not provide any guarantees or other direct credit support for infrastructure projects undertaken by the private sector. The lack of such support was a contributing factor to the low level of infrastructure project development in Indonesia after the Asian financial crisis. In May 2006, the Ministry of Finance established a Risk Management Unit under its new Fiscal Policy Office to oversee the implementation of a new government policy of sharing certain risks, such as political risk, project performance risk and product offtake risk, and to approve direct government credit support for infrastructure projects. Under this policy, the government has agreed to grant credit support for certain major new infrastructure projects, including the 10,000 MW power plants program of PLN, the state-owned electricity company, the Trans-Java Toll Road Project, the Jakarta Outer Ring Road II Toll Road Project and the Jakarta Monorail Project. See "*Public Debt — Contingent Liabilities*."

Since February 2006, the government has also introduced or implemented a number of sector-specific reforms to encourage infrastructure development, including the requirement that the relevant ministries prepare long-term infrastructure development master plans for their sector. The government has adopted implementing regulations related to roads and utilities and has fostered the establishment of self-regulatory bodies in the toll road, oil and gas, telecommunications and water supply sectors. In 2006, through Regulation of the Minister of Public Works No. 10/PRT/2006 on Procedure of Use of Fund for Toll Roads Land Procurement, the government established a working team to address land acquisition problems, which has been the main obstacle to toll road development projects.

In April 2007, the government also enacted Law No. 25 of 2007 on Investment (the **New Investment Law**), which is expected to encourage investment overall, including investment in infrastructure projects. In April 2007 and February 2008, the government adopted regulations designating the types of financial instruments through which the government could utilize public funds to make direct and indirect investments in infrastructure projects. See "*Foreign Investment*."

Government Regulation No. 1 of 2008 on Government Investment, dated February 4, 2008, provides mechanisms for government investment in various sectors, including investment in both debt and equity securities as well as direct investment through the purchase of equity or the provision of loans. Government investment will be conducted and managed by a Government Investment Agency which will be regulated and supervised by the Minister of Finance.

On May 22, 2008, the government issued Presidential Instruction No. 5 of 2008 on the Focuses of Economic Program for 2008-2009 (the **Presidential Instruction**), which aims to increase transparency in the government's programs to alleviate poverty and unemployment. The Economic Program for 2008-2009 addresses a range of issues relating to the improvement of the investment climate, financial sector reforms, the energy sector, natural resources, environment and agriculture, the empowerment of micro, small and medium enterprises, the ASEAN economic community, labor and transmigration and related infrastructure development issues. The Presidential Instruction seeks to implement the following measures: (i) improvement of institutional services in banks, SOEs, energy companies and agricultural companies, and of services related to distribution of goods, custom facilities, taxation services and land registration; (ii) simplification of procedures for application of business licenses regionally and nationally; and (iii) increase in quality and productivity of each sector particularly the banking, energy and agriculture sectors. The Presidential Instruction requires certain details regarding each program to be specified, including clear targets, timetable and a responsible minister or head of agency.

In late 2010, the government showcased five infrastructure public-private partnership projects: (i) Tanah Ampo Cruise Terminal, Bali (estimated investment value: U.S.$36 million); (ii) Soekarno Hatta — Manggarai Railink (estimated investment value: U.S.$2 billion); (iii) Coal Fired Power Plant, Central Java (estimated investment value: U.S.$1.98 billion); (iv) Medan-Kuala Namu-Tebing Tinggi Toll Road, North Sumatra (estimated investment value: U.S.$628 million); and (v) Umbulan Water Supply, East Java (estimated investment value: U.S.$204.2 million). The government will focus on preparing, transacting, financing and constructing these projects as a showcase for infrastructure development through the public-private partnership scheme. The contract of Coal Fired Power Plant Central Java PPP Project was signed on October 6, 2011 between PT PLN and PT Bhimasena Power Indonesia and is currently in the process of financial close and land acquisition.

As of September 2012, the government had two main strategies for infrastructure development, being the Masterplan on Acceleration and Expansion of Indonesian Economic Development (*Masterplan Percepatan dan Perluasan Pembangunan Ekonomi Indonesia* or **MP3EI**), which includes 866 infrastructure projects with a total value of Rp2,372 trillion, and the National Logistic System (*Sistem Logistik Nasional* or **Sislognas**).

In order to implement the Law on Land Provision and Presidential Regulation No. 71/2012, the National Land Agency issued Regulation of Head of National Land Agency No.5 of 2012 dated October 30, 2012, concerning Technical Guidance on the Execution of Land Acquisition. Further, with respect to the funding of the operational and supporting costs for land acquisition for public purposes, the Minister of Finance and the Minister of Home Affairs issued Regulation No.13/PMK.02/2013 dated January 4, 2013 concerning Operational Costs and Supporting Cost Deriving From State Budget for the Implementation of Land Acquisition for Public Interest, and Regulation No.72 of 2012 dated November 7, 2012 concerning Operational Costs and Supporting Cost Deriving From Regional Budget.

In the 2013 Budget, the government allocated Rp184.4 trillion for capital expenditures. This budget is allocated for the development of six infrastructure projects, including electricity, air, road, railway, port, and agriculture infrastructure. These projects include, among others, development of long distance electricity transmission networks, construction of new airports and revitalization of old airports, procurement of new land transportation vehicles, and expansion of irrigation networks.

Transportation

Indonesia consists of 17,504 islands, and the transportation network relies more heavily on sea and air transportation compared to most other countries of comparable size. In terms of land transportation, which accounts for 92% and 84% of freight and passenger movement, respectively, as of December 2012, Indonesia

had 496,607 kilometers of roads, consisting of 38,570 kilometers of national roads, 53,642 kilometers of provincial roads, 404,395 kilometers of municipal and city roads, and 757.47 kilometers of toll roads. Most road networks in and around major cities are heavily congested, while many inter-urban and rural road networks are in poor condition and are in need of repair. Public funds for road maintenance and construction are insufficient, and the government is encouraging private participation and investment in building toll roads, mostly in Java, Sumatra and Sulawesi. As of December 31, 2011, Indonesia had 8,159 kilometers of railways, of which 4,816 kilometers were in operation. As of July 2012, the land transportation system included 559 bus stations, serviced by 21,157 inter-provincial buses and 21,157 tourist buses. In terms of sea transportation, as of June 30, 2012, Indonesia had 2,179 ports, 111 of which served as international ports to facilitate export-import cargo traffic, and had 214 inland waterway transport routes with a total navigable length of 34,342 kilometers, serviced by 242 vessels consisting of 228 roll-on, roll-off (ro-ro) transport vessels and 12 landing craft tanks. As of December 2012, Indonesia operated 245 airports, of which 25 were international airports. International flights into and out of Indonesia are serviced by 45 international airlines, while the domestic market is serviced by 11 airlines. The Kualanamu Airport is set to start operations in 2013.

Currently, several toll road projects are being developed in Indonesia. The government expects that construction of the first phase of the Jakarta Outer Ring Road Project will be completed in 2013 and the second phase will be completed in 2014. In March 2011, an additional segment, from Semarang to Ungaran, as part of the Semarang to Solo segment, was completed. The government is continuing to prepare the remaining segments of the Trans-Java Toll Road Project and completion of the project is targeted for 2014. The 10 model projects introduced at the IICE include two toll road projects and one transportation facility project. The Solo-Kertosono Toll Road is planned to be 177.1 kilometers long and to cost approximately U.S.$1,294.3 million, and the government expects that 118.7 kilometers of the road will be constructed by the private sector and 58.4 kilometers will be constructed by the government. The Medan-Kualanamu-Tebing Tinggi Toll Road in Sumatra is planned to be 62.4 kilometers long and cost approximately U.S.$567 million, of which 17.8 kilometers of the toll road (costing approximately U.S.$137 million) will be constructed by the government starting at the end of 2012 to support the development of the new Kualanamu Airport with the remaining 44.6 kilometers to be tendered for construction. To accelerate the implementation of this project, the local government authorities have submitted a proposal for dividing the project into two phases. Under this proposal, the first phase is expected to entail construction of 20 kilometers of road at a cost of U.S.$163 million. The transportation facility included among the model projects is the expansion of the seaport at Teluk Lamong near Surabaya, which is estimated to cost U.S.$179 million.

In addition, railway projects are expected to be developed in the provinces of Aceh, North Sumatra, West Sumatra and South Sumatra, as well as in Java and several urban railways in Jakarta, Bandung, Yogyakarta and Surabaya. These railway projects are expected to be funded by the government. In 2008, construction began on the Aceh Railway Project and certain segments of the Java Railway Project and is ongoing. The government is also studying the feasibility of railway projects in Kalimantan, Sulawesi and Papua and an elevated train and subway system in Jakarta. In addition, the government expects the new Medan Airport to begin operations in 2013. There are several railways strategic projects such as the Construction of Java North Line Railway Double Tracking. The total length of the construction project for the Java North Line Railway Double Tracking is 432 kilometers connecting Cirebon-Semarang-Surabaya, with an estimated cost of Rp10 trillion and is targeted to be fully operational by the end of 2013. In addition, the Java South Line Railway Double Tracking is also being constructed, which includes: (A) Double Tracking from Cirebon-Kroya consisting of 158 kilometers (which is further divided into three segments: (i) connecting Cirebon-Larangan (57 kilometers) and Larangan-Prupuk (18 kilometers); (ii) connecting Prupuk-Purwokerto (56 kilometers) and (iii) connecting Purwokerto-Kroya (27 kilometers)), (B) Double Tracking from Kroya-Kutoarjo consisting of 76 kilometers and (C) Double Tracking from Solo-Surabaya consisting of 253 kilometers.

Another strategic project is developing access to airports. One of the government's projects is the development of a railway line into Soekarno-Hatta International Airport. Two lines have been proposed, the Express Line and Commuter Line. The Express Line will be 33 kilometers long and will be financed through a public private partnership (PPP) scheme. The estimated investment is approximately Rp20 trillion. The Commuter Line is expected to be built by state-owned entities. Railway development has opened up opportunities for private coal railway development in (i) Muara Enim to Tanjung Api-api (South Sumatera Province) which consists of 300 kilometers of rail, (ii) Tanjung Enim (South Sumatera Province) — Pulau Baai (Bengkulu Province) which consists of 310 kilometers of rail, (iii) Puruh Cahu-Bangkuang (Central Kalimantan Province) which consists of 290 kilometers of rail, and (iv) Muara Wahau-Lubuk Tutung (East Kalimantan Province) which consists of 120 kilometers of rail.

To reform and further develop the transportation sector and associated infrastructure and to improve the legal framework for investors in the transportation sector, the government has introduced various new laws and regulations and is discussing additional regulatory improvements. These new laws and regulations include Law No. 1 of 2009 on Aviation; Law No. 22 of 2009 on Traffic and Land Transportation; Law No. 23 of 2007 on Railway; Law No. 17 of 2008 on Shipping; Government Regulation No. 56 of 2009 on Organizing of Railway, Government Regulation No. 72 of 2009 on Railway Traffic and Transportation, Government Regulation No. 61 of 2009 on Port, Government Regulation No. 20 of 2010 on Water Transport, Government Regulation No. 22 of 2011. Government Regulation No. 20 of 2010 on Water Transport, Government Regulation No. 32 of 2011 on Traffic Engineering Management, Government Regulation No. 37 of 2011 on Traffic and Transportation Forum, Government Regulation No. 55 of 2012 on Vehicles, and Government Regulation No. 80 of 2012 on Inspection Procedures of Motor Vehicle on the Roads and Enforcement of Traffic Violation and Transportation. A focus of these regulatory reforms is to encourage private participation in the development of the transportation sector by providing greater opportunities for private sector participants to invest in the development of roads, inland waterways, ports, airports and railways. Another focus of the reforms is to improve safety standards within the industry by ensuring that the government in its capacity as industry regulator continues to work closely with the operators and developers within the industry.

One of the recent reform initiatives involving the transport sector and associated infrastructure involves minimizing traffic congestion in Jakarta. In connection with this, Presidential Regulation on the Transportation Authority at Jabodetabek and Government Regulation on the Mandate of Law No. 22 of 2009 on Traffic and Land Transportation is currently being prepared by the Coordinating Ministry for Economic Affairs and Ministry of Law and Human Rights. In addition, among others, the construction of a partially elevated and partially underground railway system, the Jakarta Mass Rapid Transit, connecting Lebak Bulus to Bundaran Hotel Indonesia is expected to begin in early 2013 and phase one of approximately 15.7 kilometers out of a total of approximately 23.8 kilometers two phase route is planned to come into operation in 2016; two additional busway corridors have been developed; the construction of the remaining sections of the tolled ring road circling the outer city of Jakarta, the Jakarta Outer Ring Road, has been completed; a Master Plan Intelligence Traffic System at Jabodetabek is currently in the planning stages; and a non-toll road flyover, the Antasari — Blok M flyover, became operational at the end of 2012.

The National Road Safety Master Plan, introduced in July 2006, focuses on road safety. The plan target is to reduce traffic accident fatality rates by 80.0% by 2035. This plan is based on a five pillar approach to road safety, which consists of road safety management, safe roads, safe vehicles, safe conduct on roads, and how to tend to accident victims. On November 26, 2011, the Kutai Kartanegara Bridge across the Mahakam River at East Kalimantan collapsed. On November 28, 2011, the Coordinating Ministry for Public Welfare released an official statement stating that there were 10 fatalities and 33 others reported missing as a result of the accident. The Coordinating Ministry for Public Welfare and the Ministry of Public Works, among others, are investigating the cause of the collapse.

Moreover, in the railways sector, the Directorate General of Railways established the National Railways Master Plan in April 2011, which covers, among other things, national railway planning until 2030. Under the National Railways Master Plan, by 2030, the railway network is expected to cover 12,000 kilometers and achieve passenger capacity of around 11.0-13.0%, and freight transport capacity of around 15.0-17.0%. In addition, the plan provides for strategies to achieve its goals by 2030, such as strategies regarding railway network development, increasing security and safety, technology transfer and industrial development, human resources development, institutional development, investment and financing. The National Railways Master Plan is expected to serve as a guideline for national railway development up to 2030 for national and local governments as well as the private sector.

Electricity

Indonesia has gradually been opening electric power services to competition from the private sector. In 1990, the government converted PLN from an agency with a social purpose to a limited liability company with a profit motive. Private investment in power plants has been permitted since 1992. The Asian financial crisis affected the electric power sector and forced the government to revaluate a number of independent power producer contracts. Growth in electricity consumption averaged 7.2% per year between 2007 and 2012 and was 8.1% as of December 31, 2012, on a year-on-year basis.

On September 23, 2009, the Republic enacted Law No. 30 of 2009 on Electricity, which reorganizes electricity distribution in the country and aims to adopt the principles of utility, efficiency and sustainability. This

law provides that electricity is to be distributed by state-owned and region-owned enterprises but private businesses, cooperatives and self-supporting communities are allowed to enter the power generation and distribution industry. This law also provides that PLN is the principal SOE for the distribution of electricity and is deemed to hold a license for this purpose.

In 2002, Indonesia enacted Law No. 20 of 2002 on Electricity, which required significant changes in the electricity sector. Under this law, open competition for power generation was to be introduced by 2007. The law brought an end to PLN's monopoly on electricity distribution within five years, after which time private companies (both foreign and domestic) would be permitted to sell electricity directly to consumers. However, all companies would need to use PLN's existing transmission network. In December 2004, the Constitutional Court annulled the 2002 electricity law on the grounds that competition in the Indonesian electricity industry contradicted Article 33 of the Constitution, which states that the government should control businesses affecting the lives of a majority of the Indonesian people. The Constitutional Court further held that (i) all contracts or permits that had been entered into or issued under the 2002 electricity law would remain valid until their expiration, (ii) the previous electricity law of 1985 would be reinstated and (iii) the government would need to prepare a new electricity law which was consistent with Article 33 of the Constitution. The annulment of the 2002 electricity law did not affect existing independent power producers because they are required to be connected to PLN's electricity grids. In light of these developments, on September 23, 2009, the Republic enacted Law No. 30 of 2009 on Electricity. On December 8, 2009, a request for judicial review of this new electricity law was once again filed with the Constitutional Court by PLN's labor union. On December 30, 2010, the Panel of Constitutional Court Judges rejected the request, ruling that:

(1) The possession of relative majority power by the government would remain to give the government a sounding vote in the making of the business entity's management decisions engaged in the power generation business; and

(2) Article 33 of the Constitution does not prohibit competition amongst business actors, so long as the competition does not vitiate the state's power to govern, manage, maintain and supervise the sectors of production that are important for the country, affect the lives of the people and promote the prosperity of the public.

Indonesia, as of December 31, 2012, had an installed electrical generating capacity of approximately 44,064 MW, with 19.2% coming from gas steam power plants, 12.7% from diesel power plants, 9.2% from hydropower plants, 10.2% from gas power plants, 2.9% from geothermal power plants, 45.6% from steam power plants and 0.2% coming from renewable energy mini scale power plants. PLN owns about 73% of the installed capacity, and the rest belongs to private sector entities. The electricity sector faces numerous challenges in its development, including (i) a mismatch between the availability of primary energy resources, which are located mostly outside Java and Bali, and demand for electricity, which mostly comes from Java and Bali, (ii) oil constitutes a high percentage of 15.02% of the fuel mix used for producing electric power, despite the abundance of coal resources within the country, and (iii) the limited availability of government funds and other resources to finance the construction of new power plants and transmission and distribution networks. In January 2006, the government introduced new regulations, *inter alia*, Presidential Regulation No. 5 of 2006 on National Energy Policy to reduce the consumption of oil by encouraging the consumption of natural gas, biofuels and other alternative energy sources. In its infrastructure development initiatives, the government has placed special emphasis on the development of power generation plants, particularly coal-fired power plants, in order to reduce dependence on oil for power generation. One of the government's 10 model projects introduced at the IICE is a power generation project, the central Java coal-fired power plant. The feasibility study of this project has been completed, and the pre-qualification stage for bids was completed in November 2009. Seven bidders passed the pre-qualification process. In June 2011, PLN issued a determination of the winner and a power plant agreement was signed on October 6, 2011. Recently, the government issued Presidential Regulation No. 78 of 2010 regarding Infrastructure Guarantee for Public Private Partnership Projects through the Infrastructure Guarantee Agency. Pursuant to this, the government will provide a guarantee for the central Java coal-fired power plant. The central Java coal-fired power plant is divided into two units: the first unit is expected to be operational in August 2016; and the second unit is expected to become operational six months later.

Additionally, the government has instructed PLN to accelerate its construction of coal power plants with an aggregate capacity of 10,000 MW and associated transmission lines, the total generation and transmission value of which is estimated at U.S.$6.69 billion and for which the government has pledged certain credit support. PLN entered into construction contracts in relation to 34 power plants comprising the 10,000 MW power plants program, and the government expects construction of these plants to be completed by the end of 2014. As of December 31, 2012, the coal power plants in phase 1 of the program have operated about 4,510 MW which is

about 46% of the total project. The aggregate value of the construction contracts is approximately U.S.$10 billion (assuming exchange rates of U.S.$1 = Rp9,000 and €1 = Rp12,153.86). Higher levels of investment in power generation, transmission and distribution lines and facilities will also be required to meet expected demand. The government expects that from 2012 to 2021 the electricity sector will require U.S.$77.38 billion in investment for the development of additional generation capacity, U.S.$15.98 billion in investment for electricity transmission and U.S.$13.77 billion in investment for electricity distribution.

On November 13, 2008, the Ministry of Energy and Mineral Resources introduced the National Electricity General Plan 2008-2027 to coordinate infrastructure development for the various regions of Indonesia. Indonesia's demand for power is expected to grow at a rate of 9.5% per year for the period between 2011 and 2029. To meet this demand, Indonesia will require additional power generation capacity of approximately 156.3 gigawatts by 2029. Higher levels of investment in power generation, transmission and distribution lines and facilities will also be required to meet expected demand. The government expects that from 2012 to 2021 the electricity sector will require U.S.$77.38 billion in investment for development of additional generation capacity, U.S.$15.98 billion in investment for electricity transmission and approximately U.S.$13.77 billion in investment for electricity distribution.

Significant private sector investment required in the electricity sector is to be met through the Independent Power Producer scheme through competitive biddings, direct appointments or appointments by selection. Direct appointments are expected to be made on the basis of certain criteria, including, among other factors, the use of renewable energy, marginal gas, mine-mouth coal or local energy, the sale of excess power, the condition of the local power system and the possibility of expanding the existing power plant's capacity.

However, electric power tariffs are politically sensitive, and current rates may be insufficient to generate funds for the investment necessary for planned expansion of the electric power system. Many outer-island regions already suffer intermittent power outages, and power shortages could become a serious problem on the islands of Java and Bali as well.

The Minister of Energy and Mineral Resources (**MEMR**) Regulation No. 22 of 2011 on the Obligation of PLN to Purchase Electricity from Geothermal Power Plants and the Standard Purchase Price for Geothermal Power by PLN has been issued to replace MEMR Regulation No. 2 of 2011 and to set out how PLN purchases geothermal power. This regulation aims to accelerate the development of geothermal power as mandated by Government Regulation No. 59 of 2007 on Geothermal Business Activities as amended by Government Regulation No. 70 of 2010, in particular the second-phase geothermal development of 10,000 MW. The Regulation sets the purchase price for geothermal power at 10 – 18.5 U.S. cents/kWh depending on the region and the type of voltage transmission which connects the geothermal power plants to the system. The price at which PLN will purchase geothermal power will be non-negotiable.

MEMR has also issued Regulation No. 30 of 2012 concerning Tariff of Electricity From Perusahaan Perseroan (Persero) PT Perusahaan Listrik Negara dated December 21, 2012, under which the Republic will gradually increase the electricity power tariff in every quarter of 2013. The new tariff will be applicable to consumption of electricity power for social services, household/domestic purposes, business, industry and government buildings and public road lighting interests. By increasing the electricity power tariff, the Republic aims to maintain the sustainability of electricity power supply, increase the quality of service to consumers, improve the electrification ratio and promote a more focused electricity power subsidy.

Based on PLN's 2012 – 2021 Electricity Supply Business Plan (*Rencana Usaha Penyediaan Tenaga Listrik* or **RUPTL**), the needs of national electricity grow at a rate of approximately 8.65% per year. To meet the demand and to support the MP3EI program, the government has planned to increase plant capacity by 57,250 MW by 2021 or about 5,725 MW per year on average. Considering that the demand for electricity in 2021 is still expected to be concentrated in the Java-Bali and Sumatera electricity system, the biggest increase in plant capacity will be in Java-Bali electricity system (32,637 MW) and Sumatera (14,513 MW).

The government is working on six strategic policies for electricity sector development in Indonesia, including:

(1) increase of electrification ratio;

(2) increase of power plant capacity;

(3) expansion of electricity transmission network;.

(4) revitalization of electricity distribution;

(5) improvement of the energy mix by reducing oil utilization in power generation; and

(6) development of renewable energy (including hydro, geothermal, solar and wind) development policy, which includes maximizing the use of geothermal power plants.

Telecommunication

Through the 1990s, the Indonesian telecom sector was dominated by Telkom as the sole operator for local and domestic long-distance services and Indosat as the sole operator for international long-distance service. To enable fair competition and a level playing field and to improve service quality, the government ended the monopoly era in basic telephony services through early termination of the exclusive rights of Telkom and Indosat. The transition towards full competition was made in steps, with limited competition in the form of a duopoly policy introduced for local service in 2002 and expanded to domestic long-distance and international service in 2003. As of December 31, 2011, Telkom (including its corporate group, Telkomsel) and Indosat held market shares of approximately 42.8% and 20.7%, respectively, in terms of number of mobile phone subscribers.

The Asian financial crisis greatly slowed installation of new fixed wired lines, with the annual fixed line increase dropping from double to single digits. After reaching its lowest point in 2000, the telecom sector has grown since 2001. Fixed mobile services, also known as fixed wireless access, are wireless mobile services which are confined by the service provider to a certain designated coverage area and do not provide for roaming services to areas outside the designated coverage area. In 2006, the number of mobile phone subscribers increased to approximately 64 million, while the number of fixed mobile services subscribers was approximately six million. As of December 31, 2010, the number of mobile phone subscribers was approximately 211.2 million, while the number of fixed mobile services subscribers was approximately 32 million. As of December 31, 2011, the number of mobile phone subscribers increased to approximately 249.8 million, while the number of fixed mobile services subscribers was approximately 29.9 million.

Telecommunications penetration remains low by international standards, with a fixed line penetration of 3.6%, fixed mobile services penetration of 12.6% and mobile service penetration of approximately 105.1%, each as of December 31, 2011. To address this problem, the government has maintained a Universal Service Obligation (**USO**) program since mid-2003. Originally funded by the national budget, Government Regulation No. 28 of 2005 on Tariff of Types of Non-Tax State Revenue Applied in the Ministry of Communication and Information was enacted in July 2005 requiring the contribution of 0.75% of telecommunications operators' gross income to the USO program. In January 2009, the contribution of telecommunications operators' gross income to the USO program was increased to 1.25% by Government Regulation No. 7 of 2009 as amended by Government Regulation No. 76 of 2010 (no change in percentage of contribution is stipulated). As of December 31, 2011, 30,441 villages were included in the USO program and gained access to telephone services while almost 5,748 cities (*kecamatan*/subdistrict) gained access to internet services. By the end of 2013, all villages under the USO program are expected to have internet access. To ensure the sustainability of this program, the government designed a program of service-based contracts with multi-year funding. Under this program, regions under the USO program have been divided into 11 regional blocks and the government will select a development agent for each area through a tender process.

In September 2007, the government awarded a principal license for a third international direct dial operator (alongside Telkom and Indosat) to PT Bakrie Telecom Tbk, which is now in operation. In December 2008, the government awarded a principal license to PT Bakrie Telecom Tbk for domestic long distance services.

On November 24, 2009, the government entered into a procurement and installation contract to develop the Palapa Ring Mataram-Kupang submarine cable system. PT Telkom completed the development of the submarine transport backbone from Mataram to Kupang in November 2011, providing an initial capacity of 40 gigabytes. This will provide a network link between Mataram and Kupang, connecting the islands of Lombok, Sumbawa, Sumba, Flores and Timor.

Water

As measured using the national Indonesian statistical criteria in 2011, 42.76% of the Indonesian population (of which 4.52% are in urban areas and 44.96% are in rural areas) has access to adequate drinking water. However, this statistic has decreased compared to that in 2010 which was 47.71%. This condition is caused by the increased use of bottled drinking water and refill drinking water. Further analysis from the statistical data shows that 53.26% of the Indonesian population has sustainable access to safe drinking water sources.

Sanitation conditions in Indonesia are relatively underdeveloped, which may affect the quality of surface and groundwater. Improved sanitation coverage is still limited to approximately 55.6% of the Indonesian population. Population growth is expected to put increasing pressure on the existing water supply and sanitation systems and the government aims to achieve a targeted 68.9% of accessible drinking water services and 62.4% of accessible sanitation services by 2015.

The government has undertaken programs and activities to improve access to clean water and sanitary conditions and aims to meet the targets it has set by 2015. To overcome problems regarding clean water, including relatively low investment, lack of comprehensive legislation, a low rate of community and private sector involvement and low quality of management, the government has issued policies designed to improve service coverage, managerial quality and capacity for water services and to increase the involvement of communities, private entities and international support agencies in the sector. Regulatory reform aims to improve the investment climate and increase government accountability. Key regulations include Law No. 7 of 2004 on Water Resources and Government Regulation No. 16 of 2005 on Drinking Water Supply Development and Presidential Regulation No. 56 of 2011 on Second Amendment to the Presidential Regulation No. 67 of 2005 on Government Cooperation with Business Entities in the Provision of Infrastructure. As of December 2012, there were five priority water supply projects to be tendered through public-private partnership schemes with a projected cost of approximately U.S.$590.7 million and 13 potential water supply projects through public-private partnership schemes with a projected cost of approximately U.S.$1,388.2 million.

As of December 2012, there were five priority water supply projects to be tendered through public and private partnerships with a projected cost of approximately U.S.$590.7 million and 13 potential water supply projects through public and private partnerships with a projected cost of approximately U.S.$1,388.2 million.

Indonesia has developed an irrigation network covering 7.2 million hectares but due to poor operations and maintenance and shortage of funds for rehabilitation and disaster recovery, 2.58 million hectares or approximately 36% of the irrigation network is in poor condition and needs to be rehabilitated urgently. In 2004, Law No. 7 of 2004 provided the basis for reform in water resources management, including conservation, water-related disaster management, strengthening the role of water user associations and district governments and providing a stronger legal basis for the role of government, the public, SOEs and the private sector in water resources management. Water resources are regulated under Law No. 7 of 2004, Government Regulation No. 16 of 2005 on Drinking Water Supply Development, Government Regulation No. 20 of 2006 on Irrigation, Government Regulation No. 42 of 2008 on Water Resources Management, Government Regulation No. 43 of 2008 on Groundwater, Government Regulation No. 37 of 2010 on Dams, Government Regulation No. 38 of 2011 on Rivers and Presidential Regulation No. 12 of 2008 on National Council of Water Resources.

Public-Private Partnership

The government has recognized the vital role of PPPs for the country's future development and increasing economic growth. The implementation of PPPs in infrastructure is stipulated by Presidential Regulation No. 67 of 2005, as most recently amended by Presidential Regulation No. 56 of 2011. This regulation governs PPPs for the following specified infrastructure projects: airports, ports, railways, roads, untreated water supply/irrigation systems, drinking water, waste water, solid waste, information and communications technology, electricity, and oil and gas. Presidential Regulation No. 67 of 2005 provides a robust and competitive legal and regulatory framework for PPPs — from procurement of the PPP concessionaire to the provision of government support and guarantees. The development of Indonesia PPPs in infrastructure was supported in September 2011 by the Presidential Regulation No. 56 of 2011 on the second amendment to Presidential Regulation No. 67 of 2005 on Government Cooperation with Business Entities in the Provision of Infrastructure. Presidential Regulation No. 56 of 2011 specifically stipulates the provision of direct (fiscal and non-fiscal) government support, including land acquisition and viability gap fund, government guarantee (contingent support), success fee mechanism for project preparation and transaction costs, and a clear procedure for unsolicited proposals.

To accelerate implementation of PPPs in infrastructure, Minister of Finance issued Minister of Finance Regulation (**PMK**) No. 223/PMK011/2012 regarding provision of feasibility support as part of construction cost for PPP Project in Infrastructure or Viability Gap Fund (**VGF**) for PPP Project. Viability Gap Fund is government support to increase the financial feasibility for infrastructure projects. Some infrastructure projects (including toll road and water supply projects) may need this facility.

As at the end of 2012, a summary of PPP progress in Indonesia is as follows: 70 PPP projects in operation (15 water supply projects with a capacity of 21,460 liters/second; 31 toll roads with a total 774.06 kilometers in length; 24 IPPs with a total capacity 4,761 MW); four PPP projects under construction and contract signed (three

toll road projects with total 126.83 km in length and one power plant project with a capacity of 2,000 MW with total investment of USD 4,192.77 million); 17 PPP projects in tendering process which consists of eight toll roads, three water supply projects, two solid waste treatment projects, two transportation projects and two power plant projects with total investment of USD 9,772.19 million and 13 PPP projects under preparation for a transaction which involves five water supply projects, four transportation projects, two solid waste treatment projects, one waste water treatment project and one power plant project with a total investment of USD 5,749.42 million.

Gross Savings and Investment

The following table sets forth Indonesia's national savings and investments and the difference between them in absolute amounts and as a percentage of GDP for the periods indicated:

National Savings and Investments

	Year ended December 31,					
	2007	2008	2009	2010	2011[P]	2012[P]
	(current prices in trillions of rupiah)					
Government:						
Savings	83.8	177.1	101.2	129.8	140.4	117.3
Investment	133.7	181.3	189.8	176.6	224.9	263.3
Surplus/(deficit)	(49.8)	(4.2)	(88.6)	(46.8)	(84.4)	(146.0)
Private:						
Savings	997.7	1,194.8	1,753.7	1,981.9	2,247.1	2,389.6
Investment	851.9	1,189.4	1,554.6	1,888.4	2,147.9	2,469.9
Surplus/(deficit)	145.7	5.4	199.1	93.6	99.2	(80.3)
Total:						
Savings	1,081.5	1,371.9	1,854.4	2,111.7	2,387.5	2,506.9
Investment	985.6	1,370.7	1,744.4	2,065.0	2,372.8	2,733.2
Surplus/(deficit)	95.9	1.2	110.5	46.7	14.8	(226.3)
Government:						
Savings	2.1	3.6	1.8	2.1	1.9	1.4
Investment	3.4	3.7	3.4	2.8	3.0	3.2
Surplus/(deficit)	(1.3)	(0.1)	(1.6)	(0.7)	(1.1)	(1.8)
Private:						
Savings	25.3	24.1	31.3	31.6	30.3	29.0
Investment	21.6	24.0	27.7	30.1	28.9	30.0
Surplus/(deficit)	3.7	0.1	3.6	1.5	1.3	(1.0)
Total:						
Savings	27.4	27.7	33.1	33.7	32.2	30.4
Investment	24.9	27.7	31.1	33.0	32.0	33.2
Surplus/(deficit)	2.4	0.0	2.0	0.7	0.2	(2.7)
GDP (in trillions of rupiah)	3,951	4,949	5,606	6,266	7,423	8,242
Current account (in millions of U.S. dollars)	10,492	126	10,628	5,144	1,685	(24,183)
Average exchange rate (rupiah per U.S. dollar)[(1)]	9,140	9,670	10,395	9,087	8,779	9,384
GNP (in millions of rupiah)	3,788	4,773	5,410	6,266	7,211	8,003
Current account balance (% of GDP)	2.4	0.0	2.0	0.7	0.2	(2.4)

Source: Bank Indonesia

[P] Preliminary.

(1) Official average exchange rate for the relevant period published by Bank Indonesia in its quarterly or annual report.

In the 30 years prior to the Asian financial crisis, investment and exports had been the primary sources of economic growth. During that period, the investment-to-GDP ratio averaged around 25%. That ratio fell to near 20% after the crisis. In the years leading up to the Asian financial crisis, Indonesia's gross domestic savings fell short of investment by an average of approximately 2% to 3% of GDP. The savings-investment gap was financed

by foreign savings through net capital inflow. Declining investment and increasing net exports (declines in imports exceeding declines in exports) led to surpluses of savings over investment in 2001 and 2002. This continued surplus reflected limited domestic investment and continued transfer of national savings abroad (or net capital outflow). The annualized total savings rate increased to 27.7% of GDP in 2008 from 27.4% in 2007. The annualized total savings rate was 33.1% of GDP for 2009, 32.8% of GDP for 2010, 32.3% for 2011 and 30.4% for 2012.

In 2007, the savings-investment surplus decreased to 2.4% of GDP. The private sector surplus decreased to 3.7% of GDP due to an increase in private investment. The government sector recorded a deficit of 1.3% of GDP for 2007 as a result of higher government subsidies.

In 2008, the savings-investment surplus decreased to 0.0% of GDP. The private sector surplus decreased to 0.1% of GDP because private investment growth increased at a higher rate than private savings growth. The government sector posted a lower deficit of 0.1% of GDP due to actual revenues being higher than targeted revenues, enabling the government to absorb increased expenditures. Revenues increased due to improved tax collection and increased non-tax revenue, while expenditures increased due to increased subsidies as a result of increased fuel prices in the first half of 2008.

In 2009, the savings-investment surplus increased to 2.0% of GDP. The private sector surplus increased to 3.6% of GDP due to an increase in private savings. The government sector recorded a deficit of 1.6% of GDP as a result of higher government expenditure related to the general election in the first half of 2009.

In 2010, the savings-investment surplus decreased to 0.8% of GDP. The private sector surplus decreased to 1.5% of GDP primarily as a result of higher saving activities. The government sector recorded a lower deficit of 0.7% of GDP as a result of higher government savings due to limited expenditure absorption in 2010.

In 2011, the savings-investment surplus increased to 0.2% of GDP compared to 0.7% of GDP in 2010. The private sector surplus decreased to 1.4% of GDP because private investment growth increased at a higher rate than the growth in private savings. The government sector posted a deficit of 1.2% of GDP due to an increase in government investment and expenditure related to fuel subsidies necessitated by the high international oil price in the last quarter of 2011.

In 2012, the savings-investment account posted a deficit of 2.8% of GDP. The private sector recorded a deficit of 1.0% of GDP due to high levels of private investment, while private savings have decreased compared with the previous year due to the global economic slowdown which subdued the export sector of the economy. The government sector posted a deficit of 1.8% of GDP, higher than the deficit in 2011, primarily due to larger government expenditure mainly in subsidized fuel and government investment.

Foreign Investment

In 1973, the Republic established the Indonesia Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* or **BKPM**) to accelerate economic growth by attracting foreign capital investment. BKPM's main function is to implement the government's objectives for investment in the country. Reflecting its goal of reducing unemployment and poverty, the government has announced that it will encourage foreign investment in the agriculture sector, in resource-intensive industries and in labor-intensive projects by reducing the time necessary to acquire approvals. The government has also announced a policy goal of raising the value-added component of products from foreign-invested enterprises, including by expanding the number of foreign-invested projects devoted to resource processing.

Since the Asian crisis, FDI inflows have shown signs of recovery, although the volume remains below the government's expectations. Legal uncertainties, lingering labor conflicts and labor market rigidity, security problems and the lack of regulations governing regional autonomy are cited as obstacles to foreign investment in Indonesia. In response, the government is implementing a comprehensive reform agenda.

In 2006, the government announced an investment policy package through Presidential Instruction No. 3 of 2006, which includes the Infrastructure Reform Package, in an effort to stimulate investment in power generation, telecommunications facilities, water and sanitation facilities, roads and port and airport modernization.

In June 2006, the Republic and the Republic of Singapore signed the Framework Agreement on Economic Cooperation to develop the islands of Batam, Bintan and Karimun, located in the Riau archipelago approximately 50 kilometers south of Singapore, into special economic zones. The development of the special economic zones will be conducted by the Republic and the Republic of Singapore working together through two bodies, the Joint Steering Committee and the Joint Working Group. The special economic zones are expected to develop a legal infrastructure to promote investment, including reduced or eliminated taxes and streamlined regulatory and immigration procedures. The investment incentives offered in the free trade zones include no import or export tax and no VAT for all processing industries for export purposes. In 2007, the government established Batam, Bintan and Karimun as free trade zones.

In April 2007, the New Investment Law was enacted to replace and improve upon both the 1967 Foreign Investment Law and the 1968 Domestic Capital Investment Law. The New Investment Law and related regulations unify Indonesia's legal framework for foreign investment. The most significant feature of the New Investment Law is that it provides equal treatment for domestic and foreign investors, subject to limits for foreign participation in certain sectors of the economy (**Negative Investment List**). The New Investment Law abolishes the requirement for gradual divestment by foreign investors (formerly, there was a 30-year time limit for foreign investment), assures the right to appoint foreign management, prohibits nationalization without indemnification at market value and provides for unrestricted repatriation by stating owners should be compensated at the market value of assets, should they be seized or nationalized. Any disputes in investment which arise between foreign investors and the government may be settled through deliberation and international arbitration if agreed upon between the parties. The New Investment Law also guarantees foreign investors the right of free repatriation of investment profits with no nationalization or expropriation.

In May 2010, the government enacted the Presidential Regulation No. 36 of 2010 on the List of Business Fields Closed to Investment and Business Fields Open With Conditions to Investment, or commonly known as the Negative Investment List. With the enactment of the Negative Investment List, the former Presidential Regulation No. 77 of 2007 on the List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment, as amended by Presidential Regulation No. 111 of 2007 on the Amendment to Presidential Regulation No. 77 of 2007 on the List of Business Fields Closed to Investment and Business Fields Open with Conditions to Investment, were revoked and are no longer applicable. The Negative Investment List provides a clearer and more detailed list of business activities that are conditionally open to foreign investors and stakeholders, subject to the satisfaction of certain conditions relating to, among others, partnership arrangements, capital ownership, location, qualification for special licenses or permits and small and medium-sized enterprises.

The New Investment Law provides certain tax incentives such as income tax deductions and certain deductions or exemptions with respect to import duties and value added tax on purchases of capital goods and raw materials. These tax incentives are granted in accordance with prevailing tax laws and regulations. Companies' income tax holidays or reductions within certain amounts and periods may only be granted to a new investment in a pioneer industry, namely an industry with wide-ranging links, that gives added value, promotes new technology, and possesses strategic values for the national economy.

One fiscal incentive provided by the government is a tax allowance which is regulated by the Government Regulation No. 62 of 2008, as amended by Government Regulation No.52 of 2011 on Income Tax Facility For Investment in certain Business Fields and/or Certain Regions. This amendment increases the number of business fields and regions that are entitled to the tax allowance. The incentive provides a 30% net tax deduction of total investment within a period of six years at a rate of 5% annually. In order to attract more foreign direct investment, the government enacted Government Regulation No. 94 of 2010 on Taxable Income Calculation and Payment of Income Tax in Current Year (**GR No. 94/2010**), which provides an exemption from or reduction of corporate income tax for any company investing in industries that are deemed as pioneer industries. According to Minister of Finance Regulation No. 130/PMK.011/2011 on the Provision of Corporate Income Tax Exemption or Reduction (**MOF No. 130/2011**), which further regulates GR No. 94/2010, pioneer industries include oil refining, petrochemicals, renewable energy and telecommunication equipment industries. Under MOF No. 130/2011, any company investing in a pioneer industry will be entitled to an exemption from corporate income tax for a maximum of ten years. Further, following the ten-year exemption from corporate income tax, such company will also be granted a 50% income tax reduction for a period of two years.

The government also enacted Minister of Finance Regulation No. 76 of 2012 on Exemption of Import Duties on Machinery as well as goods and substances for industrial construction and development within the scope of investment. The incentive provides an exemption of import duty on certain machinery, goods and materials for business activities in manufacturing industries and service industries. To become eligible for the

exemption, the machinery, goods or materials must be the type of machinery, goods or materials (i) that are not in production in Indonesia and (ii) that are short in supply in terms of quality in Indonesia.

In addition to tax incentives, the New Investment Law also simplifies procedures and permits investment companies to obtain and extend, among others, land titles in advance. In 2008, however, the provision was struck down by the Constitutional Court. As a result, investment companies will need to apply for an extension when the first land title expires.

In the framework of Presidential Regulation No. 28 of 2008 on National Industry Policy, the government will provide investment facilities for high priority industries, pioneer industries, industries located in remote areas, industries which conduct research and development, industries that develop infrastructure, industries that conduct partnerships with small and medium-sized enterprises and cooperatives, industries that use local content and industries which involve the transfer of technology, industries which involve the preservation of the environment and industries which are labor intensive. These investment facilities include fiscal and non fiscal incentives and other facilities.

In June 2009, to improve the processing of licenses and non-licenses relating to investments, the government enacted the Presidential Regulation No. 27 of 2009 on One Stop Integrated Services for investment (**OSSI**). The OSSI is established and implemented in the central and local government and is supported by Electronic System of Information Services and Investment Licensing and the Indonesian National Single Window (**INSW**) which was launched in 2010 and offers investors an expeditious registration system, reduces the time to set up a business in Indonesia and simplifies the process of obtaining various permits from relevant ministries.

In addition, the Government Regulation No. 45 of 2008 on Guidance for Regional Incentives and Investment Facilities has encouraged local governments to give local incentives such as exemption, deductions or reductions of local tax or free of other local government fees and charges, a stimulant grant or capital. There are also local investment facilities such as the provision of data and information of investment opportunities, infrastructure, land and location, technical assistance and the expedition of local licenses and permits. Domestic investments may be processed directly in the regional offices while foreign direct investment will continue to be processed in Jakarta. To boost investments, on November 16, 2009, the Minister of Finance issued Regulation No. 176/PMK.011/2009 on the Exemption of Import Duties for The Importation of Machineries and Material for Construction and Development of Industries. This regulation sets out the types of investments that qualify for exemption from import duties for a period ranging from two to four years in relation to the purchase of machineries and materials in accordance with certain requirements. The industry sectors which benefit from this regulation include the manufacturing industry, service industries related to tourism and culture, public transportation, public health, mining, construction and the telecommunication sectors.

The government intends to push the development of investment activities in food (seed, fertilizer, food estate), energy (fossil fuels, geothermal) and infrastructure (cement, steel, air and sea transports, toll roads, bridges, railways, utilities) projects throughout Indonesia. To expedite the infrastructure development, the government has enacted Presidential Regulation No. 67 of 2005 on Government Cooperation with Business Entities in the Provision of Infrastructure, as last amended by Presidential Regulation No. 56 of 2011 on the Second Amendment to Presidential Regulation No. 67 of 2005, or commonly known as public private partnerships. Public private partnerships will have the full support of the government and guarantees such as fiscal facilities, financial support, compensation, and other incentives. In 2012, to accelerate infrastructure development, the government enacted Law on Land Provision and PR No. 71/2012.

Foreign Investment in Indonesia

Foreign investment in Indonesia is divided into direct investments, portfolio investments and other investments, and information about these types of investments is included in the Republic's reports on its balance of payments.

Foreign Investment in Indonesia

	Year ended December 31,					
	2007	2008	2009	2010	2011[P]	2012[P]
	(in millions of U.S. dollars)					
Direct investments:						
Equity capital	7,549	9,105	4,982	12,468	14,350	16,218
Other capital	(621)	213	(104)	1,302	4,891	3,634
Total direct investments	6,928	9,318	4,877	13,771	19,241	19,853
Portfolio investments:						
Equity securities	3,559	322	787	2,132	(326)	1,698
Debt securities	6,422	2,736	9,693	13,582	5,322	12,963
Total portfolio investments	9,981	3,059	10,480	15,713	4,996	14,661
Other investments	(289)	3,446	3,794	3,987	4,954	6,123
Total foreign investment	16,620	15,823	19,151	33,471	29,191	40,637

Source: Bank Indonesia
[P] Preliminary.

Foreign Direct Investment

The Asian financial crisis in Indonesia was accompanied by unstable socio-political conditions that substantially reduced FDI in the following years. Following the end of the Soeharto era in 1998, new political freedoms encouraged workers to establish unions and demand higher salaries and better working conditions. These claims were accommodated by the government through higher minimum wages and more generous work benefits. During the same period, to increase their revenues, local governments made the business licensing system more complicated and imposed local taxes that distorted the short-term trade and raised tax barriers beyond their administrative boundaries. These trends have reduced international competitiveness. To address these issues, the Ministry of Home Affairs has reviewed many local regulations to determine if they are inconsistent with national law or the public interest. From 2001 to 2011, the Ministry of Home Affairs evaluated and accepted approximately 9,000 regional regulations and recommended approximately 351 regulations for revocation or revision.

FDI includes equity investment (either green field or cross-border mergers or acquisitions) and loans of FDI investors (headquarters or affiliated companies) to their Indonesian affiliates. The following table sets out the amounts of direct investments in Indonesia by non-residents:

Foreign Direct Investments

	Year ended December 31,					
	2007	2008	2009	2010	2011[P]	2012[P]
	(in millions of U.S. dollars)					
Equity capital[(1)]	7,549	9,105	4,982	12,468	14,350	16,218
Other capital:						
Disbursements	5,460	7,779	8,536	14,368	21,414	31,047
Debt repayments	(6,081)	(7,565)	(8,640)	(13,066)	(16,523)	(27,412)
Total other capital	(621)	213	(104)	1,302	4,891	3,634
Total direct investments	6,928	9,318	4,877	13,771	19,241	19,853

Source: Bank Indonesia
[P] Preliminary.
(1) Includes privatization and banking restructuring.

The government believes that there are no significant domestic legal or regulatory obstacles in attracting foreign investment into Indonesia. There are no significant restrictions on foreign ownership of equity shares, except in industries related to natural resources, and foreigners are allowed to own 95% to 100% of the equity of most categories of corporations. The government currently aims to attract investment in processing industries that will increase the value added to existing resources such as oil and gas, palm oil, copper, tin, gold, bauxite and other mineral resources, rubber, cocoa and other agriculture resources.

Indonesia's FDI has increased in the last few years, primarily as a result of increases in FDI in the non-oil and gas sector, including mergers and acquisitions of domestic companies and increases in loan disbursements. Net FDI inflows were U.S.$6.9 billion in 2007, U.S.$9.3 billion in 2008, and U.S.$4.9 billion in 2009. In 2010, FDI increased substantially, posting a surplus of U.S.$13.8 billion. Net FDI inflows posted a surplus of U.S.$19.2 billion in 2011 and U.S.$24.6 billion in 2012.

In 2007, net FDI posted a net inflow of U.S.$6.9 billion (including U.S.$2.4 billion in investments in the oil and gas sector), which was higher than the U.S.$4.9 billion net inflow in 2006 (including U.S.$8.0 billion in investments in the oil and gas sector). This net inflow arose from an increase in reinvested earnings by FDI companies, the establishment of the Batam, Bintan and Karimun special economic zones, the approval of a greater number of foreign investment applications and the creation of tax incentives for investment, as well as an increase in the acquisition of domestic companies by foreign investors, including an acquisition by Tata Power Company Ltd. (India) of a 30% stake in coal companies owned by PT Bumi Resources Tbk. Disbursements in 2007 increased to U.S.$5.5 billion compared to U.S.$3.6 billion in 2006. Debt repayments increased to U.S.$6.1 billion in 2007 compared to U.S.$3.4 billion in 2006.

In 2008, net FDI recorded a surplus of U.S.$9.3 billion (including U.S.$2.9 billion in investments in the oil and gas sector), which was higher than the U.S.$6.9 billion surplus in 2007. Inflow of FDI in the oil and gas sector increased as the companies in this sector optimized production in response to high oil prices in the first half of the year. However, outflow in the form of cost recovery also increased but was offset by an increase in net inflows. Meanwhile, a surplus of FDI in the non-oil and gas sector stemmed from inflow of equity capital and inter-company loans. The surplus was, among others, supported by the merger of two commercial banks, Bank Niaga and Bank Lippo. Disbursements in 2008 increased to U.S.$7.8 billion compared to U.S.$5.5 billion in 2007. Debt repayments increased to U.S.$7.6 billion in 2008 compared to U.S.$6.1 billion in 2007.

In 2009, net FDI recorded a surplus of U.S.$4.9 billion (including U.S.$1.6 billion in investments in the oil and gas sector), which was lower than the U.S.$9.3 billion surplus in 2008. This smaller net inflow of FDI, especially in the non-oil and gas sector, was related to the negative impact of global economic recession on domestic investment. A substantial amount of FDI is received by export-oriented companies and Indonesia's exports were adversely affected by global economic conditions. In the non-oil and gas sector, more than 50% of net FDI inflows in 2009 were accounted for by the manufacturing and mining and quarrying sectors. Disbursements in 2009 increased to U.S.$8.5 billion compared to U.S.$7.8 billion in 2008. Debt repayments increased to U.S.$8.6 billion in 2009 compared to U.S.$7.6 billion in 2008.

In 2010, net FDI posted a significant surplus of U.S.$13.8 billion (including a U.S.$1.7 billion investment in the oil and gas sector), which was higher than U.S.$4.9 billion surplus in 2009. The more conducive investment climate and stable macroeconomic conditions spurred FDI inflows, especially in the non oil and gas sectors. In 2010, investment from Japan and Asian emerging markets were the main contributors to the larger inflows of net FDI in Indonesia.

In 2011, net FDI recorded a surplus of U.S.$19.2 billion compared to a surplus of U.S.$13.8 billion in 2010. The increase of net FDI inflows was primarily attributable to a more conducive investment climate and favorable macroeconomic conditions. The increased level of FDI inflows caused the structure of capital inflows into the balance of payments to be more weighted to long-term capital, resulting in a more sustainable structure of capital inflows. The investment contributing to the increase of FDI inflows was mainly from European Union countries, Singapore and Japan, and flowed mainly into the manufacturing and mining sectors of the Republic.

In 2012, net FDI recorded a higher surplus of U.S.$19.9 billion compared to a surplus of U.S.$19.2 billion in 2011. The increase of net FDI inflows was in line with strong domestic investment in a stable economic environment. Continued resilience of the Indonesian economy and Indonesia's economic outlook resulted in net FDI inflows representing the largest component in the structure of capital inflows. During this period, a majority of FDI inflows continued to occur in the manufacturing, mining, and transportation, warehouse and telecommunication sectors. Most FDI inflows originated from Singapore, Japan, and the European Union.

Net direct investment, which represents the difference between direct investment in Indonesia by foreign investors and direct investment abroad by Indonesian investors, recorded a net inflow of U.S.$2.3 billion in 2007, a net inflow of U.S.$3.4 billion in 2008, a net inflow of U.S.$2.6 billion in 2009, a net inflow of U.S.$11.1 billion in 2010, a net inflow of U.S.$11.5 billion in 2011 and a net inflow of U.S.$14.4 billion in 2012. Since 2007, direct investment outside Indonesia by Indonesian investors has increased, leading to a net outflow of U.S.$4.7 billion and U.S.$5.9 billion in 2007 and in 2008, respectively, due to growing interest and capability among domestic investors for expanding their holdings overseas. In line with worsening global economic conditions, direct investment outside Indonesia by Indonesian investors in 2009 declined from a net outflow of U.S.$5.9 billion in 2008 to a net outflow of U.S.$2.2 billion in 2009. In 2010, global financial conditions broadly improved, but uncertainties as to the speed of recovery in major economies remained, causing the net investment abroad to increase slightly to U.S.$2.7 billion in 2010. In 2011, direct investment abroad increased to U.S.$7.7 billion. This trend was partly linked to a share exchange transaction between domestic listed companies and foreign publicly listed companies. Expansion in direct investment abroad also received a boost from an increase in debt repayments from parent companies in Indonesia to overseas subsidiaries. In 2012, direct investment abroad decreased to U.S.$5.4 billion, mainly due to lower net repayments of intercompany loans from parent companies in Indonesia to their overseas subsidiaries. See "*Foreign Trade and Balance of Payments — Balance of Payments*."

Foreign Portfolio Investment

The following table sets out the amounts of portfolio investments in Indonesia by non-residents:

Foreign Portfolio Investments

	Year ended December 31,					
	2007	2008	2009	2010	2011[P]	2012[P]
	(in millions of U.S. dollars)					
Equity securities:						
Inflows	15,361	15,320	12,274	20,995	30,419	51,527
(Outflows)	(11,802)	(14,997)	(11,487)	(18,863)	(30,745)	(49,829)
Net equity securities	3,559	322	787	2,132	(326)	1,698
Debt securities (net)	6,422	2,736	9,693	13,582	5,322	12,963
Total portfolio investments	9,981	3,059	10,480	15,713	4,996	14,661

Source: Bank Indonesia
[P] Preliminary.

After incurring a large net outflow at the onset of the Asian financial crisis, Indonesia's foreign portfolio investment (FPI) deficit turned into a net inflow in 2002 and increased thereafter until 2007, reflecting higher confidence in Indonesia's economy. Indonesia's FPI net inflow was U.S.$10.0 billion in 2007 and U.S.$3.1 billion in 2008 amidst worsening global economic and financial conditions from September 2008 to the end of the year. In 2009 and 2010, FPI net inflow increased sharply to U.S.$10.5 billion and U.S.$15.7 billion, respectively, decreased to U.S.$5.0 billion in 2011 and increased significantly again to U.S.$14.7 billion in 2012, triggered by strong and stable economic conditions and an increase in investor interest in emerging markets, including Indonesia.

In 2011, net foreign portfolio investment flows recorded a surplus of U.S.$5.0 billion, lower than the U.S.$15.7 billion surplus recorded in 2010. The decrease in net foreign portfolio investment flows was due to significant outflows of capital during the second half of 2011 as foreign investors reduced their holdings of domestic stock and government securities. Net foreign portfolio investment experienced a decline as a result of global turmoil and rising negative sentiment in the global financial markets. The decline in net foreign portfolio investment originated from redemption of rupiah denominated assets held by foreign investors.

In 2012, foreign portfolio investment posted a net inflow of U.S.$14.7 billion, a significant increase from the U.S.$5.0 billion inflows one year earlier. These rapid inflows were mainly due to foreign investment in government and corporate bonds and domestic stocks. The government believes that the buoyant condition of Indonesia's economy and its attractive yields compared to other countries in the region were the key factors driving such inflows. Issuances of government bonds and private corporate bonds denominated in foreign currencies succeeded in generating added inflows of foreign investment during 2012. Inflows of foreign capital in Indonesia were also driven by the launching of economic stimulus policies in several advanced nations.

In 2007, FPI recorded a net inflow of U.S.$10.0 billion, a significant increase from the net inflow of U.S.$6.1 billion in 2006. The key components of this inflow were purchases of government bonds, Bank Indonesia Certificates (**SBI**) and equity securities. Despite outflows of U.S.$1.1 billion in the fourth quarter of 2007, following the subprime mortgage crisis in the United States, debt securities particularly in the form of government bonds and SBI recorded a net inflow of U.S.$6.4 billion in 2007. Meanwhile, equity securities recorded a net inflow of U.S.$3.6 billion in 2007 compared to U.S.$1.9 billion in 2006.

After global economic and financial conditions worsened from September 2008 to the end of the year, FPI registered a net inflow of U.S.$3.1 billion in 2008, lower than the net inflow of U.S.$10.0 billion in 2007. The lower net inflow in 2008 was caused predominantly by large outflows of FPI in the form of government bonds, SBI, and equity securities particularly during October and early November 2008, when the process of deleveraging and repricing began in the global financial market.

The oversupply of global liquidity, strong economic growth of Indonesia and investor perceptions of emerging markets produced a surge in portfolio investments inflows in 2009 and 2010. Foreign portfolio investment posted a net inflow of U.S.$10.5 billion in 2009, significantly higher than a net inflow of U.S.$3.1 billion in 2008, primarily due to purchases by foreign investors of SBI and global bonds issued by the government.

The steady improvement in domestic macroeconomic conditions combined with attractive interest rates on rupiah-denominated instruments bolstered even higher portfolio capital inflows in 2010 of U.S.$15.7 billion. Foreign portfolio investment inflows in 2010 were dominated by rupiah denominated bonds, particularly after Bank Indonesia imposed a one-month minimum holding period (which was later extended to six months) for SBI holders and started to issue longer tenors for SBIs (six and nine month).

In 2011, net foreign portfolio investment flows recorded a surplus of U.S.$5.0 billion, lower than the U.S.$15.7 billion surplus recorded in 2010. The decrease in net foreign portfolio investment flows was due to significant outflows of capital during the second half of 2011 as foreign investors reduced their holdings of domestic stock and government securities.

In 2012, foreign portfolio investment posted a net inflow of U.S.$14.7 billion increased significantly from U.S.$5.0 billion inflows in 2011. This was mainly due to foreign buying of government and corporate bonds. The buoyant condition of Indonesia's economic fundamentals and attractive yields compared to other countries in the region amid abundant global liquidity were key factors driving such inflows.

Net portfolio investment, which represents the difference between portfolio investment in Indonesia by foreign investors and portfolio investment abroad by Indonesian investors, recorded net inflows of U.S.$5.6 billion in 2007, U.S.$1.8 billion in 2008, U.S.$10.3 billion in 2009, U.S.$13.2 billion in 2010, U.S.$3.8 billion in 2011 and U.S.$9.2 billion in 2012. Portfolio investments abroad by Indonesian investors recorded a net outflow of a net outflow of U.S.$4.4 billion in 2007, a net outflow of U.S.$1.3 billion in 2008, a net outflow of U.S.$144 million in 2009, a net outflow of U.S.$2.5 billion in 2010, a net outflow of U.S.$1.2 billion in 2011, and a net outflow of U.S.$5.5 billion in 2012. See "*Foreign Trade and Balance of Payments — Balance of Payments*."

Other Foreign Investment

The following table sets out the amounts of other investments (other than portfolio or foreign direct investments) in Indonesia by non-residents, mainly consisting of loans received and paid:

Other Foreign Investments

	Year ended December 31,					
	2007	2008	2009	2010	2011P	2012P
	(in millions of U.S. dollars)					
Bank sector:						
Disbursements	1,060	2,496	2,214	1,935	3,724	2,798
Debt repayments	(990)	(1,063)	(1,561)	(2,494)	(1,803)	(2,440)
Total bank sector	70	1,433	653	(559)	1,920	358
Corporate sector:						
Disbursements	8,147	10,886	11,263	11,495	22,519	30,594
Debt repayments	(7,016)	(8,061)	(8,848)	(10,570)	(19,197)	(28,757)
Total corporate sector	1,131	2,826	2,415	925	3,321	1,837
Other (net)(1)	(1,491)	(813)	726	3,621	(288)	3,929
Total other investments	(289)	3,446	3,794	3,987	4,954	6,123

Source: Bank Indonesia

P Preliminary.

(1) Consists of trade credit, currency & deposits, and other liabilities of private sector and public sector external debt.

Net outflows of other investments reached a peak of almost U.S.$4.4 billion in 2001 and have subsequently declined. In more recent years, disbursements of banking and corporate loans have increased significantly as a result of better access to international markets along with increased market confidence in the Indonesian economy. As the government's debt repayments to the Paris Club members resumed in 2006, net outflows of other investments increased to U.S.$2.2 billion, compared to net outflows U.S.$803 million in 2005. In 2007, the net outflows of other investments declined to U.S.$289 million, primarily due to an increase in net inflows to the corporate sector. In 2008, other investments recorded a net inflow of U.S.$3.4 billion that resulted largely from the net inflow to the private sector.

In 2009, other investments recorded a net inflow of U.S.$3.8 billion as improvement in investor confidence, an increase in global liquidity, and relatively low foreign interest rates encouraged greater foreign borrowing by the private sector. Other investments also benefited from an additional allocation of SDRs from the IMF amounting to U.S.$2.7 billion intended to bolster the reserve assets of IMF member countries, including Indonesia, as part of the efforts to resolve the global economic crisis.

Foreign other investments posted a net inflow of U.S.$4.0 billion in 2010, higher than a net inflow of U.S.$3.8 billion in 2009. The surplus in foreign other investment in 2010 resulted largely from the significant surplus of non-resident deposits in domestic banks amounting to U.S.$1.6 billion compared to the deficit of U.S.$767 million in 2009.

In 2011, foreign other investments posted a net inflow of U.S.$5.0 billion compared to a net inflow of U.S.$4.0 billion in 2010. This upturn primarily resulted from an increased withdrawal of foreign debts by corporations in order to meet their capital needs. Meanwhile, the government debts showed a net outflow, in line with the government plan to reduce foreign loans.

In 2012, foreign other investment recorded a net inflow of U.S.$6.1 billion. The surplus was mainly attributable to the increase in other investment liabilities in the public sector. Meanwhile, the public sector showed a net outflow due to debt repayment.

Net other investments, which represents the difference between other investments in Indonesia by foreign investors and other investments abroad by Indonesian investors, recorded net outflows of U.S.$4.8 billion in 2007, U.S.$7.3 billion in 2008, U.S.$8.2 billion in 2009, but posted a U.S.$2.3 billion net inflow in 2010. Net other investments recorded net outflows of U.S.$1.8 billion in 2011 and net inflows of U.S.$1.2 billion in 2012.

Other investments abroad by Indonesian investors in the form of trade credits, loans, currencies and deposits recorded a net outflow of U.S.$4.5 billion in 2007, U.S.$10.8 billion in 2008, U.S.$12.0 billion in 2009, and U.S.$1.7 billion in 2010. In 2011, other investment abroad by Indonesian investors in the form of trade credits, loans, currencies and deposits posted net outflows of U.S.$6.8 billion, a significant increase from net outflows of U.S$1.7 billion in 2010. Other investment abroad posted net outflows of U.S$4.9 billion in 2012. See "*Foreign Trade and Balance of Payments — Balance of Payments*."

Direct Investment Realizations

Foreign Direct Investment

Under Indonesian law, most direct equity investments by foreign persons are subject to approval by the BKPM, regardless of the size of the investment. The BKPM review applications for approval based on the Negative List of Investment. Due to the different concept and method of preparing investment statistics, "administrative" FDI statistical data published by the BKPM and "Balance of Payment" FDI statistical data published by Bank of Indonesia are not comparable. The BKPM reviews requests for approval based on criteria established by the particular ministry that regulates the sector in which the foreign investor seeks to invest. Upon receiving approval, a foreign investor may complete the investment, but is not obligated to do so. As the BKPM calculates the amount of realized foreign direct investment using different criteria than those used by Bank Indonesia, the data regarding realized foreign direct investments is not comparable to those under "*Foreign Investment in Indonesia*."

The following table sets forth the amount of realized FDI by sector of the economy for the periods indicated. Prior to 2010, data was derived from recorded investment plans of companies that had obtained a permanent license issued by the BKPM. Beginning in 2010, realized administrative FDI statistics were compiled based on investment progress reports, rather than permanent licenses issued by the BKPM. The objective of this new methodological approach (*Laporan Kegiatan Penanaman Modal*, or **LKPM** methodology) was to provide FDI statistical data of investment activities on the reporting periods. LKPM data is a "flow" concept in which data is collected from quarterly investor progress reports. On the other hand, permanent licenses investment data is a "stock" concept or cumulative investment data which is not clear in its distribution across periods. The LKPM methodology has been adopted for both domestic and foreign capital as it more accurately reflects realized investment flows by recording investments as they occur as opposed to cumulatively, as was previously the case. However, the LKPM methodology still has the effect of understating actual realized FDI because not all investors file investment progress reports regularly. Under the LKPM methodology, investment companies whose projects are still under development will now need to submit investment progress reports every quarter (instead of every six months, as previously required) and investment companies who have obtained a permanent license are now required to submit an investment progress reports every six months (instead of annually, as previously required).

Realized Foreign Direct Investment by Sector[(1)]

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012*
	(in millions of U.S. dollars)					
Primary sector:						
Food Crops & Plantation	219	147	122	751	1,223	1,601.9
Livestock	46	5	3	5	21	19.8
Forestry	—	—	—	39	10	26.9
Fishery	25	2	5	18	10	29
Mining	310	181	333	2,229	3,619	4,255.4
Total Primary Sector	599	335	463	3,042	4,883	5,933.1
Secondary sector:						
Food Industry	704	491	552	1,026	1,105	1,782.9
Textile Industry	132	210	251	155	497	473.1
Leather Goods & Footwear Industry	96	146	123	144	255	158.9
Wood Industry	128	119	62	43	51	76.3
Paper and Printing Industry	673	295	69	46	257	1,306.6
Chemical and Pharmaceutical Industry	1,612	628	1,183	798	1,467	2,769.8
Rubber and Plastic Industry	158	272	208	105	370	660.3
Non Metallic Mineral Industry	28	266	20	28	137	145.8
Metal, Machinery & Electronic Industry	714	1,293	655	590	1,773	2,452.6
Medical Precision & Optical Instruments, Watches & Clock Industry	11	16	5	1	42	3.4
Motor Vehicles & Other Transport Equipment Industry	412	756	583	394	770	1,840
Other Industry	30	35	120	26	65	100.2
Total Secondary Sector	4,697	4,527	3,831	3,357	6,790	11,770
Tertiary sector:						
Electricity, Gas & Water Supply	119	27	349	1,428	1,865	1,514.6
Construction	448	427	431	620	354	239.6
Trade & Repair	483	582	706	785	826	483.6
Hotel & Restaurant	136	157	307	312	242	768.2
Transport, Storage & Communication	3,305	8,530	4,171	5,046	3,799	2,808.2
Real Estate, Ind. Estate & Business Activities	65	175	396	1,050	199	401.8
Other Services	489	123	161	574	517	645.8
Total Tertiary Sector	5,045	10,021	6,521	9,815	7,802	6,861.7
Total	10,341	14,883	10,815	16,215	19,475	24,564.7

Source: BKPM

(1) Excludes foreign investment in oil and natural gas projects, banking, non-bank financial institutions, insurance, leasing, mining in terms of contracts of work, coal mining in terms of agreement of work, investment in which licenses were issued by a technical/sectoral agency, portfolio as well as household investment.

* Realization based on Capital Investment Activity Report.

The amount of foreign investment realized has fluctuated over the past six years, increasing from U.S.$10.3 billion in 2007, increasing to U.S.$14.9 billion in 2008, decreasing to U.S.$10.8 billion in 2009 and increasing to U.S.$16.2 billion in 2010, U.S.$19.5 billion in 2011 and U.S.$24.6 billion in 2012. In the three-year period from 2010 through 2012, the primary areas with realized approved foreign investment projects were the transportation, storage and communication sector (19.4%), mining sector (16.7%), and the chemical and pharmaceutical industry (8.3%).

Domestic Direct Investment

In addition to direct equity investments by foreign persons, BKPM also approves certain types of domestic direct investments. The following table sets forth the amount of realized domestic direct investment by sector of the economy for the periods indicated:

Realized Domestic Direct Investment by Sector[1]

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
	(in billions of rupiah)					
Primary sector:						
Food Crops & Plantation	3,529	1,184	2,309	8,727	9,367	9,631.5
Livestock	145	50	288	156	247	97.4
Forestry	9	4	—	172	13	144.5
Fishery	3	—	25	1	—	14.7
Mining	691	519	1,794	3,075	6,899	10,480.9
Total Primary Sector	4,377	1,758	4,416	12,131	16,526	20,369.1
Secondary sector:						
Food Industry	5,372	8,193	5,769	16,405	7,941	11,166.7
Textile Industry	228	720	2,646	432	999	4,450.9
Leather Goods & Footwear Industry	59	10	4	13	14	76.7
Wood Industry	39	307	34	451	515	57
Paper and Printing Industry	14,548	1,798	1,001	1,103	9,296	7,561
Chemical and Pharmaceutical Industry	1,168	504	5,850	3,266	2,712	5,069.5
Rubber and Plastic Industry	565	798	1,533	523	2,296	2,855
Non Metallic Mineral Industry	124	845	786	2,265	7,441	10,730
Metal, Machinery & Electronic Industry	3,542	2,381	1,467	790	6,787	7,225.7
Medical Preci. & Optical Instruments, Watches & Clock Industry	—	7	—	—	—	—
Motor Vehicles & Other Transport Equipment Industry		315	67	362	529	664.4
Other Industry	37	38	279	4	5	31.5
Total Secondary Sector	26,290	15,916	19,434	25,613	38,534	49,888.9
Tertiary sector:						
Electricity, Gas & Water Supply	746	520	3,443	4,930	9,135	3,796.8
Construction	2,111	856	2,766	68	598	4,586.6
Trade & Repair	143	595	1,442	116	329	1,030.4
Hotel & Restaurant	128	239	357	390	394	1,015
Transport, Storage & Communication	286	429	809	13,788	8,130	8,612
Real Estate, Industrial Estate & Business Activities	—	26	123	262	733	58
Other Services	798	26	5,010	3,329	1,622	2,825.1
Total Tertiary Sector	4,212	2,691	13,950	22,882	2,941	21,924
Total	34,879	20,363	37,799	60,626	76,001	92,182

Source: BKPM

(1) Excludes domestic investment in oil and natural gas projects, banking, non-bank financial institutions, insurance, leasing, mining in terms of contracts of work, coal mining in terms of agreement of work, investment in which licenses were issued by a technical/sectoral agency, portfolio as well as household investment.

The amount of domestic investment realized has shown overall growth over the past six year period, decreasing from Rp34.9 trillion in 2007 to Rp20.4 trillion in 2008, but then increasing to Rp37.8 trillion in 2009, to Rp60.6 trillion in 2010, to Rp76.0 trillion in 2011 and further to Rp92.2 trillion in 2012. In the three-year period from 2010 through 2012, the primary areas realized domestic investment projects were the food industry (15.5%), the transportation, storage and communication sub-sector (13.3%) and the food crops and plantation sector (12.1%).

Foreign Trade and Balance of Payments

Membership in International and Regional Free Trade Agreements

The government supports the liberalization of international trade and investment through its membership in several international and regional trade organizations. Indonesia is a founding member of ASEAN, which has served as the forum for the negotiation of a number of regional agreements, and Indonesia has participated in several of these agreements. Indonesia is a signatory to the GATT 1947 and is a founding member of the WTO through the ratification of Law No. 7 of 1994 on Agreement Establishing the World Trade Organization. Indonesia is also a member of the APEC forum, one of the goals of which is to promote liberalization of international trade and investment. The ASEAN member states have concluded a series of free trade agreements with six dialogue partners, namely, Japan, India, China, the Republic of Korea, Australia and New Zealand. Additionally, Indonesia is currently negotiating a bilateral preferential trade agreement with Pakistan. In addition, Japan and Indonesia entered into an economic partnership agreement effective July 2008. The free trade agreements with India, China and the Republic of Korea cover issues relating to goods, services and investments while those with Japan and India cover only the trade of goods. Negotiations for free trade agreements that cover services and investments with Japan and India are ongoing. Despite these ongoing negotiations, the ASEAN free trade agreements with the dialogue partners have been implemented since 2010. See "*Foreign Relations and International and Regional Organizations*."

Tariff Reforms

The Minister of Finance is authorized to set rates for import duties under Law No. 10 of 1995 on Customs as amended by Law No. 17 of 2006 on Amendment to Law No. 10 of 1995 on Customs. The Republic maintains a policy of using tariff rates to promote the competitiveness of Indonesian products in international markets and to reduce price distortions in order to support the establishment of free trade.

In line with the Republic's commitments under the GATT and to the WTO, the Republic implemented a tariff reduction program from 1996 to 2003. By the end of this program in 2003, the Republic's simple average tariff rate was 7.24%, compared to 15.48% in 1995. Further, 83.35% of the Republic's tariff lines had rates ranging from 0% to 10%, compared to 51.88% in 1995. The Republic then introduced the Tariff Harmonization Program, which aimed at harmonizing and to further reduce tariffs during the period 2005 to 2010. As a result of this program the Republic's simple average tariff rate based on tariffs set for 2010 was 7.69%. Further, 81.62% of the Republic's tariff lines had rates ranging from 0-10%. Since 2012, Indonesia has implemented the 2012 Harmonized Commodity Description and Coding System.

The Republic is also implementing preferential tariff commitments under five regional trade agreements: the Asean Trade in Goods Agreement (**ATIGA**), the ASEAN-China Free Trade Agreement (**ACFTA**), the ASEAN-Korea Free Trade Agreement (**AKFTA**), the ASEAN-India Free Trade Agreement (**AIFTA**), the ASEAN-Australia and New Zealand Free Trade Agreement (**AANZFTA**), and two bilateral trade agreements: the Indonesia-Japan Economic Partnership Agreement (**IJ-EPA**) and the Indonesia-Pakistan Preferential Trade Agreement (**IP-PTA**). In line with the Republic's commitments under the ATIGA scheme, the Republic eliminated its tariffs for 98.74% of products covered by the ATIGA scheme and reduced its simple average tariff to 0.81% in 2012 from 1.89% in 2009. The Republic also eliminated its tariff under the ACFTA to 2.54% and under the AKFTA to 2.17% based on tariffs set for 2012. The Republic has committed to eliminate tariffs for 93% of products covered by the IJ-EPA by 2023. The AIFTA, which has been implemented for two years since 2012, has an average tariff of 6.1% at present, while the AANZFTA, which has been implemented for a year, has an average tariff of 3.1% based on tariffs set for 2012. The IP-PTA entered into force in January 2013 and covers 220 tariff lines. Under the Minister of Finance Regulation No.75/PMK.011/2012 regarding Stipulation of Export Goods Subject to Export Duty and Export Duty Rate, goods subject to export duty include 65 types of mineral ore with an export duty rate of 20%, Crude Palm Oil (**CPO**) and products thereof, raw hides and skins, and woods. The objectives which are to be achieved under this regulation include export control, development of the refinery and processing industries and environment protection.

Exports and Imports

Beginning in 2012, the Republic started using a revised methodology in compiling exports and imports data. This revised methodology was implemented in order to comply with international best practices and to improve consistency with other Bank Indonesia publications. As a result of this change, the classification of certain export and import products has changed. Revisions to data following classification changes were carried out for 2005 and later data.

The following table shows Indonesia's exports and imports for the periods indicated:

Exports and Imports[(1)]

	Year ended December 31,					
	2007	2008	2009	2010	2011[P]	2012[P]
	(in millions of U.S. dollars)					
Exports:						
Oil and gas exports (f.o.b.)	24,872	31,721	20,616	28,658	38,067	35,571
Non-oil and gas exports (f.o.b.)	93,142	107,885	99,030	129,416	162,721	152,575
Total exports (f.o.b.)	118,014	139,606	119,646	158,074	200,788	188,146
Total imports (c.i.f)	(93,101)	(127,538)	(93,786)	(135,323)	(176,201)	(190,225)
Balance of trade	24,913	12,068	25,860	22,750	24,586	(2,079)

Source: Bank Indonesia

P Preliminary.

(1) Indonesia's trade statistics, which are used as a basis for the balance of payments statistics, are compiled by Bank Indonesia and differ in coverage and timing from similarly titled data compiled by BPS.

A combination of depreciation of the rupiah, rising interest rates and economic contraction during the early period of the Asian financial crisis affected imports more quickly than exports. The time lag between the fall in imports and the decline in exports was the main reason for improvement in Indonesia's trade balance in the beginning of the crisis. To correct past distorted trade and industrial policies, the government reduced nominal and effective rates of protection and eliminated non-tariff barriers. Transparent policies on the privatization of SOEs were adopted to promote efficiency through transfers of technology and improvements in corporate governance and corporate culture.

The global financial crisis that began in 2008 adversely affected Indonesia's international trade as reflected in the contraction of total exports and imports by 14.3% and 26.5%, respectively, in 2009. As the global economy and financial conditions improved in 2010, Indonesia's exports and imports strengthened again by growing rapidly at 32.1% and 44.3%, respectively. In 2011 exports and imports strengthened by 27.0% and 30.2%, respectively. Exports increased in line with high volume of world trade and global commodity prices. Imports continued to increase driven by domestic economic activities in the transportation and communication sectors. To further strengthen exports, the Republic intends to diversify its export markets by increasing exports to Africa, the Middle East, South America and Russia. In 2012, as the global economic crisis unfolded, total exports recorded a negative growth of 6.3% due to lower external demand and a decrease in commodity prices. Conversely, in line robust domestic demand, imports grew further by 8.0% although at a slower growth rate than the preceding year.

Indonesia recorded a trade surplus of U.S.$24.9 billion in 2007, an increase from a surplus of U.S.$22.9 billion in 2006. Sustained demand and higher global oil and other commodity prices supported the increase of total export value by 14.0% in 2007. In 2007, total import value grew by 15.4% compared to growth of 6.5% in 2006 due to high growth in domestic consumption and imports of raw materials used for the manufacture of goods for export. Although exports grew more slowly than imports, in absolute terms the increase in total export value was larger than the increase in total import value.

In 2008, Indonesia's trade balance recorded a surplus of U.S.$12.1 billion, a decrease from a surplus of U.S.$24.9 billion in 2007. The value of exports increased by 18.3% in 2008 while the value of imports grew by 37.0% in the same period. The Republic's economy benefited from increasing global commodity prices and robust domestic economic activity during the first half of 2008. In 2008, overall, non-oil and gas exports grew by 15.8% compared to 15.6% in 2007 and non-oil and gas imports grew by 40.4% compared to 14.5% in 2007. In

2008, the average oil price was higher than that of 2007, despite the sharp fall in oil price in the second half of 2008. This resulted in increases in the values of both oil imports and exports, which increased by 23.9% and 23.1%, respectively. The higher average oil price increased the Republic's oil trade deficit as the Republic is a net oil importer, but increased the Republic's gas trade surplus.

In 2009, exports contracted 14.3% as global demand for exports slowed. Imports recorded a larger contraction of 26.5% as the demand for imports decreased in line with decreasing domestic economic activity and the rupiah's depreciation amidst the global economic crisis. Consequently, the trade surplus rose from U.S.$12.1 billion in 2008 to U.S.$25.9 billion in 2009.

As an effort to enhance export development, the government issued Law No. 2 of 2009 on Indonesian Export Financing Agency that stipulates the Indonesian Export Financing Agency (*Lembaga Pembiayaan Ekspor Indonesia* or **LPEI**), as an independent entity. The LPEI proposes to support exports by providing export related funding through financing support, guarantees and insurance. Funding for export related financing is intended to be raised from the issuance of debt securities, from short-term, medium-term, and long-term loans from foreign governments, multilateral agencies, local and foreign banks and financial agencies, and funds provided by Bank Indonesia. LPEI also provides export facilities for exports under the Shari'a system.

In 2010, Indonesia's trade balance posted a surplus of U.S.$22.8 billion, a slight decrease from a surplus of U.S.$25.9 billion in 2009. Export value increased 32.1% as external demand, particularly that directed at the Asian markets grew strongly in keeping with the recovery of the global economy. Rising export performance also benefited from escalating global commodity prices. Imports grew by 44.3% in the same period. Import value was boosted by strong domestic economic expansion with a simultaneous appreciation of the exchange rate.

In 2011, Indonesia's trade balance posted a surplus of U.S.$24.6 billion, a slight increase from a surplus of U.S.$22.8 billion in 2010. Exports increased 27.0% due to an increase in global commodity trading volume and price. The export performance was also supported by diversification of exports to Asian emerging countries, the advantageous natural resource based composition of Indonesia's main export commodities and competitive rupiah exchange rates compare to other currencies in the region. Imports accelerated by 30.2% in response to strong domestic demand.

In 2012, Indonesia's trade balance recorded a deficit of U.S.$2.1 billion. Exports decreased 6.3% due to global economic slowdown reflected by weak growth in world trade volume and demand from Indonesia's trading partner countries and the steady decline in commodity prices. Imports accelerated by 8.0% in line with strong domestic demand and mounting consumption of oil-based fuels.

The following table sets forth Indonesia's exports by major commodity groups for the periods indicated:

Exports by Sector

	Year ended December 31,					
	2007	2008	2009	2010	2011[P]	2012[P]
	(in thousands of U.S. dollars)					
Agricultural products:						
Coffee Bean	626,755	990,077	822,731	812,001	1,030,339	1,241,923
Tea	73,128	125,441	144,050	149,581	136,367	126,753
Spices	250,576	278,846	238,702	408,873	430,318	631,799
Tobacco	61,110	82,082	101,954	77,154	61,483	60,791
Cacao bean	619,547	849,215	1,076,547	1,186,717	616,519	388,325
Shrimp and prawn	918,375	992,218	783,930	850,988	1,064,620	1,111,417
Other agricultural products	1,181,122	1,348,926	1,179,201	1,506,072	1,806,333	2,023,168
Total Agricultural products	3,730,614	4,666,805	4,347,116	4,991,385	5,145,979	5,584,172
Manufacture products:						
Textile and textile products	9,848,057	10,242,813	9,303,520	11,292,188	13,352,823	12,510,045
Processed wood products	3,029,210	2,789,349	2,226,292	2,820,894	3,246,114	3,345,863
Palm oil	7,570,915	11,858,611	10,254,111	13,422,626	19,424,710	18,421,196
Chemicals	3,460,854	2,764,685	2,278,481	3,425,997	4,655,547	3,648,593
Base metal products	9,594,280	9,920,126	7,173,329	9,876,620	11,853,787	9,189,467
Electrical apparatus, measuring instruments and optical	7,930,733	8,793,235	8,569,144	10,947,800	11,546,386	11,067,388
Cement	195,673	154,626	157,761	109,098	57,801	20,049
Paper and paper products	3,365,050	3,878,880	3,428,698	4,133,882	4,154,687	3,938,376
Processed rubber	6,057,157	7,463,973	4,681,744	9,239,750	14,128,206	10,368,056
Oil products[(1)]	2,740,151	3,325,755	2,159,786	3,585,936	4,067,730	3,269,935
Liquefied Petroleum Gas[(1)]	210,423	79,012	48,194	—	294,526	9,177
Other manufacture products	25,416,073	31,027,737	26,074,435	32,884,904	39,870,950	42,326,096
Total Manufacture products	79,418,577	92,298,803	76,355,494	101,739,695	126,653,268	118,114,239
Mining and other sector products:						
Copper ore	4,428,187	2,316,366	5,380,287	6,325,231	4,706,933	2,484,712
Nickel ore	615,381	503,860	291,554	574,683	1,333,172	1,466,588
Coal	6,976,705	10,305,207	13,765,088	17,801,230	26,924,583	26,177,958
Bauxite	106,367	202,491	240,056	453,951	767,139	633,935
Crude oil[(1)]	9,379,539	11,442,411	8,007,973	11,218,768	14,166,567	12,723,142
Natural Gas[(1)]	12,165,404	16,254,247	9,777,923	12,967,686	18,196,213	17,670,963
Other mining products	263,571	540,894	258,820	382,055	540,906	455,139
Other sector products[(2)]	9,460	9,771	10,679	9,707	16,082	13,136
Total Mining and other sector products	33,944,614	41,575,248	37,732,380	49,733,312	66,651,591	61,625,574
Unclassified exports[(3)]	920,396	1,065,244	1,210,753	1,610,099	2,336,686	2,822,144
Total exports	118,014,200	139,606,099	119,645,743	158,074,492	200,787,525	188,146,131
Non oil and gas exports	93,142,172	107,884,879	99,029,573	129,416,034	162,720,858	152,574,764
Oil and gas exports	24,872,028	31,721,220	20,616,170	28,658,458	38,066,667	35,571,367

Source: Bank Indonesia

[P] Preliminary.

(1) As a component of oil and gas exports.

(2) Consists of goods not elsewhere specified.

(3) Consists of goods procured in ports by carriers, repairs on goods, and adjustments made for the coverage of industrial exports in Batam. Includes both oil and gas exports and non oil and gas exports.

Exports of goods have increased over the past few years, except in 2009 when the impact of the global financial crisis adversely impacted Indonesia's international trade balance. As a proportion of total exports, manufactured products have decreased from 67.3% of total exports in 2007 to 62.8% in 2012. Indonesia faces increasing competition in labor-intensive sectors such as textiles, clothing and footwear from countries such as China and Vietnam. The proportion of exports of goods represented by mining and other sector products increased from 28.8% in 2007 to 32.8% in 2012, in line with higher commodity prices. The proportion of agricultural products has increased from 3.2% in 2007 to 5.4% in 2012.

In 2007, Indonesia's exports increased by 14.0% to U.S.$118.0 billion compared to U.S.$103.5 billion in 2006. Non-oil and gas exports grew by 15.6%, compared to 20.7% in 2006. During 2007, the increase in exports resulted from a 16.1% increase in manufactured products exports, a 9.5% increase in mining and other sector products exports and a 12.5% increase in agricultural products exports, each compared to 2006. Among major export commodities, exports of mineral products and certain manufactured products, such as textiles and CPO, increased mainly due to higher prices. This price increase was affected by higher demand, mainly from China, and the depreciation of the U.S. dollar, which resulted in higher U.S. dollar prices for commodities. Other manufactured products exports, including rubber products and chemicals, increased due to a combination of higher prices and larger export volumes. Oil and gas exports in 2007 increased 8.4% compared to 2006, which was lower than growth in 2006 of 13.4%, despite an increase in oil prices. This was mainly due to the decline in gas exports, as a result of lower gas production and higher domestic gas consumption. The average price of Indonesia's oil exports in 2007 was U.S.$70.1 per barrel, compared to U.S.$62.5 per barrel in 2006. Oil production averaged 952,000 barrels per day in 2007, lower than 1.0 million barrels per day in 2006, as a result of a decline in production capacity.

In 2008, Indonesia's exports increased by 18.3% to U.S.$139.6 billion, compared to U.S.$118.0 billion in 2007. This increase resulted from a 25.1% increase in agricultural products exports, a 22.5% increase in mining and other sector products exports and a 16.2% increase in manufactured products exports. Oil and gas exports in 2008 increased by 27.5%, compared to 8.4% in 2007, mainly due to increases in oil prices. The average price of Indonesia's oil exports for 2008 was U.S.$93.5 per barrel, compared to an average of U.S.$70.1 per barrel in 2007. Average oil production was 976,000 barrels per day in 2008, which increased from 952,000 barrels per day in 2007.

In 2009, Indonesia's exports contracted by 14.3% to U.S.$119.6 billion, compared to U.S.$139.6 billion in 2008 primarily from a 17.3% contraction in manufactured products exports and a 6.9% decrease in agricultural products exports. Mining and other sector exports of mineral products decreased by 9.2%. Oil and gas exports in the same period also contracted by 35.0%, mainly due to a sharp decline in oil prices. The average price of Indonesia's oil exports for 2009 was U.S.$59.6 per barrel, compared to an average of U.S.$93.5 per barrel in 2008. Average oil production was 949,000 barrels per day in 2009, a decrease from the 976,000 barrels per day in 2008.

In 2010, however, Indonesia's export performance experienced buoyant growth at 32.1% from U.S.$119.6 billion in 2009 to reach U.S.$158.1 billion. Strong world demand for resource-based export commodities and a hike in Indonesia's major export commodity prices were among the factors that boosted the non-oil and gas export performance. Non-oil and gas exports increased by 30.7% to U.S.$129.4 billion from U.S.$99.0 billion in 2009. The increase in exports of agriculture products (14.8%), mining and other sector products (31.8%) and manufactured products (33.2%) supported overall export growth. Meanwhile, oil and gas exports in 2010 increased by 39.0%, reaching U.S.$28.7 billion from the previous year. A sharp increase in oil and gas exports was mainly due to oil price hikes. The average price of Indonesia's oil exports for 2010 was U.S.$77.7 per barrel, compared to an average of U.S.$59.6 per barrel in 2009. The increase in oil exports was also contributed by crude export volume, reaching 144.0 million barrels per day in 2010, from 133.2 million barrels in 2009.

In 2011, exports increased by 27.0% from U.S.$158.1 billion in 2010 to U.S.$200.8 billion, in line with an increase in commodity prices. The increase in exports of agriculture products (3.1%), mining products (34.0%) and manufactured products (24.5%) supported the increase in exports. In 2011, non-oil and gas exports increased by 25.7% to U.S.$162.7 billion from U.S.$129.4 billion in 2010. Oil and gas exports in 2011 increased by 32.8%, reaching U.S.$38.1 billion, primarily due to oil price hikes. The average price of Indonesia's oil exports for 2011 was U.S.$109.2 per barrel, compared to an average of U.S.$77.7 per barrel in 2010.

In 2012, exports amounted to U.S.$188.1 billion, 6.3% lower than 2011. This decrease was due to a decrease in exports of mining products (7.5%) and manufactured products (6.7%), partially offset by an increase in exports of agricultural products (8.5%). In 2012, non-oil and gas exports decreased by 6.2% to U.S.$152.6 billion from U.S.$162.7 billion in 2011. Oil and gas exports in 2012 amounted to U.S.$35.6 billion, 6.6% lower than in 2011, due to decreases both in oil and gas exports. The average price of Indonesia's oil exports for 2012 was U.S.$110.7 per barrel, compared to an average of U.S.$109.2 per barrel in 2011.

The following table sets forth Indonesia's exports by country of destination for the periods indicated:

Exports by Destination

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012[P]
	(in thousands of U.S. dollars)					
America:						
North America:						
United States of America	11,631,913	12,876,486	10,802,392	14,237,606	16,738,696	14,733,384
Canada	566,814	642,154	499,133	716,049	963,694	787,625
Total North America	12,204,571	13,521,866	11,302,578	14,954,611	17,702,388	15,521,009
Central and South America:						
Argentina	181,974	192,779	157,239	279,535	353,236	310,358
Brazil	749,951	1,017,087	903,654	1,517,062	1,698,571	1,479,689
Mexico	358,494	452,810	398,055	486,520	609,280	623,299
Other Central and South America	682,088	829,699	613,185	921,893	1,198,622	1,154,769
Total Central and South America	1,972,508	2,492,375	2,072,133	3,205,010	3,859,707	3,589,895
Total America	14,177,079	16,014,241	13,374,711	18,159,621	21,562,095	19,110,904
Europe:						
European Union:						
Netherlands	2,630,630	3,829,370	2,956,816	3,716,824	5,042,998	4,559,327
Belgium	1,317,911	1,358,439	1,047,620	1,186,048	1,376,117	1,292,609
United Kingdom	1,494,129	1,559,720	1,415,209	1,634,653	1,698,749	1,678,542
Italy	1,369,307	1,917,309	1,659,244	2,359,740	3,155,722	2,279,581
Germany	2,357,625	2,462,746	2,379,496	3,035,439	3,288,714	3,063,518
France	806,545	931,821	857,479	1,030,844	1,278,492	1,116,316
Spain	2,074,805	1,593,024	1,792,677	2,119,782	2,369,755	2,059,199
Other European Union	1,448,247	1,624,506	1,487,133	1,728,733	2,099,107	1,814,143
Total European Union	13,499,199	15,276,935	13,595,674	16,812,063	20,308,658	17,863,234
Russia	323,013	346,734	312,620	598,076	856,236	866,353
Turkey	1,015,310	879,993	679,922	1,066,361	1,428,810	1,361,951
Other Europe	591,143	1,159,778	646,646	829,847	907,447	819,213
Total Europe	15,428,665	17,663,440	15,234,862	19,306,346	23,501,149	20,910,750
Asia and Middle East:						
ASEAN:						
Brunei Darussalam	45,802	57,515	57,089	60,697	76,909	116,889
Philippine	1,878,061	1,925,777	2,446,407	3,171,312	3,716,979	3,611,362
Cambodia	124,037	174,540	199,187	216,622	266,486	290,644
Lao PDR	4,080	4,222	4,668	5,504	10,663	23,734
Malaysia	5,043,516	6,674,504	6,847,510	9,332,358	10,902,141	11,069,198
Myanmar	238,908	237,223	180,800	281,506	359,540	412,643
Singapore	10,769,098	13,469,739	11,172,922	14,098,088	16,436,646	16,059,667
Thailand	3,190,485	3,802,323	3,262,470	4,546,910	5,562,626	6,562,420
Vietnam	1,253,748	1,700,079	1,449,705	1,933,452	2,333,066	2,262,484
Total ASEAN	22,547,734	28,045,922	25,620,759	33,646,449	39,665,056	40,409,040
Hong Kong SAR	1,730,866	1,803,676	2,116,123	2,484,581	3,179,127	2,636,998
India	4,550,943	7,011,269	7,561,412	9,662,084	13,747,347	12,399,606
Iraq	2,849	276,865	40,569	55,057	154,230	44,884
Japan	25,561,608	28,237,200	19,299,659	25,487,404	32,494,902	28,914,433
Republic of Korea	8,244,418	9,283,423	8,225,553	12,522,041	14,660,195	14,018,538
Pakistan	734,247	938,493	655,690	681,269	934,687	1,376,220
People's Republic of China	10,030,100	11,943,684	11,572,849	15,575,316	23,334,483	21,566,879
Saudi Arabia	918,123	1,203,657	931,964	1,116,973	1,398,371	1,772,539
Taiwan, Province of China	2,744,974	3,057,686	3,357,978	4,784,383	6,487,996	6,146,353
Other Asia and Middle East	4,311,479	5,537,778	4,436,828	5,331,617	6,996,089	6,030,798
Total Asia and Middle East	81,377,341	97,339,653	83,819,384	111,347,175	142,779,483	135,316,291
Australia and Oceania:						
Australia	3,803,731	4,288,417	3,353,560	4,338,753	5,670,124	4,661,858
New Zealand	362,894	571,949	351,608	404,138	576,152	730,209
Total Australia and Oceania	4,374,176	5,100,843	3,999,800	5,083,855	6,554,309	5,392,065
Africa:						
South Africa	542,696	624,399	468,473	670,466	1,434,905	1,683,439
Other Africa	1,193,845	1,798,279	1,537,761	1,896,909	2,618,903	2,910,535
Total Africa	1,736,542	2,422,678	2,006,233	2,567,394	4,053,805	4,593,976
Unclassified exports[(1)]	920,396	1,065,244	1,210,753	1,610,099	2,336,686	2,822,144
Total	118,014,200	139,606,099	119,645,743	158,074,492	200,787,525	188,146,131

Source: Bank Indonesia

P Preliminary.

(1) Consists of goods procured in ports by carriers, repairs on goods and adjustments made for the coverage of Batam Industrial Exports.

Over the past six years, Japan, the United States, Singapore, the Republic of Korea, China and India have consistently remained Indonesia's largest destinations for exports, together representing 62.6% of all exports in 2012. In 2012, Japan was Indonesia's largest export market, accounting for 15.4% of total exports, followed by India (12.0%), China (11.5%), Singapore (8.5%), the United States (7.8%) and the Republic of Korea (7.5%). Japan's share of Indonesian exports fell from 21.7% in 2007 to 15.4% in 2012. The United States' share of Indonesian exports fell from 9.9% of total exports in 2007 to 7.8% in 2012. The Republic of Korea's share of Indonesian exports increased from 7% in 2007 to 7.5% in 2012. Singapore's share of Indonesian exports decreased from 9.1% in 2007 to 8.5% in 2012. China's share of Indonesian exports increased from 8.4% in 2007 to 11.5% in 2012. Malaysia's and Thailand's shares of Indonesian exports increased from 4.3% and 2.7% in 2007, respectively, to 5.9% and 3.5%, respectively, in 2012.

Taking each as a whole, ASEAN and Europe accounted for 21.5% and 11.1% of Indonesia's exports, respectively, in 2012. ASEAN's share of Indonesian exports increased from 19.1% in 2007 to 21.5% in 2012. Europe's share of Indonesian exports declined from 13.1% in 2007 to 11.1% in 2012.

In 2007, Indonesia's main trading partners were Japan, the United States, Singapore, China, and South Korea, accounting for 21.7%, 9.9%, 9.1%, 8.5% and 7.0%, respectively, of Indonesia's total exports. ASEAN and Europe accounted for 19.1% and 13.1% of total exports, respectively.

In 2008, Indonesia's main trading partners were Japan, the United States, Singapore, China, India, and South Korea, accounting for 20.2%, 9.2%, 9.6%, 8.6%, 6.8% and 6.6%, respectively, of Indonesia's total exports. ASEAN and Europe accounted for 20.1% and 12.7% of total exports, respectively.

In 2009, Japan was the Republic's largest export market, accounting for 16.1% of total exports, followed by China (9.7%), Singapore (9.3%), the United States (9.0%), and the Republic of Korea (6.9%). ASEAN and Europe accounted for 21.4% and 12.7% of total exports, respectively.

In 2010, Indonesia's major export markets remained unchanged, with Japan, China, Singapore, the U.S., and the Republic of Korea accounting for 16.1%, 9.9%, 8.9%, 9.0% and 7.9% of total exports respectively. Meanwhile, ASEAN and Europe accounted for 21.4% and 11.6% of total exports respectively.

In 2011, Indonesia's main trading partners remained unchanged, being Japan, China, Singapore, the United States and the Republic of Korea, accounting for 16.2%, 11.6%, 8.2%, 8.3% and 7.3%, respectively, of Indonesia's total exports.

In 2012, Indonesia's main trading partners remained unchanged, being Japan, India, China, Singapore, the Republic of Korea and the United States, accounting for 15.4%, 12.0%, 11.5%, 8.5%, 7.5% and 7.8%, respectively, of Indonesia's total exports.

The following table sets forth Indonesia's imports by major commodity groups for the periods indicated:

Imports by Sector[1]

	Year ended December 31,					
	2007	2008	2009	2010	2011[P]	2012[P]
	(in thousands of U.S. dollars)					
Consumer Goods:						
Food and beverages, primary, mainly for household	763,831	803,630	966,478	1,178,968	1,857,702	1,537,345
Food and beverages, processed, mainly for household	2,048,741	1,903,894	1,368,659	2,442,548	3,598,907	2,758,894
Passenger motor cars	334,266	478,859	327,467	701,884	879,378	1,498,307
Transport equipment, non-industrial	241,935	413,019	440,391	573,436	558,325	367,714
Durable consumer goods	598,044	841,946	822,675	1,131,912	1,284,740	1,593,347
Semi-durable consumer goods	914,325	1,155,812	921,597	1,350,901	1,754,896	1,920,530
Non-durable consumer goods	1,000,920	1,269,330	1,172,670	1,490,961	1,689,655	1,910,249
Fuels and lubricants, processed, oil products[2]	6,528,713	8,756,261	4,461,898	7,748,091	11,465,941	13,720,367
Goods not elsewhere specified	149,101	101,730	138,722	206,977	168,837	224,768
Total Consumer Goods	12,579,877	15,724,480	10,620,557	16,825,679	23,258,383	25,531,526
Raw materials and auxiliary goods:						
Food and beverages, primary, mainly for industry	2,007,854	3,287,211	2,669,923	3,143,862	4,121,554	4,005,709
Food and beverages, processed, mainly for industry	1,134,127	1,313,281	1,551,430	2,250,639	3,264,179	3,325,465
Industrial supplies, primary	3,069,140	4,702,917	2,873,785	4,439,135	6,723,026	5,486,583
Industrial supplies, processed	29,049,847	41,120,749	29,266,229	41,700,571	52,838,464	58,931,621
Parts and accessories for capital goods	11,727,457	14,942,430	10,953,467	14,785,927	16,776,839	17,993,151
Parts and accessories for transport equipment	4,173,728	6,511,688	3,990,012	6,181,181	7,129,249	8,275,085
Fuels and lubricants, primary	8,788,739	9,658,384	5,188,131	8,359,686	10,923,738	11,008,475
of which: crude oil[2]	8,779,003	9,619,278	5,167,423	8,336,533	10,905,440	10,987,073
Fuels and lubricants, processed	5,736,014	7,679,158	6,749,794	11,236,669	18,522,753	18,277,680
of which: oil products[2]	5,412,172	7,258,764	6,118,327	9,854,156	16,590,030	15,413,260
of which: Liquefied Petroleum Gas[2]	34,025	202,045	484,385	1,196,084	1,708,094	2,626,816
Total Raw materials and auxiliary goods	65,686,906	89,215,819	63,242,770	92,097,671	120,299,803	127,303,767
Capital Goods:						
Capital goods (except transport equipment)	11,382,814	16,517,358	13,291,147	18,722,367	23,504,414	26,631,187
Passenger motor cars	334,266	478,859	327,467	701,884	879,378	1,498,307
Other transport equipment, industrial	2,486,732	4,652,129	5,789,475	5,558,797	7,339,264	7,937,353
Total Capital Goods	14,203,812	21,648,346	19,408,089	24,983,047	31,723,053	36,066,847
Unclassified imports[3]	630,000	949,812	514,514	1,417,093	920,156	1,323,108
Total Imports (c.i.f)	93,100,595	127,538,457	93,785,930	135,323,490	176,201,390	190,225,246
Non oil and gas imports	72,229,285	101,536,625	77,424,085	108,026,226	135,257,475	147,195,753
Oil and gas imports	20,871,310	26,001,832	16,361,845	27,297,264	40,943,915	43,029,493

Source: Bank Indonesia

P Preliminary.

(1) Data collected on a cost, insurance and freight basis.

(2) As a component of oil and gas imports.

(3) Consists of goods procured in ports by carriers and repairs on goods. Includes oil and gas imports and non oil and gas imports.

With the exception of 2009, imports of goods have grown steadily over the last six years As a proportion of total imports of goods, raw materials and auxiliary goods have declined from 70.6% of total imports of goods in 2007 to 66.9% in 2012 and consumer goods have decreased slightly from 13.5% of total imports of goods in 2007 to 13.4% in 2012. The relative level of capital goods has increased, from 15.3% of the 2007 total to 19% of the 2012 total. The proportion of oil and gas imports increased over the same period from 22.4% in 2007 to

22.6% in 2012. Indonesia's imports tend to fluctuate in conjunction with exports because imports of goods, particularly in the raw material and capital goods categories, are widely used as inputs in the production of export-oriented products.

Import growth accelerated in 2007 as a result of growing domestic demand. Total imports of goods grew by 15.4% to U.S.$93.1 billion, compared to U.S.$80.6 billion in 2006. Non-oil and gas imports grew by 14.5% compared to 2006, in line with stronger domestic demand and higher levels of consumption and investment. Imports of raw materials and auxiliary goods grew to U.S.$65.7 billion (or 70.6% of total imports) in 2007 compared with U.S.$57.6 billion in 2006. Imports of capital goods increased to U.S.$14.2 billion (or 15.3% of total imports) in 2007 compared with U.S.$12.1 billion in 2006. Consumer goods imports increased to U.S.$12.6 billion (or 13.5% of total imports) in 2007 compared with U.S.$10.3 billion in 2006. In addition, the value of oil and gas imports increased by 18.8% compared to those in 2006, mainly due to higher fuel consumption in 2007.

In 2008, the total value of imports increased by 37.0% to U.S.$127.5 billion, compared to U.S.$93.1 billion in 2007. Non-oil and gas imports increased by 40.6% to U.S.$101.5 billion, driven by a strong domestic economy in the first three quarters of 2008, higher import prices, and higher demand for raw materials for manufacturing exports. In 2008, oil prices surged, reaching U.S.$140.7 per barrel by early July but subsequently decreased by December 31, 2008 to U.S.$35.6 per barrel. Higher oil prices led to a 24.7% increase in the value of Indonesia's oil and gas imports in 2008. The volume of fuel imports decreased by 4.4% in 2008 as domestic economic activity slowed in the last quarter of 2008.

In 2009, the value of total imports of goods decreased by 26.5% to U.S.$93.8 billion, compared to U.S.$127.5 billion in 2008. Non-oil and gas imports decreased by 23.7% to U.S.$77.4 billion as domestic demand declined. The sharp contraction of 37.1% in oil and gas imports accounted for a substantial portion of the decline, driven by lower import prices, a decrease in demand for gas imports and a decrease in fuel imports. The decrease in fuel imports was caused in part by reduced domestic economic activity and the government program leading to the shift in fuel consumption to LPG and coal. The average price of oil in 2009 was U.S.$59.6 per barrel, compared to U.S.$93.5 per barrel in 2008.

In 2010, total imports grew 44.3% to U.S.$135.3 billion, due to substantial growth in both non-oil and gas imports and oil and gas imports. Non-oil and gas imports increased by 39.5%, reaching U.S.$108.0 billion from U.S.$77.4 billion in 2009. Imports of consumer goods grew 58.4% to U.S.$16.8 billion from U.S.$10.6 billion in 2009, driven by strong domestic consumption. The robust growth in domestic industrial activities encouraged imports of raw materials and auxiliary goods in 2010 to reach U.S.$92.1 billion, a 45.6% growth from 2009. Meanwhile, the expansion of domestic investment and the escalation of production activities bolstered imports of capital goods in 2010 to U.S.$25.0 billion, an increase of 28.7% from 2009. The increase in domestic fuel consumption and higher oil prices led to a 66.8% increase in oil and gas import value, reaching U.S.$27.3 billion in 2010 compared to U.S.$16.4 billion in 2009.

In 2011, total imports increased by 30.7% to U.S.$176.8 billion compared to 2010 due to more robust domestic demand. Imports of consumer goods, raw materials, and capital goods grew by 38.2%, 30.6% and 29.5%, respectively. Non-oil and gas imports increased by 25.2% to U.S.$135.3 billion from U.S.$108.0 billion in 2010. In addition, the increase in domestic fuel consumption and higher oil prices led to a 52.3% increase in oil and gas import value, reaching U.S.$40.9 billion in 2011 compared to U.S.$27.3 billion in 2010.

In 2012, total imports amounted to U.S.$190.2 billion due to more robust domestic demand. Imports of capital goods, consumption goods and raw materials grew by 13.7%, 9.8% and 5.8%, respectively. Non-oil and gas imports increased by 8.8% to U.S.$147.2 billion from U.S.$135.3 billion in 2011. Meanwhile, oil and gas import increased by 5.1%, reaching U.S.$43.0 billion in 2012 compared to U.S.$40.9 billion in 2011.

The following table sets forth Indonesia's imports by country of origin for the periods indicated:

Imports by Place of Origin[1]

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012[P]
	(in thousands of U.S. dollars)					
America:						
North America:						
United States of America	5,518,118	7,982,675	6,586,945	7,878,413	9,515,687	9,697,444
Canada	1,066,549	2,000,213	1,112,743	1,265,406	2,018,675	1,810,173
Total North America	6,585,298	9,982,889	7,699,693	9,143,821	11,534,361	11,507,615
Central and South America:						
Argentina	436,385	618,755	670,639	942,067	1,584,823	1,749,599
Brazil	705,834	1,508,019	1,056,705	1,692,707	1,840,990	1,932,730
Mexico	68,791	152,274	139,791	212,304	409,197	566,618
Other Central and South America	391,744	614,429	648,099	544,776	867,979	577,131
Total Central and South America	1,602,754	2,893,476	2,515,235	3,391,853	4,702,990	4,826,079
Total America	8,188,067	12,876,434	10,214,927	12,535,674	16,237,352	16,333,694
Europe:						
European Union:						
Netherlands	618,782	630,474	548,445	663,685	853,232	845,089
Belgium	382,153	604,904	438,239	539,924	592,048	621,434
United Kingdom	783,266	1,102,820	631,647	885,012	1,122,733	1,281,168
Italy	752,992	1,008,358	737,360	901,498	1,198,484	1,513,144
Germany	2,627,926	3,193,795	2,344,698	2,995,830	3,389,169	4,039,865
France	1,632,091	1,714,950	1,180,957	1,272,158	1,741,294	1,639,269
Spain	300,600	258,738	221,544	309,467	399,785	521,073
Other European Union	2,253,502	2,271,690	1,760,757	2,090,645	2,802,990	3,140,918
Total European Union	9,355,443	10,815,355	7,864,956	9,671,646	12,099,731	13,601,961
Russia	441,675	1,186,360	533,917	1,062,822	1,286,648	1,743,576
Turkey	749,482	1,120,186	509,919	289,443	428,213	409,525
Other Europe	1,185,915	1,867,758	1,129,767	1,525,942	1,764,899	3,127,418
Total Europe	11,732,515	14,989,660	10,058,558	12,549,854	15,579,491	18,882,480
Asia and Middle East:						
ASEAN:						
Brunei Darussalam	1,847,173	1,915,062	584,756	685,012	940,594	411,748
Philippine	532,084	747,765	552,167	670,135	845,694	802,004
Cambodia	2,295	13,584	3,361	4,731	7,886	11,053
Lao PDR	3,291	48,471	1,393	616	1,293	3,280
Malaysia	7,109,610	7,938,735	5,553,879	8,764,440	11,050,830	12,941,217
Myanmar	32,581	29,779	26,755	31,649	69,560	63,359
Singapore	16,328,459	20,219,322	15,357,687	20,526,932	27,186,886	27,163,600
Thailand	4,554,689	6,371,932	4,553,084	7,459,065	10,313,664	11,346,061
Vietnam	1,035,861	679,627	644,719	1,155,614	2,466,615	2,544,673
Total ASEAN	31,484,857	38,017,936	27,291,862	39,303,447	52,883,024	55,286,996
Hong Kong SAR	1,909,727	2,502,125	1,492,327	1,834,879	2,412,130	1,897,913
India	1,742,023	2,853,933	2,203,315	3,309,430	4,434,147	4,435,270
Iraq	413	44,145	1,124	1,176	703	200
Japan	9,385,751	15,177,532	9,743,051	16,785,076	19,373,964	22,643,819
the Republic of Korea	4,936,893	6,671,019	4,605,634	7,709,165	12,300,172	12,038,845
Pakistan	65,561	62,252	63,082	92,623	206,865	271,236
People's Republic of China	9,900,319	15,334,484	13,776,950	20,660,518	26,197,917	29,500,850
Saudi Arabia	3,327,465	3,918,390	2,909,460	4,572,419	5,972,057	5,079,840
Taiwan, Province of China	2,216,015	2,801,101	2,317,396	3,224,658	4,327,489	4,759,204
Other Asia and Middle East	2,218,748	4,669,363	2,885,751	3,942,214	5,703,482	6,454,693
Total Asia and Middle East	67,187,773	92,052,281	67,289,952	101,435,606	133,811,947	142,368,864
Australia and Oceania:						
Australia	3,013,400	4,108,972	3,385,303	4,215,446	5,044,791	5,025,675
New Zealand	536,134	707,469	558,323	725,040	740,740	726,049
Total Australia and Oceania	3,765,986	4,934,250	4,152,651	4,996,365	5,820,472	5,788,016
Africa:						
South Africa	237,599	334,584	348,963	529,614	705,577	650,997
Other Africa	1,358,655	1,401,437	1,206,364	1,859,285	3,126,397	4,878,087
Total Africa	1,596,254	1,736,021	1,555,327	2,388,899	3,831,974	5,529,082
Unclassified imports[2]	630,000	949,812	514,514	1,417,093	920,156	1,323,108
Total Imports	93,100,595	127,538,457	93,785,930	135,323,490	176,201,390	190,225,246

Source: Bank Indonesia

P Preliminary.

(1) Data collected on a cost, insurance and freight basis.

(2) Consists of goods procured in ports by carriers and repairs on goods.

By country of origin, over the six years from 2007 to 2012, most of Indonesia's imports (approximately 65.9% of total imports in 2012) came from seven countries: Singapore (14.3% of total imports in 2012), China (15.5% in 2012), Japan (11.9% in 2012), South Korea (6.3% in 2012), Malaysia (6.8% in 2012), the United States (5.1% in 2012), and Thailand (6.0% in 2011). During this six year period, however, the composition of imports from these countries has changed significantly. The share of imports from Singapore declined from 17.5% in 2007 to 14.3% in 2012. On the other hand, the share of imports from China increased significantly from 10.6% in 2007 to 15.5% in 2012, making China the first largest exporter to Indonesia replacing Singapore. Imports from South Korea have increased from 5.3% in 2007 to 6.3% in 2012. The share of imports from Japan increased from 10.1% in 2006 to 11.9% in 2012. The share of imports from the United States decreased from 5.9% in 2007 to 5.1% in 2012. Indonesia's main imports from the United States were automobiles and other vehicles and manufacturing machinery. Thailand's share of imports increased from 4.9% in 2007 to 6.0% in 2012. The share of imports from Malaysia decreased from 7.6% in 2007 to 6.8% in 2012. Meanwhile, the share of Indonesia's imports from the ASEAN region decreased from 33.8% in 2007 to 29.1% in 2012, whereas imports from European countries, which accounted for approximately 12.6% of total imports in 2007, declined to 9.9% in 2012.

In 2009, Singapore was the Republic's largest source of imports, accounting for 16.4% of total imports, followed by China (14.7%), Japan (10.4%), the United States (7.0%), Malaysia (5.9%) and the Republic of Korea (4.9%). Taking each as a whole, ASEAN and Europe accounted for 29.1% and 10.7% of Indonesia's total imports, respectively.

In 2010, the Republic's main countries of import origin were relatively similar to those in 2009. The share of imports from China, however, sharply increased (15.3% of total imports), making China the largest country of import origin ahead of Singapore (15.2%), followed by Japan (12.4%). Indonesia's main import commodities from China were raw materials and capital goods.

In 2011, Singapore was the Republic's largest source of imports, accounting for 15.4% of total imports, followed by China (14.8%), Japan (11.0%) and the Republic of Korea (7.0%). Taking each as a whole, ASEAN and Europe accounted for 29.9% and 8.9% of Indonesia's total imports, respectively.

In 2012, emerging countries were Indonesia's largest import sources, including China (15.5%), Singapore (14.3%), Malaysia (6.8%) and the Republic of Korea (6.3%). Imports from Japan accounted for 11.9% of Indonesia's total imports. Taking each as a whole, ASEAN and Europe accounted for 29.1% and 9.9% of Indonesia's total imports, respectively.

Balance of Payments

Balance of payments figures measure the relative flow of goods, services and capital into and out of a country as represented in the current account and the capital and financial account. The current account tracks a country's trade in goods and services, as well as income and current transfer transactions. The capital and financial account covers all transactions involving capital transfers, acquisition or disposal of non-produced, non-financial assets, and financial assets and liabilities. A balance of payments surplus indicates a net inflow of foreign currencies, while a balance of payments deficit indicates a net outflow of foreign currencies.

The following table sets forth the Republic's balance of payments for 2007, 2008, 2009, 2010, 2011 and 2012:

Balance of Payments[1]

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012P
	(in millions of U.S. dollars)					
Current account:						
Exports (f.o.b.):						
Non-oil and gas exports	93,142	107,885	99,030	129,416	162,721	152,575
Oil and gas exports	24,872	31,721	20,616	28,658	38,067	35,571
Total exports	118,014	139,606	119,646	158,074	200,788	188,146
Imports (f.o.b.):						
Non-oil and gas imports	(66,058)	(92,755)	(73,470)	(102,021)	(127,288)	(139,040)
Oil and gas imports	(19,203)	(23,935)	(15,244)	(25,426)	(38,717)	(40,689)
Total imports	(85,261)	(116,690)	(88,714)	(127,447)	(166,005)	(179,729)
Services (net):						
Non-oil and gas services[2]	(15,576)	(13,292)	(15,484)	(18,661)	(34,421)	(33,524)
Oil and gas services	(6,686)	(9,499)	(4,819)	(6,823)	(9,143)	924
Total services	(22,262)	(22,790)	(20,303)	(25,484)	(33,098)	(32,600)
Total current account	10,491	126	10,628	5,144	1,685	(24,183)
Capital account	547	294	96	50	33	37
Financial account:						
Public sector:						
Portfolio investments	5,271	3,361	9,578	11,505	1,045	6,456
Other investments:						
Official inflows:						
CGI in flows[3]	1,327	1,745	2,045	1,880	1,319	1,019
Non-CGI in flows[4]	2,677	3,198	6,306	5,515	1,889	581
Total official inflows	4,004	4,944	8,351	7,395	3,208	1,600
Debt repayment[5]	(6,367)	(6,380)	(6,724)	(5,638)	(5,468)	(5,553)
Total other investments	(2,363)	(1,436)	1,627	1,757	(2,260)	(2,454)
Total public sector financial account	2,907	1,925	11,205	13,262	(1,215)	7,030
Private sector:						
Direct investments:[6]						
Abroad	(4,675)	(5,900)	(2,249)	(2,664)	(7,713)	(5,423)
Within Indonesia	6,928	9,318	4,877	13,771	19,241	19,853
Total direct investments	2,253	3,419	2,628	11,106	11,528	14,430
Portfolio investments:						
Assets	(4,415)	(1,294)	(144)	(490)	(1,408)	(790)
Liabilities	4,711	(303)	902	2,187	4,169	5,410
Total portfolio investments	296	(1,597)	758	1,697	2,762	4,619
Other private and miscellaneous capital[7]:						
Assets	(4,486)	(10,755)	(12,103)	(1,726)	(6,753)	(4,875)
Liabilities	2,074	4,882	2,268	2,231	7,212	3,669
Total other private and miscellaneous capital	(2,411)	(5,873)	(9,835)	505	459	(1,206)
Total private sector financial account	138	(4,052)	(6,448)	13,309	14,749	17,843
Total financial account	3,045	(2,126)	4,756	26,571	13,534	24,873
Total (current account, capital account and financial account)	14,084	(1,706)	15,481	31,765	15,252	(728)
Errors and omissions (net)	(1,368)	(238)	(2,975)	(1,480)	(3,395)	(563)
Overall balance	12,715	(1,945)	12,506	30,285	11,857	165
Monetary movements[8]	(12,715)	1,945	(12,506)	(30,285)	(11,857)	(165)
Changes in reserve assets	(14,334)	5,281	(14,466)	(30,102)	(13,916)	(2,658)
"of which" transactions	(12,715)	1,945	(12,506)	(30,285)	(11,857)	(165)
International Monetary Fund:						
Purchases	—	—	—	—	—	—
Repurchases	—	—	—	—	—	—
Net	—	—	—	—	—	—
Reserve asset position	56,920	51,639	66,105	96,207	110,123	112,781

Source: Bank Indonesia

P Preliminary.

(1) The calculation of export and import figures included in the balance of payments data compiled by Bank Indonesia differs in coverage and timing from the data on export/import trade compiled by BPS.

(2) This includes interest payments on public external debt, profit transfers from FDI projects and transportation services.

(3) This includes Consultative Group for Indonesia (**CGI**) disbursements and export credit facilities from CGI member countries and special loans from The Export-Import Bank of Japan.

(4) This includes loans from non-CGI member countries and commercial borrowings (which include international bonds and commercial bank borrowings).

(5) Principal repayments of direct government debt. Includes repayments of debt contracted by SOEs.

(6) Net figure includes private sector loans associated with FDI.

(7) Represents all capital movements not elsewhere specified. Excludes portfolio investment.

(8) A negative amount denotes an accumulation of assets (increase in official international reserves).

In 2007, GDP grew at 6.3% compared to 5.5% in 2006. In line with the stronger economic environment, domestic consumption, imports and investment all increased. Exports also continued to grow, supported by high oil and commodity prices. As a result of the stronger domestic economy in 2007, the Republic's overall balance of payments recorded a surplus of U.S.$12.7 billion, lower than the U.S.$14.5 billion surplus recorded in 2006. The current account recorded a surplus of U.S.$10.5 billion in 2007, compared to a surplus of U.S.$10.9 billion in 2006, the capital account and financial account recorded a surplus of U.S.$3.6 billion in 2007, compared to a surplus of U.S.$3.0 billion in 2006. Net errors and omissions in 2007 recorded a deficit of U.S.$1.4 billion, compared to a surplus of U.S.$625 million in 2006. The current, capital and financial account surplus of U.S.$14.1 billion in 2007 was slightly higher than the surplus of U.S.$13.9 billion in 2006.

In 2007, Indonesia recorded a current account surplus of U.S.$10.5 billion, slightly lower than the surplus of U.S.$10.9 billion recorded in 2006. The lower current account surplus was in line with the stronger domestic demand that was reflected in the higher growth of imports relative to exports in 2007. Meanwhile, improved non-oil and gas export performance was supported by world economic growth as reflected in rising export commodity prices. Export volumes and prices of major non-oil and gas commodities, such as CPO, textiles, rubber products, nickel, copper, machinery, paper and chemicals, increased significantly during this period. As a result, the total value of non-oil and gas exports grew by 15.6% in 2007 compared to 2006. The value of oil and gas exports recorded lower growth than non-oil and gas exports at 8.4% during 2007, primarily due to lower domestic crude oil production. Increased domestic consumption and investment resulted in 14.5% growth in non-oil and gas imports in 2007, significantly higher than the 8.0% growth rate in 2006. Non-oil and gas imports increased in all major categories in line with the growing domestic demand. The largest increase in non-oil and gas imports in 2007 came from consumption goods, which increased by 42.0%, followed by imports of raw materials, which grew by 12.0%, and imports of capital goods, which grew by 11.1%. The value of oil and gas imports in 2007 increased by 18.8% compared to an increase of 0.8% in 2006, mainly due to higher fuel consumption.

In 2007, Indonesia's services account recorded a deficit of U.S.$22.3 billion, higher than the U.S.$18.8 billion deficit in 2006. The services account deficit in 2007 was mainly caused by the increase in freight in import, increase in profit transfer abroad and strong foreign demand for Indonesian equity securities, government bonds and SBI, which increased dividend and interest payments to foreign holders of those securities.

The capital account surplus increased by 56.0% to U.S.$547 million in 2007, compared to U.S.$350 million in 2006, primarily due to foreign donations and investment grants.

Indonesia's financial account recorded a surplus of U.S.$3.0 billion in 2007, which was an increase from the financial account surplus of U.S.$2.7 billion recorded in 2006. The public sector financial account recorded a surplus of U.S.$2.9 billion in 2007, compared to a surplus of U.S.$2.0 billion in 2006. In 2007, official inflows from loans from bilateral and multilateral institutions and other official sources of funds were U.S.$4.0 billion and debt repayments were U.S.$6.4 billion. Portfolio investments in the public sector financial account recorded a significant surplus of U.S.$5.3 billion, including the sale of U.S.$1.5 billion in government bonds to foreign investors in February 2007. Also included in this surplus were the purchases of government rupiah-denominated bonds and SBI by foreign investors, which purchases were driven by the liquid international financial market condition, positive interest rate differentials and sustained macro-economic stability. Indonesia experienced significant outflows in portfolio investments of U.S.$1.5 billion in the fourth quarter of 2007 following the subprime mortgage crisis in the United States.

The private sector financial account in 2007 recorded a surplus of U.S.$138 million, compared to a surplus of U.S.$656 million in 2006. Among the main components of the private sector financial account, direct investment and portfolio investment recorded surpluses, while other investments recorded a deficit in 2007. Net direct investment had a surplus of U.S.$2.3 billion in 2007, slightly higher than the surplus of U.S.$2.2 billion in 2006. Direct investment into Indonesia increased from U.S.$4.9 billion in 2006 to U.S.$6.9 billion in 2007, primarily as a result of the reinvestment of earnings by FDI companies, the establishment of the Batam, Bintan and Karimun special economic zones, the approval of a greater number of foreign investment applications and the creation of tax incentives for investment, as well as the hike in acquisition of domestic companies by foreign investors. However, direct investments outside Indonesia increased significantly in 2007, from U.S.$2.7 billion in 2006 to U.S.$4.7 billion in 2007, mainly due to increased investment by Indonesian mining companies in affiliate companies outside of Indonesia in order to expand mining production of natural resources. Portfolio investment recorded a surplus of U.S.$296 million in 2007, compared to a deficit of U.S.$238 million in 2006. This surplus was partly due to the divestment of SOEs, such as PT Bank Negara Indonesia (Persero) Tbk, through the sale of shares on the Jakarta Stock Exchange (now the Indonesia Stock Exchange). Other investments recorded a deficit of U.S.$2.4 billion compared to a deficit of U.S.$1.3 billion in 2006, due to increases in claims on non-residents in the form of trade credit.

Due to worsening global economic and financial conditions in the fourth quarter of 2008, the Republic's overall balance of payments experienced a deficit of U.S.$1.9 billion in 2008 compared to a surplus of U.S.$12.7 billion in 2007. Slowing global demand, increasing imports, and investors' risk aversion gradually put pressure on the current account and the capital and financial account. The current account initially reflected a U.S.$2.7 billion surplus in the first quarter of 2008 but posted deficits in the other three quarters, resulting in a small overall surplus in 2008 of U.S.$0.1 billion compared to a surplus of U.S.$10.5 billion in 2007. The capital and financial account in 2008 recorded a deficit of U.S.$1.8 billion, compared to a surplus of U.S.$3.6 billion in 2007. Net errors and omissions in 2008 recorded a deficit of U.S.$0.2 billion, compared to a deficit of U.S.$1.4 billion in 2007.

The decline in the current account surplus was primarily due to a deterioration in the non-oil and gas trade balance. In 2008, non-oil and gas exports of U.S.$107.9 billion exceeded non-oil and gas imports of U.S.$92.8 billion that resulted in a surplus in the non-oil and gas trade balance of U.S.$15.1 billion. However, this surplus was lower than the surplus of U.S.$27.1 billion in 2007 as non-oil and gas imports grew faster (40.4%) than exports (15.8%). Concurrently, the oil and gas trade surplus increased from U.S.$5.7 billion in 2007 to U.S.$7.8 billion in 2008 as oil and gas exports of U.S.$31.7 billion exceeded oil and gas imports of U.S.$23.9 billion in 2008. Oil and gas exports and imports increased 27.5% and 24.6%, respectively, in 2008. Further weakening in the current account balance also arose from an increased deficit in total services from U.S.$22.3 billion in 2007 to U.S.$22.8 billion in 2008.

In 2008, as global economic and financial conditions worsened in the fourth quarter, the Republic's financial account (including both public sector and private sector) posted a deficit of U.S.$2.1 billion compared to a surplus of U.S.$3.0 billion in 2007. This deficit arose primarily from a considerable outflow of public sector and private sector portfolio investments from the Republic due to the sale of large quantities of foreign owned government bonds, SBI and equity securities, particularly in October and early November 2008. In the same time period, significant deleveraging and repricing began in the global financial market. However, the negative pressures on portfolio investments eased from mid-November 2008. On the public sector side, with the decline in the public sector portfolio investments surplus, the public sector financial account surplus fell from U.S.$2.9 billion in 2007 to U.S.$1.9 billion in 2008. On the private sector side, the sale of large quantities of foreign-owned Indonesian equity securities contributed to a private sector financial account deficit of U.S.$4.1 billion in 2008. Also contributing to this deficit was increased asset placement abroad (in the form of bank deposits) by Indonesian investors due to strong export performance in the first half of 2008 and commercial banks' reduced foreign currency reserve requirements in the fourth quarter of 2008. Further, there was an inflow of foreign funds in relation to the merger of Bank Lippo and Bank Niaga (currently named Bank CIMB Niaga). Private sector borrowing, however, increased in line with strong investment demand, the escalation of domestic foreign exchange financing needs and falling international interest rates. Direct investment posted a surplus in 2008 and the volume of capital goods imports increased in October and November 2008, reflecting substantial domestic investment activity despite adverse global economic and financial conditions.

In 2009, due to strong performance in the current account and the capital and financial account, Indonesia's balance of payments posted a U.S.$12.5 billion surplus, a substantial increase from the deficit of U.S.$1.9 billion in 2008.

The current account registered a surplus of U.S.$10.6 billion, a substantial increase from the surplus of U.S.$0.1 billion in 2008. Key to this improvement was an increased surplus in the non-oil and gas trade balance and the oil and gas trade balance and a reduced deficit in the oil and gas services account. The increased surplus in the non-oil and gas trade balance resulted from steeper decline in non-oil and gas imports of 20.8% compared to the decline in non-oil and gas exports of 8.2%. The rate of decline in non-oil and gas exports was decreasing from quarter to quarter, and there was a sustained increase in the global market prices of leading primary export products and still considerable demand for copper and coal from some Asian economies. With respect to the oil and gas trade balance, an increased surplus arose from declining oil imports in line with slowing economic growth and the government program to shift consumption of oil-based fuels to gas and coal. The steep decline in imports, caused reduced spending on freight services, which in part narrowed the services deficit.

The capital and financial account in 2009 posted a surplus of U.S.$4.9 billion compared to a deficit of U.S.$1.8 billion in 2008. This surplus was driven by surpluses in direct investment and portfolio investment. Foreign direct investment experienced a smaller surplus in 2009 compared to 2008 due to the negative impact of the global economic recession on domestic investment. The surplus in foreign portfolio investment arose largely from the issuance of foreign currency government bonds. In addition, higher portfolio capital inflows, especially for SBIs purchased by foreign investors, were also triggered by the strong and stable domestic macroeconomic conditions combined with attractive interest rates on rupiah-denominated instruments. The financial account also benefited from an additional allocation of SDRs from the IMF of U.S.$2.7 billion, intended to bolster the reserve assets of IMF member countries, including Indonesia, as part of the efforts to resolve the global economic crisis.

In 2010, Indonesia's balance of payments recorded a surplus of U.S.$30.3 billion, a considerable increase from the surplus in the preceding year of U.S.$12.5 billion. This surplus was contributed to by both the current account surplus and capital and financial account surplus. In 2010, the current account posted a surplus of U.S.$5.1 billion, supported by the non-oil and gas trade balance, gas trade balance, and current transfer balance. Rising global commodity prices provided a boost to Indonesia's exports. The current account surplus in 2010, however, was lower than that in 2009 due to the increase of income payments and deficit of the oil trade balance. The increase of income payments was encouraged by rising foreign capital investments. Meanwhile, the increase of the oil trade balance deficit was mainly driven by increasing oil imports. Rising domestic fuel consumption and world oil prices spurred oil imports, reaching U.S.$24.3 billion in 2010, compared to U.S.$14.8 billion in 2009.

The capital and financial account in 2010 posted a surplus of U.S.$26.6 billion, more than five times that of the previous year (U.S.$4.9 billion in 2009). Major contributors to the financial account surplus were substantial FDI and portfolio investment inflows despite sizeable outflows of portfolio investment in May, November, and December 2010 due to the financial crisis in Europe. FDI inflows increased substantially, in line with the expansion of domestic economy and the improvement of the investment climate. The surge in portfolio investment was fuelled by excess liquidity in the global market, uncertain economic prospects in the U.S. and Europe, and a favorable yield spread compared to other nations. The increase in portfolio investment inflows were mainly from rupiah-denominated government bonds purchased by foreign investors and the issue of foreign currency government bonds. Other investment inflows in 2010 also strengthened mainly due to the drawing on domestic bank deposits held overseas.

In 2011, Indonesia's balance of payments registered a surplus of U.S.$11.9 billion due to surpluses in the current account and the capital and financial account of U.S.$1.7 billion and U.S.$13.6 billion, respectively. The current account surplus was due to robust export growth despite weak global demand. Similarly, the capital and financial account surplus was due to higher inflows of FDI and an increase in private external debt, consistent with the conducive Indonesian investment climate and stable macroeconomic conditions. On a quarterly basis, the balance of payments maintained a positive performance during the first and second quarters of 2011, driven in part by strong increases in export commodity prices and buoyant inflows of foreign portfolio investment. However, in the third quarter of 2011, the balance of payments registered a deficit due to the spill-over effects of the Eurozone debt crisis which triggered outflows of foreign portfolio investment. Pressures on the balance of payments subsequently decreased in the fourth quarter as foreign portfolio inflows and foreign direct investment inflows resumed, as well as higher drawing on private external debt. In the fourth quarter of 2011, the balance of payments showed a deficit in its current account. This modest deficit (1.1% of GDP) was due to a steady expansion in imports, in line with a strong domestic demand, with exports declining as a result of weak global demand and a drop in commodity prices.

As of December 31, 2010, the Republic's official reserves stood at U.S.$96.2 billion (equivalent to seven months' imports and official debt repayments). As of December 31, 2011, these reserves stood at U.S.$110.1 billion (equivalent to 6.5 months' imports and official debt repayments).

In 2012, the balance of payments charted a U.S.$0.2 billion surplus. Slowing growth in world demand and plunging export commodity prices in contrast to buoyant domestic demand and mounting consumption of oil-based fuels led to a reduced non-oil and gas trade surplus and a widening oil and gas trade deficit. As a result, the current account recorded an overall 2012 deficit of about 2.7% of GDP. Nevertheless, this deficit was offset by an increase in the capital and financial account surplus over the previous year, enabling Indonesia to chart a balance of payments surplus of U.S.$0.2 billion and maintain a comfortable level of international reserves. The increased capital and financial account surplus was driven not only by portfolio investment, but also FDI, with an added boost from the growing proportion of export earnings received through the domestic banking system. The success in boosting inflows of foreign investment and curbing the current account deficit at no more than 3.0% of GDP owes much to the series of policies launched by Bank Indonesia and the Government, encompassing monetary and macroprudential policy, exchange rate management, fiscal management, and improvements to the investment climate.

As of December 31, 2012, the Republic's official reserves stood at U.S.$112.8 billion (equivalent to 6.1 months of imports and official debt repayments).

Financial System

Liquidity Supports, Government Guarantee and Deposit Insurance

At the beginning of the Asian financial crisis, a number of Asian currencies suffered exchange rate shocks. In Indonesia, the crisis triggered by these exchange rate shocks developed rapidly because of the openness of the economy and its reliance on the external sector. The effect was further exacerbated by existing structural weaknesses in the economy. As pressure on the rupiah grew, in August 1997 Bank Indonesia abandoned its managed floating exchange rate system and adopted a free-floating system. See "*Foreign Exchange and Reserves — Exchange Rates*." At the same time, Bank Indonesia raised interest rates to support the value of the rupiah. These interest rate hikes and the tightening of liquidity exerted severe pressure on the country's banking and non-banking sectors. Concerns over the possibility of another round of bank closures and the absence of any deposit insurance program led to bank runs and a flight from unsound to relatively sound banks. Continued pressure on the rupiah induced the government to launch an across-the-board stabilization and reform policy in November 1997. This policy was formulated and implemented with technical and financial assistance from the IMF, the World Bank, the ADB and others.

At the onset of the Asian financial crisis, Bank Indonesia injected large amounts of liquidity support to keep banks from default and to keep the country's payment system functioning. In January 1999, total liquidity support issued by Bank Indonesia to 48 commercial banks stood at Rp151.0 trillion. In February 1999, Rp144.5 trillion of that amount was replaced by government-issued promissory notes.

When the introduction of liquidity support was unable to stop runs on banks, the government in January 1998 announced a blanket guarantee for depositors and creditors of all Indonesian-incorporated banks. Unlike a deposit insurance program, which typically provides a guarantee only to depositors, this program also included a guarantee of the claims of non-depositor creditors and applied to obligations denominated in both foreign currency and rupiah. The government guarantee program covered both on-balance sheet and off-balance sheet liabilities of banks. Issuance of the guarantee was intended to reduce uncertainty and allow time for the government to begin an orderly restructuring of the banking sector.

In September 2004, the government enacted the law establishing the Indonesia Deposit Insurance Corporation (the **IDIC**). The IDIC became fully operational, as stipulated in the Law, on September 22, 2005. The IDIC's mandates are to protect bank depositors and actively participate to promote financial stability. The prevailing IDIC coverage is up to Rp2 billion for each depositor in any one bank. The IDIC membership is compulsory for every bank conducting business in Indonesia. IDIC will pay, in accordance with its procedures, deposit insurance claims when a member bank has its license revoked by Bank Indonesia.

From commencement of operations to December 31, 2012, the IDIC experienced 47 failed banks that had their licenses revoked, including one commercial bank and 46 rural banks. The IDIC also rescued one commercial bank which failed during the financial crisis in 2008. The total deposits of the 47 failed banks were Rp1,159 billion (approximately U.S.$121 million). Following the process of verification, aggregation and set-off, the IDIC decided that Rp897 billion (approximately U.S.$88 million) of those deposits qualified for insurance payments.

The government believes that the global economic and financial crisis has thus far not had a significant impact on the domestic banking system. For a discussion of recent action by Bank Indonesia in response to recent changes in market conditions, please see "*Monetary Policy*."

PT Perusahaan Pengelola Aset (Persero) (PT PPA)

PT PPA was established on February 27, 2004 based on Government Regulation No. 10 of 2004 regarding the Establishment of Public Company (Persero) in Asset Management Field. The purpose and objective of the establishment of PT PPA is to undertake state asset management, succeeding the Indonesian Bank Restructuring Agency (**IBRA**), for and on behalf of the Ministry of Finance.

As a corporate entity, PT PPA is responsible to the Ministry of State-owned Enterprises as a shareholder. As PT PPA holds and manages remaining assets previously owned by IBRA and is responsible to the Ministry of Finance as the owner of the assets.

On September 4, 2008, the government issued Government Regulation No. 61 regarding the Amendment of Government Regulation No. 10 of 2004 on the Establishment of Public Company (Persero) in Asset Management Field (PP 61/2008). The purpose and objectives of PT PPA were revised with additional powers to restructure and/or revitalize SOEs, to invest and to manage the assets of SOEs.

As of December 31, 2012, PT PPA had sold, on behalf of the Ministry of Finance: its majority ownership interests in PT Bank Permata Tbk to strategic investors; minority interests in PT Bank Danamon Indonesia Tbk, PT Bank Permata Tbk, PT Bank Niaga Tbk, PT Bank Central Asia Tbk, PT Bank Internasional Indonesia Tbk and PT Bank Lippo Tbk to investors through market placements; shares in PT Bank Tabungan Pensiunan Nasional Tbk through an initial public offering; shares and credit in PT Dipasena Citra Darmaja and PT Bali Nirwana Resort through an open tender process; other government shares and rights in national banks and other companies and property assets.

From 2004 to December 31, 2011, PT PPA collected Rp20.2 trillion in proceeds from management of assets previously owned by IBRA and submitted Rp17.6 trillion to the government. In addition, PT PPA submitted Rp990 billion in dividends to the government from profits earned from 2004 to December 31, 2011 and Rp953 billion in taxes from 2004 to December 31, 2011.

In 2012, PT PPA conducted activities related to restructuring and/or revitalization of 17 SOEs. In addition, PT PPA also conducted business advisory activities for two SOEs. In 2012, PT Waskita Karya, one of the SOEs handled by PT PPA, completed its restructuring and/or revitalization. It ceased to be a subsidiary of PT PPA due to the transfer of shares of PT Waskita Karya from PT PPA to the government in accordance with the provisions of Government Regulation No. 86/2012. In September 2012, the Minister of SOEs discontinued the assignment of the restructuring and/or revitalization activities for six SOEs.

The following table sets forth information regarding the recent divestment of assets by PT PPA during the period from 2004 to December 31, 2012:

Divestments by PT PPA

Assets	Month of divestment	Equity interest divested	Proceeds to the government
		(percentages)	(in trillions of rupiah)
PT Bank Permata Tbk	November 2004	51.0	2.8
	December 2004	20.0	1.2
	September 2006	25.9	1.8
PT Bank Danamon Indonesia Tbk	November 2004	10.0	1.7
	August 2005	10.5	2.7
PT Bank Niaga Tbk	December 2004	16.3	0.6
	April 2005	5.2	0.2
PT Bank Internasional Indonesia Tbk	January 2005	15.3	1.3
	November 2006	5.2	0.5
	December 2008	0.3	0.06
PT Bank Central Asia Tbk	September 2005	5.0	2.2
PT Bank Lippo Tbk(1)	November 2006	0.0(1)	0.00
	November 2008	1.7	0.2
PT Jasa Marga (Persero) Tbk Bonds	December 2006	— (2)	0.4
PT Dipasena Citra Darmaja	May 2007	100.0	0.7
PT Bali Nirwana Resort	July 2007	77.3	0.5
PT Bank Tabungan Pensiunan Nasional Tbk	March 2008	28.4	0.8
PT Asuransi Tugu Kresna Pratama	June 2008	35.0	0.01
PT Babcock Wilcox Indonesia	June 2008	51.0	0.01
Property Auction Program I	June 2008	— (3)	0.04
Property Auction Program II	December 2008	— (3)	0.0004
PT Bank Permata Tbk (Rights)(4)	November 2010	—	0.0003
PT Tugu Pratama Indonesia	December 2012	—	0.3
PT Bank Maybank Syariah Indonesia	December 2011	3.2	0.038

Source: PT PPA

(1) PT PPA divested 0.000015% of PT Bank Lippo Tbk.

(2) Sale of government-owned bonds of PT Jasa Marga (Persero) Tbk; the transaction did not involve divestment of any equity interest by PT PPA.

(3) This was a property auction program and did not involve divestment of any equity interest by PT PPA.

(4) This was a divestment of rights (issued by PT Bank Permata Tbk) as a consequences of PT PPA/Minister of Finance's decision not to exercise its rights as a shareholder to buy new shares on PT Bank Permata Tbk's rights issue.

Strengthening the Banking System

The government's policies for the banking sector since the Asian financial crisis have emphasized the recovery and strengthening of the banking system. Steps taken towards recovery include government blanket guarantees, the exchange offer program, the recapitalization program and loan restructuring. Strengthening measures implemented during the same period include improving the country's financial infrastructure, promoting good corporate governance and improving the bank regulatory and supervisory framework.

The structural resilience of financial institutions has changed dramatically compared to what it was during the Asian financial crisis of 1997. The most prominent feature of the changes comes from the strengthening risk management and good governance in the financial sector to mitigate risk. Banks are regularly encouraged to enhance the quality of their risk management and governance, not only to meet Bank Indonesia's regulations but also to nurture market discipline.

From the standpoint of the authorities, significant shifts have also occurred with respect to the supervisory framework in the financial system. The authorities implement risk mitigation by strengthening micro and macro-prudential surveillance. Micro-prudential surveillance is performed on an individual bank or financial institution in order to ensure the fulfillment of prudential regulations through on-site and off-site supervision. Additionally, macro-prudential surveillance also aims to ensure that prudential regulations are adhered to, however, at the industry level as an aggregate.

Under a framework of strengthening micro-prudential surveillance, a number of measures have been introduced by Bank Indonesia to bolster and improve surveillance in order to better anticipate the symptoms of troubled banks on a risk basis, as well as enhancing the competence of human resources through training, attachments and certification programs.

In addition, improvements to the tools and methodologies used in surveillance are ongoing in order to reinforce macro-prudential aspects, among others, stress testing, probability of default analysis, transition matrices and other early warning mechanisms. The creation of the financial system safety net also assists authorities to mitigate potential systemic risk that might arise.

As a follow-up to the banking restructuring program and to help prepare banks to address the challenges of globalization, in early 2004, Bank Indonesia unveiled a blueprint for the country's banking sector reform program in the following 10 years known as the Indonesian Banking Architecture 2003-2012 Master Plan (the **Architecture**). The Architecture sets forth a vision to enhance the strength, soundness and efficiency of the Indonesian banking system for financial stability and the promotion of national development, based on six principles: a sound banking structure, an effective regulatory system, an independent and effective supervisory system, strengthened internal conditions, the implementation of supporting infrastructure, and the protection and empowerment of customers. The Architecture forms the basis for detailed planning for the implementation of each of the six principles through 2014. Also, as part of the Architecture, Bank Indonesia has upgraded its banking regulations to be broadly consistent with the 25 Basel Core Principles for Effective Banking Supervision promulgated by the Bank for International Settlements.

The review of policies within the Architecture is focused on refining the policy directions to create a sound, strong and efficient banking industry and support sustainable and smooth economic development through simple, safe and affordable financing in order to promote social welfare. This review accommodates the current global and local dynamics, development of achievement of all pillars in the Architecture and is part of the preparations toward implementation of the ASEAN Economic Community in 2015. The Architecture will apply certain strategies such as strengthening capital, increasing competitiveness and efficiency, implementation of international standards, increasing access to finance and customer protection. Based on these strategies, there are certain new policies that will be put in place for a longer term along with existing initiatives in the six pillars of Architecture.

In order to achieve the goal, the government is conducting a comprehensive review on the structure of the national banking industry. This is implemented through the issuance of regulation PBI No.14/26/PBI/2012 dated December 27, 2012 concerning Bank Activities and Office Network Based on Tier-1 Capital. The objectives are to encourage banks to (i) strengthen and improve banking resilience and efficiency to stabilize the financial system and enhance banking industry competitiveness, (ii) increase optimized banking intermediation in sectors that play a strategic role in supporting the economy, (iii) improve and develop banking products in line with a bank's size, characteristics, competence and banking infrastructure, and (iv) support economic growth distribution by regulating office network opening permits.

In addition, based on the current structure of the national banking industry and in order to improve good corporate governance practices in the banking industry, on July 13, 2012 Bank Indonesia issued regulation Bank Indonesia Regulation No.14/8/PBI/2012 regarding share ownership of commercial banks. The share ownership structure of a bank is largely determined based on the type of shareholders. Exemptions may be given to banks that have good ratings in Bank Indonesia's rating system and a good corporate governance rating system. The regulation includes the following main points:

(a) Based on the category of shareholders, the maximum bank equity ownership limit is set as follows:

  (i) 40% of capital, for bank and non-bank financial institution shareholders

  (ii) 30% of capital, for non-financial institution shareholders

  (iii) 20% of capital, for individual shareholders of a non-syariah commercial bank. For individual shareholders of a syariah commercial bank, the maximum equity ownership is 25% of capital.

(b) Controlling shareholder candidates that are foreign residents and/or foreign legal entities must meet the requirements of having a commitment to support the development of the Indonesian economy, having a recommendation from their home country's authority over financial institutions and to meet or exceed a minimum investment rating prescribed within the regulation.

(c) Banks can own more than 40% of a bank's capital only if approved by Bank Indonesia and must fulfill all requirements that are prescribed.

(d) Shareholders that own shares of banks with lower ratings or corporate governance performance as of December 2013 must adjust their share holdings to be fully in compliance with the legal maximum ownership limit within five years of January 1, 2014. More flexibility is given in the case of banks with better ratings or corporate governance records.

(e) Shareholders that own shares of banks that are under rescue or subject to proceedings by the Deposit Guarantee Institution and banks under special supervision are allowed to own more shares than the prescribed maximum ownership limit. However, share holdings must be adjusted to be fully in compliance with the legal maximum ownership limit within 20 years of the date of the shareholder's initial purchase of the bank's shares. For shareholders willing to own bank shares that are under intensive supervision, share holdings must be adjusted to be fully in compliance with the legal maximum ownership limit within 15 years of the shareholder's initial purchase of the bank's shares.

Shareholders of a Commercial Syariah Bank that is a resultant of a spin off from a Syariah Unit can own more than the prescribed maximum ownership limit but must adjust their holdings to comply with the legal maximum ownership limit by December 2028.

Bank Indonesia stipulated in 2005 and 2007 that a commercial bank must have a minimum Tier One Capital of Rp80 billion by December 31, 2007, and thereafter at least Rp100 billion by December 31, 2010. All banks in the banking sector have fulfilled this condition. Following the recent financial crisis and to support the future of economic growth, the strengthening of quality and quantity of capital is deemed necessary in order for the banking system to become more resilient and effective in its intermediation function.

Bank Indonesia has undertaken numerous reforms to advance the goals of the Architecture since its creation in 2004. As part of its efforts to improve the regulatory system and promote independent and effective supervision, Bank Indonesia has issued rules providing for increased supervision of banks' risk management policies and the development of an "early warning system," strengthened the certification requirements for Bank Indonesia's examiners involved in risk management and established a debtor information system as well as a risk management certification agency jointly supervised by Bank Indonesia and the National Agency for Professional Certification.

To strengthen the overall structure of the banking system, Bank Indonesia has issued regulations governing the treatment of foreign debt and establishing principles for the issuance of asset backed securities, created a uniform loan classification system to regulate asset quality, revised the methods of weighting risk for loans extended to small-scale enterprises, small mortgages and civil service and military employees and retirees, and redefined and adjusted legal lending limits and related party transaction restrictions applicable to banks. Bank Indonesia has also worked to respond to changes in the banking environment, by providing greater access for Islamic banking in conventional commercial banks and authorizing the special treatment of loans provided to people affected by natural disasters in Aceh, North Sumatra and Yogyakarta.

To improve internal controls at banks, Bank Indonesia has strengthened the certification requirements for commercial bankers involved in risk management and implemented stronger good corporate governance rules for commercial banks.

To protect customers, Bank Indonesia has required banks to provide greater transparency and information on banking products and restricted the use of bank customers' personal data. To empower bank customers, Bank Indonesia issued rules requiring banks to establish standard customer complaint mechanisms and dispute resolution forums for customer disputes in addition to other forms of non-judicial dispute resolution.

Additionally, to implement the Architecture's goal of promoting consolidation in the banking system, Bank Indonesia offers incentives for banks undertaking a merger or consolidation, including: extension of the time period in which banks must satisfy minimum liquidity reserves; temporary exemptions from lending limits to allow banks to incur sufficient debt to make acquisitions; eased requirements for opening branch offices; reimbursement for consultant fees incurred during due diligence; requiring banks to obtain license to become a foreign exchange bank; and a temporary waiver for the implementation of certain corporate governance procedures post acquisition or merger.

In 2007, Bank Indonesia introduced regulations relating to:

- the determination of banks' minimum capital requirements and the frequency for monitoring compliance with those requirements;
- how market and other risks affect minimum capital requirements;
- further clarifications on the application of the uniform loan classification system; and
- expansion of the scope of the information that is provided by the credit bureaus.

Also in 2007, Bank Indonesia focused on personnel improvement for bank supervision and regulation. To improve competency levels, Bank Indonesia now requires supervision and regulation personnel to complete training courses and pass examinations measuring their expertise in their relevant areas.

In 2007, Bank Indonesia developed a road map for the implementation of the New Basel Capital Accord (**Basel II**) standards. The roadmap sets forth a plan for the introduction of regulations to implement Basel II over the next five years.

In April 2008, Bank Indonesia announced that it proposes to issue new regulations relating to the following:

- lowering the risk weighting used to calculate the risk-weighted assets of small business loans guaranteed by credit insurance meeting certain criteria;
- lowering the risk weighting used to calculate the risk weighting of corporate bonds (for corporate bonds meeting certain ratings);
- raising the legal lending limit for groups of non-bank related debtors;
- establishing new regulations streamlining certain licensing and reporting procedures of banks, regulating cooperation by banks, simplifying procedures for a bank's self liquidation, prohibiting interference by bank shareholders in the bank's operational issues and regulating the inscription of a bank's name and logo and type of bank office at each office of the bank;
- implementing certain Basel II standards; and
- setting criteria that ratings and ratings agencies must satisfy in order to be recognized by Bank Indonesia.

On December 22, 2011, Bank Indonesia issued Circular Letter No. 13/31/DPNP relating to the rating agencies and recognition of ratings by Bank Indonesia. On September 24, 2008, Bank Indonesia issued Regulation No. 10/15/PBI/2008 relating to minimum capital requirement of commercial banks.

Under Perpu No. 2 of 2008 on Second Amendment to Law No. 23 of 1999, Bank Indonesia is authorized to give short-term credit or financing based on Shari'a principles of up to 90 days to any bank, subject to certain criteria to be set by Bank Indonesia. A beneficiary bank is required to give security of at least the value of such credit or financing. Perpu No. 2 of 2008 was later enacted as Law No. 6 of 2009.

On December 22, 2011, Bank Indonesia issued Circular Letter No. 13/31/DPNP relating to the rating agencies and recognition of ratings by Bank Indonesia. On September 24, 2008, Bank Indonesia issued Regulation No. 10/15/PBI/2008 relating to minimum capital requirement of commercial banks.

As of December 31, 2010, total banking assets were Rp3,054.7 trillion, consisting of assets of commercial banks of Rp3,008.9 trillion and assets of rural credit banks of Rp45.8 trillion.

As of December 31, 2011, total banking assets were Rp3,708.6 trillion, consisting of assets of commercial banks of Rp3,652.8 trillion and assets of rural credit banks of Rp55.8 trillion.

As of December 31, 2012, total banking assets were Rp4,330.0 trillion, consisting of assets of commercial banks of Rp4,262.6 trillion and assets of rural credit banks of Rp67.4 trillion.

The health of Indonesia's banking sector has improved significantly since the Asian financial crisis. See "— *Bank Assets and Liabilities*" and "— *Non-Performing Loans*."

Bank Indonesia continuously seeks to improve risk management policies in Indonesia's banking system. Bank Indonesia introduced new risk management regulations in 2009, including:

- Bank Indonesia Regulation No. 11/25/PBI/2009 dated July 1, 2009, which expands previous regulations on risk management and requires banks to maintain risk management information systems and internal controls with respect to credit, market, liquidity, operational, legal, reputational and other risks. The regulation requires banks to have written policies and procedures to address such risks arising from the introduction and management of new products and activities. It also promotes transparency in products and activities for customers' benefit.
- Bank Indonesia Regulation No. 11/26/PBI/2009 dated July 1, 2009 regarding Prudential Principles in Structured Products Activities for Commercial Banks, which was introduced in response to concerns regarding structured finance products during the recent financial crisis. The regulation limits the types of structured products banks may issue and market, requires them to obtain Bank Indonesia approval before issuing such products and imposes restrictions on the marketing of such products such as disclosure requirements and mandatory cooling off periods before offerees of such products are allowed to make purchases. The regulation classifies bank customers according to their sophistication and requires banks to implement procedures to identify customers' sophistication and risk appetite.
- Bank Indonesia Regulation No. 11/30/PBI/2009 dated July 7, 2009 regarding Intraday Liquidity Facilities based on Shari'a Principles and Bank Indonesia Regulation No. 10/29/PBI/2008 dated November 14, 2008 regarding Intraday Liquidity Facilities for Commercial Banks as amended by Bank Indonesia Regulation No. 12/13/PBI/2010 dated August 4, 2010, which govern the use of and eligibility to use intraday liquidity facilities by Shari'a compliant banks and commercial banks, respectively.

Bank Indonesia introduced a number of measures on June 16, 2010 to increase the central bank's toolset to manage liquidity as well as to encourage banks to conduct more transactions in the secondary market in the form of demand creation. By implementing these policies, Bank Indonesia hopes to shift the maturity profile of transactions between Bank Indonesia and banks into a longer tenor in order to absorb unnecessary excess liquidity. The new policies are expected to enhance the effectiveness of monetary policy, maintain macro stability and strengthen the momentum of economic recovery. The policy package covers the enhancement of instruments and regulations both in the rupiah and foreign exchange money markets to further strengthen monetary management, improve bank prudential aspects, and deepen the financial markets. The policies include:

- Widening of the corridor of the overnight interbank money market rate. This policy is intended to further develop the interbank money market by encouraging banks to frequently involve in interbank money market in fulfilling short term liquidity needs prior to engaging monetary instruments provided by Bank Indonesia.
- Revisions of regulations on banks' FX net open positions (**NOP**). The policy is intended to buttress the deepening of the domestic foreign exchange market while keeping in consideration bank prudential aspects. While the on balance sheet NOP limit of maximum 20.0% of capital is abolished, the overall NOP is still maintained at 20.0% of capital.
- Imposing a minimum of a one month holding period for SBI both in primary and secondary markets. This policy is imposed to both resident and non-resident investors and is intended to lengthen the ownership and the transaction period of SBI in the secondary market. Nevertheless, to fulfill its short term liquidity needs, a bank holding SBI can conduct repo transaction with Bank Indonesia which has been available thus far. In April 2011, Bank Indonesia extended the one month holding period to a six month holding period in response to the increasing amount of capital inflows and as a tool to mitigate the risks of large and sudden capital reversal.
- Introduction of a non-securities monetary instrument in the form of term deposit. Term deposit is a liquidity management instrument of Bank Indonesia without an underlying debt security. This instrument is non-transferable, but may be redeemed prior to maturity (early redemption) subject to certain requirements.
- Issuance of the nine and 12 month SBI. This policy measure will support the deepening of the domestic money market in terms of the availability of instruments, maturity profile, and the formation of a short term interest rate structure.
- Implementation of the tripartite repurchase (repo) of government debt securities (**SBN**). The tripartite repo SBN is Bank Indonesia's liquidity management activity through reverse repo transaction with

underlying assets in the form of SBN acquired from qualified parties such as pension funds and insurances.

In response to the steadily expanding involvement of banks in activities related to bancassurance and offshore products, banks need to strengthen the effective application of risk management through the implementation of prudential principles and protection of customer interests. In this regard, Bank Indonesia issued several regulations such as Bank Indonesia Regulation No. 12/9/PBI/2010 concerning Prudential Principles in Conducting Agency Activities for Offshore Financial Products by Commercial Banks and Circular Letter No. 12/35/DPNP concerning Application of Risk Management for Banks Conducting Marketing Cooperation Activities with Insurance Companies (Bancassurance).

On September 3, 2010, Bank Indonesia announced a new policy regarding the statutory reserve requirement (**SSR**) in rupiah. Bank Indonesia decided to raise the primary statutory reserve requirement for rupiah funds to 8% and to introduce a loan-to-deposit ratio (**LDR**) based reserve requirement. This policy is intended to curb mounting inflationary pressure through management of excess banking liquidity. As the new reserve requirement has been set in consideration of the present condition of banking liquidity, it does not diminish the capacity of banks to pursue credit expansions in line with existing bank business plans while upholding prudential banking principles. Based on this new policy, the computation of the rupiah reserve requirement will be: 8% primary reserves + 2.5% secondary reserves + LDR based reserves.

The rupiah primary reserve requirement has been raised from 5% to 8% of rupiah depositor funds. The secondary reserve requirement at 2.5% of rupiah depositor funds remains unchanged. The LDR-based reserve requirement is established with a range that will promote the banking intermediation function while upholding prudential banking principles. The LDR target range is set with a lower limit at 78% and an upper limit at 100%. Banks with an LDR that falls outside this range will face disincentives as follows: (i) banks with an LDR below the lower limit will face an additional 0.1 SSR from rupiah deposits for each 1% that they exceed the upper limit, (ii) banks with an LDR exceeding the upper limit and with a capital adequacy ratio (**CAR**) below 14% will face an additional 0.2 SSR from rupiah deposits for each 1% short of the target, and (iii) banks with an LDR in excess of the upper limit but which maintain CAR of 14% or above and will not face any disincentives. The new primary reserve requirement became effective on November 1, 2010, with a transition period of about two months. The new LDR based reserve requirement came into force on March 1, 2011, following a transition period of six months.

Following the Board of Governors' critical assessments to the economic performance in 2010 and its outlook and challenges in 2011 and 2012, Bank Indonesia at the end of December 2010 announced a set of new policy measures in the monetary and banking areas to further strengthen monetary and financial stability. To safeguard the macroeconomic stability while fostering sustained robust economic growth, Bank Indonesia continues to adopt prudent and consistent monetary and banking policies. The new policies encompass five key aspects as follows:

- Policies to strengthen monetary stability. Bank Indonesia will direct the BI Rate to be consistent with the achievement of the inflation target set at 5.0% ± 1.0% in 2011 and 4.5% ± 1.0% in 2012, while cautiously assessing the risks of increasing inflation pressures going forward. This policy will be accompanied by a number of new measures to further strengthen the monetary and macro-prudential policies that have been implemented in 2010, while at the same time it is intended to normalize the policies that were adopted during the 2008 crisis as the monetary and financial conditions have improved at present. The new policies include reinstating the limit on the daily balance of a bank's short term external debt and revocation of Bank Indonesia's direct supply of foreign exchange to domestic corporations.
- Policies to promote a bank's intermediation function. These policies are intended to further promote banking intermediation more efficiently and transparently and to widen the access of the poor to financial services. The new policies include: applying an operating standard for administrating mortgages securitization, introducing a disclosure requirement on the prime lending rate widely to the public, calculation of risk weighted assets relating to commercial bank retail credit risk and small and medium enterprises, and licensing, regulation and supervision of private credit bureaus.
- Policies to strengthen banks' resiliency. These policies are to promote a strong and sound banking system in facing increased competition through transparent bank management based on good governance. The new policies cover: improvements of regulation based on the fit and proper test, strengthening the commercial banks' compliance functions, implementation of risk weighted assets

calculations for credit risk using a approach standardized for commercial banks, implementing risk management for banks involved in joint marketing with insurance companies, regulation on asset quality for sharia banks, sharia business units, and sharia rural banks, improvements in regulation on restructuring of financing for sharia banks and sharia business unit, enhancements on maximum legal financing limits for sharia rural banks, amending license regulations on the conversion of commercial banks to rural banks and promoting highly competitive rural banks with good corporate governance.

- Strengthening macro-prudential policy. These policies are aimed to strengthen monetary and financial system stability through the implementation of macro prudential surveillance by Bank Indonesia. The new policies include: improving the regulation and use of information on a bank's business plan, raising the reserve requirement ratio for foreign currency deposits and normalizing the regulation on the short term funding facility of Bank Indonesia to commercial banks.
- Strengthening supervisory functions. The new policies are intended to strengthen the effectiveness of Bank Indonesia's banking supervision, particularly the quality of early warning systems and its relation to the macro-prudential supervision. The policies include: enhancement in risk based banking supervision system, determination of bank's supervisory status and further remedy actions and improvements in the assessment of bank soundness ratings based on risks.

In addition to above policies to strengthen monetary and financial system stability, Bank Indonesia also pays attention to natural disasters in a number of areas in the form of special treatments for loans extended to disaster areas. This policy is expected to support the economic recovery in areas affected by the disasters such as Merapi, Wasior and Mentawai. The policy was enacted based on the Governor of Bank Indonesia Decree issued on December 8, 2010.

On March 28, 2011, Bank Indonesia issued a new implementing regulation to Bank Indonesia Regulation No. 12/23/PBI/2010 on Fit and Proper Tests dated December 29, 2010 (the **Fit and Proper Test Regulation**) through Circular Letter No. 13/8/DPNP on Fit and Proper Tests (the **Circular Letter**). The Fit and Proper Test Regulation and Circular Letter aim to strengthen the national banking system by laying out fit and proper test mechanisms for banks under the control of the Indonesia Deposit Insurance Corporation (**IDIC**) and by imposing stricter rules and sanctions in relation to fit and proper tests for certain parties. With respect to sanctions imposed, a controlling shareholder who fails to pass these fit and proper tests shall, among others, have his entire shareholding transferred within six months and be prohibited to act as a controlling shareholder of any bank.

On September 22, 2011, Bank Indonesia issued Bank Indonesia Regulation No. 13/19/PBI/2011 as an amendment to Bank Indonesia Regulation No. 8/12/PBI/2006 on Periodical Report for Commercial Bank, in which Bank Indonesia moves forward the submission period for periodical reports from commercial banks and requires an additional report concerning balance assets based on risk and computation for base interest credit rate.

On December 27, 2012, Bank Indonesia issued regulations on export proceeds and foreign debt withdrawal. Under Bank Indonesia Regulation (**PBI**) No. 14/25/PBI/2012 on Export Proceeds and Withdrawal of Foreign Exchange from Offshore Debt, exporters are required to receive export proceeds through domestic banks while debtors are also required to withdraw their foreign borrowing through domestic banks. Bank Indonesia also adjusted regulations regarding the monitoring of Bank's Foreign Exchange's Flow in PBI No. 13/21/PBI/2011 and regulation concerning Reporting Requirements for Withdrawal of Foreign Exchange from Offshore Debt in PBI No. 13/22/PBI/2011, which was partially revoked by Bank Indonesia Regulation No. 14/25/PBI/2012.

On October 27, 2011, the House of Representatives passed the Financial Services Authority (*Otoritas Jasa Keuangan* or **OJK**) law to establish an independent regulatory agency to promote sustainable growth in the financial services sector. The new OJK entity shall protect consumer and public interest by regulating the country's financial services industry in a fair and transparent way. The OJK will regulate the banking sector by monitoring, among other things, bank office openings, ownership, acquisitions, licenses, fund sources, liquidity, asset quality, credit lending, reserves, debtor information systems, accounting standards, risk management and bank governance. Nine commissioners will make up the OJK. Each commissioner term is limited to five years and an individual may only be elected once. For accountability purposes, the OJK will provide annual activity reports to the President of the Republic of Indonesia and to the House of Representatives. The OJK budget for operational and administrative activities shall come from the state budget and from fees collected from practitioners in financial services. The entity will take over its regulatory duties from Bank Indonesia by December 31, 2013.

Bank Indonesia largely supports the Basel III initiatives to enhance the quality of bank capital and, in doing so, to make them more resilient to external shocks. Bank Indonesia has conducted regular monitoring and quantitative studies to measure the impact of Basel III on the Indonesian banking industry. The result of the impact study shows that the majority of the Indonesian banking industry is unlikely to be negatively impacted by Basel III implementation, with most banks experiencing capital increases. This is due to the fact that the capital component of the majority of banks in Indonesia is in the form of common equity, and that most of Indonesia's current regulatory adjustments when calculating capital are more conservative than are required by Basel III. Since 2010, Bank Indonesia also joined the Global Comprehensive Quantative Impact Studies conducted by the Basel Committee on Banking Supervision (**BCBS**). As part of this process, Bank Indonesia submitted the data of respondent banks (after implementing Basel III) to the BCBS Secretariat. Further, Bank Indonesia has published a Consultative Paper on Basel III which asks for industry participants' and other stakeholders' comments. This Consultative Paper can be accessed through Bank Indonesia's website.

Strengthening the Islamic Financial System

The government believes that the Islamic banking industry has an opportunity to grow rapidly in Indonesia, which has the largest Muslim population in the world. The industry provides the Muslim community with alternative financial products and services that conform to sharia principles. It also plays a role in the Indonesian financial system as it supports national economic development.

The Indonesian Islamic banking industry is in a developing stage and Bank Indonesia, as the regulatory authority, has formulated and published a strategic development path for the industry. The development initiatives embrace the principles of market driven, prudent management, financial efficiency and robustness, service excellence; and maintaining conformity to sharia principles. The vision of the development program is to establish a robust and sound Islamic banking system which is consistent in the implementation of sharia principles in the spirit of justice, general well-being and balanced living and to promote both material and spiritual social prosperity. Bank Indonesia has defined short, medium, and long-term initiatives to support the development of the Islamic banking sector which are also in line with the Architecture.

Previously, the Law No. 10 of 1998 on the Amendment of Law No. 7 of 1992 on Banking stipulated a dual banking system in Indonesia and allowed the Islamic banking institutions to carry out their business along sharia principles. In July 2008, the DPR ratified the Shari'a Banking Law (as defined below) which serves as the legal basis for Islamic banking operations specifically. For purposes of supervision, the Law No. 3 of 2004 on the Amendment of Law No. 23 of 1999 on Bank Indonesia (**Central Bank Law**) allows Bank Indonesia to supervise and regulate Islamic banks, and to provide central bank instruments that comply with sharia principles for the purpose of conducting monetary policy.

In order to diversify and enrich the Islamic financial market, the DPR also ratified the legal basis for Indonesian sovereign sukuk. The DPR has introduced amendments to the income tax treatment of sharia compliant financial transactions and passed amendments to the Law on Goods and Services and Sales Tax on Luxury Goods with effect from April 2010 to implement a neutral VAT treatment of sharia compliant financial transactions.

The government has also taken steps to promote the growth of sharia-compliant financial products in Indonesia and believes there is substantial opportunity for growth in the world's most populous Muslim country. Indonesia's Islamic banking sector has grown at an average year-on-year rate of approximately 40.7% from 2006 to 2011 and, as of June 30, 2012, the assets of sharia banks were Rp195,018 billion, or 4.0%, of the country's total banking assets.

Market efficiency and compliance with sharia principles in the Republic's Islamic finance sector was also supported by the establishment of the National Shari'a Board in 2000, which was established under the Indonesia Ulema Council (*Majelis Ulama Indonesia*), to bring together ulema and other experts who are representatives of various Muslim organizations and related institutions. One role of the board is to minimize disputes regarding the interpretation and/or implementation of sharia principles in Islamic financial institutions in the country. It is also the sole authority for issuing fatwa regarding Islamic financial instruments and in recommending members of sharia supervisory boards of Islamic banks and non-bank financial institutions.

Finally, the government and Bank Indonesia are pursuing other strategies to develop competent and qualified human capital for the industry, establish an effective regulatory and supervisory regime, provide complete and supportive infrastructure, develop an efficient structure of Islamic banking industry, encourage a synergy of strategic alliances among Islamic financial institutions, enhance product innovation and market development, and enhance Islamic banking customer protection and empowerment.

The Republic had 52 sharia mutual funds with a net asset value (NAV) of Rp6,142.72 billion as of December 31, 2012, compared to 50 such funds with a NAV of Rp5,564.8 billion as of December 31, 2011, and 48 such funds with a NAV of Rp5,225.8 billion as of December 31, 2010.

Mutual Funds

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
Number of Sharia Mutual Fund	26	37	46	48	50	65
Net Asset Values of Sharia Mutual Fund (in billions rupiah)	2,203.09	1,814.80	4,629.22	5,225.78	5,564.79	8,050.07

Source: Bank Indonesia

The Jakarta Islamic Index (JIXI), launched in 2000, consists of 318 sharia compliant Indonesian stocks with a market capitalization of Rp2,451,334.37 trillion as of December 31, 2012. The Republic launched its first local currency sovereign sukuk in August 2008. Indonesia's first local currency corporate sukuk was issued in 2002, and six sukuks have been issued in the country's domestic market by six issuers as of December 31, 2012. To provide guidance for investors in and fund managers of sharia compliant securities, Bapepam-LK publishes a list of sharia compliant securities twice a year, and the list contains 318 sharia compliant stocks as of December 2012. In 2008, the Directorate of Tax, Ministry of Finance enacted a policy eliminating some taxes for sovereign sukuk which result in unequal treatment for Islamic finance transactions. Following its successful inaugural dollar-denominated sukuk issued in April 2009, the Republic has been periodically issuing sovereign sukuk.

In July 2008, Law No. 21 of 2008 on Sharia Banking (the **Sharia Banking Act**) was enacted to facilitate the expansion of the Indonesian Islamic banking industry. The Sharia Banking Act applies sharia principles to banking for sharia banks and sharia divisions of conventional banks, prohibiting the payment and receipt of interest and providing that returns on funds that are distributed or lent out must be based on the actual profits generated. The Sharia Banking Act also prohibits Islamic banking business and transactions that would support practices or products forbidden or discouraged by sharia principles. This law also requires existing sharia divisions of commercial banks to operate as separate Islamic commercial banks if such a division's assets account for at least half of the parent commercial bank's assets or within 15 years of the enactment of the Sharia Banking Act. The Republic believes that the new legislation will better position Indonesia as a venue for Islamic banking and finance.

During 2009, Bank Indonesia issued several regulations governing sharia banking. Bank Indonesia Regulation 11/15/PBI/2009 concerning Conversion of Conventional Banks to Sharia Banks requires a conventional commercial bank to meet a minimum requirement of Rp100 billion in Tier 1 core capital before it can operate as a sharia commercial bank. Bank Indonesia Regulation 11/33/PBI/2009 concerning the Implementation of Good Corporate Governance for Sharia Banks and Sharia Business Units and Bank Indonesia Regulation 19/6/PBI/2012 and Circular No. 14/25/DPbS (to replace Bank Indonesia Regulation 11/31/PBI/2009 concerning Fit and Proper Test for Sharia Banks and Sharia Business Units) aim to promote professionalism, transparency and accountability among directors, commissioners and Sharia supervisory boards of Sharia banks.

On March 24, 2011, Bank Indonesia issued Bank Indonesia Regulation No. 13/14/PBI/2011 concerning Valuation of Assets for Sharia Public Financing Bank in order to support the growth and development of the sharia banking industry with due observance to precautionary principles and sharia principles, as well as to harmonize with other prevailing Bank Indonesia regulations and to replace the previous Bank Indonesia Regulation No. 8/24/PBI/2006. On November 2, 2011, Bank Indonesia issued Regulation No. 13/23/PBI/2011 concerning the Implementation of Risk Management for Sharia banks and Sharia business units. The regulation requires the implementation of risk management procedures tailored to the purpose, business policy, size, complexity and capability of the sharia banks and sharia business units.

In November 27, 2012, Bank Indonesia issued Circular No.14/33/DPbS concerning the Implementation of Policy on Housing and Automotive Financing for Sharia Banks and Sharia Business Units. In essence, such policy is in line with the policy applicable to conventional banks. For housing financing, the policy limits the financing to value (FTV) rate under a murabahah or isthisna scheme to only 70% of the mortgage value provided by the customer, while under the musyarakah scheme, sharia banks are limited to a 80% sharing participation out of the total value of the house or building. In respect of automotive financing, the policy introduced an obligation on customers to provide down payments of at least 25% for the financing of two- or three- wheeled vehicles,

30% for financing four-wheeled vehicles which are not intended for productive purposes, and 20% for four or more wheeled vehicles intended for productive purposes.

The Income Tax treatment on sharia-based transactions is currently regulated under Government Regulation No. 25 of 2009 on Income Tax on Sharia-Based Business (**GR 25/2009**) which was issued as a mandate of Article 31D of the Law No. 36 of 2008 on Income Tax (the **New Income Tax Law**). This regulation provides general treatments on sharia transactions with respect to income, expenses, and withholding taxes. Following the GR 25/2009, the Minister of Finance recently issued two regulations as the implementing regulations to GR 25/2009, i.e. the Minister of Finance Regulation No. 136/PMK.03/2011 on Income Tax Treatment of Sharia Banking (**MOF Reg. 136/2011**) and MOF Reg. No. 137/PMK.03/2011 on Income Tax Treatment on Sharia-Based Financing Activities (**MOF Reg. 137/2011**). Both of these Minister of Finance regulations were issued on August 19, 2011 and became effective on the date of issuance. MOF Reg. 136/2011 describes the tax treatment of recipients based on the types of income and the recipients of income while MOF Reg. 137/2011 defines the tax treatment of various enumerated sharia-based financing activities. The most significant progress set forth in these regulations is the adoption of a pass-through securitization concept for the transfer of assets or lease of an asset, which is required in the fulfillment of sharia compliant transactions.

Anti-Money Laundering Regime

Various financial regulatory agencies in the Republic take action to combat money laundering activities within Indonesia. In 2002, the government enacted an anti-money laundering law, followed by the establishment of a financial intelligence unit, the Indonesian Financial Transaction Reports and Analysis Centre (**INTRAC/PPATK**). The PPATK's duties later were expanded to include matters relating to countering financing of terrorism, and consequently, the Indonesian Financial Intelligence Unit (**PPATK**) was appointed to be the focal point of countering money-laundering and financing of terrorism in Indonesia. In 2006, the Ministry of Finance adopted a new decree regarding the implementation of know-your-client (**KYC**) principles which requires non-bank financial institutions to comply with anti-money laundering regulations, such as the requirement to report suspicious financial and cash transactions to the PPATK by way of suspicious transaction reports or cash transaction reports. This decree was subsequently amended in February 2010. In 2009, Bank Indonesia promulgated a new regulation on further strengthening customer due diligence and enhanced due diligence covering the implementation of anti-money laundering and the prevention of terrorism funding programs for commercial banks to introduce international best practices. In 2009, Bapepam-LK also revised its KYC regulations for parties involved in capital market activities and imposed reporting obligations for suspicious financial and cash transactions to the PPATK. In 2009, the Criminal Investigation Board of the Indonesia National Police established a special unit to investigate money laundering cases and a task force for terrorist financing. In March 2010, Bank Indonesia issued a regulation regarding Anti Money Laundering (**AML**) and Countering Financing of Terrorism (**CFT**) procedures in the money changers sector.

From June 2001 until February 2005, the Financial Action Task Force on Money Laundering, an organization established by developed countries to combat money laundering, had placed Indonesia on its list of non-cooperative countries and territories. Although now removed from this list, Indonesia has continued to strengthen its anti-money laundering laws and regulations and increase enforcement. Some of the significant progress made in implementing the government's AML and CFT national strategies in the last few years has included: establishing a single identity number for each citizen to facilitate detection of fraudulent identities; promulgating a new Anti-Money Laundering Law, namely, Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering Crimes; on-going establishment of electronic information exchanges among the PPATK, KPK and the National Police; enhancing compliance supervision and monitoring for financial service providers; enhancing Bank Indonesia's regulation of money changers in relation to KYC and registration requirements; implementing more effective procedures for the tracing and forfeiture of assets; increasing public participation through a public campaign to support the implementation of the anti-money laundering regime; strengthening regulations relating to the alternative remittance system and wire transfers; the establishment of electronic information exchange systems among the PPATK, KPK and Indonesian National Police; and the ratification of the UN Convention against Transnational Organized Crime through Law No. 5 of 2009 and the International Convention for the Suppression of the Financing of Terrorism through Law No. 6 of 2006.

PPATK has made arrangements to cooperate with investigations on suspicious financial transactions with the Indonesian National Police, the Attorney General's Office and other partner agencies involved in these investigations. As of July 31, 2012, PPATK had entered into memoranda of understanding with 44 financial investigation unit counterparts abroad. PPATK has also launched a nationwide program to educate relevant audiences on potential money laundering activities. As of July 31, 2012, PPATK had disseminated 2,046 analysis

results regarding money laundering and predicate crimes to law enforcement agencies pursuant to the Law No. 8/2010. In addition, the number of suspicious transaction reports received from banks and non-banks has steadily increased from 84,146 cases as of December 31, 2011 to 98,529 cases as of July 31, 2012. Similarly, the number of cash transaction reports increased from 10,213,913 cases as of December 31, 2011 to 11,564,556 cases as of July 31, 2012. The government expects this upward reporting trend to continue in coming years.

On October 22, 2010, Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering Crime came into force. This replaced the old AML law of 2002 and its amendment of 2003 to be in line with current international standards and best practices. Some important features of this new law include:

- Extending the scope of coverage to predicate offences combining 25 crimes, including narcotics and psychotropic substances and any other crimes with an imprisonment for a term of four years or more.
- Extending the scope of coverage of assets and proceeds, including assets which are known or reasonably suspected of being used, directly or indirectly, for acts of terrorism.
- Increasing the maximum custodial sentence of money laundering offense to 20 years with a fine of up to Rp10 billion.
- Extending the scope of reporting parties to include financial service providers and designated non-financial businesses, for example property companies/agents, car dealers, dealers of precious stones, metals and jewels, art and antique dealers, and auction houses.
- Authority of PPATK to request for and obtain data and information from government institutions and/or private institutions which possess an authority to manage data and information.
- Extending the types of reports from financial service providers, in the form of international fund transfer instruction reports.
- Empowering financial services providers to postpone transactions for five days.
- Authorizing controls on the cross-border carrying of cash and bearer negotiable instruments.
- Allowing the investigation of money laundering to be conducted by the investigator of predicate crimes, namely the Indonesian National Police, the General Prosecutor Office, the KPK, the National Narcotics Board, the Directorate General of Taxation and the Directorate General of Customs and Excise under the Ministry of Finance.
- Giving the investigator, public prosecutor or judge the authority to order the reporting party to postpone a transaction of assets known or reasonably suspected to constitute proceeds of criminal acts.
- Not requiring proof of the predicate crime beforehand, so that at trial, the onus is on a defendant to prove that the assets in question did not originate from or are not linked to the alleged criminal acts.
- When an investigator finds indications of a money laundering crime and the predicate crime, requiring the investigator to combine the investigation of both crimes and notify PPATK.

In order to implement the new AML Law No. 8 of 2010, Presidential Regulation No. 50 of 2011 on Procedures for the Implementation of Authority of the Indonesian Financial Transaction Reports and Analysis Centre was issued on August 12, 2011. This new regulation focuses on the authority of PPATK to perform its functions.

- In preventing and eradicating money laundering, PPATK has the authority to, among other things, require and obtain data and information from any government institution and/or private institution having the authority to process data and information, receive reports from short-listed professionals, coordinate the prevention of money laundering with relevant institutions and represent the government in international forums and organizations in relation to the prevention and eradication of money laundering.
- In processing data and information through the administration of information system, PPATK has the authority to build, develop and maintain an application system, database and information technology infrastructure.
- In monitoring the compliancy of the reporting party with “Know Your Customer” (or KYC) principles, PPATK has the authority to perform an audit or special audit.

- In analyzing or investigating reports and information on financial transactions indicated as money laundering and/or other criminal acts, PPATK has the authority to, among other things, require financing service providers to temporarily suspend all or part of any transaction suspected or known to have been part of a criminal act.

The Presidential Regulation No. 48 of 2012 concerning Organizational Structure and Management of the PPATK was enacted in 2012. The draft Government Regulation concerning Remuneration, Other Rights, Perquisites and Facilities for the Head and Deputies of the PPATK is under discussion among the Ministry of Law and Human Rights, PPATK and other relevant institutions.

In relation to combating terrorist financing, DPR passed the Anti Terrorism Financing Act on February 12, 2013. This Act will be effective after the President signs the draft act or 30 days after passing if the President does not endorse the same within the 30 day period.

Bank Indonesia

Bank Indonesia is the central bank of the Republic of Indonesia and the only institution in the Republic with responsibility for monetary policy. Following the Asian financial crisis, the government enacted the Central Bank Law in 1999 to ensure the independence of Bank Indonesia in pursuing its objectives in monetary, banking and payment systems policies. The Central Bank Law stipulates two key principles — the achievement of rupiah stability and Bank Indonesia's freedom from interference.

The Central Bank Law states that "the objective of Bank Indonesia is to achieve and maintain the stability of the rupiah." Rupiah stability can be measured in terms of its value vis-à-vis either domestic or external goods. Rupiah stability relative to domestic goods is reflected in the inflation rate, while stability relative to external goods is represented by the exchange rate of the rupiah against other currencies. Market conditions determine the rupiah exchange rate, consistent with the floating exchange rate system adopted by Bank Indonesia in August 1997. See "*Foreign Exchange and Reserves — Exchange Rates*." Bank Indonesia may, however, continue to use its policy instruments to minimize exchange rate fluctuations.

To help Bank Indonesia achieve its objective, the Central Bank Law grants Bank Indonesia a high degree of independence (1) to formulate and implement monetary policy, (2) to regulate and safeguard the payment system and (3) to regulate and to supervise banks.

In January 2004, the Central Bank Law was amended. The amendment, among other things, provides that Bank Indonesia shall conduct monetary policy to achieve an inflation target as determined by the government in consultation with Bank Indonesia. It also provides for the creation of the Bank Indonesia Supervisory Board (the **Supervisory Board**) to assist the DPR in conducting oversight of Bank Indonesia's internal financial management. The Supervisory Board comprises five members chosen by the DPR and appointed by the President for three-year tenures. The January 2004 amendment also stipulates that Bank Indonesia is the lender of last resort to ensure the stability of the financial system.

Under the Central Bank Law, Bank Indonesia's banking supervision function was originally to be transferred to a new independent agency by December 31, 2002. The January 2004 amendments to the Central Bank Law extended this deadline to December 31, 2010. However, pursuant to Law No. 21 of 2011 on Financial Services Authority (**OJK Law**), such authority will be transferred to the Financial Services Authority (*Otoritas Jasa Keuangan*) (**OJK**) as of December 31, 2013.

Bank Indonesia, as a separate legal entity from the government, has its own assets and its own liabilities. The foreign exchange reserves held by Bank Indonesia are recorded on the assets side of the Bank Indonesia balance sheet, while certain items of foreign debt (such as loans from the IMF) are liabilities of Bank Indonesia.

The following table sets forth the balance sheet of Bank Indonesia and was prepared in accordance with the Monetary and Financial Statistics Manual published by the IMF, as of the dates indicated.

Analytical Balance Sheet of Bank Indonesia

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in billions of rupiah)					
Base Money (M0)	379,582	344,688	402,119	518,447	613,488	704,483
Currency in Circulation[1]	220,785	264,391	279,029	318,575	372,972	439,720
Commercial Banks Demand Deposits at Bank Indonesia	158,452	79,648	89,903	159,106	207,538	239,957
Private sector Demand Deposits	345	650	601	484	116	133
Bank Indonesia Certificates (SBI)[2]	—	—	32,587	40,282	32,862	25,033
Factors Affecting Base Money (M0)	379,582	344,688	402,119	518,447	613,488	704,843
Net Foreign Assets	530,896	558,357	585,863	829,285	965,873	1,056,084
Claims on Non-Residents	538,775	566,959	621,815	862,979	1,015,081	1,152,721
Liabilities to Non-Resident	(7,880)	(8,603)	(35,952)	(33,694)	(49,208)	(96,636)
Claims on Other Depository Corporations	8,447	8,365	7,243	5,023	4,399	3,226
Liquidity Credits	4,154	3,179	2,410	1,872	1,521	1,137
Other Claims	4,293	5,186	4,756	3,241	2,878	2,089
Net claims on Central Government	249,069	172,012	200,956	160,777	166,928	200,520
Claims on Central Government	264,474	264,233	255,498	252,349	256,520	252,214
Liabilities to Central Government	(15,404)	(92,222)	(54,542)	(91,572)	(89,591)	(51,694)
Claims on Other Sectors	13,030	14,311	9,936	13,342	13,743	13,508
Claims on Other Financial Institutions	1,472	1,591	1,442	1,000	421	202
Claims on Private Sectors	11,558	12,721	8,493	12,345	13,322	13,362
Open Market Operations[3]	(281,163)	(233,866)	(315,420)	(417,012)	(403,348)	(254,567)
Other Liabilities to Commercial & Rural Banks	(9,944)	(5,388)	(8,930)	(6,698)	(43,850)	(50,407)
Deposits included in Broad Money (M2)	—	—	—	—	—	—
Deposits excluded from Broad Money (M2)	(10)	(10)	(1,07)	(10)	(32)	(35)
Shares and Other Equity	(115,124)	(154,836)	(87,747)	(60,213)	(79,087)	(169,783)
Net Other items	(15,619)	(14,256)	(11,296)	(6,049)	(11,139)	(3,705)

(1) Currency outside banks plus cash in vault.

(2) SBI which is used to fulfill the secondary statutory reserve requirement of banks and accounted for as primary money supply components. Included in Base Money since October 2009.

(3) Consists of total SBI after it is reduced by the SBI used to fulfill the secondary statutory reserve requirement of banks, and is accounted for as a primary money supply component (see footnote 1). Such SBI types include: Syariah SBI (SBIS), Third Party Syariah SBI (Repo SBIS), Bank Indonesia Facility (FASBI), Fine Tune Operation (FTO), Government Bonds (SUN), State Syariah Negotiable Paper (SBSN), and Reserve Reverse Repo Government Bonds.

Banks and Other Financial Institutions

The Indonesian financial system consists of banks and non-bank financial institutions. Non-bank financial institutions consist of insurance companies, pension funds, finance companies, venture capital companies, securities companies, mutual funds, credit guarantee companies and pawn shops. The following table sets forth the total number of financial institutions in operation and their share of total assets of the financial system as of December 31, 2012:

Indonesian Financial Institutions

	Number of institutions	Assets*	Percentage of total assets
	(in trillions of rupiah)		
Banking:			
Commercial banks	120	4,262.6	74.7
Rural credit banks	1,653	67.4	1.2
Total banking	1,773	4,330.0	75.9
Insurance:			
Life insurance	45	269.3	4.7
General insurance & Reinsurance	87	71.0	1.2
Social insurance(1)	5	229.0	4.0
Total insurance	137	569.3	9.9
Pension funds:			
Financial institution pension funds	25	25.9	0.5
Employer pension funds	244	132.5	2.3
Total pension funds	269	158.4	2.8
Finance companies(2)	200	341.8	6.0
Venture capital companies	89	4.9	0.1
Securities companies(3)(4)	114	37.5	0.7
Mutual funds (collective investment schemes, not institutions)	809	224.8	3.9
Credit guarantee companies	6	7.0	0.1
Pawn shops	1	29.3	0.5
Total	3,398	5,703.0	100.0

Sources: Ministry of Finance and Bank Indonesia.

* Unaudited other than in respect of Banking, Securities companies and Mutual funds.

(1) Social insurance encompasses worker social security programs and insurance for civil servants and the armed forces.

(2) Finance companies provide financing for leasing, factoring, consumer finance and credit cards.

(3) Excludes 17 securities companies that are not members of a securities exchange but act as broker-dealers.

(4) Excludes the assets of customers of the securities companies.

Indonesian banks are divided into two categories: commercial banks and rural banks. Both commercial and rural banks may operate either under conventional banking principles or under sharia principles. The government also issued Perpu No. 3 of 2008 on Amendment to Law No. 24 of 2004 on IDIC, which allows temporary increases in the level of deposit insurance provided by the IDIC to be adjusted through a government regulation in response to high levels of inflation, threats of bank runs and similar adverse market developments. Perpu No. 3 of 2008 was later enacted as Law No. 7 of 2009. The number of banks in Indonesia has dropped substantially since the Asian financial crisis, as insolvent banks were closed or merged with other banks. There were 239 commercial banks at the end of 1996, and, as of December 31, 2010, there were 122 commercial banks with 13,837 offices, consisting of four state owned banks, 67 private national banks (36 of which were licensed to conduct foreign exchange transactions), 26 regional development banks and 25 joint venture banks and foreign banks. As of December 31, 2012, the number, of commercial banks remained relatively stable, decreasing slightly to 120 commercial banks (with 16,625 offices). The number of private national banks and joint venture banks remained stable, at 66 and 24, respectively.

As of December 31, 2012, the number of rural banks decreased to 1,653 and the number of sharia divisions of rural banks increased to 158. As of December 31, 2012, there were 45 life insurance companies, 83 general insurance companies, four reinsurance companies, two companies providing social insurance programs and

workers' social security, three companies providing insurance programs for civil servants, military and police, 149 insurance broker companies, 29 reinsurance broker companies, 26 insurance loss adjusters, 29 actuary consultants, and 24 insurance agent companies.

Gross premiums collected by the insurance industry reached Rp155.56 trillion in 2011, an increase of 24.38% from the previous year's figure of Rp125.07 trillion. Gross premiums averaged annual growth of 22.82% over the five year period from 2007 to 2011. Total assets of the insurance industry as of December 31, 2011 were Rp481.77 trillion, an increase of 18.91% from Rp405.16 trillion as of December 31, 2010. Invested assets of the insurance industry as of December 2011 totaled Rp419.7 trillion, an increase of 17.8% over December 2010.

As of December 31, 2012, gross premiums collected by insurance companies reached Rp178.07 trillion and total assets of the insurance industry were Rp569.3 trillion. Meanwhile, invested assets were Rp497.02 trillion.

The Ministry of Finance is responsible for regulation and supervision of the insurance industry. Development of this sub-sector since the Asian financial crisis required the implementation of more robust regulatory requirements and, in particular, improved capital requirements. For the purpose of financial soundness of insurance companies, a 2003 decree of the Ministry of Finance that became effective in 2005 requires each insurance company, including reinsurance companies, to continuously maintain a ratio of risk-weighted assets to risk-weighted liabilities of at least 120%. In September 2006, the Indonesian Insurance Mediation Agency (*Badan Mediasi Asuransi Indonesia* or **BMAI**) commenced operations. BMAI is an independent body established to provide mediating services to insured persons and insurance policy holders who are dissatisfied with claim rejections. Dispute Resolution through BMAI is pursuant to the Law No. 30 of 1999 on Arbitration and Alternative Dispute Resolution. BMAI was established through the initiative of the insurance industry, including insurance industry associations, with the support of the government.

The Law No. 2 of 1992 on Insurance (**Insurance Law**), is currently in the process of being amended. Three new government regulations in relation to the insurance industry were passed in 2008. Government Regulation No. 39 of 2008 (Regulation No. 39 of 2008) concerning the Second Amendment to Government Regulation No. 73 of 1992 concerning the Conduct of Insurance Business regulates the scope of an insurance business and the capital requirements of insurance and insurance-related companies, including takaful or sharia compliant insurance companies. This regulation also requires an insurance company to set aside funds equal to 20% of its issued capital to serve as a guarantee fund for policy holders to protect them in the event the company is liquidated or closed by the government. Pursuant to Regulation No. 39 of 2008, the Minister of Finance issued Minister of Finance Regulation No. 53/PMK.010.2012 concerning Financial Soundness of Insurance and Reinsurance Companies that further regulates compliance by insurance and reinsurance companies in relation to the solvability rate (which is required to be equal to risk-based capital), management of assets for investment, unit linked products, and guaranteeing of policyholders' funds. In its effort to recapitalize insurance companies, Government Regulation No. 81 of 2008 concerning the Third Amendment to Government Regulation No. 73 of 1992 concerning the Conduct of Insurance Business introduced new minimum capital requirements for insurance and reinsurance companies. Insurance companies were required to have a minimum capital of Rp40 billion for 2010, Rp70 billion for 2012 and are required to have Rp100 billion for 2014. Reinsurance companies were required to have a minimum capital of Rp100 billion in 2010, Rp150 billion for 2012 and are required to have Rp200 billion for 2014.

Pension funds are divided into two categories: employer pension funds and financial institution pension funds. Employer pension funds may be run either as defined benefit plans or as defined contribution plans, while financial institution pension funds may only be run as defined contribution plans. As of December 31, 2012, there were 269 pension funds actively operating including 244 employer pension funds and 25 financial institution pension funds. As of June 31, 2012, the total net assets and investments of pension funds was Rp148 trillion and Rp143.5 trillion, respectively, compared to Rp142 trillion and Rp137.6 trillion, respectively, at the end of 2011. The investment portfolios of the pension funds consist largely of corporate and government bonds, followed by bank deposits, stocks, land and buildings, mutual funds and other types of investments. As pension funds have grown, their preferences for portfolio investment has shifted from short-term investments to longer term investments. As of December 31, 2012, the total number of pension fund business licenses was 269.

Indonesia's other non-bank financial institutions include finance companies, guarantee companies, venture capital companies, Indonesia export credit agencies, infrastructure financing companies and secondary mortgage facilities companies. Finance companies provide financing through leasing, factoring, credit cards and consumer finance. As of December 31, 2012, there were 200 such finance companies. Total assets and investments of such financing companies as of December 31, 2012 were Rp341.5 trillion and Rp302.08 trillion, respectively.

The following table sets forth the total number of such other non-bank financial institutions, and related total assets and total investments as of December 31, 2012:

Non-bank financial institution	Number of companies	Total assets (in trillions of rupiah)	Total investments (in trillions of rupiah)
Finance companies	200	341.8	302.1
Guarantee companies	6	6.97	5.52
Venture capital companies	89	4.88	4.23
Indonesia export credit agencies	1	33.33	25.87
Infrastructure financing companies	2	7.10	1.96
Secondary mortgage facilities companies	1	6.18	4.82

On June 30, 2008, Bapepam-LK issued Chairman of Bapepam-LK Decree No. 03/BL/2008 for fit and proper test procedures of directors and commissioners of financing companies to promote professionalism among directors.

In 2010 and 2011, various Minister of Finance regulations were issued with respect to non-bank financial institutions. Such regulations in 2010 concerned the implementation of Shari'a principles to insurance and reinsurance business, the implementation of KYC principles for non-bank financial institutions, a fit and proper test for administering employer pension funds, supervision of Indonesian export financing institutions, inspection of insurance companies and share ownership and capitalization of a securities company.

Such regulations in 2011 concerned the administration of insurance business activities relating to motor vehicle insurance, the financial soundness of Shari'a insurance and reinsurance companies, the legalization of the establishment of financial institution pension funds and the amendment of regulations on pension funds deriving from financial institution pension funds, the financial soundness of the provident saving fund program for civil servants, and credit guarantee and re-guarantee companies.

On March 15, 2012, the Minister of Finance issued regulation No. 43/PMK.010/2012 regarding certain down payment requirements when financing companies provide loans used in purchasing motor vehicles. This regulation is intended to prohibit unfair competition on down payment requirements by: establishing loan to value ratio requirements, promoting prudent practice in extending financing, minimizing moral hazard and default risks, and providing a level playing field with respect to requiring down payments in the financing industry. To improve the protection for investors and the effectiveness of securities transaction supervision, on June 14, 2012, Bapepam-LK issued new regulations concerning the implementation of SID for all investors participating in the Indonesia Capital Market.

Bank Assets and Liabilities

The following table sets forth the consolidated balance sheets of the commercial banks as of the dates indicated:

Consolidated Balance Sheet of Commercial Banks

	As of December 31,					
	2007	2008	2009	2010	2011	2012[P]
	(in trillions of rupiah)					
Assets						
Loans	1,002.0	1,307.7	1,437.9	1,765.8	2,200.0	2,707.9
Interbank Assets	139.8	213.8	261.5	228.5	226.9	184.4
Placements at Bank Indonesia	418.3	322.3	397.9	581.9	754.0	580.7
Securities (including Government Bonds)	321.4	307.5	306.3	281.1	289.5	430.0
Equity Participation	5.6	6.6	10.0	12.4	11.0	15.1
Other Claims	28.8	50.9	39.9	43.8	63.4	176.5
Others	70.6	101.7	80.6	95.3	107.9	168.0
Total Assets	1,986.5	2,310.6	2,534.1	3,008.9	3,652.8	4,262.6
Liabilities						
Third Party Funds	1,510.8	1,753.3	1,973.0	2,338.8	2,784.9	3,225.2
Liabilities owed to Bank Indonesia	9.1	11.3	8.0	6.1	5.1	1.86
Interbank Liabilities	137.8	158.6	134.5	152.7	221.2	124.7
Securities	17.3	14.3	14.9	17.2	23.3	42.1
Borrowing	14.3	12.9	21.6	29.3	32.4	75.3
Other Liabilities	24.9	34.7	22.9	14.6	21.9	60.3
Guarantee Deposits	4.7	5.2	6.0	4.8	5.0	5.0
Others	72.9	107.4	92.4	116.8	150.9	202.7
Capital:						
Paid in Capital	78.9	86.3	96.3	105.5	112.7	123.3
Reserves	18.7	21.8	24.1	27.8	34.2	38.7
Current Earnings/Loss	35.0	30.6	45.2	57.3	75.1	92.8
Retained Earnings/Loss	1.7	35.3	52.8	75.0	106.7	150.0
Estimates of Additional Paid in Capital	45.4	37.8	41.0	59.7	79.4	89.4
Others	14.9	1.0	1.5	3.0	0.1	31.2
Total Assets	1,986.5	2,310.6	2,534.1	3,008.9	3,652.8	4,262.6

Source: Bank Indonesia
[P] Preliminary.

As of December 31, 2012, the four state-owned banks (Bank Mandiri, PT Bank Rakyat Indonesia (Persero) Tbk, PT Bank Negara Indonesia (Persero) Tbk and PT Bank Tabungan Negara (Persero) Tbk) together controlled approximately 36.0% of the total assets of the banking system, approximately 33.2% of the total assets were controlled by 11 other large commercial banks and the remaining banks controlled the remaining 30.8% of the total assets.

As of December 31, 2012, securities (including SBI, recapitalization bonds, Treasury Bills, Bonds & Others) comprised approximately 10.1% of the assets of banks. As of December 31, 2011, securities (including treasury bills, bonds and others, but not including SBI and recapitalization bonds) comprised approximately 7.9% of the assets of banks. Meanwhile, credit to third parties represented approximately 63.5% of the assets of banks, compared with approximately 60% as of December 31, 2011. Interest income from securities (including SBI, Treasury Bills, Bonds & Others) represented approximately 4.6% of the operating income of banks in 2012, decreasing from 5.8% in 2011. Interest income from credit to third parties represented approximately 54.0% of the operating income of banks, compared with approximately 50.1% in 2011.

Most time deposits in the banking sector are short-term, denominated in terms of one to three months. As of December 31, 2011, time deposits increased (year on year) by approximately 15.3%, savings deposits increased by approximately 22.5%, while demand deposits increased by approximately 21.8%. As of December 31, 2012, time deposits increased (year to date) by approximately 11.9%, savings deposits increased by approximately 19.9%, while demand deposits increased by approximately 17.5%.

Loans grew by 23.1% in 2012, compared to 24.6% growth in 2011. Earnings were robust, with the return on assets of the industry at 3.1% and estimated to remain stable. Liquidity is well managed as reserves are well maintained against non-core deposits with a ratio of 115.4% and a loan to deposit ratio of about 84.0%. On December 31, 2012, the CAR level was recorded at 17.3% and is expected to remain above the minimum requirement of 8.0%.

In 2012, bank funding continued to depend heavily on third-party deposits. Third-party funds grew by 15.8%. The share of third-party deposits as a source of bank funds was approximately 75.7%, while the share of interbank funding was approximately 2.9%. The following table shows the average capital adequacy ratio of the banking system for the periods indicated:

Average Capital Adequacy Ratios

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
	(percentages)					
CAR	19.3	16.8	17.4	17.2	16.1	17.4

Source: Bank Indonesia

Non-Performing Loans

One legacy of the Asian financial crisis has been a rise in non-performing loans (**NPLs**) in many countries within the region, including Indonesia. In Indonesia, as economic performance in the non-financial sector suffered, many businesses defaulted on their commercial bank loans. Structural weaknesses in the country's banking system at that time also increased Indonesian banks' exposure to NPLs. High levels of connected lending (lending made either directly or indirectly to related individuals or business groups) worsened problems of commercial banks' NPL exposure. While various disciplinary measures were introduced to prevent unsound lending practices, problems persisted due mainly to the structure of private national banks' ownership, which tended to concentrate ownership in a few related groups or individuals. In closely held family-owned banks, there was no clear separation between ownership and management. Furthermore, relatively low managerial skills in the banking industry led to weakening earning asset quality and rising risk exposure. These problems were aggravated by weaknesses in internal supervision and information systems of Indonesian banks, which resulted in a failure to monitor, detect and resolve NPLs, as well as excessive risk exposure. These weaknesses further limited banks' ability to anticipate and overcome the emergence of the Asian financial crisis. As a result, NPL levels more than tripled between 1997 and 1998, with gross NPLs reaching 48.6% of total loans in December 1998 and NPLs net of provisions reaching 34.7%.

NPL levels in Indonesian banks have improved steadily from 1998. Gross NPLs declined from 48.6% in December 1998 to 32.8% in December 1999, and fell further to 18.8% in December 2000 and 12.1% in December 2001. This decline was mainly due to the write-offs of NPLs (made possible in large part by the bank recapitalization program), restructuring and settlement of credits and transfer of credits to IBRA, as well as extension of new credits. Similarly, net NPL levels dropped sharply from 34.7% in December 1998 to 7.3% in December 1999, declining further to 5.8% in December 2000 and 3.6% in December 2001. The quality of bank credits, as reflected in the nominal value and the ratio of NPLs, improved further from 2002 through 2004 due to the extension of new credit, credit restructuring and additional write-offs.

Bank Indonesia introduced a circular letter on uniform loan classification in January 2006. Under this regulation, banks are required to apply the same classification to all loans extended by multiple banks to the same debtor or projects. The uniform classification requirement also applies to loans extended by a bank to finance multiple projects of the same debtor. If there are differences in assessments of loans or earning assets quality, all assessments must be adjusted to conform to the lowest quality assessment that has been applied. Additionally, since the beginning of 2005, Indonesian banks have been required to calculate their NPLs using new international best practices-based standards that require banks to classify as "non-performing" all loans to any borrower if any of that borrower's loans are non-performing. Under regulations issued in April 2007, banks nationwide are required to apply the same uniform loan classification system to all loans meeting either one of two criteria: loans greater than Rp10 billion that are made to one borrower or one similar project, and loans between Rp500 million and Rp10 billion that are made to one of the 50 largest debtors of the lending bank.

Primarily because of the implementation of these new standards and greater prudence on the part of banks, as of December 31, 2006, the gross and net NPL ratio declined to 6.1% and 2.5%, compared with 7.6% and 3.9%, respectively, as of December 31, 2005. The gross and net numbers of NPLs continued to decline during 2007 reaching, as of December 31, 2007, 4.1% and 1.2%, respectively. The gross and net NPL continued to decline to 3.2% and 0.8%, respectively, as of December 31, 2008. As of December 31, 2009 the gross and net NPL ratios were 3.3% and 0.3% respectively.

The gross NPL ratio was 2.2%, as of December 31, 2011, due to the write offs of NPLs, restructuring and extension of new loans, significantly lower than during both the 1997/1998 crisis and global economic crisis in 2008. As of December 31, 2012, the gross NPL ratio was 1.9%. Better loan quality stemmed from bank restructuring efforts as well as improvement in banks' management. In order to anticipate mounting credit risk pressures, banks bolstered their loan provisions, thereby alleviating risk as a whole.

The following table shows the gross and net NPL ratios as of the end of each period indicated:

Non-Performing Loans Ratios

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
	(percentages)					
Gross NPL ratio	4.1	3.2	3.3	2.6	2.2	1.9

Source: Bank Indonesia

The following table sets forth information regarding loans issued by commercial banks by risk category and type of loan:

Risk Classification of Aggregate Assets of Commercial Banks by Type of Loans(1)(2)

	As of December 31, 2011				As of December 31, 2012			
	Working capital loans	Consumer loans	Investment loans	Total	Working capital loans	Consumer loans	Investment loans	Total
	(in trillions of rupiah)							
Pass(3)	1,007.3	441.0	619.5	2,067.7	1,236.8	743.2	564.2	2,544.2
Special Mention	33.1	14.4	37.2	84.7	50.9	44.9	17.2	113.0
Substandard	3.9	1.7	1.8	7.4	4.6	2.2	2.5	9.3
Doubtful	3.6	1.2	2.1	6.9	3.0	2.5	1.5	7.0
Loss	20.8	6.0	6.6	33.4	21.4	6.9	6.1	34.4
Total	1,068.7	464.3	667.2	2,200.1	1,316.7	799.7	591.5	2,707.9

Source: Bank Indonesia

(1) Indonesia asset classification guidelines take into account various criteria, among them timely payment. Loans being paid on time are rated "Pass"; loans overdue by less than three months, six months and nine months are rated "Special Mention", "Substandard" and "Doubtful", respectively; and loans that are more than nine months in arrears are rated "Loss."

(2) Not including credit that is channeled by commercial banks from international sources to domestic projects.

(3) In line with the trend of declining NPL ratios, outstanding commercial bank loans are primarily classified as "Pass."

Bankruptcy of Indonesische Overzeese Bank NV (Indover Bank)

Indonesische Overzeese Bank NV (**Indover**) is a wholly owned subsidiary of Bank Indonesia, incorporated in the Netherlands. In late 2008, as a result of the global liquidity crisis, Indover encountered certain liquidity problems and was unable to meet its short-term liabilities. On October 6, 2008, the District Court of Amsterdam declared Indover to be in emergency status and suspended its operations. The court designated administrator determined October 31, 2008 as the deadline for any course of action to be taken by Bank Indonesia as the sole shareholder of Indover. Under prevailing laws and regulations, as the central bank of Indonesia, Bank Indonesia had limited powers to extend financial or other assistance to Indover without approval from the DPR. As such approval was not forthcoming within the prescribed deadline, Bank Indonesia was consequently unable to

provide any financial support to Indover. On December 1, 2008, by a judgment of the District Court of Amsterdam, Indover was declared bankrupt, and a liquidation process under applicable Dutch laws has begun. To date, Indover's trustees have recovered and distributed amounts equivalent to about 75% of acknowledged claims. Indover's trustees have also brought a claim against Bank Indonesia for claimed deficiencies in the estate before recoveries were made and distributed. The claim against Bank Indonesia is based on letters of support given by Bank Indonesia which Indover's trustees claim were guarantees. Bank Indonesia has stated that such letters of support were addressed to Indover's auditors for purposes of their audit report and were not guarantees for any party's benefit.

Rescue of Bank Mutiara

PT Bank Mutiara Tbk, formerly PT Bank Century Tbk (**Bank Mutiara**), a small commercial bank, experienced a deterioration of its asset quality including due to fraudulent activity by the bank's former management in late 2008 amidst the global financial crisis, prompting its rescue by the government in November 2008 through a deposit guarantee and ensuing takeover, to prevent any adverse consequential effects on the broader banking system at a time of heightened market anxiety. Bank Mutiara is now government-owned and controlled through the IDIC. To date, IDIC has injected into Bank Mutiara a total of Rp6.76 trillion by way of a temporary capital placement for the subscription of shares in the form of convertible preferred stock, making IDC the majority shareholder of Bank Mutiara. Certain political factions within the DPR have since alleged irregularities and illegalities in connection with this rescue, and the BPK was asked by the DPR to conduct an investigative audit of Bank Mutiara, the rescue process and the law backing the decision to rescue Bank Mutiara. BPK submitted its first stage investigation report on November 23, 2009. Subsequently, BPK's follow up investigation discovered irregular transactions which violated prevailing laws and caused losses to the government and Bank Mutiara, both prior to and after being taken over by IDIC. On December 16, 2011, the DPR extended the period of the DPR Monitoring Team on Bank Mutiara until December 2012. On December 23, 2011, BPK submitted its follow up investigation report to DPR. Separately, in December 2009 the KPK initiated an investigation related to the Bank Mutiara case. This investigation remained ongoing as of March 2013. In separate investigations, the Attorney General's office and the PPATK, have each concluded that there was no evidence of fraud in the decision to bail out Bank Mutiara.

The resolution of Bank Mutiara by the IDIC has been carried out based upon a Decision by the Committee for the Stability of the Financial System No.04/KSSK.03/2008, dated November 21, 2008 and a Decision by the Coordination Committee No.01/KK.01/2008 dated November 21, 2008. These decisions determined that PT Bank Century Tbk was a failed bank that posed a systemic risk and handed over the resolution of the bank to the IDIC pursuant to its authority.

The resolution focused on efforts to increase the bank's value and carry out a divestment of the bank. It is based on the responsibility of IDIC to sell all the shares belonging to a bank under its care within three years of the handling process being started at an optimal rate of return. If an optimal rate of return cannot be obtained, the time frame for the share offer can be extended for a maximum of two occasions, with each extension lasting up to one year. Consequently, if an optimal return can still not be obtained, the IDIC is to sell the shares without any consideration towards an optimal rate of return within one year after the expiry of the second extension.

IDIC has executed divestment programs since 2011 and mandated PT Danareksa Sekuritas as financial advisor and Assegaf Hamzah & Partners as the legal advisor to assist with the divestment process.

Capital Markets and Capital Markets Regulation

Indonesia's economy has traditionally relied predominantly on the banking sector to finance growth. The ownership structure of companies in Indonesia is characterized by concentrated ownership, family-owned businesses and controlling shareholders. Companies with these types of ownership structures often seek financing from banks rather than from capital markets. The availability of subsidized loans from state-owned banks prior to 1991 also gave companies less incentive to seek funding from the capital markets. As of December 31, 2010 the banking sector accounted for approximately 77.1% of financial system assets, whereas non-bank financial institutions, such as insurance companies, pension funds, finance and securities companies and mutual funds, accounted for the rest. To finance the higher levels of growth that the government seeks to achieve, credits from the banking sector need to grow substantially. Diversifying sources of finance is an important element of the government's efforts to reduce economic vulnerability and strengthen the financial sector.

In 1976, the government established the Capital Market Implementation Agency (*Badan Pelaksana Pasar Modal*, or **Bapepam**) to develop and regulate the country's capital markets. The first shares were listed on the JSX in 1977; later, the official name of Bapepam was changed to Capital Market Supervisory Agency (*Badan Pengawas Pasar Modal*) to reflect the shift in emphasis from development to regulation and supervision. The promulgation of the Capital Market Law No. 8 of 1995 on Capital Markets (**Capital Market Law**) provided the Indonesian capital markets with a sound legal foundation and extended Bapepam authority in the fields of regulation, development, supervision and law enforcement. The law also clarifies the authority and responsibilities of self-regulatory organizations, capital market institutions and professionals and firms conducting business in the capital markets. According to the Capital Market Law, Bapepam is responsible for the guidance, regulation and day-to-day supervision necessary to implement orderly, fair and efficient capital markets and to protect the interests of investors and the public. As part of the ongoing reorganization of the Ministry of Finance, and in an effort to centralize regulation and strengthen oversight of the non-bank financial sector, the government approved a merger of Bapepam with the Ministry of Finance's Directorate General of Financial Institution (**DJLK**). In 2006, the two agencies were merged into a single new unit called the Capital Markets and Financial Institutions Supervisory Agency (**Bapepam-LK**). Bapepam-LK assumed the responsibilities previously held by DJLK and Bapepam. Pursuant to the OJK Law, as of December 31, 2012, the authority of Bapepam-LK was transferred to OJK.

In mid-2007, when the troubled U.S. subprime mortgage market began causing turmoil in the global markets, the JSX Composite Index fell to a low of 1,908.6 in August 2007, or 20.5% below its then record high of 2,401.1 in July 2007, as investors reduced their holdings in riskier assets, including investments in emerging market assets such as rupiah-denominated securities. By October 2007, the JSX Composite Index had recovered to its pre-subprime mortgage crisis level.

On October 30, 2007, the shareholders of the JSX and the Surabaya Stock Exchange (SSX) agreed to a plan to merge the exchanges into a single new entity, the Indonesia Stock Exchange (IDX). The merger was completed on November 30, 2007. The following table sets forth key indicators regarding the IDX and any securities traded on the IDX as of June 29, 2012:

Indonesian Stock Exchange

	IDX
Market capitalization (in trillion of rupiah)[1]	4,268.4
Listed shares (in billions of shares)[1]	2,438.4
Average daily transaction value (in billions of rupiah)[2]	4,537.0
Average daily transaction volume (in millions of shares)[2]	4,283.6

Source: OJK and Indonesia Stock Exchange
(1) Data as of December 28, 2012.
(2) Data from January-December 2012.

On December 30, 2008, the IDX composite stock price index closed at 1,355.4, a decrease of 50.6% compared to 2,745.8 on December 28, 2007. Market prices of the shares of Indonesian publicly listed companies, particularly companies operating in the consumer and financial sectors, declined in 2008, in part, as a result of foreign investors reducing their holdings in riskier assets, including investments in emerging market assets such as rupiah-denominated securities, negative market perceptions of the effects of high global oil prices on Indonesian corporations in the first half of 2008 and market pessimism regarding the growth prospects for the United States and other developed economies in the near to medium term. The IDX composite stock price index closed at 2,534.4 on December 30, 2009, 3,703.5 on December 30, 2010, 3,821.99 on December 31, 2011 and 4,316.69 on December 28, 2012. On December 28, 2012 (the last trading date of the IDX for 2012), the average daily transaction value was Rp4,537.0 billion or 4,283.6 million shares for 2012.

The IDX suspended trading in equities and derivatives on that exchange during the morning session of Wednesday, October 8, 2008 and reopened on Monday, October 13, 2008. This followed declines in the IDX composite index of approximately 10% each on consecutive trading days in morning trading, and similar declines in indices of other Asian stock exchanges. Prior to this suspension, the IDX banned short selling of stocks for the month of October 2008. The IDX allows short selling of certain listed shares based on criteria in Bapepam-LK regulations.

In 2007, 22 companies undertook initial public offerings and listed their shares on the IDX (or, before November 30, 2007, the JSX or the SSX), raising approximately Rp16.9 trillion. In 2008, 2009 and 2010, 19,

18 and 23 Indonesian companies, respectively, undertook initial public offerings and listed their shares on the IDX, raising approximately Rp24.4 trillion, Rp3.8 trillion and Rp29.6 trillion. In 2007, 23 publicly listed companies undertook rights offerings for new shares, raising approximately Rp29.5 trillion, while in 2008, 2009, 2010, 2011 and 2012, 27, 11, 31, 26 and 22 companies undertook rights offerings for new shares, raising approximately Rp56.6 trillion, Rp8.6 trillion, Rp48.2 trillion, Rp42.1 trillion and Rp18.75 trillion, respectively.

In 2011, 25 companies undertook initial public offerings. This number increased by 8.7% compared to the previous year's performance of 23 companies. The total value of the initial public offerings in 2011 was Rp19.6 trillion. This was a decrease of 34.0% compared to the previous year, which had a total value of Rp29.6 trillion.

In 2012, 22 companies undertook initial public offerings. This number decreased by 12% compared to the previous year's performance of 25 companies. The total value of the initial public offerings was Rp27.1 trillion.

The Jakarta Islamic Index (**JII**), launched in 2000, consists of the 30 largest sharia compliant listings by market capitalization. As of December 2012, the JII closed at 594.79, an increase of 10.8% compared to 537.03 on December 2011. As of December 31, 2012, the market capitalization of the JII was Rp1,672 billion an increase of 18.1% compared to Rp1,414.98 billion on December 2011.

On May 12, 2011, the IDX launched the Indonesia Sharia Stock Index (**ISSI**), comprising all the sharia compliant stocks listed on the Indonesia Stock Exchange. As of December 2012, the ISSI closed at 143.81, an increase of 14.72% compared to 125.36 on December 2011. As of December 31, 2012, the market capitalization of the ISSI was Rp2,451.3 trillion, an increase of 24.55% compared to Rp1,968.9 trillion on December 31, 2011.

On November 14, 2012, the Board of Directors of IDX issued Regulation No. Kep-00399/BE/11-2012 concerning changes of trading time in IDX to harmonize trading time of IDX with other stock exchanges in the region and to give additional trading time to investors in central and eastern Indonesia.

From January 2, 2013, the new IDX trading time is: (a) pre-opening session from 08:45 to 08:55; (b) first session for all markets from 09:00 to 12:00 from Monday to Thursday and 09:00 to 11:30 on Friday; (c) second session of regular market from 13:30 from Monday to Thursday and from 14:00 on Friday, until 15:49:59; and (d) second session of negotiation market from 13:30 from Monday to Thursday and from 14:00 on Friday, until 16:15.

Additional trading sessions for regular markets are also introduced: (i) pre-closing session, from 15:50 to 16:00; and (ii) post-trading session, from 16:05 to 16:15.

The following table sets forth certain information on the corporate bond market in Indonesia as of the dates or for the periods indicated:

Corporate Bonds Outstanding

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
Listed bond Issuance, at period-end	175	178	183	188	199	207
Listed bond issuers, at period-end	102	90	85	86	96	99
Listed Islamic bonds issues, at period-end	15	20	22	23	24	27
Total outstanding value of rupiah-denominated bonds (in billions of rupiah), at period-end	79,070	73,010	88,450	114,850	146,970	178,916
Total outstanding value of U.S. dollar-denominated bonds (in millions of U.S.$), at period-end	105	—	—	—	80	100
Trading volume (in billions of rupiah)	68,570	53,180	38,850	90,000	125,850	160,118

Sources: Indonesian Stock Exchange, Bapepam-LK and Ministry of Finance

Indonesian corporate bonds have been traded more actively since 2004, helped by declining SBI interest rates and favorable tax treatment for listed bonds. Trading volume for corporate bonds increased by 106.6% to Rp68.57 trillion in 2007. This volume decreased by 22.4% to Rp53.18 trillion in 2008. Total outstanding amount of rupiah-denominated bonds increased by 28.5% in 2007 to Rp79.1 trillion and decreased by 7.7% in 2008 to

Rp73.0 trillion. The trading volume and total outstanding amount of rupiah-denominated bonds in 2010 was Rp90 trillion and Rp114.9 trillion, respectively, compared to the trading volume and total outstanding amount of rupiah-denominated bonds in 2009 of Rp38.9 trillion and Rp88.5 trillion, respectively. In 2011, the trading volume and total outstanding amount of rupiah-denominated bonds was Rp126.4 trillion and Rp148.5 trillion, respectively. In 2012, the trading volume and total outstanding amount of rupiah-denominated bonds was Rp160.1 trillion and Rp187.5 trillion, respectively.

In 2007 and 2008, there were 39 and 20 public bond offerings by Indonesian companies, respectively, raising approximately Rp31.3 trillion and Rp14.1 trillion for these companies. In 2009 and 2010, there were 29 and 26 public bond offerings by Indonesian companies, respectively, raising approximately Rp31.1 trillion and Rp36.6 trillion, respectively, for these companies. As of December 14, 2012, there were 45 public bond offerings by Indonesian companies in 2012, raising approximately Rp53.78 trillion for these companies. In 2012, there was one issuance of a U.S. dollar-denominated bond, bringing the total outstanding value of U.S. dollar-denominated bonds at the end of the period to U.S.$100 million.

Government bonds are also actively traded in the capital markets. The amount of rupiah-denominated government bonds outstanding has steadily increased from 2007 through 2012, totaling Rp478 trillion in 2007, Rp526 trillion in 2008, Rp582 trillion in 2009, Rp641 trillion in 2010, Rp724 trillion in 2011 and Rp820 trillion in 2012. Since resuming its bond-issuing activities, the government has taken a number of steps to promote the development of sound government bond markets. See "*Public Debt — Development of the Secondary Market for Domestic Securities of the Government*."

Corporate Sukuk Outstanding

	Year ended December 31,					
	2007	2008	2009	2010	2011	2012
List of Corporate Sukuk Outstanding	20	24	30	32	31	33
Total Outstanding value of Corporate Sukuk (in billions rupiah)	3,029.4	4,958.4	5,621.4	6,121.0	5,876.0	6,275.5

Sources: OJK and Ministry of Finance

As of December 31, 2012, there were a total of 33 outstanding corporate sukuk, with a total outstanding amount Rp6,275.5 billion, an increase of 6.8% compared to a total outstanding amount of Rp5,876.0 billion as of December 31, 2011. As of December 31, 2011, there were a total number of 31 outstanding corporate sukuk. The market share of outstanding sukuk is relatively insignificant compared to the total outstanding amount of bond and sukuk. As of December 31, 2012, the market share of outstanding corporate sukuk compared to the outstanding bond and sukuk was 3.5%. In 2012, there were six sukuk offered by Indonesian companies with total value of Rp1.86 trillion and there were five sukuk fully paid by Indonesian companies with total value of Rp646 billion.

The following table sets forth certain information regarding the mutual fund industry in Indonesia as of the dates indicated:

Mutual Funds

	As of December 31,					
	2007	2008	2009	2010	2011	2012
Number of funds	473	567	610	612	646	754
Number of unit holders	325,224	352,429	357,192	353,704	476,940	502,518[(1)]
Number of Shari'a mutual funds	26	36	46	48	50	65
Number of IDX-traded mutual funds (Exchange Traded Funds)	—	—	—	2	2	2
Net asset value (in billions of rupiah)	92,191	74,066	112,983	149,087	168,237	212,592

Sources: OJK and Ministry of Finance
(1) As of June 30, 2012.

The total NAV of mutual funds increased sharply by 57.6% from Rp74.1 trillion as of December 31, 2008 to Rp116.7 trillion as of December 31, 2009. Total NAV of mutual funds declined significantly by 19.7% from

Rp92.2 trillion at the end of 2007 to Rp74.1 trillion at the end of 2008 due to lower prices for their underlying assets due to global market disruptions. Total NAV of mutual funds increased significantly by 78.6% to Rp92.2 trillion as of December 31, 2007 from Rp51.6 trillion as of December 31, 2006, due to primarily higher equity prices, a lower SBI rate and improved macroeconomic conditions. The total NAV of fixed income mutual funds increased from December 31, 2008 to December 31, 2009, higher bond prices triggered an increase in the percentage of the total NAV of all mutual funds as of December 31, 2009 represented by the NAV of fixed income mutual funds, from 14.8% as of December 31, 2008 to 17.2% as of December 31, 2009. As of December 31, 2010, the total NAV of mutual funds increased by 34.0% compared to December 31, 2009 primarily due to an increase in stock prices. As of December 30, 2011 the total of NAV of mutual funds was Rp167.8 trillion, an increase of 19.8% compared to the NAV at the end of 2010. As of December 31, 2012 the total of NAV of mutual funds was Rp212,592 trillion, an increase of 26.4% compared to the net asset value at the end of the previous year.

In 2007, a new financial product was introduced in the Indonesian mutual fund industry; namely, the exchange-traded index mutual fund. As of December 31, 2010, there were two exchange-traded index funds: (i) an equity index fund based on the LQ-45 Index (a stock market index for the IDX consisting of 45 companies that fulfill certain criteria such as being included in the list of top 60 companies with the highest market capitalization value in the last 12 months) of the 45 Indonesian publicly listed companies with the most liquid public floats on the IDX and (ii) a bond index fund. The total NAV of these two index mutual funds was approximately Rp472.9 billion and Rp1,568.85 billion as of December 31, 2011 and December 31, 2012, respectively.

Bapepam-LK has introduced rules to strengthen its supervisory and enforcement capacity over Indonesia's capital markets and to promote sound and transparent capital markets. Over the past few years, Bapepam-LK has also exercised its authority over listed companies by issuing new regulatory guidelines to make corporate management and audit committees more directly responsible for financial reports, as well as issuing rules on public offerings by shareholders and procedures for conducting quasi-reorganizations. Bapepam-LK also issued revised regulations on the content of listed companies' annual reports, and required issuers of debt securities to publicly release all ratings of their debt securities.

In 2004, Bapepam (the predecessor agency of Bapepam-LK) issued a series of new regulations and revisions to existing regulations, including those which relate to the mutual fund industry. In particular, to enhance the development of Indonesia's mutual fund industry, Bapepam issued regulations governing the scope of mutual fund advertising, increasing the responsibilities of mutual fund managers and strengthening the legal protections for mutual fund investors. In addition, as part of its initiative to encourage the development of a vibrant mutual fund industry in Indonesia, Bapepam revised a regulation to provide mutual fund managers with a price reference for determining the fair market value of fixed income securities traded over the counter. Bapepam also issued new rules in 2004 setting stricter corporate governance standards for directors and commissioners of Indonesian public companies.

In July 2005, Bapepam issued new guidelines for capital protected funds, guaranteed funds and index funds, three types of mutual funds that are already well developed in the international mutual fund industry. The introduction of new types of funds should provide investors more choices to suit their investment objectives. In 2006, Bapepam-LK had approved registration statements for the public offering of 78 capital protected funds.

In 2006, as a response to the decline in the total NAV of the mutual funds industry in 2005, Bapepam-LK issued nine new regulations and revised two existing regulations related to the licensing, registration and responsibilities of mutual fund selling agents and mutual fund representatives and to the development of the local bond markets by establishing price discovery mechanisms and integrated trade reporting in both the stock exchange and over-the-counter markets. Bapepam-LK also issued new guidelines for exchange-traded funds in 2006. These guidelines set forth a form of collective investment contract so that units of all types of investments funds, including protected funds, guaranteed funds and index funds, could be traded on the stock exchanges. Bapepam-LK also promulgated new regulations designed to enhance transparency in bond pricing mechanisms by providing for the establishment of bond pricing agencies, whose role will be to issue reference prices based on the fair market value of fixed-income securities.

In July 2006, the government and Bank Indonesia issued a financial sector policy package to maintain and strengthen stability in the financial sector, to increase market confidence, to diversify funding sources for the business sector and to improve market efficiency for the financial sector by promoting competition among banks, non-bank financial institutions and the capital markets. The package included 55 policy actions jointly

implemented by Bank Indonesia, Bapepam-LK, the IDIC, the Ministry of State-Owned Enterprises and the Coordinating Ministry for Economic Affairs.

Some of the policy actions undertaken under the financial sector policy package have been designed to help strengthen the financial sector. For instance, to enhance the performance of Indonesia's state-owned banks, the government conformed the regulations for resolving NPLs for state-owned banks to those that apply to commercial banks. The financial sector policy package also includes policies designed to support the development of capital markets products, such as bond repurchase agreements, for the purpose of diversifying the sources of funding for business activities in Indonesia. For example, in November 2006, Bapepam-LK issued a regulation regarding the accounting treatment for bond repurchase agreements, and in December 2006 Bank Indonesia opened a trading facility for bond repurchase agreements.

In June 2007, the government and Bank Indonesia issued a revised financial sector policy package to continue the process of reform begun in 2006. Among the new policies enacted, the government has increased coordination among regulatory agencies by creating a multi-agency task force to combat illegal financial transactions. In order to encourage the growth of Indonesian capital markets, it enacted tax incentives for companies to undertake initial public offerings.

In 2007, to permit regional and local governments to broaden their sources of funding, Bapepam-LK established a legal framework for the issuance of municipal bonds, including regulations relating to procedural and disclosure requirements. The government believes that this regulatory framework will enhance the ability of local governments to fund development projects and enhance economic growth. In addition to municipal bond and sharia-compliant securities rules, in 2007 Bapepam-LK issued several other rules and rule revisions in various areas, including the licensing of securities companies, enhanced anti-money laundering laws for the capital market industry, the regulation of securities pricing agencies and KYC rules.

In February 2008, Bapepam-LK adopted regulations governing the formation, management and governance of private equity funds within Indonesia, and the registration of those funds with Bapepam-LK. As of December 31, 2010, 97 Indonesian private equity funds have been formed and registered with Bapepam-LK, with total net assets of Rp28.1 trillion.

On February 14, 2008, Bapepam-LK issued three regulations, two of which set new professional standards for accountants and appraisers involved in capital markets transactions registered with Bapepam-LK and one of which is a new rule establishing a legal framework for the offering of participation interests in collective investment contracts. On April 10, 2008, Bapepam-LK issued three new regulations related to increasing the quality and transparency of the recruitment process for candidate commissioners of self-regulatory organizations, such as the IDX, the securities clearing agencies and the securities depositaries.

On May 14, 2008, Bapepam-LK issued four revised capital markets regulations related to increasing the quality of management of investment funds in the form of collective investment contracts, eliminating the obstacles in managing asset backed securities and harmonizing the Bapepam-LK rule on the articles of association of companies conducting public offerings and public companies with Law No. 40 of 2007 Regarding Limited Liability Company.

On June 30, 2008, Bapepam-LK issued two revised regulations, one on margin trading and another on the takeover of public companies. The margin trading regulation is intended to improve the securities transaction liquidity and the quality of clients' securities transaction settlement financed by securities companies, while the takeover of public companies regulation aims to create fairness in takeovers.

With the aim of promoting professionalism and improving the supervision over capital markets professionals, on July 3, 2008, Bapepam-LK revised a regulation on Registration of Legal Consultants to set new professional standards and increase supervision over legal consultants conducting capital market activities. In August 2008, Bapepam-LK also revised a rule relating to the independence and professionalism of accountants and accounting firms conducting audits in capital markets.

In August 2008, with the aim of maintaining the independence of trust agents as representatives of bondholders, Bapepam-LK issued a new capital market regulation regulating credit and guarantee arrangements between issuers and trust agents. In debt securities (including sukuk) issues, trust agent roles may be performed by a commercial bank registered with Bapepam-LK, and such banks may extend credit facilities to issuers or guarantee issuers' obligations. To prevent conflicts of interest due to the bank's role as creditor and as trust agent

(where it represents bondholders), the new rule prohibits the bank acting as trust agent from extending credit to the issuer in excess of 25% of the value of the securities in the bond or sukuk transaction. The trust agent is also prohibited from guaranteeing issuers' obligations to third parties. On August 6, 2008, for the convenience of issuers and public companies proposing tax incentives to the government, Bapepam-LK revised the rule on Reporting of Securities Administration Agencies and Issuers and Public Companies that perform their own securities administration, Finally, on August 13, 2008, in order to allow investment managers to submit its reports to Bapepam-LK electronically, Bapepam-LK issued the revised capital markets regulation on Monthly Investment Manager Activity Reports.

On October 6, 2008, Bapepam-LK issued three regulations relating to so-called capital market supporting professionals, two of which provide for periodic reports to be submitted to Bapepam-LK by accountants and appraisers. The third relates to professional standards and independence of appraisers in the conduct of capital markets transactions.

In late 2009, Bapepam-LK issued two new rules related to investment management companies (**IMCs**). One new rule sets new requirements for licensing of IMCs and the other requires IMCs to have necessary functions, including a compliance function. These rules are aimed at increasing the capacity of IMCs.

Since April 13, 2010, Bapepam-LK has been requiring that any share buy-backs be carried out in compliance with the Company Law, which allows buy-backs of up to 10% of paid-up capital in public companies. The Company Law require shareholders' approval for such buy-backs. In 2008 Bapepam-LK also issued regulations relating to the fair market value of securities in investment fund portfolios to address fair market valuation issues in the context of the current financial crisis. On November 10, 2008, Bapepam-LK revised disclosure regulations applicable to securities companies to provide for more stringent disclosure of information and to increase management accountability for the activities of securities companies. On November 25, 2008, Bapepam-LK revised certain regulations relating to Guidelines for Asset Backed Securities Collective Investment Contracts, to ensure greater legal certainty in the conduct of securitization transactions and to protect the holders of asset backed securities collective investment contracts. Bapepam-LK further issued, on November 28, 2008, new regulations relating to the establishment of internal audit units for issuers and public companies, to ensure more stringent risk management and better corporate governance practices. On November 25, 2009, Bapepam-LK also introduced amendments to certain regulations relating to affiliated parties and transactions where conflicts of interest may arise to ensure better disclosures from affiliated entities relating to such parties and transactions and to protect unaffiliated or independent shareholders. Bapepam-LK also amended certain regulations relating to material transactions and change of core business activities to facilitate the business activities of equity issuers and public companies and protect public shareholders. On December 9, 2009, Bapepam-LK revised regulations to make it easier for equity issuers and public companies to raise funds without rights issues while balancing protection for shareholders. Under the revised regulations, no pre-emptive rights apply if a company issues new shares up to 10% of its paid-up capital, compared to 5% previously.

In order to increase transparency of credit rating agencies, on June 22, 2009, Bapepam-LK issued six regulations relating to credit rating agencies. These regulations cover the licensing process, code of conduct, credit rating contracts, publication, reporting and documentation in relation to such agencies.

As the largest Muslim country in the world, Indonesia has been engaged in an initiative to establish a legal framework for the development of an investor market in Indonesia for sharia-compliant securities, which are securities that comply with the tenets of Islamic legal principles. Bapepam-LK has issued various regulations on the form and issuance of sharia-compliant commercial paper and mutual funds to enhance the growth of the sharia-compliant securities industry and to provide alternative mutual fund products to investors within Indonesia as well as to attract Muslim investors from outside of Indonesia. In addition, in May 2008, the government adopted the Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*), which has established a legal framework for the government to issue sharia-compliant commercial paper.

In 2010, Bapepam-LK issued rules concerning debt securities trust-agency agreements, a fit and proper test for administrators and acting executors of financial institution pension funds, interim financial reports of infrastructure financing companies, issuance of shares with different nominal values, continuous public offerings of debt and sukuk, implementation of KYC requirements by financial institution pension funds, licensing of securities companies that operate as investment managers, share buybacks by issuers and public companies, individual securities portfolio management in the interest of investors, licensing of representatives of securities companies, internal controls of securities broker-dealers in administering client accounts, the control and protection of securities deposited with a securities company, the maintenance and reporting of net adjusted

working capital of securities companies, guidelines on financial report presentation and guidelines for the management of collective investment schemes.

On May 31, 2011, Bapepam-LK amended certain regulations concerning acquisition of public companies, voluntary tender offer, guidelines for management of protected mutual funds, secured mutual funds and index mutual funds.

On October 27, 2011, the House of Representatives passed the OJK Law to establish an independent regulatory agency, the OJK, to promote sustainable growth in the financial services sector. The OJK's purpose is to protect consumer and public interest by regulating the country's financial services industry with a fair and transparent decision-making process. OJK is mandated to perform regulatory and supervisory duties on financial service activities in banking, capital market, insurance, pension fund, financing institution and other financial service institutions. In doing so it will have the power to, among other things, implement regulations, investigate, audit, and enforce sanctions against, and grant or revoke business licenses, registration letters, and dissolution approvals for financial institutions and related professionals. To protect consumers, the OJK also has the authority to file legal actions against financial services institutions to recover assets based on consumer complaints and to seek indemnification for victims of infringement. The OJK consists of nine commissioners. Each commissioner term is limited to five years and an individual may only be elected once. For accountability purposes, the OJK will provide annual activity reports to the President of the Republic of Indonesia and to the House of Representatives. In June 2012, the Board of Commissioners of OJK was elected. The agency has taken over the duty of monitoring the capital market, insurance and financing institutions from the Ministry of Finance (Bapepam-LK) as of December 31, 2012. The OJK budget for operational and administrative activities in 2013 will be derived from the state budget and fees collected from practitioners in financial services. On April 24, 2012, Bapepam-LK issued revised Rule No.II.K.1 regarding the criteria and issuance of sharia securities. The revised regulations aim to support the Islamic capital markets industry by setting up the criteria of sharia securities investments. One of the main improvements include the replacement of the required total debt against total equity ratio of not more than 82% with the interest-based total debt against total assets ratio of not more than 45%.

On August 1, 2012, Bapepam-LK issued revised Rule No.IX.A.14 on Aqad (Contracts) Used in Issuance of Sharia Based Securities in Capital Market. This amendment aims to support sharia capital markets industry by allowing a wider range of contracts to be used in issuing sharia securities. The main improvement is the addition of the Istishna contract and the Musharaka contract.

To improve the protection for investor and the effectiveness of securities transaction supervision, on June 14, 2012, Bapepam-LK issued new regulations regarding the implementation of Single Investor Identity (SID) for all investors in a Custodian and Registrar.

Monetary Policy

Monetary Policy

The Republic adopted three elements of monetary policy following the Asian financial crisis in 1997. First, inflation targeting was adopted as the anchor of monetary policy. Second, a floating exchange rate system was introduced. The Republic may intervene in the foreign exchange market; the objective of its intervention is not to achieve a particular exchange rate level but to avoid excessive volatility. Third, the banking restructuring process was given higher priority. The above three policy measures have resulted in lower interest rates, which in turn have helped ease the debt burden of both the public and corporate sectors.

The government began to issue bonds in the domestic market in 1998. Bank Indonesia issues SBI in open market operations to adjust the country's money supply. SBI are issued in one-month and three-month maturities, and SBI discount rates are determined by the market through a biweekly auction of SBI, which Bank Indonesia influences by controlling the supply of SBI made available in these biweekly auctions. SBI rates are used as references by Bank Indonesia in determining its policy interest rate and the financial sector uses SBI rates as references to determine deposit and loan rates. The first SBI were issued in 1984. SBI, which are issued by Bank Indonesia in its role as formulator and implementer of the Republic's monetary policy, are not considered liabilities of the Republic. Accordingly, SBI are not reflected in the government debt discussions in this Offering Memorandum. See "*Financial System — Bank Indonesia*."

In 1998, during the hyperinflationary period of the Asian financial crisis, the government implemented strict control measures over base money supply and net domestic assets. As a result of the tight monetary stance initiated in 1998, interest rates rose sharply. Inflation has moderated since 1998, mainly as a result of a more stable exchange rate and a better controlled base money supply. Inflation as measured by changes in the CPI dropped from 77.6% in 1998 to 2.0% in 1999, then climbed back up to 9.4% in 2000 and 12.6% in 2001, before declining to 10.0% in 2002 and 5.1% in 2003. In 2004, the CPI rose materially to a level of 6.4% and in 2005 to 17.1% due to government increases in domestic fuel prices.

Lower inflation and exchange rate stability enabled Bank Indonesia to bring one-month SBI interest rates (on an annualized basis) down from a peak of around 70.7% in August 1998 to 38.4% by December 1998 and 12.5% by December 1999. Bank Indonesia allowed SBI rates to increase again to 14.5% by December 2000 and 17.6% by December 2001. These higher rates were aimed at absorbing excess liquidity in the economy in line with achieving Bank Indonesia's base money supply target and controlling inflation. Bank Indonesia then brought SBI rates down to 12.9% by December 2002 and into single digits at 8.3% by December 2003. By December 2004, SBI rates declined to 7.4%.

In July 2005, Bank Indonesia enhanced its monetary policy framework by incorporating a new inflation targeting framework. This enhanced monetary policy framework has four fundamental elements: the use of the BI Rate as an operational target; a forward looking monetary policy decision process; a more transparent communication strategy; and enhanced policy coordination with the government. These efforts are aimed at enhancing the effectiveness of money policy and achieving price stability.

During 2005, as higher inflationary pressures threatened macroeconomic stability, Bank Indonesia tightened its monetary policy and increased the SBI rate to curb inflationary pressure. In line with this policy and the implementation of the new monetary policy framework, Bank Indonesia raised the BI Rate six times from July to December 2005, from 8.50% to 12.75%. The decision to raise rates was based primarily on increasing global oil prices and the rise in the U.S. federal funds rate, as well as the weakening value of the rupiah.

From January 2006 until April 2006, Bank Indonesia's monetary policy continued to be aimed at reducing the high inflation caused principally by increased fuel prices in 2005, when inflation was 17.1%, to the targeted range for 2006 of 7% to 9%. By the end of April 2006, stable macroeconomic conditions were restored, the rupiah had appreciated and the rate of inflation had declined. As a result, on May 9, 2006, Bank Indonesia decided to ease monetary policy and reduced the BI Rate from 12.75% to 12.50%. Through the remainder of 2006 and into 2007, Bank Indonesia continued to ease its monetary policy and gradually reduced the BI Rate from 12.50% on May 9, 2006 to 12.25% on July 6, 2006, to 11.75% on August 8, 2006, to 11.25% on September 5, 2006, to 10.75% on October 5, 2006, to 10.25% on November 7, 2006, to 9.75% on December 7, 2006, to 9.50% on January 4, 2007, to 9.25% on February 6, 2007, to 9.00% on March 6, 2007, to 8.75% on May 8, 2007, to 8.50% on June 7, 2007, to 8.25% on July 5, 2007 and to 8.00% on December 6, 2007. Inflation in 2006 was 6.6%, under the targeted range, while inflation in 2007 was 6.6%, within the targeted range of 5% to 7%.

Inflationary pressures in Indonesia have increased since the beginning of 2008, primarily due to the increasing global oil, food and other commodity prices. In 2008, the Indonesian CPI increased by 11.1% although this decreased by 7.9%, calculated on a year-on-year basis, as of March 31, 2009. See "*— Economy and Gross Domestic Product — Inflation*." In response to projected inflationary pressures, Bank Indonesia increased the BI Rate gradually from 8.0% in early 2008 to 9.5% in October 2008. These increases were followed by commensurate increases in lending rates. Having declined in 2007 and the beginning of 2008, working capital and investment credit rates began to rise gradually from 12.9% and 12.4%, respectively, in May 2008 to 14.7% and 13.9%, respectively, in October 2008. The BI Rate was subsequently revised downward to 9.25% on December 4, 2008, to 8.75% on January 7, 2009, to 8.25% on February 4, 2009, to 7.75% on March 4, 2009, to 7.50% on April 3, 2009, to 7.25% on May 5, 2009, to 7.00% on June 3, 2009, to 6.75% on July 3, 2009 and to 6.50% on August 5, 2009. These decisions were made following the easing of inflationary pressures. Bank Indonesia has also required greater disclosure for large purchases of foreign currency to reduce speculative pressure on the rupiah. The BI Rate was maintained at 6.50% until February 4, 2011, when Bank Indonesia increased the BI Rate by 25 basis points to 6.75%. Subsequently, Bank Indonesia lowered the BI Rate by 25 basis points back to 6.50% on October 11, 2011 and by another 50 basis points to 6.00% on November 10, 2011. Bank Indonesia lowered the BI Rate by 25 basis points to 5.75% in February 2012 and this remained unchanged for the rest of 2012. Bank Indonesia has in the past intervened to minimize the effect of exchange rate fluctuations on inflation, and is expected to continue to intervene in the foreign exchange markets, as required, to absorb excess liquidity and contain excessive exchange rate fluctuations.

Bank Indonesia has also taken measures to improve the operational aspects of its monetary policy in line with an interest rate-based monetary policy operational framework. On June 9, 2008, Bank Indonesia made it policy to target changes in the overnight interbank interest rate as opposed to the SBI interest rate. Prior to this, Bank Indonesia targeted changes in the SBI interest rate, rather than base money, through the BI Rate. The policy aims to provide clearer information to the financial system regarding the goals of and changes in Bank Indonesia's monetary policy. In addition, on September 16, 2008, to increase liquidity in the domestic banking system, Bank Indonesia lowered its overnight repurchase, or repo, rate from the BI Rate plus 300 bps to BI Rate plus 100 bps and adjusted the Bank Indonesia liquidity facility rate or FASBI rate from BI Rate minus 200 bps to BI Rate minus 100 bps on September 16, 2008. This action was taken to provide sufficient liquidity in the banking system. The increased market volatility that followed the bankruptcy filing of Lehman Brothers Holdings Inc. in the United States on September 15, 2008 and the U.S.$85 billion loan extended by the Federal Reserve Bank to insurer American International Group on September 16, 2008 has thus far had limited impact on the Indonesian financial market. Bank Indonesia took action to stabilize the exchange rate in order to mitigate excessive volatility in the foreign exchange market and closely coordinated with the government. Bank Indonesia plans to continually evaluate monetary policy in response to domestic, regional and global market conditions, with the aim of maintaining economic and financial system stability and supporting the government's medium term inflation target.

Other policy measures taken by Bank Indonesia to ensure financial system stability include regulations that permit banks to transfer government and other long-term domestic debt securities from the tradable and available-for-sale category to the hold-until-maturity category pending the effective date of financial accounting standard No. 55 on January 1, 2010. In addition, the foreign exchange swap tenor has been extended from seven days to one month, while Bank Indonesia (i) increased the availability of foreign currency for domestic companies through the banking system; (ii) lowered the foreign exchange reserve requirement from 3.0% to 1.0%; (iii) removed the limit on daily balance of bank's short term external debt the daily limit on net short-term foreign borrowings by lifting the restriction on the daily position of bank's short-term foreign borrowings; and (iv) simplified the rupiah reserve requirement to 7.5% of depositor funds. Within the prescribed 7.5% reserve requirement, the main statutory reserve requirement was set at 5.0% and, on October 24, 2009, secondary reserves were set at 2.5%.

In order to maintain equilibrium between demand and supply in the foreign exchange market, decrease the pressure of the rupiah, and minimize domestic speculative purchases of foreign currency, Bank Indonesia issued new regulations that govern foreign currency purchases. Foreign currency transactions above U.S.$100,000 per month must be accompanied by evidence of an underlying transaction. This is applicable only to spot transactions in the case of non-residents. Further, Bank Indonesia continues to support the availability of foreign exchange supply in the market. The latest measure undertaken by Bank Indonesia were the repurchase of export drafts from exporters and facilitating the Republic's plans for the international issuance of bonds.

In 2010, the increase in inflationary pressures was mostly driven by higher food prices predominantly driven by weather anomalies. CPI increased by 7.0%, slightly above the target of 5%, plus or minus 1%, while inflation for the volatile foods group reached 15.6%. Notwithstanding strong domestic demand, core inflation remained at 4.3%. Meanwhile, administered price inflation was moderate at 5.4%. The rupiah exchange rate strengthened with a lower volatility, induced by strong capital inflows corresponding to strong economic fundamentals, attractiveness of yields, and mounting positive perceptions of economic prospects, global excess liquidity due to advanced countries accommodative monetary policy and uncertain economic prospects. With robust export performance and strong capital inflows, balance of payments record a sizable surplus of U.S.$30.3 billion in 2010.

To safeguard the macroeconomic stability while fostering sustained robust economic growth, Bank Indonesia continues to adopt prudent and consistent monetary policies. Nonetheless, implementation of these policies remains challenging. The unfolding global environment continues to be uncertain, thereby increasing the complexity of Bank Indonesia's policy responses. Global economic recovery still exhibits imbalances and multi-speeds between advanced and emerging countries, while capital inflows to emerging markets including Indonesia continue to be strong. On the domestic front, the strong demand requires a corresponding response from the supply side so as to not cause pressures on both price and external stability.

Bank Indonesia faces challenges in formulating an appropriate policy mix to better manage the domestic excess liquidity in the financial sector amid the surging capital inflows and limited absorption in the economy. In response to these challenges and considering that inflation pressure in 2010 mainly stemmed from non-fundamental factors, the BI Rate throughout 2010 was unchanged at 6.5%. To further strengthen the monetary

and financial system stability, Bank Indonesia adopted a policy mix to better manage the domestic liquidity and respond to strong capital inflows. This monetary and macro-prudential policy mix encompassed four key measures, namely: (a) the BI Rate remaining at 6.50% level, (b) smoothing foreign exchange volatility in order to avoid excessive volatility of the rupiah exchange rate, (c) better liquidity management strategy by strengthening monetary operations and (d) adopting a number of macro-prudential policy tools, both for managing the domestic liquidity such as through increasing reserve requirement, and for mitigating the risk of sudden short term capital reversal such as through "One Month Holding Period" for SBI. Some of these policy measures are part of the policy package that was announced on June 16, 2010. See "*Financial System — Strengthening the Banking System*."

Bank Indonesia decided to further adopt a set of new monetary policy measures in December 2010. See "*Financial System — Strengthening the Banking System*." These new policies aim to further strengthen the monetary and macro-prudential policies that have been implemented, while at the same time aim to normalize the policies that were adopted during the 2008 crisis. The new policies include reinstating the limit on daily balance of a bank's short term external debt to a maximum of 30.0% of the bank's capital, and revocation of Bank Indonesia's direct supply of foreign exchange to domestic corporations. Bank Indonesia also strengthened monetary and financial system stability through the implementation of macro-prudential surveillance. The new policies include: improving the regulation and use of information on a bank's business plan, raising the reserve requirement ratio for foreign currency deposits from 1.0% to 5.0% on March 1, 2011 and from 5.0% to 8.0% on June 1, 2011 and normalizing the regulation on Bank Indonesia's short-term funding facilities to commercial banks.

At the beginning of 2011, inflation expectations began to climb. The surge in inflation expectations was triggered by steep increases in food prices and was also prompted by rising global commodity prices and the government's plan to reduce the fuel subsidy. Believing that the rising inflation expectations called for an appropriate response to avert future inflationary pressures, Bank Indonesia decided to increase the BI Rate by 0.25% to 6.75% on February 4, 2011. Before February 2011, Bank Indonesia had maintained a BI Rate of 6.50% since August 5, 2009 when the BI Rate was reduced from 6.75% to 6.50%. The decision to increase the BI Rate represents an anticipatory measure to curb the renewed surge in expectations of future inflation.

Beginning in 2011, inflationary pressures gradually declined in line with the correction in food prices, as well as appreciation of the rupiah. The government's decision to postpone its plan to reduce the fuel subsidy also contributed to the decline in inflationary pressures. Bank Indonesia monitors the number of risks that may put pressure on overall macroeconomic and financial stability, particularly with continuing large capital inflows, acceleration in domestic demand, and global commodity price increases. Through September 2011, Bank Indonesia kept the BI Rate unchanged at 6.75%. The decision took into account the importance of maintaining macroeconomic stability amid heightened uncertainty in the global financial system triggered by the U.S. and Euro area debt concerns. On October 11, 2011, Bank Indonesia lowered the BI Rate by 25 basis points back to 6.50%. This decision was made in accordance with Bank Indonesia's belief that inflation at the end of 2011 and in 2012 will fall below 5.0%. On November 10, 2011, Bank Indonesia lowered the BI Rate by another 50 basis points to 6.00%. The decision to further lower the BI Rate was taken in line with the decreasing trend in inflation pressures and also as part of Bank Indonesia's efforts to narrow the interest rate term structure. Both of the latest reductions to the BI Rate were also intended to mitigate the impacts of global economic developments on Indonesia's economic performance. Although the impact of the uncertainty in the global economy on Indonesia's domestic economy has so far been limited, Bank Indonesia continues to monitor the situation and assess its impact on Indonesian economic performance. Against this backdrop, Bank Indonesia was able to adjust the interest rate along with a mix of other monetary policies to mitigate the potential slowdown in domestic economic performance and to keep inflation at 3.8% in 2011, which is below its budgeted target of 5.0% plus or minus 1.0%. Similarly, in 2012, inflation rose to 4%, and remained below Bank Indonesia's target of 4.5%, plus or minus 1.0%.

In January 2012, Bank Indonesia decided to keep the BI rate unchanged at 6.00%. The Board of Governors was of the view that the level of BI rate was still consistent with inflation targets, financial system stability, and remained conducive to propel domestic economic expansion amidst global economic uncertainty. In February 2012, Bank Indonesia decided to lower the BI rate by 25 basis points to 5.75%. This decision was made as a further step to boost Indonesia's economic growth amidst decreasing performance of the global economy, while keeping the priority on achieving inflation target and exchange rate stability. Under this decision, the lower and upper bounds of interest rate corridor of Bank Indonesia's monetary operation turned to 3.75% for overnight deposit facilities (deposit facility rate) and 6.75% for overnight lending facilities (lending facility rate). In March 2012, Bank Indonesia mandated loan-to-value levels for mortgages and down payments on motor vehicle loans

in order to enhance bank prudence and to bolster financial sector resilience. The legislation is stated in Bank Indonesia Circular No. 14/10/DPNP, dated March 15, 2012, concerning the Application of Risk Management by Banks that offer Mortgages and Motor Vehicle Loans. A lower down payment level was set for commercial vehicles than personal vehicles. The BI rate level remained unchanged at 5.75% as of September 30, 2012. In anticipation of a potential deterioration in the ongoing European crisis, Bank Indonesia continues to monitor and prepare necessary anticipatory measures. In addition to market intervention, Bank Indonesia also enhanced existing rupiah stabilization measures, including purchases of SBN in the secondary market, the introduction of foreign currency term deposits and the development of other domestic foreign exchange instruments.

In June 2012, the government, Bank Indonesia and the Deposit Guarantee Corporation (LPS) signed a new MOU on mutual coordination for crisis anticipation aimed at safeguarding the financial system's stability. Experience from prior crises both in Indonesia as well as in other countries has demonstrated that inefficient crisis resolution has caused extremely high economic and social costs and required considerable recovery time. Experience has also shown that the Indonesian economy cannot be insulated from the global crises risks. While various policies have been taken in order to strengthen domestic economy resilience, increasing economic and global financial uncertainty has created vulnerabilities, such as large capital reversals that have occurred since the second half of 2011. It is difficult to foresee or anticipate the risks associated with the economic uncertainty and vulnerability. Therefore, steps have been taken to increase the awareness of these risks by identifying sources of vulnerability and establishing a mechanism of crisis prevention and resolution. Under the new MOU, the Financial System Stability Coordination Forum (FKSSK) will monitor not only the banking sector but also the financial market, capital market and non-banking financial institutions. Bank Indonesia will focus on preventing and handling exchange rate and banking crises, while the government will focus on regulating financial markets, capital markets and non-banking financial institutions. The Crisis Management Protocol (CMP) is created to ensure effective decision making and proper legal bases for crisis prevention and management actions and policies.

Entering the second half of 2012, the economy was faced with an increasing risk of external imbalances marked by the widening of the current account deficit. Meanwhile, financing for the deficit is constrained by limited capital inflows following the deterioration in global sentiment and negative perception on rupiah assets. In response to these developments, Bank Indonesia took the tactical move of narrowing the interest rate corridor for monetary operations by 25 bps to 4.00% in August 2012, followed by strengthening the short-term monetary instrument interest rate structure which also complements the exchange rate policy. The strategy to strengthen the structure of short-term interest rates was aimed at influencing the money market interest rates structure and the bond market as a whole in order to increase the competitiveness of rupiah assets. This move aims to increase the supply of foreign exchange in the domestic financial market. The policy to increase the overall interest rate structure was quite effective as indicated by the depletion of the yield spread between the long-term and the short-term tenor of government securities. After the policy was implemented, the foreign capital flowed back into rupiah assets. The inflow was also supported by the improvement of financial market risk perception due to more accomodative monetary policies taken by advanced countries, especially the QE3 program by the US Federal Reserve.

Overall, the interest rate measures taken by the Bank of Indonesia were effective to maintain the momentum of economic growth. During 2012 Indonesia was still able to grow above 6%, making Indonesia one of the few countries in the region which was still able to achieve growth through the global economic slowdown.

Going forward, Indonesia's growth will meet challenges from global and domestic factors. On the global side, the main risks arise from the prolonged high uncertainties over economic recovery and commodity prices that could hamper Indonesia's export performance. Steady expansion in domestic demand amid the considerable uncertainties that persist over the global economy may exacerbate pressure on external imbalances. At a structural level, Indonesia's heavy dependence on imported capital goods and raw materials portends a vulnerability to external imbalances when investment activity continues to rise.

Looking ahead, Bank Indonesia policy will be directed towards managing domestic demand at a level commensurate with efforts to maintain external equilibrium. Bank Indonesia will strive to strengthen its policies, based on the following five pillars. First, interest rate policy will be managed in a manner consistent with the inflation forecast to keep inflation on track with the established target. Second, exchange rate policy will be directed at curbing movement in the rupiah in line with the condition of its fundamentals. Third, macroprudential policies will be directed towards safeguarding financial system stability and supporting the maintenance of

internal and external equilibrium. Fourth, the policy communications strategy will be strengthened in order to manage inflation expectations. Fifth, Bank Indonesia and the Government will improve coordination further in support of macroeconomic management with focus on reinforcing economic structures, expanding sources of economic financing, bolstering supply-side response and improvements for a more robust Crisis Management Protocol (PMK).

Money Supply

Bank Indonesia tracks several different measures of money supply. Base money (**M0**) includes currency (bank notes and coins in circulation) and demand deposits of commercial banks at Bank Indonesia. Narrow money (**M1**) consists of currency plus rupiah-denominated demand deposits in commercial banks, interbank transfers for customers which have not cleared through the banking system and matured (but uncollected) time deposits at commercial banks. Broad money (**M2**) consists of M1 plus quasi-money, which includes time deposits and savings deposits in rupiah and deposits in foreign currencies.

The following table sets forth the money supply for the periods indicated:

Money Supply

	Money					
End of period	Base money (M0)[1]	Currency	Demand deposits	Total(M1)	Quasi-money	Total (M2)
	(in billions of rupiah)					
2006	297,080	150,654	196,359	347,013	1,032,865	1,382,493
2007	379,582	182,967	267,089	450,055	1,196,119	1,649,662
2008	344,688	209,747	247,040	456,787	1,435,772	1,895,839
2009	402,119	226,006	289,818	515,824	1,622,055	2,141,384
2010	518,447	260,227	345,184	605,411	1,856,720	2,471,206
2011	613,488	307,760	415,231	722,991	2,139,840	2,877,220
2012	704,843	361,967	479,755	841,722	2,452,503	3,304,645

Source: Bank Indonesia
(1) Base Money (M0) in year 2009 and 2010 is subject to reserve requirements changes.

	Factors affecting money supply			
End of period	Foreign assets (net)	Claims on central government (net)[1]	Claims on business sectors	Other items (net)[2]
	(in billions of rupiah)			
2006	413,265	506,488	837,071	(374,750)
2007	524,703	497,478	1,040,996	(419,974)
2008	602,347	379,217	1,348,827	(446,540)
2009	695,686	405,398	1,495,788	(465,195)
2010	879,426	351,888	1,832,391	(532,046)
2011	912,174	351,177	2,118,376	(29,895)
2012	965,442	389,833	2,584,819	10,716

Source: Bank Indonesia
(1) Claims on the government are rupiah-denominated claims which are included net of the government's deposits with the banking system.
(2) Includes capital accounts, SDR allocations and inter-system accounts.

In 2007, M0 increased by 27.8%, due to an increase in the amount of currency in circulation. In 2007, M1 increased by 29.7% to Rp450 trillion while M2 also increased by 19.3% to Rp1,650 trillion. The growth in M1 was due to both increases in demand deposits at commercial banks as well as currency in circulation. The growth in M2 was mainly due to growth in quasi-money, mainly savings deposits as well as to increased credit provided to businesses and consumers.

In 2008, M0 decreased by 9.2%. The decrease in M0 was primarily due to the new policy providing for rupiah reserve requirements. Under PBI No. 10/19/PBI/2008 dated October 14, 2008, Bank Indonesia amended the rupiah reserve requirement, resulting in rupiah reserve requirements being imposed at 7.5% instead of at

9.0% of deposits. The reserve requirement is composed of a 5.0% statutory reserve consisting of a current account held at Bank Indonesia and a 2.5% secondary reserve in the form of SBI, government bonds or a current account held at Bank Indonesia. Further, decreasing economic activity in Indonesia resulting from the global economic and financial crisis in developed markets contributed to the decrease in M0 growth.

In 2009, liquidity contracted, led by M1. The 2009 year-on-year growth in M1 and M2 was 12.9% and 13.0%, respectively. The slowing expansion amid conditions of persistently low inflation, reflected a lack of stability and strength in public purchasing power. The extent of liquidity not used by the public in economic activity is also reflected in M1 growth, which remained below the historical average growth.

In 2010, increasing economic activities pushed the growth of currency and base money. M1 increased by 17.4% to Rp605 trillion while M2 also increased by 15.4% to Rp2,471 trillion. M1 real growth has not changed significantly, however, compared to 2009. On the other hand, the significant increase in M2 was primarily due to quasi-money which was increasing in line with the strong capital inflows. Meanwhile, the base money increased by 28.9% to Rp518 trillion. Increases in base money growth was affected by the implementation of the higher reserve requirement policy since November 2010.

In 2011, base money supply increased to Rp613.5 trillion. In the same period, M1 increased by 19.4% to Rp722.9 trillion primarily due to a significant expansion in government accounts that increased demand for rupiah deposits. Meanwhile, M2 increased 16.4% to Rp2,877.2 trillion, primarily due to an increased contribution from saving and demand deposits amid minimum contribution from net foreign assets because of uncertainty in the global economy.

In 2012, economic liquidity demonstrated an upward trend in line with the continued strength of household consumption and brisk pace of credit expansion. Base money increased to Rp704.8 trillion, or 14.9% from 2011. M1 increased by 16.4% from 2011 to Rp841.7 trillion and M2 increased by 14.9% from 2011 to Rp3,304.6 trillion. Growth in M1 was mainly driven by increasing demand in rupiah deposits in line with growth in lending. Growth in M2 was due to an increase in rupiah time deposits and saving deposits.

Government Budget

Fiscal Policy

Since 2001, the focus of the government's fiscal policy has been to promote fiscal consolidation and reduce government debt gradually in order to achieve fiscal sustainability. As a result of the overall macro economic situation and current policy challenges, since 2006, the government has also focused fiscal policy on providing a modest degree of stimulus to the overall economy, within the constraints of the government's overall fiscal situation.

In August 2009, President Yudhoyono submitted the 2010 Budget to the DPR, which, with certain modifications, was enacted in November 2009. The government set the 2010 Budget as a baseline budget for the new government formed after the 2009 general election held in July 2009. The new government proposed the Revised 2010 Budget to the DPR and submitted it in March 2010. The Revised 2010 Budget was prepared by the new government to accommodate the KIB II Priority Programs and to adjust to the changes in macroeconomic indicators since the original 2010 Budget assumptions. The DPR approved the revised budget on May 25, 2010.

Certain expenditure in the Revised 2010 Budget was aimed at (i) continuing or improving all people prosperity programs and other subsidies; (ii) continuing infrastructure, agriculture and energy development; (iii) promoting industrial and business recovery through the provision of tax and import duty incentives; (iv) reforming the bureaucracy with a view to eradicating corruption; (v) increasing operational, maintenance and weaponry procurement; (vi) funding education and (vii) developing natural resources coupled with climate change management and disaster risk mitigation.

In August 2010, President Yudhoyono submitted the 2011 Budget to the DPR, which, with certain modifications, was enacted in November 2010. The government's main focuses for 2011 are increasing welfare; development of democracy and law enforcement.

Certain expenditure in the 2011 Budget was aimed at (i) accelerating economic growth; (ii) creating and increasing employment by giving tax incentives to encourage investment and exports to increase the capital expenditure to build infrastructure; (iii) improving the welfare of its people through social security nets for the

poor with sustainable welfare programs and a more targeted subsidy allocation; and (iv) improving the quality of environment management. While endeavoring to achieve these goals, the government maintained a prudent fiscal policy, encouraged private sector participation in infrastructure development and adopted a series of foreign investment, financial sector and banking sector reforms. See "— *Monetary Policy*" and "*Infrastructure Development*."

In July 2011, the 2011 Budget was revised (the **Revised 2011 Budget**) to include a target fiscal deficit of 2.1% of the projected GDP, which was higher than the target fiscal deficit of 1.8% of GDP in the 2011 Budget and the actual deficit of 0.7% of GDP in 2010. The target fiscal deficit as a percentage of GDP increased in the Revised 2011 Budget primarily due to increases in the assumptions related to average ICP and inflation, and a decrease in the assumption related to oil production. The targeted fiscal deficit of 2.1% of GDP under the Revised 2011 Budget was higher than or equal to the actual fiscal deficit, as a percentage of GDP, of 0.1% and 1.6% in 2008 and 2009, respectively. Total expenditure under the Revised 2011 Budget was projected to be Rp1,320.7 trillion compared to Rp1,229.6 trillion in the 2011 Budget and actual total expenditure of Rp1,042.1 trillion in 2010. The Revised 2011 Budget projected total revenue (including grants) of Rp1,169.9 trillion, compared to Rp1,104.9 trillion in the 2011 Budget and actual total revenue (including grants) of Rp995.3 trillion in 2010. The Revised 2011 Budget projected a deficit of Rp150.8 trillion, significantly higher than the Rp124.7 trillion deficit projected in the 2011 Budget and the actual fiscal deficit of Rp46.8 trillion in 2010.

In 2011, the Indonesian government budget realized a deficit of Rp90.1 trillion or 59.7% of the government's targeted fiscal deficit of Rp150.8 trillion in the Revised 2011 Budget. This realized fiscal deficit of 1.2% of GDP in 2011 was lower than the targeted fiscal deficit of 2.1% of GDP under the Revised 2011 Budget. Total expenditure in 2011 was Rp1,289.6 trillion, slightly lower than Rp1,320.8 trillion in the Revised 2011 Budget. Total revenue (including grants) was Rp1,199.5 trillion, slightly higher than Rp1,169.9 trillion in the Revised 2011 Budget and actual total revenue (including grants) of Rp995.3 trillion in 2010. The realized fiscal deficit of Rp90.1 trillion was significantly lower than the Rp150.8 trillion deficit projected in the Revised 2011 Budget.

The government financed the projected deficit under the Revised 2011 Budget using domestic and international sources. See "— *Public Debt*." The government is continuing to consider further policy measures intended to raise revenues and lower non-discretionary expenditures. On the revenue side, these may include tax collection improvement, tax incentives and tax administration reforms. On the expenditure side, these may include implementing additional energy saving measures at government offices, implementing targeted subsidies and encouraging the use of Liquefied Petroleum Gas instead of kerosene for household use.

Expenditure allocation in the Revised 2011 Budget focused on the public services, education and economic functions. Such expenditure was projected to be 84.1% of central government expenditure. The Revised 2011 Budget also aimed to maintain a minimum allocation of 20.0% of central government expenditure for education.

As of December 31, 2011, the realized fiscal deficit of Rp84.4 trillion was 56.0% of the government's target of Rp150.8 trillion in the Revised 2011 Budget. The realized fiscal deficit of 1.1% of GDP was lower than the target fiscal deficit under the Revised 2011 Budget of 2.1% of GDP. The realized fiscal deficit as a percentage of GDP was 1.1% in 2011, higher than the actual fiscal deficit of 1.6% in 2009 and 0.7% in 2010. Total expenditures in 2011 were Rp1,295.0 trillion compared to Rp1,320.8 trillion in the Revised 2011 Budget and actual total expenditures of Rp1,042.1 trillion in 2010. Total revenues (including grants) were Rp1,210.6 trillion, compared to Rp1,169.9 trillion in the Revised 2011 Budget and actual revenues (including grants) of Rp995.3 trillion in 2010. The fiscal deficit of Rp84.4 trillion was significantly lower than the Rp150.8 trillion deficit projected in the Revised 2011 Budget and higher than the actual fiscal deficit of Rp46.8 trillion in 2010.

The 2012 Budget, approved by the DPR on October 27, 2011, included a target fiscal deficit of 1.5% of the projected GDP, higher than the fiscal deficit of 1.2% of GDP in 2011 and higher than the actual deficit of 0.7% of GDP in 2010. Total expenditure under the 2012 Budget was projected to be Rp1,435.4 trillion compared to Rp1,289.6 trillion in 2011 and actual total expenditure of Rp1,042.1 trillion in 2010. The 2012 Budget projected total revenue (including grants) of Rp1,311.4 trillion (equivalent to 16.1% of GDP), compared to Rp1,199.5 trillion (equivalent to 16.2% of GDP) in 2011 and actual total revenue (including grants) of Rp995.3 trillion in 2010. The 2012 Budget projected a deficit of Rp124.0 trillion, compared to Rp90.1 trillion in 2011, and higher than the actual fiscal deficit of Rp46.8 trillion in 2010. The government was expected to finance the projected deficit under the 2012 Budget from both domestic and international sources. Through its budgeted expenditure in the 2012 Budget, the government intended to continue the four main targets of its fiscal policy in the 2011 Budget, including promoting inclusive economic growth (pro growth), creating and expanding

employment (pro job), increasing social welfare through social safety net programs benefiting the poor (pro poor), and supporting environmental sustainability (pro environment).

The Revised 2012 Budget, approved by the DPR on March 31, 2012, included a target fiscal deficit of 2.2% of the revised projected GDP compared to 1.5% of the projected GDP in the 2012 Budget and to the realized fiscal deficit of 1.1% of GDP in 2011. Total expenditure under the Revised 2012 Budget was projected to be Rp1,548.3 trillion as compared to Rp1,435.4 trillion in the 2012 Budget and Rp1,295.0 trillion in 2011. Total revenue (including grants) under the Revised 2012 Budget was projected to be Rp1,358.2 trillion (equivalent to 15.9% of GDP) compared to Rp1,311.4 trillion (equivalent to 16.1% of GDP) in the 2012 Budget and Rp1,199.5 trillion (equivalent to 16.2% of GDP) in 2011. The Revised 2012 Budget projected a deficit of Rp190.1 trillion, compared to Rp124.0 trillion in the 2012 Budget and Rp84.4 trillion in 2011.

As of December 31, 2012, the realized total expenditure in 2012 was Rp1,481.7 trillion, as compared to Rp1,548.3 trillion in the Revised 2012 Budget and Rp1,295.0 trillion in 2011. The realized 2012 total revenue (including grants) was Rp1,335.7 trillion (equivalent to 16.2% of GDP) compared to Rp1,358.2 trillion (equivalent to 15.9% of GDP) in the Revised 2012 Budget and Rp1,199.5 trillion (equivalent to 16.2% of GDP) in 2011. The realized 2012 deficit was Rp146.0 trillion, compared to Rp190.1 trillion in the Revised 2012 Budget and Rp84.4 trillion in 2011. As a percentage of GDP, the realized fiscal deficit was 1.8% of GDP in 2012, compared to 2.2% of projected GDP in the Revised 2012 Budget and to the realized fiscal deficit of 1.1% of GDP in 2011.

The 2013 Budget, which was approved by the DPR on October 23, 2012, includes a target fiscal deficit of 1.7% of the projected GDP, compared to the realized fiscal deficit of 1.8% of GDP in 2012. Total expenditure under the 2013 Budget is projected to be Rp1,683.0 trillion compared to Rp1,472.3 trillion in 2012. The 2013 Budget projects total revenue (including grants) of Rp1,529.7 trillion (equivalent to 16.5% of GDP), compared to Rp1,327.8 trillion (equivalent to 16.1% of GDP) in 2012. The 2013 Budget projects a deficit of Rp153.3 trillion, compared to Rp146 trillion in 2012. The government is expected to finance the projected deficit under the 2013 Budget from both domestic and international sources.

For a discussion of the 2013 Budget as well as the macroeconomic assumptions, revenue, expenditure, fiscal deficit and deficit financing estimates underlying the 2013 Budget compared to the Revised 2012 Budget, see "—*2013 Budget*."

The Republic transfers a significant proportion of central government revenue to regional and local governments. Under Law No. 33 of 2004 on Balance of Fundings between the Central and Regional Governments, the central government transfers funds under five schemes: (i) "revenue sharing funds" which return a percentage of certain tax and natural resource revenues generated in a particular region to that region; (ii) "general allocation funds" based on net annual central government revenue and distributed based on regional and local fiscal gaps (the differences between fiscal need and fiscal capacity); (iii) "specific allocation funds" for specific project proposals submitted by regional governments such as programs related to education, health and infrastructure and which, together with revenue sharing funds and general allocation funds are called "balanced funds", (iv) "special autonomy funds" which support the Aceh and Papua provinces, and (v) "adjustment funds" which fund federal government policies and projects throughout the country. In 2007, 2008, 2009, 2010, 2011 and 2012, these fund transfers accounted for 33.4%, 29.7%, 32.9%, 33.1%, 31.8%, and 32.4%, respectively, of the central government's total expenditure. These fund transfers accounted for 31.4% of total expenditure in the 2013 Budget.

Central Government Finances

The following table sets forth information regarding the revenue and expenditure of the central government for the periods indicated:

Central Government Revenue and Expenditure

	Year ended December 31,						
	2007[L]	2008[L]	2009[L]	2010[L]	2011[L]	2012[P]	2013[B]
	(in trillions of rupiah)						
Revenue and grants:							
Domestic revenue:							
Tax revenue	491.0	658.7	619.9	723.4	873.9	980.1	1,193.0
Non-tax revenue	215.1	320.6	227.2	268.9	331.5	351.6	332.2
Total domestic revenue	706.1	979.3	847.1	992.3	1,205.4	1,331.7	1,525.2
Grants	1.7	2.3	1.7	3.0	5.2	4	4.5
Total revenue and grants	707.8	981.6	848.8	995.3	1,210.6	1,335.7	1,529.7
Expenditure:							
Total central government expenditure	504.6	693.4	628.8	697.4	883.7	1,001.3	1,154.4
Transfers to regions:							
Balanced funds	243.9	278.7	287.3	316.7	347.2	411.1	444.8
Special autonomy and adjustment funds	9.3	13.7	21.3	28.0	64.1	69.4	83.8
Total transfers to region	253.2	292.4	308.6	344.7	411.3	480.4	528.6
Suspend[(1)]	(0.2)	(0.1)	(0.0)	(0.0)	—	—	—
Total expenditure	757.6	985.7	937.4	1,042.1	1,295.0	1,481.7	1,683.0
Primary balance[(2)]	30.0	84.3	5.2	41.6	8.9	(45.5)	(37.0)
Surplus/(deficit)	(49.8)	(4.1)	(88.5)	(46.8)	(84.4)	(146)	(153.3)
Financing:							
Domestic financing	69.0	102.5	128.2	96.1	148.7	199.2	172.8
Foreign financing	(26.5)	(18.4)	(15.6)	(4.5)	(17.8)	(19.1)	(19.5)
Total financing[(3)]	42.5	84.1	112.6	91.6	130.9	180.1	153.3

Source: Ministry of Finance

L LKPP.

P Preliminary

B 2013 Budget.

(1) Realized expenditure calculated by the Ministry of Finance differed from the figures calculated by line ministries and such discrepancies have been subtracted and added, respectively, to totals for such years after the fiscal year is over. "Suspend" is not reported in the current year.

(2) Primary balance represents revenues minus expenditures excluding interest expenditure.

(3) In 2007, total financing of Rp42.5 trillion was insufficient to finance the budget deficit of Rp49.8 trillion, and the government drew down on its reserves to cover the difference of Rp7.3 trillion. In 2008, total financing of Rp84.1 trillion exceeded the budget deficit of Rp4.1 trillion. In 2009, total financing of Rp112.6 trillion, coming mainly from a net government bond issuance of Rp99.4 trillion, exceeded the budget deficit of Rp88.5 trillion and the government added the difference of Rp24.0 trillion to its reserves. In 2010, total financing of Rp91.6 trillion, coming mainly from a net government bond issuance of Rp91.1 trillion, exceeded the budget deficit of Rp46.8 trillion and the government added the difference of Rp44.8 trillion to its reserves. In 2011, total financing of Rp130.9 trillion exceeded the budget deficit of Rp84.4 trillion and the government added the difference of Rp46.5 trillion to its reserves. In 2012, total financing of Rp180.1 trillion exceeded the budget deficit of Rp146 trillion and the government added the difference of Rp34.1 trillion to its reserves.

Central Government Revenue. The following table sets forth central government revenue by category for the periods indicated:

Central Government Revenue

	Year ended December 31,						
	2007[L]	2008[L]	2009[L]	2010[L]	2011[L]	2012[P]	2013[B]
	(in trillions of rupiah)						
Domestic Revenue:							
Tax revenue:							
Domestic taxes:							
Income tax:							
Oil and gas	44.0	77.0	50.0	58.9	73.1	83.5	71.4
Non-oil and gas	194.4	250.5	267.6	298.2	358.0	381.3	513.5
Total income tax	238.4	327.5	317.6	357.1	431.1	464.8	584.9
Value-added tax (VAT)	154.5	209.7	193.1	230.6	277.8	337.6	423.7
Land and building tax	23.7	25.4	24.3	28.6	29.9	29.0	27.3
Duties on land and building transfer(1)	6.0	5.6	6.5	8.0	—	—	—
Excises	44.7	51.3	56.7	66.2	77.0	95.0	92.0
Other taxes	2.7	3.0	3.1	4.0	3.9	4.2	6.3
Total domestic taxes	470.1	622.4	601.3	694.5	819.7	930.6	1,134.3
International trade taxes:							
Import duties	16.7	22.8	18.1	20.0	25.3	28.3	27.0
Export tax	4.2	13.6	0.6	8.9	28.9	21.2	31.7
Total international trade taxes	20.9	36.3	18.7	28.9	54.2	49.5	58.7
Total tax revenue	491.0	658.7	619.9	723.4	873.9	980.1	1,193.0
Non-tax revenue:							
Natural resources:							
Oil	93.6	169.0	90.1	111.8	141.3	144.7	120.9
Gas	31.2	42.6	35.7	40.9	52.2	61.1	54.0
Total oil and gas	124.8	211.6	125.8	152.7	193.5	205.8	174.9
General mining	5.9	9.5	10.4	12.7	16.74	16.5	17.6
Forestry	2.1	2.3	2.3	3.0	3.2	3.2	4.2
Fishery	0.1	0.1	0.1	0.1	0.2	0.2	0.2
Geothermal(2)	—	0.9	0.4	0.3	0.5	0.7	0.4
Total non-oil and gas	8.1	12.8	13.2	16.1	20.3	20.6	22.4
Total natural resources	132.9	224.5	139.0	168.8	213.8	226.4	197.2
Profit transfer from SOEs	23.2	29.1	26.0	30.1	28.2	30.8	33.5
Other non-tax revenue	56.9	63.3	53.8	59.4	69.4	73.2	78.0
Public Service Agency (BLU) income	2.1	3.7	8.4	10.6	20.1	21.2	23.5
Total non-tax revenue	215.1	320.6	227.2	268.9	331.5	351.6	332.2
Total domestic revenue	706.1	979.3	847.1	992.3	1,205.4	1,331.7	1,525.2
Grants	1.7	2.3	1.7	3.0	5.2	4.0	4.5
Total revenue and grants	707.8	981.6	848.8	995.3	1,210.6	1,335.7	1,529.7

Source: Ministry of Finance

L LKPP

P Preliminary

B 2013 Budget

(1) Starting from January 1, 2011, duties on land and building transfer is no longer budgeted as government revenue from taxation income and instead is diverted to local tax. This diversion is intended to strengthen local taxing power and to improve regional autonomy and executive accountability.

(2) Until 2007, non-tax revenue from geothermal resources were included under the general mining category.

With the exception of 2006, since 2005, revenue from non-oil and gas income taxes has exceeded non-tax revenue from natural resources. Together with revenue from VAT, these accounted for an average of 70.5% of total domestic revenue annually from 2005 through 2009. These three sources of revenue plus excise taxes and income tax on oil and gas accounted for an average of 83.3% of total domestic revenue annually from 2005 through 2009. In 2009, non-oil and gas income taxes, revenue from VAT and non-tax revenue from natural resources accounted for 71.6% of the total domestic revenue in 2009. These three sources of revenue plus excise taxes and income tax on oil and gas accounted for 83.3% of total domestic revenue in 2009.

In 2007, realized tax revenue of Rp491.0 trillion was 99.8% of the government's revised budget target of Rp492.0 trillion for the year. Realized domestic tax revenue of Rp470.1 trillion for 2007 was 99.1% of the government's revised budget target of Rp474.6 trillion for the year, while international trade tax revenue of Rp20.9 trillion was 119.9% of the government's revised budget target. Realized non-tax revenue in 2007 was

Rp215.1 trillion, or 108.5% of the government's budgeted amount of Rp198.3 trillion. Total realized revenue and grants of Rp707.8 trillion for 2007 were 102.0% of the government's revised budget target of Rp694.1 trillion for the year.

In 2008, realized tax revenue of Rp658.7 trillion was 108.1% of the government's budget target of Rp609.2 trillion in the Revised 2008 Budget. Realized domestic tax revenue of Rp622.4 trillion for 2008 was 107.3% of the government's budget target of Rp580.2 trillion under the Revised 2008 Budget, while international trade tax revenue of Rp36.3 trillion was 125.2% of the government's budget target of Rp29.0 trillion under the Revised 2008 Budget. Realized non-tax revenue in 2008 was Rp320.6 trillion, or 113.5% of the government's budgeted amount of Rp282.8 trillion under the Revised 2008 Budget. Total realized revenue and grants of Rp981.6 trillion for 2008 were 109.7% of the government's budget target of Rp895.0 trillion under the Revised 2008 Budget.

In 2009, realized tax revenue of Rp619.9 trillion was 95.1% of the government's budget target of Rp652.0 trillion in the Revised 2009 Budget. Realized domestic tax revenue of Rp601.3 trillion for 2009 was 95.1% of the government's budget target of Rp631.9 trillion under the Revised 2009 Budget, while international trade tax revenue of Rp18.7 trillion was 93.2% of the government's budget target of Rp20.0 trillion under the Revised 2009 Budget. Realized non-tax revenue in 2009 was Rp227.2 trillion, or 104.2% of the government's budgeted amount of Rp218.0 trillion under the Revised 2009 Budget. Total realized revenue and grants of Rp848.8 trillion for 2009 were 97.4% of the government's budget target of Rp871.0 trillion under the Revised 2009 Budget.

In 2010, realized tax revenue of Rp723.4 trillion was 97.3% of the government's target of Rp743.3 trillion in the Revised 2010 Budget. Realized domestic tax revenue of Rp694.5 trillion for 2010 was 96.3% of the government's budget target of Rp720.8 trillion under the Revised 2010 Budget, while international trade tax revenue of Rp28.9 trillion was 127.9% of the government's budget target of Rp22.6 trillion under the Revised 2010 Budget. Realized non-tax revenue in 2010 was Rp268.9 trillion, or 108.8% of the government's budgeted amount of Rp247.2 trillion under the Revised 2010 Budget. Total realized revenue and grants of Rp995.3 trillion for 2010 were 100.3% of the government's budget target of Rp992.4 trillion under the Revised 2010 Budget.

In 2011, realized tax revenue of Rp873.9 trillion was 99.5% of the government's target of Rp878.7 trillion in the Revised 2011 Budget. Realized domestic tax revenue of Rp819.8 trillion for 2011 was 98.6% of the government's budget target of Rp831.8 trillion under the Revised 2011 Budget, while international trade tax revenue of Rp54.1 trillion was 115.3% of the government's budget target of Rp46.9 trillion under the Revised 2011 Budget. Realized non-tax revenue in 2011 was Rp331.5 trillion, or 115.7% of the government's budgeted amount of Rp286.5 trillion under the Revised 2011 Budget. Total realized revenue and grants of Rp1,210.6 trillion in 2011 were 103.5% of the government's budget target of Rp1,169.9 trillion under the Revised 2011 Budget.

In 2012, preliminary realization tax revenue of Rp979.8 trillion was 96.4% of the government's target of Rp1,016.2 trillion in the Revised 2012 Budget. Preliminary domestic tax revenue of Rp930.5 trillion was 96.1% of the government's budget target of Rp968.3 trillion under the Revised 2012 Budget. Realized non-tax revenue was Rp351.6 trillion, or 103.1% of the government's budgeted amount of Rp341.1 trillion under the Revised 2012 Budget. Total realized revenue and grants of Rp1,335.7 trillion were 98.4% of the government's budget target of Rp1,358.2 trillion under the Revised 2012 Budget. This was due to a decline in commodity prices (including mining, mineral, CPO and rubber), which resulted in a decline in non-oil and gas tax revenues.

Central Government Expenditure. The following table sets forth the expenditure of the central government for the periods indicated:

Central Government Expenditure[(1)]

	Year ended December 31,						
	2007[L]	2008[L]	2009[L]	2010[L]	2011[L]	2012[P]	2013[B]
	(in trillions of rupiah)						
Central government expenditure:							
Personnel expenditure	90.4	112.8	127.7	148.1	175.7	197.7	241.6
Goods and services expenditure	54.5	56.0	80.7	97.6	121.0	137.2	200.7
Capital expenditure	64.3	72.8	75.9	80.3	117.8	140.1	180.4
Interest payments:							
Domestic debt	54.1	59.9	63.7	61.5	66.8	70.2	80.7
Foreign debt	25.7	28.5	30.1	26.9	26.5	30.3	32.5
Total interest payments	79.8	88.4	93.8	88.4	93.3	100.5	113.2
Subsidies:							
Energy subsidies	116.9	223.0	94.6	139.9	255.6	306.5	274.7
Non-energy subsidies	33.3	52.3	43.5	52.8	39.3	39.9	42.5
Total subsidies	150.2	275.3	138.1	192.7	295.4	346.4	317.2
Grants expenditure	—	—		0.1	0.3	0.02	3.6
Social assistance	49.8	57.7	73.8	68.6	71.1	75.3	73.6
Other expenditure	15.6	30.3	38.9	21.6	5.5	3.9	20.0
Additional for expenditure	—	—	—	—	—	—	12.7
Total central government expenditure	504.6	693.4	628.9	697.4	883.7	1,001.1	1,154.4
Transfer to Regions:							
Balanced funds:							
Revenue sharing funds	62.9	78.4	76.1	92.2	96.9	111.3	102.0
General allocation funds	164.8	179.5	186.4	203.6	225.5	273.8	311.1
Specific allocation funds	16.2	20.8	24.7	20.9	24.8	25.9	31.7
Total balanced funds	243.9	278.7	287.3	316.7	347.2	411.1	444.8
Special autonomy and adjustment funds:							
Special autonomy funds	4.0	7.5	9.5	9.1	10.4	12.0	13.4
Adjustment funds	5.3	6.2	11.8	18.9	53.7	57.4	70.4
Total special autonomy and adjustment funds	9.3	13.7	21.3	28.0	64.1	69.4	83.8
Total transfers to region	253.2	292.4	308.6	344.7	411.3	480.4	528.6
Total expenditure	757.8	985.8	937.4	1,042.1	1,295.0	1,481.7	1,683.0

Source: Ministry of Finance

L LKPP

P Preliminary

B 2013 Budget

(1) Realized expenditure calculated by the Ministry of Finance differed from the figures calculated by line ministries and such discrepancies have been subtracted and added, respectively, to totals for such years after the fiscal year is over.

In 2007, the government's total actual expenditure was Rp757.8 trillion, equivalent to 100.7% of the year's revised budgeted amount of Rp752.4 trillion. Central government expenditure in 2007 was Rp504.6 trillion, 101.3% of the revised budgeted amount of Rp498.2 trillion. Total subsidies in 2007 were Rp150.2 trillion, or 143.9% of the revised budgeted amount of Rp105.1 trillion, primarily due to increases in energy subsidies as a result of high oil prices and an increase in non-energy subsidies due to higher tax subsidies. Tax subsidies are taxes borne by the government that are paid to the Directorate General of Taxation of the Ministry of Finance by other government ministries and agencies, such as the VAT exemption on imported wheat, imported wheat flour and cooking oil, income taxes on the government's royalties from natural gas production, taxes paid by Pertamina (*Perusahaan Tambang Minyak Negara*) and the VAT exemption for imported oil exploration equipment. Because the aggregate amount of these tax subsidies is included in the domestic tax revenue of the government, there is no net effect on the government's budget deficit from these tax subsidies. In 2006 and 2007, the government's tax subsidies were Rp1.9 trillion and Rp17.1 trillion, respectively. Total transfers to regions in 2007 were Rp253.2 trillion, or 99.6% of the revised budgeted amount of Rp254.2 trillion.

In 2008, the government's total actual expenditure was Rp985.8 trillion, equivalent to 99.6% of the year's budgeted amount of Rp989.5 trillion under the Revised 2008 Budget. Central government expenditure in 2008 was

Rp693.4 trillion, equivalent to 99.5% of the revised budgeted amount of Rp697.1 trillion. Total subsidies in 2008 were Rp275.3 trillion, or 117.4% of the revised budgeted amount of Rp234.4 trillion, primarily due to increases in energy subsidies as a result of high oil prices and an increase in non-energy subsidies due to higher fertilizer subsidies. Total transfers to regions in 2008 were Rp292.4 trillion, or 100.0% of the revised budgeted amount.

In 2009, the government's total actual expenditure was Rp937.4 trillion, equivalent to 93.7% of the year's budgeted amount of Rp1,000.8 trillion under the Revised 2009 Budget. Central government expenditure in 2009 was Rp628.9 trillion, 90.9% of the budgeted amount of Rp691.5 trillion under the Revised 2009 Budget. Total subsidies in 2009 were Rp138.1 trillion, or 87.3% of the budgeted amount of Rp158.1 trillion under the Revised 2009 Budget, primarily due to increases in energy subsidies as a result of high oil prices. Total transfers to region in 2009 were Rp308.6 trillion, or 99.8% of the budgeted amount of Rp309.3 trillion under the Revised 2009 Budget.

In 2010, the government's total expenditure was Rp1,042.1 trillion, equivalent to 92.5% of the Revised 2010 Budget amount of Rp1,126.1 trillion. Central government expenditure in 2010 was Rp697.4 trillion, equivalent to 89.2% of the Revised 2010 Budget amount of Rp781.5 trillion. Actual subsidies in 2010 were Rp192.7 trillion, equivalent to 95.7% of the Revised 2010 Budget amount of Rp201.3 trillion. Total transfers to regions in 2010 were Rp344.7 trillion, equivalent to 100.0% of the Revised 2010 Budget amount of Rp344.6 trillion.

In 2011, the government's total expenditure was Rp1,295.0 trillion, equivalent to 98.1% of the Revised 2011 Budget amount of Rp1,320.8 trillion. Central government expenditure in 2011 was Rp883.7 trillion, equivalent to 97.3% of the Revised 2011 Budget amount of Rp908.2 trillion. Actual subsidies in 2011 were Rp295.4 trillion, equivalent to 124.5% of the Revised 2011 Budget amount of Rp237.2 trillion. Total transfers to regions in 2011 were Rp411.3 trillion, equivalent to 99.7% of the Revised 2011 Budget amount of Rp412.5 trillion.

In 2012, the government's total expenditure was Rp1,481.7 trillion, equivalent to 95.7% of the Revised 2012 Budget amount of Rp1,548.3 trillion. Central government expenditure was Rp1,001.3 trillion, equivalent to 93.6% of the Revised 2012 Budget amount of Rp1,069.5 trillion. Actual subsidies were Rp346.4 trillion, equivalent to 141.3% of the Revised 2012 Budget amount of Rp245.1 trillion. Total transfers to regions in 2012 were Rp480.4 trillion, equivalent to 100.3% of the Revised 2012 Budget amount of Rp478.8 trillion.

The following table sets forth, by percentage, the allocation of central government development expenditure by function for the periods indicated:

Allocation of Central Government Development Expenditure by Function

	Year ended December 31,						
	2007[L]	2008[L]	2009[L]	2010[L]	2011[L]	2012[P]	2013[B]
	(percentages)						
General Public Services	62.6	77.1	66.4	67.7	64.6	63.9.	62.4
Defense	6.1	1.3	2.1	2.5	5.8	6.3.	7.1
Public Order and Safety	5.6	1.0	1.2	2.0	2.5	2.9	3.2
Economic Affairs	8.4	7.3	9.4	7.5	9.9	10.4	10.6
Environmental Protection	1.0	0.8	1.7	0.9	1.0	0.9	1.1
Housing and Community Amenities	1.8	1.8	2.3	2.9	2.6	2.6	2.7
Health	3.2	2.0	2.5	2.7	1.6	1.5	1.5
Tourism and Culture	0.4	0.2	0.2	0.2	0.4	0.2	0.2
Religion	0.4	0.1	0.1	0.1	0.2	0.3	0.4
Education	10.1	8.0	13.5	13.0	11.1	10.4	10.3
Social Protection	0.5	0.4	0.5	0.5	0.4	0.5	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance

[L] LKPP.

[P] Preliminary

[B] 2013 Budget.

Deficit Financing. The following table sets forth, by amount, information on deficit financing for the periods indicated.

Deficit Financing

	Year ended December 31,						
	2007	2008	2009	2010	2011	2012[P]	2013[B]
	(in trillions of rupiah)						
Domestic financing:							
Domestic bank financing	11.1	16.2	41.1	22.2	48.9	62.6	14.3
Domestic non-bank financing:							
Privatization proceeds	3.0	0.1	—	2.1	0.4	0.1	—
Asset management[1]	2.4	2.8	0.7	1.1	1.2	1.1	0.5
Government securities (net)	57.2	85.9	99.5	91.1	119.8	159.7	180.4
Domestic loans (net)	—	—	—	0.3	0.6	1.5	0.5
Government investment funds:[2]							
Government investment	(2.0)	(1.0)	(0.5)	(3.6)	(1.5)	(3.3)	(1.0)
Government capital participation[3]	(2.7)	(1.5)	(11.7)	(6.0)	(9.3)	(8.5)	(6.4)
Revolving fund	—	—	—	—	(8.8)	(7.0)	(4.8)
Total Government investment funds	(4.7)	(2.5)	(13.1)	(12.2)	(19.6)	(18.8)	(12.2)
Endowment fund for education	—	—	—	—	(2.6)	(7.0)	(5.0)
Guarantee fund	—	—	—	—	—	—	(0.7)
Lending to PT PLN	—	—	—	(7.5)	—	—	—
Financing Reserve	—	—	—	—	—	—	(5.0)
Total domestic non-bank financing	57.9	86.3	87.1	73.9	99.8	136.6	158.5
Total domestic financing	69.0	102.5	128.2	96.1	148.7	199.2	172.8
Foreign financing:							
Gross drawing:							
Program loan	19.6	30.1	28.9	29.0	15.2	15.0	6.5
Project loan	14.5	20.1	29.7	25.8	18.5	19.2	39.4
Total gross drawing	34.1	50.2	58.6	54.8	33.7	34.2	45.9
On-lending to SOEs and local governments	(2.7)	(5.2)	(6.2)	(8.7)	(4.2)	(2.2)	(7.0)
Amortizations	(57.9)	(63.4)	(68.0)	(50.6)	(47.3)	(51.2)	(58.4)
Total foreign financing (net)	(26.5)	(18.4)	(15.6)	(4.5)	(17.8)	(19.2)	(19.5)
Total financing (net)	42.5	84.1	112.6	91.6	130.9	180.0	153.3

Source: Ministry of Finance
P Preliminary
B 2013 Budget
(1) Before 2009, this item was termed "Asset Recovery"
(2) This item was previously termed "Infrastructure funds" in 2006 and 2007
(3) Government capital participation is investment of capital by the government into SOEs.

In 2007, actual central government expenditure and transfers to regions were Rp757.6 trillion, while actual revenue and grants were Rp707.8 trillion. The government financed this deficit of approximately Rp50.0 trillion primarily through net bond issuances of Rp57.2 trillion, domestic bank financing of Rp11.1 trillion, foreign financing from program loans and project loans of Rp34.1 trillion and a drawdown of Rp7.3 trillion on its reserves (not shown in the table above). These were partially offset primarily by amortization outflow on foreign financings (other than bonds) of Rp57.9 trillion.

In 2008, actual central government expenditure and transfers to regions were Rp985.7 trillion, while actual revenue and grants were Rp981.6 trillion. The government financed this deficit of approximately Rp4.2 trillion primarily through net bond issuances of Rp85.9 trillion, domestic bank financing of Rp16.2 trillion and foreign financing from program loans and project loans of Rp50.2 trillion. These were partially offset primarily by amortization outflow on foreign financings (other than bonds) of Rp63.4 trillion.

In 2009, actual central government expenditure and transfers to regions were Rp937.4 trillion, while actual revenue and grants were Rp848.8 trillion. The government financed this deficit of approximately Rp88.6 trillion primarily through net bond issuances of Rp99.5 trillion, domestic bank financing of Rp41.1 trillion and foreign financing from program loans and project loans of Rp58.6 trillion. These were partially offset primarily by amortization outflow on foreign financings (other than bonds) of Rp68.0 trillion.

In 2010, actual central government expenditure and transfers to regions were Rp1,042.1 trillion, while actual revenue and grants were Rp995.3 trillion. The government financed this deficit of approximately Rp46.8 trillion primarily through the issue of government bonds amounting to Rp91.1 trillion, domestic bank financing of Rp22.2 trillion and foreign financing from program loans and project loans of Rp54.8 trillion. These were partially offset primarily by amortization outflow on foreign financings (other than bonds) of Rp50.6 trillion.

In 2011, actual central government expenditure and transfers to regions were Rp1,295.0 trillion, while actual revenue and grants were Rp1,210.6 trillion. The government financed this deficit of approximately Rp84.4 trillion primarily through net bond issuances of Rp119.9 trillion, domestic bank financing of Rp48.9 trillion and foreign financing from program loans and project loans of Rp33.7 trillion. These were partially offset by amortization outflow on foreign financings (other than bonds) of Rp47.3 trillion.

In 2012, actual central government expenditure and transfers to regions were Rp1,481.7 trillion, while actual revenue and grants were Rp1,335.7 trillion. The government financed this deficit of Rp146.0 trillion primarily through net bond issuances of Rp159.7 trillion, domestic bank financing of Rp62.6 trillion and foreign financing from program loans and project loans of Rp34.2 trillion. These were partially offset by the amortization outflow on foreign financings (other than bonds) of Rp51.2 trillion

2013 Budget

Under the 2013 Budget, which was approved by DPR on October 23, 2012, the government's policies are focused on, among other things, basic infrastructure and communication, improving healthcare, reducing poverty, subsidies control through reducing the consumption of subsidized fuel, financing education programs, strengthening socio-political stabilization, supporting domestic connectivity, economic corridor (MP3EI) management, disaster mitigation, strengthening social programs and safety nets, implementing affirmative action and improving effectiveness of military defense equipment.

The 2013 Budget includes a target fiscal deficit of 1.7% of the projected GDP, lower than the fiscal deficit of 2.2% of GDP in 2012 and higher than the fiscal deficit of 1.1% of GDP in 2011. Total expenditure under the 2013 Budget is projected to be Rp1,683.0 trillion compared to the actual total expenditure of Rp1,481.7 trillion in 2012 and Rp1,295.0 trillion in 2011. The 2013 Budget projects total revenue (including grants) of Rp1,529.7 trillion (equivalent to 16.5% of GDP), compared to the actual total revenue (including grants) of Rp1,358.2 trillion (equivalent to 15.9% of GDP) in 2012 and Rp1,210.6 trillion in 2011. The 2013 Budget projects a deficit of Rp153.3 trillion, compared to the actual fiscal deficit of Rp190.1 trillion in 2012 and Rp84.4 trillion in 2011. The government is expected to finance the projected deficit under the 2013 Budget from both domestic and international sources.

The key macroeconomic assumptions underlying the 2013 Budget, as compared to the key macroeconomic assumptions underlying the Revised 2012 Budget, are as follows:

- a real GDP growth rate of 6.8% in the 2013 Budget, compared to 6.5% in the Revised 2012 Budget;
- an average inflation rate of 4.9% in the 2013 Budget, compared to 6.8% in the Revised 2012 Budget;
- an interest rate on three-month short-term SPN of 5.0% in the 2013 Budget, same as that in the Revised 2012 Budget;
- an average exchange rate of Rp9,300 to U.S.$1 in the 2013 Budget, compared to Rp9,000 to U.S.$1 in the Revised 2012 Budget;
- average oil production by the Republic of 900,000 barrels of oil per day in the 2013 Budget, compared to 930,000 barrels of oil per day in the Revised 2012 Budget;
- an average ICP of U.S.$100 per barrel in the 2013 Budget, compared to U.S.$105 per barrel in the Revised 2012 Budget; and
- a revised projected GDP of Rp9,269.6 trillion in the 2013 Budget, compared to Rp8,542.6 trillion in the Revised 2012 Budget.

Central Government Revenue. The following table sets forth the preliminary actual 2012 revenue of the government, by amount and as a percentage of the preliminary actual 2012 GDP and projected 2013 GDP (as set forth in the 2013 Budget).

Central Government Revenue

	Actual 2012 (Preliminary)		2013 Budget	
	(in trillions of rupiah)	(percentages of preliminary 2012 GDP)	(in trillions of rupiah)	(percentages of projected 2013 GDP)
Domestic revenue:				
Tax revenue:				
Domestic taxes:				
Income tax:				
Oil and gas	83.5	0.8	71.4	0.8
Non-oil and gas	381.3	5.2	513.5	5.5
Total income taxes	464.8	6.0	584.9	6.3
Value added tax	337.6	3.9	423.7	4.6
Land and building tax	29.0	0.3	27.3	0.3
Duties on land and building transfer	—	—	—	—
Excises	95.0	1.0	92.0	1.0
Other taxes	4.2	0.1	6.3	0.1
Total domestic taxes	930.6	11.3	1,134.3	12.2
International trade taxes:				
Import duties	28.3	0.3	27.0	0.3
Export tax	21.2	0.3	31.7	0.3
Total international trade taxes	49.5	0.6	58.7	0.6
Total tax revenue	980.1	11.9	1,193.0	12.9
Non-tax revenue:				
Natural resources:				
Oil and gas				
— Oil	144.7	1.8	120.9	1.3
— Gas	61.1	0.6	54.0	0.6
Total oil and gas	205.8	2.4	174.9	1.9
General mining	16.5	0.2	17.6	0.2
Forestry	3.2	—	4.2	—
Fishery	0.2	—	0.2	—
Geothermal	0.7	—	0.4	—
Total non-oil and gas	20.6	0.2	22.3	0.2
Total natural resources	226.4	2.5	197.2	2.1
Profit transfer from SOEs	30.8	0.4	33.5	0.4
Other non-tax revenue	73.2	0.9	78.0	0.8
Public Service Agency (BLU)	21.2	0.2	23.5	0.3
Total non-tax revenue	351.6	4.0	332.2	3.6
Total domestic revenue	1,331.7	15.9	1,525.2	16.5
Grants	4.0	—	4.5	—
Total revenue and grants	1,335.7	15.9	1,529.7	16.5

Source: Ministry of Finance

The 2013 Budget projects total revenue (including grants) of Rp1,529.7 trillion (equivalent to 16.5% of GDP), compared to Rp1,358.2 trillion (equivalent to 15.9% of GDP) in 2012 and actual total revenues (including grants) of Rp1,210.6 trillion (equivalent to 16.3% of GDP) in 2011. The increase under the 2013 Budget is mainly due to projected increases in domestic tax revenue related to non-oil and gas income tax and value added tax in 2012.

Government Expenditure. The following table sets forth the budgeted expenditure of the government, by amount and as a percentage of the 2012 GDP and projected 2013 GDP (as set forth in the 2013 Budget), respectively.

Central Government Expenditure

	Actual 2012 (Preliminary)		2013 Budget	
	(in trillions of rupiah)	(percentages of preliminary 2012 GDP)	(in trillions of rupiah)	(percentages of projected 2013 GDP)
Central government expenditure:				
Personnel expenditure	197.7	2.4	241.6	2.6
Goods and services expenditure	137.2	1.7	200.7	2.2
Capital expenditure	140.1	1.7	184.4	2.0
Interest payments:				
Domestic debt	70.2	0.9	80.7	0.9
Foreign debt	30.3	0.4	32.5	0.4
Total interest payments	100.5	1.2	113.2	1.2
Subsidies:				
Energy Subsidies	306.5	3.7	274.7	3.0
Non-Energy Subsidies	39.9	0.5	42.5	0.5
Total subsidies	346.4	4.2	317.2	3.4
Grant expenditure	0.02	—	3.6	—
Social assistance	75.3	0.9	73.6	0.8
Other expenditure	3.9	—	20.0	0.2
Total central government expenditure	1,001.1	12.1	1,154.4	12.5
Transfers to Regions:				
Balanced Funds:				
Revenue Sharing Funds	111.3	1.4	102.0	1.1
General Allocation Funds	273.8	3.3	311.1	3.4
Specific Allocation Funds	25.9	0.3	31.7	0.3
Total balanced funds	411.1	5.0	444.8	4.8
Special autonomy and adjustment funds:				
Special autonomy funds	12.0	0.1	13.4	0.1
Adjustment funds	57.4	0.7	70.4	0.8
Total special autonomy and adjustment funds	69.4	0.8	83.8	0.9
Total transfers to region	480.4	5.8	528.6	5.7
Total expenditure	1,481.7	18.0	1,683.0	18.2

Source: Ministry of Finance

Total expenditure under the 2013 Budget is projected to be Rp1,683.0 trillion (equivalent to 18.2% of projected GDP), higher than the actual total expenditure of Rp1,481.7 trillion (equivalent to 18.0% of preliminary GDP) in 2012 and higher than the actual total expenditure of Rp1,295.0 trillion (equivalent to 17.4% of GDP) in 2011.

The 2013 Budget includes an increase in other expenditure (an approximate five-fold increase compared to actual preliminary 2012 results) primarily due to the government's allocation of fiscal risk reserve expenditure. The largest line item increase on the expenditure side in percentage terms under the 2013 Budget as compared to actual preliminary 2012 results is grant expenditure, primarily due to a higher allocation of funds for the development of the Mass Rapid Transit (MRT).

The 2013 Budget includes a significant increase in capital expenditure (an increase of around 31.6% compared to actual preliminary 2012 results) in order to support economic growth and accommodate the budget for items including basic infrastructure and natural disaster damage mitigation. The 2013 Budget also includes a significant increase in goods and services expenditures (an increase of around 46.3% as compared to actual preliminary 2012 results) in order to improve the quality of public services and a significant increase in personnel expenditure (an increase of around 22.2% as compared to actual preliminary 2012 results) in order to accommodate increases in salary and pension payments and remuneration for line ministries in order to continue the implementation of bureaucracy reform.

The 2013 Budget includes a decrease in energy subsidies (a decrease of around 10.4% compared to actual preliminary 2012 results) primarily due to decreasing global crude oil prices and the appreciation of the exchange rate.

The 2013 Budget also includes a decrease in social assistance (a decrease of around 2.3% compared to actual preliminary 2012 results) primarily due to certain types of social assistance expenditure being included as capital expenditure in 2013 rather than social assistance as in 2012.

Central Government Deficit Financing. The following table sets forth the budgeted deficit financing of the government, by amount and as a percentage of the preliminary actual 2012 GDP and projected 2013 GDP (as set forth in the 2013 Budget), respectively:

Deficit Financing

	Actual 2012 (Preliminary)		2013 Budget	
	(in trillions of rupiah)	(percentages of preliminary 2012 GDP)	(in trillions of rupiah)	(percentages of projected 2013 GDP)
Domestic financing:				
Domestic bank financing	62.6	0.8	14.3	0.2
Domestic non-bank financing:				
Privatization	0.1	0.0	—	—
Asset management	1.1	0.0	0.5	0.0
Government securities (net)	159.7	1.9	180.4	1.9
Domestic loans (net)	1.5	0.0	0.5	0.0
Government investment funds:				
Government investment	(3.3)	(0.0)	(1.0)	(0.0)
Government capital participation	(8.5)	(0.1)	(6.4)	(0.1)
Revolving fund	(7.0)	(0.1)	(4.8)	(0.1)
Total Government investment fund	(18.8)	(0.2)	(12.2)	(0.1)
Endowment fund for education	(7.0)	(0.1)	(5.0)	(0.1)
Guarantee fund	—	—	(0.7)	(0.0)
Lending to PT PLN	—	—	—	—
Financing Reserves	—	—	(5.0)	(0.1)
Total domestic non-bank financing	136.6	1.7	158.5	1.7
Total domestic financing	199.2	2.4	172.8	1.9
Foreign financing:				
Gross drawing:				
Program loan	15.0	0.2	6.5	0.1
Project loan	19.2	0.2	39.4	0.4
Total gross drawing	34.2	0.4	45.9	0.5
On-lending to SOEs and local governments	(2.2)	(0.0)	(7.0)	(0.1)
Amortizations	(51.2)	(0.6)	(58.4)	(0.6)
Total foreign financing (net)	(19.2)	(0.2)	(19.5)	(0.2)
Total financing	180.0	2.2	153.3	1.7

Source: Ministry of Finance

The 2013 Budget projects a deficit of Rp153.3 trillion, lower than the actual fiscal deficit of Rp180.0 trillion in 2012, and higher than the actual fiscal deficit of Rp84.4 trillion in 2011. The government is expected to finance the projected deficit under the 2013 Budget from both domestic and international sources. The 2013 Budget proposes to finance the deficit primarily by domestic non-bank financing of Rp158.5 trillion and domestic bank financing of Rp14.3 trillion.

Reduction of Government Subsidies for Various Fuel Products and Efforts to Reduce Amounts of Fuel Subsidized by the Government. In 2006 and 2007, government expenditure on energy subsidies was Rp94.6 trillion and Rp116.9 trillion, or 21.5% and 23.2% of total central government expenditure, respectively. In the 2008 Budget, the government allocated Rp75.6 trillion, or 13.2% of total central government expenditure, for

energy subsidies based on an assumed average ICP of U.S.$60.0 per barrel for 2008. However, due to significant increases in world oil prices and the ICP during the second half of 2007 and the first quarter of 2008, in the Revised 2008 Budget, the government revised its projected amount of energy subsidies to Rp187.1 trillion, or 26.8% of total central government expenditure, based on an assumed average ICP of U.S.$95.0 per barrel for 2008.

In an effort to maintain the government's budget deficit at manageable levels in the face of substantially increasing fuel subsidy expenditure, on May 24, 2008, the government reduced the subsidies it pays for various fuel products (on a per liter basis), including regular (low octane) gasoline, diesel and kerosene, resulting in increases in the domestic prices for these fuel products. On May 24, 2008, due to the reduction in government energy subsidies, the price of regular gasoline in Indonesia increased 33.3% from Rp4,500 per liter to Rp6,000 per liter, the price of diesel increased 27.9% from Rp4,300 per liter to Rp5,500 per liter and the price of kerosene increased 25.0% from Rp2,000 per liter to Rp2,500 per liter, resulting in an average 28.7% increase in fuel prices on that date. In the weeks prior to implementation of the fuel subsidy reductions, the Republic experienced intermittent public protests in Jakarta and other parts of the country against the fuel price increases.

As a result of the implementation of the fuel subsidy reductions in May 2008, the government expected that its total energy subsidy expenditure in 2008 would be Rp268.7 trillion, based on an assumed average ICP of U.S.$127.2 per barrel for 2008, reflecting an increase of Rp81.6 trillion from the expected energy subsidy expenditure of Rp187.1 trillion in the Revised 2008 Budget, but substantially less than the Rp289.0 trillion of energy subsidy expenditure the government had estimated it would have spent in 2008 if it had not reduced the fuel subsidies in May 2008. The government since revised its assumed average ICP for 2008 to U.S.$110.5 per barrel in light of the decrease in oil prices in the second half of 2008.

Following the steep fall in global oil prices since the second half of 2008, the government announced price cuts for gasoline on December 1, 2008, December 15, 2008 and January 15, 2009 and price cuts for diesel on December 15, 2008 and January 15, 2009, resulting in the price of gasoline and diesel decreasing approximately 25.0% and 18.2%, respectively.

In 2011, the government planned to (i) reduce the subsidies on kerosene and apply these subsidies to LPG instead, (ii) increase utilization of alternative energy, such as biofuels (**BBN**) mixed into in subsidized fuel and fuel gas (**CNG**), (iii) conduct a study on restrictions on categories of users and restrictions on the volume of subsidized fuel; (iv) control the use of subsidized fuel through a closed distribution system and gradual improvement of regulation, and (v) information dissemination and fuel-efficiency campaigns.

In 2012, the government planned to (i) reduce the retail price fuel, (ii) control the consumption of subsidized fuel by encouraging the use of alternative energy, such as natural gas, coal and biodiesel, and (iii) prohibit government vehicles, vehicles used by SOEs and vehicles owned by plantations and mining companies from using subsidized fuel.

In the 2013 Budget, the government plans to (i) limit the energy subsides to boost capital spending in the medium term, (ii) control the consumption of subsidized fuel through regulations, government supervision and distribution management, (iii) reduce fuel consumption by power plants by utilizing coal, natural gas, geothermal resource, water energy, biodiesel and solar energy, and (iv) reduce fuel consumption by providing incentives for the use of low cost energy efficient cars.

The subsidies currently given through SOEs include:

(i) fuel subsidies through PT Pertamina, PT AKR Corporindo Tbk and PT Petronas Niaga Indonesia;

(ii) electricity subsidy through PT PLN;

(iii) food subsidies through Perum Bulog to families affected by poverty;

(iv) Fertilizer subsidies granted to state owned fertilizer producers such as Pusri, Gresik Petrochemical, Fertilizer Kaltim, and PT Pupuk Kujang;

(v) Seed subsidies through PT Farmers and PT Sang Hyang Seri; and

(vi) Public service obligations through PT KAI, PT POS and PT Pelni.

For 2013, the fuel subsidy is budgeted to be Rp193.8 trillion using a crude price assumption of U.S.$100 per barrel.

On January 2, 2013, the MEMR issued MEMR Regulation No. 1 of 2013 regarding Control on Fuel Consumption pursuant to which the government is gradually limiting the consumption of subsidized gasoline

(Ron-88) by motor vehicles owned by the government, state-owned enterprises or region-owned enterprises (i) in the region of Java and Bali, (ii) in the region of Sumatera and Kalimantan, from February 1, 2013, and (iii) in the region of Sulawesi, from July 1, 2013. The government is also limiting the consumption of subsidized gas oil/diesel oil by motor vehicles owned by the government, state-owned enterprises or region-owned enterprises (x) in the region of Jabodetabek, from February 1, 2013, and (y) in other regions in Java and Bali, from March 1, 2013. Such subsidized gasoline and gas oil/diesel oil consumption limitations will not, however, apply to ambulances, hearses, fire engines and waste collection vehicles owned by the government or state- or region-owned enterprises. The consumption of subsidized gas oil/diesel oil by non-sea pioneer and non-sea mass freight transportation is prohibited.

The consumption of subsidized gas oil/diesel oil by four-or more-wheeled cargo vehicles used for transporting products from plantation and mining activities is also not allowed. Such prohibition has applied in respect of such vehicles transporting forestry produce since March 1, 2013. Such prohibition will not, however, apply to cargo vehicles used for transporting products from public mines, public plantations comprising less than 25 hectares, public and state forests and stone quarries.

Implementation of Direct Cash Distribution Program and Increases in Food and Educational Assistance Programs. In 2008, to mitigate the impact of higher fuel prices on Indonesia's poorest citizens and as an integral part of the fuel subsidy reductions, the government began implementing new social policy measures, including a direct cash distribution program and increases in food and educational assistance to the poor. These programs were continued in 2009. In 2010, the government discontinued the direct cash distribution program but continued to provide food and educational assistance to the poor.

The government currently has in place several policies to combat inflation and rising food prices including: maintaining the amounts of rice and the fertilizer retail price at the same levels based on cost productions; an additional month's allocation of food subsidies (**Raskin**) to help stabilize food prices; conducting market operations by the Bureau of Logistics (**Bulog**), the government and SOEs; domestic rice procurement by Bulog supported by the publishing of rice tables by the Ministry of Agriculture in order to provide Bulog with the flexibility in purchasing rice from farmers when the price of rice is above the high price point; by Bulog importing rice until the beginning of the harvest season in order to increase national rice stocks; implementing fiscal policies through the adjustment of tariffs on exports of commodities and food imports; and the use of a food stability fund of Rp2.6 trillion, an additional national rice reserve fund of Rp1 trillion and national seed reserve of Rp0.6 trillion.

Budget and Taxation Reform

In early 2005, the government introduced an integrated budgetary system to clarify and focus government spending decisions and improve efficiency. The government is currently seeking to make Indonesia's tax administration more "business-friendly" by focusing on transparency and equality of treatment, by simplifying procedures and by setting tax rates that are competitive with those in comparable economies. The government is also making efforts to strengthen its customs enforcement to curb smuggling activities.

Tax administration reforms have been underway for some time but are now being accelerated. Traditionally, Indonesia's tax office was organized by type of tax. A taxpayer was required to deal separately with tax officials responsible for corporate income tax, VAT, property tax and other types of tax, as applicable. In July 2002, the Minister of Finance implemented Tax Reform Chapter One which was completed in 2008. The reform resulted in modernized and more efficient organizational structures, simplified and transparent business processes, and improved governance in tax offices. Since 2009, the following tax services offices were established: five large tax offices (*Kantor Pelayanan Pajak* (**KPP**) *Wajib Pajak Besar*), 28 medium sized tax offices (*KPP Madya*) and 299 small tax offices (*KPP Pratama*). In addition, 207 offices for tax counseling and consultation (*Kantor Pelayanan, Penyuluhan dan Konsultasi Pepajakan*) were established to facilitate tax counseling for taxpayers in remote areas. In April 2012, the oil and petroleum tax office (*KPP Minyak dan Gas Bumi*) was established and the non-resident corporate and individual tax office 1 and 2 were merged to form the non-resident corporate and individual tax office.

In June 2009, the Minister of Finance implemented Tax Reform Chapter Two with a focus on two key aspects, namely, human resources and information and communication technology. This reform is executed through several projects including the reformation of tax policies, the provision of tax incentives through legislative amendments, improving business processes, developing an integrated information system, and enhancing potential tax revenue analyses and capabilities. Through 2009, Tax Reform Chapter Two resulted in

the extension of the sunset policy, establishment of a High Wealth Individual Taxpayers Office, a drop box for tax returns and improvements in the quality of service.

Other initiatives designed to assist taxpayers include simplified VAT audits, refunds for taxpayers who file accurate returns and various reforms designed to improve the quality of taxpayer service, including improving access to information and adopting a taxpayer bill of rights and a tax officer code of ethics. To improve tax collection, the government is also introducing measures to ensure that all persons and corporations with income levels above the nontaxable income level have taxpayer identification numbers, preparing a database for taxpayer information including income, property and vehicle registration information, and developing an on-line network in cooperation with other institutions. In 2006, the Directorate General of Taxes implemented a program for greater cooperation and coordination with business and professional associations. This program was designed to facilitate data collection and to gain input from these associations in the tax collection process, with the goal of increasing tax revenue.

Consistent with the amendments to applicable income tax regulations, the government issued Government Regulation No. 52 of 2011 on Second Amendment to the Government Regulation No. 1 of 2007 on Income Tax Facilities for Investment in Certain Business Sectors and/or in Certain Regions to implement income tax incentives for investment in certain sectors and provinces. As stipulated in such laws and regulations, the incentives include:

- an annual revenue deduction of 5.0% of the value of the investment for a period of six years;
- accelerated depreciation and amortization of assets through a 50.0% reduction in their useful life and a doubling of the depreciation and amortization rate;
- an extension of loss carry-forward to a maximum of ten years from five years; and
- a reduction in the tax rate on dividend payments to non-residents to 10.0% (or a lower rate if so provided by a tax treaty) from 20.0%.

The incentives enumerated above are to be utilized by the tax payer on realizing a minimum of 80% of the investment.

On December 28, 2007, the Minister of Finance adopted a new tax regulation, Government Regulation No. 81 of 2007 on Income Tax Reduction for Public Listed Companies, effective January 1, 2008, which reduces the corporate income tax rate of publicly listed companies that meet certain conditions. Under this regulation, an Indonesian publicly listed company can apply for a 5.0% reduction in its corporate income tax rate if (i) at least 40.0% of its total paid up shares are traded on the Indonesian stock exchange, (ii) those shares are owned by at least 300 public shareholders, (iii) each of these public shareholders owns less than 5.0% of its total paid up shares and (iv) these conditions are met by the company for a period of at least six months during the fiscal year.

In relation to excise policies, the government seeks to control the consumption of tobacco products and ethyl alcohol (including beverages containing ethyl alcohol) by continuously increasing tariffs on these products. The excise tariff on alcohol was raised by an average rate of 152% during 2010, and by an average rate of 8.5% for tobacco products during 2012. In addition, the Directorate General of Customs and Excise works against illegal or counterfeit excise ribbons, and seeks to improve the quality of supervision and enforcement of excise laws and regulations.

Law No. 36 of 2008 on the Fourth Amendment to the Law No. 7 of 1983 on Income Tax entered into force on January 1, 2009, amending the existing Income Tax Law, Law No. 17 of 2000. The law aims to simplify the country's tax regulations and broaden the tax base by making it easier for taxpayers to pay their taxes. The amendment implements a single corporate income tax rate of 28.0% in 2009, which was reduced to 25.0% in 2010. It also lowers the highest personal income tax rate from 35.0% to 30.0%, and reduces the number of tax brackets from five to four. The amendments also provide tax incentives for entrepreneurs, small and medium-sized enterprises and nonprofit organizations, and donations for education, sports and disaster relief. In addition, the amendments provide lower corporate income tax rates, ranging from 20.0% to 25.0%, for publicly listed companies with 40.0% or more of their shares held by the public. The government estimates that these reforms will result in a loss of tax revenue of approximately Rp40.8 trillion in 2009. Although these reforms will reduce revenues in the short term, it is expected that these reforms will, in the medium and long term, stimulate a more competitive and sound economic environment.

Pursuant to Government Regulation No. 16 of 2009 relating to Income Tax on Interest Income from Bonds Interest, the applicable income tax rates on interest income from investments in bonds were reduced for certain categories of resident corporate taxpayers.

Director General of Taxes (**DGT**) Regulation No. PER 62/PJ/2009 on the Prevention of Misappropriate Use of Approval of Double Taxation Evasion dated November 5, 2009, as amended by DGT Regulation No. PER-2S/PJ/2010 dated April 30, 2010, disallows application of a tax treaty provision if there is evidence of abuse. Abuse may be deemed to have occurred if a transaction is without economic substance and is used merely to obtain a benefit from a tax treaty, if there is a difference between the economic substance and legal form of a transaction and it is used merely to obtain a benefit from a tax treaty, or if the recipient of the income is not the beneficial owner of the income (e.g., it is an agent or nominee). For a company not to be considered as a vehicle for abuse, its establishment must not be solely for utilizing a tax treaty benefit, it must have its own management, it must have employees, it must have an active business, its Indonesian-source income should be subject to income tax in the recipient country and it must not use more than half its income to meet its obligations (e.g., interest, royalty or other compensation) to other parties. Based on these provisions, in the case of offshore bond issuances by Indonesian companies, Indonesian tax authorities are likely to deny the use of special purpose companies to utilize tax treaty benefits, resulting in the application of the regular 20.0% withholding tax to interest payments to Indonesian-owned offshore bond issuers.

Pursuant to DGT Regulation No. PER-40/PJ/2010, a non-resident who has been subjected to withholding tax by an Indonesian withholding tax agent may apply for a tax refund to the Directorate General of Taxes if the tax withheld is not in accordance with Indonesia's income tax law in force and/or any double taxation treaty or if agreed in accordance with mutual agreement procedures between the relevant authorities in Indonesia and a treaty partner.

Pursuant to Minister of Finance Regulation No. 130/PMK.011/2011 on the Granting of Exemption or Reduction Facility on Income Tax for Legal Entity, income tax exemptions or reduction facilities may be granted to qualified Indonesian legal entities operating in certain industries and with plans for capital investment meeting specific criteria, with due consideration to the competitiveness of the national industries and the strategic value of certain business activities.

The government seeks to continue to expand the country's tax base by increasing the number of registered taxpayers. The government has reviewed non-tax databases, including property records and the payrolls of large employers, and has sent notices to individuals it believes to be potential unregistered taxpayers encouraging them to register. If recipients of these notices do not register, they will be subject to higher tax rates than those applicable to registered taxpayers. The government is also implementing a lower tax rate applicable to a larger number of potential taxpayers, educating the general public as to taxation and increasing the public's access to guidance on tax policies and procedures, changes the government believes will improve compliance and increase the tax base. Under another program, taxpayers had been given a period of 14 months (ending February 2009) to ensure that their tax returns were properly completed and filed, following which the government has been enforcing penalties on errant taxpayers and has adopted a stricter approach toward them.

In relation to excise and customs policies and administration in 2010, the government increased tariffs on tobacco and alcohol and focused on eradicating illegal excise taxation, increased and improved the quality of supervision and enforcement activities. In 2010, the government increased excise tariffs on tobacco and alcohol at an average of 15% and 152%, respectively.

In May 2012, the government implemented a graduated progressive CPO export tax structure, with twelve levels of export taxes ranging from nil (if the average price for CPO in Rotterdam, Malaysia, and Indonesia is less than U.S.$750 per ton) to 22.5% (if the average price for CPO in Rotterdam, Malaysia, and Indonesia is greater than U.S.$1,250 per ton). The government revised the export tax structure applicable to exports of CPO and related oil palm products to discourage export of these products and the resulting shortages and increases in prices of cooking oil and palm kernel oil in the domestic markets in response to CPO price increases in world markets.

The domestic tax regime has been significantly improved since the introduction of Law No. 28 of 2009 on Local Taxes and Charges. The Acquisition Duty of Right on Land and Buildings (*Bea Perolehan Hak atas Tanah dan Bangunan*) (**BPHTB**) and the Urban-Rural Land and Building Tax (*Pajak Bumi dan Bangunan — Perdesaan dan Perkotaan*) (**PBB-P2**) have been transferred from the central to the local governments. Both BPHTB and PBB-P2 were implemented in 2011 and local governments are now required to issue local regulations in order to collect them. By January 1, 2014, the collection and utilization of PBB-P2 is expected to be completely under the purview of local governments.

For a discussion of the Republic's tariff reform measures, see "*Foreign Trade and Balance of Payments — Membership in International and Regional Free Trade Agreements*" and "*— Tariff Reforms*."

Public Debt

Over the last eight years, Indonesia has made substantial improvement in its public debt management. The reduction of public debt in percentage-of-GDP terms has been a consistent key fiscal policy objective of the government. To achieve this objective, the government's policy has emphasized the strengthening of public debt management, the lengthening and balancing of the maturities of public debt and the growth of public debt at sustainable levels. Pursuant to these policies, the Republic successfully reduced its public debt as a percentage of GDP from 39.0% in 2006 to 26.0% of GDP in 2010, 24.3% in 2011 and 24% in 2012. Total public debt remained relatively stable at U.S.$198.9 billion as of December 31, 2011 compared to U.S.186.4 billion as of December 31, 2010. As of December 31, 2011, 34% of the public debt consisted of loans and 66% consisted of securities. As of December 31, 2012, the total public debt was U.S.$204.28 billion, 31.1% of which consisted of loans and 68.9% of which consisted of securities (including U.S.$650 million global sukuk at 8.80% due April 23, 2014 and U.S.$1.0 billion global sukuk at 4% due November 21, 2018).

Public External Debt of the Republic

Public external debt of the Republic consists of central government debt (other than public domestic debt) and debt of Bank Indonesia owed to creditors outside Indonesia. The disclosure that follows treats the external debt of Bank Indonesia as part of the Republic's external debt. However, SBI, which are issued by Bank Indonesia in its role as formulator and implementer of the Republic's monetary policy, are not considered liabilities of the Republic. Accordingly, SBI are not reflected in the government debt discussions in this Offering Memorandum. See "*Financial System — Bank Indonesia*." The discussion of debt of the Republic in this section differs from the discussion of "government debt" elsewhere in this Offering Memorandum, in which Bank Indonesia debt is excluded and only central government debt, which depends on central government revenue for its repayment, is included. See "*Government Budget — Central Government Finances*."

The following table sets forth information on the outstanding public external debt of the Republic in terms of creditor type as of the dates indicated:

Outstanding Public External Debt of the Republic by Source[1]

	As of December 31,					
	2007	2008	2009	2010	2011	2012[P]
	(in billions of U.S. dollars)					
Concessional Loans:						
Multilateral creditors	19.1	20.3	21.5	23.1	23.4	23.7
Bilateral creditors	32.1	35.8	33.7	35.6	35.7	32.0
Semi-concessional Loans:						
Export agency creditors	11.0	10.6	9.5	8.8	8.1	7.0
Leasing	0.0	0.0	0.0	0.0	0.0	—
Commercial[2]	7.0	11.2	15.5	18.6	22.2	28.0
Total	69.2	77.9	80.2	86.1	89.4	90.7
Total public external debt of the Republic, as a percentage of GDP for the period indicated[3]	15.8%	15.0%	14.6%	12.0%	10.5%	10.3%

Source: Ministry of Finance

P Preliminary.

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

(2) Includes securities (bonds and sukuk) issued in international capital markets and commercial bank borrowings.

(3) In calculating as a percentage of GDP, GDP in U.S. dollars has been converted from rupiah into U.S. dollars at the following exchange rates per U.S. dollar: Rp9,034.1 per U.S. dollar for 2007, Rp9,545.0 per U.S. dollar for 2008, Rp10,176.9 per U.S. dollar for 2009, Rp8,997.9 per U.S. dollar for 2010, Rp8,697.1 per U.S. dollar for 2011 and Rp9,357.9 per U.S. dollar for 2012. These exchange rates were calculated by BPS with reference to the weighted average monthly exchange rates applicable to export and import transactions for each month in a given period

The public external debt of the Republic as a percentage of GDP decreased to 15.8% as of December 31, 2007 from 18.3% of GDP at year-end 2006. Public external debt increased to U.S.$69.2 billion as of December 31, 2007, from U.S.$67.5 billion as of December 31, 2006. The net increase of U.S.$1.7 billion in the Republic's public external debt in 2007 (in U.S. dollar terms) was primarily due to disbursements of program loans in the aggregate amount of U.S.$1.9 billion from the World Bank ($600.0 million), the ADB ($900.0 million), JBIC ($400.0 million) and the IDB ($200.0 million), the issuance of U.S.$1.5 billion of 6.625% bonds due 2037 in February 2007 and the effect of the depreciation of the U.S. dollar against other currencies in which a portion of the Republic's external debt is denominated, particularly the Japanese yen and the Euro, which was partially offset by principal debt repayments. As of December 31, 2007, Japanese yen-denominated debt accounted for approximately 37% of the Republic's total outstanding external debt, whereas Euro-denominated debt accounted for approximately 15.0%. In 2007, the Republic's public external debt as a percentage of exports decreased to 59.3% as of December 31, 2007 from 66.0% as of December 31, 2006. The improvement in the Republic's debt-to-exports ratio was attributable to an increase in exports which was partially offset by an increase in the total amount of the Republic's total public external debt.

Public external debt decreased to 15.0% of GDP as of December 31, 2008, compared to 15.8% of GDP as of December 31, 2007. Public external debt increased to U.S.$77.9 billion as of December 31, 2008 from U.S.$69.2 billion as of December 31, 2007. The net increase of U.S.$8.7 billion was primarily due to disbursements of program loans in the aggregate amount of U.S.$2.727 billion from the World Bank (U.S.$1.197 billion), ADB (U.S.$830 million), JICA (U.S.$500 million), and France (U.S.$200 million), the issuance of U.S.$4.2 billion of bonds (in January 2008 and June 2008) and amortization of external loans and disbursement of project loans. In 2008, the Republic's public external debt as a percentage of exports decreased to 56.8% as of December 31, 2008 from 59.3% as of December 31, 2007. The improvement in the Republic's debt-to-exports ratio was attributable to an increase in exports.

Public external debt decreased to 14.6% of GDP as of December 31, 2009, compared to 15.0% as of December 31, 2008. Public external debt increased to U.S.$80.2 billion from U.S.$77.9 billion as of December 31, 2008. The increase in public debt was contributed to by the issuance of U.S.$3.7 billion and ¥35 billion of government securities and disbursement of program loans in the aggregate amount of U.S.$3.0 billion from the World Bank (U.S.$1.6 billion), ADB (U.S.$500 million), JICA (U.S.$600 million), and France (U.S.$300 million) and disbursement of some project loans. In 2009, the Republic's public external debt as a percentage of exports increased to 68.9% as of December 31, 2009 from 56.8% as of December 31, 2008. This decrease was attributable to a decrease in export value following the global financial crisis and the increase in global government securities and program loan disbursements.

Public external debt decreased to 12.0% of GDP as of December 31, 2010, compared to 14.6% as of December 31, 2009. Public external debt increased to U.S.$86.1 billion from U.S.$80.2 billion as of December 31, 2009. The increase in public debt was contributed to by the issuance of U.S.$2.0 billion and ¥60 billion worth of government securities and disbursement of program loans in the aggregate amount of U.S.$2.953 billion from the World Bank (U.S.$1.553 billion), ADB (U.S.$500 million), JICA (U.S.$600 million), and France (U.S.$300 million) and disbursement of some project loans. The increase in the Republic's public external debt, which was partially offset by principal debt repayments, was primarily due to the depreciation of the U.S. dollar against other currencies in which a portion of the Republic's external debt is denominated, particularly the Japanese yen and the Euro. As of December 31, 2010, Japanese yen-denominated debt accounted for approximately 38% of the Republic's total outstanding external debt and Euro-denominated debt accounted for approximately 8%.

Public external debt decreased to 10.5% of GDP as of December 31, 2011, compared to 12.0% as of December 31, 2010. Public external debt increased to U.S.$89.4 billion as of December 31, 2011 from U.S.$86.1 billion as of December 31, 2010. The increase in public external debt in 2011 was attributable to the issuance of global bonds in the amount of U.S.$2.5 billion, depreciation of the yen against the U.S. dollar which caused an increase of foreign loans denominated in yen, the issuance of trust certificates (sukuk) in the amount of U.S.$1 billion and the disbursement of program loans in an aggregate amount of U.S.$1.51 billion from the World Bank (U.S.$1.01 billion), ADB (U.S.$400 million) and JICA (U.S.$100 million), partially offset by the maturity of certain other debt.

Public external debt decreased to 10.3% of GDP as of December 31, 2012, compared to 10.5% as of December 31, 2011. Public external debt increased to U.S.$90.7 billion as of December 31, 2012 from U.S.$89.4 billion as of December 31, 2011. The increase in public external debt in 2012 was mainly attributable to the depreciation of the rupiah against the U.S. dollar, the issuance of global bonds and the disbursement of program loans of U.S.$2.047 billion from the World Bank (U.S.$1,179.8 million), ADB (U.S.$808.13 million) and IDB (U.S.$59.2 million).

Japan Earthquake and Tsunami

On March 11, 2011, Japan was struck by an earthquake with a magnitude of 9.0 on the Richter scale, the strongest on record there, and an ensuing tsunami. These resulted in significant loss of life and property damage, including significant damage to nuclear power facilities which are the subject of ongoing control and containment efforts. The ultimate direct and indirect consequences of these recent events are unpredictable, but will be significant inside and possibly outside Japan.

Historically, various public and private Japanese organizations and companies, including JBIC and JICA, have been significant sources of external financing for, and for investment in, the Republic, particularly in the transportation sector. Japan was also the largest export market for Indonesia for 2008 through 2012. While there is no indication that existing Japanese funding commitments to the Republic will be affected and the Republic has a range of financing sources available to it, there can be no assurance that these organizations and companies will continue to provide financing or investment at historical levels or at all, or that the Japanese market will continue to support Indonesian exports at historical levels. Nevertheless, the Republic does not expect any deterioration in such financing, investment or market to have a material impact on the Republic's financing position generally. For further details of the Republic's current financing arrangements with Japanese organizations and agencies, see "— *Public External Debt of the Republic*."

Sources of Public External Borrowing

The sources of the Republic's public external borrowings are bilateral creditors (which accounted for U.S.$32 billion, or 35.3%, of the total outstanding public external debt as of December 31, 2012), multilateral creditors (which accounted for U.S.$23.8 billion, or 26.2%, of the total outstanding public external debt as of December 31, 2012), export agency creditors and commercial creditors (which accounted for U.S.$35 billion, or 38.6%, of the total outstanding public external debt as of December 31, 2012), including international bondholders (which accounted for U.S.$28 billion, or 30.9%, of the total outstanding public external debt as of December 31, 2012). See "*Public Debt — Public External Debt of the Republic*."

The World Bank and the ADB have been important sources of funds for the Republic, and the Republic has secured substantial commitments from JBIC in recent years. In 2007, the Republic received disbursements of loans from the ADB and the World Bank in the amounts of U.S.$1,134 million and U.S.$990 million, respectively. In 2008, the Republic received disbursements of loans from the ADB and the World Bank in the amounts of U.S.$969 million and U.S.$1,887 million, respectively. In 2009, the Republic received disbursements of loans from the ADB and World Bank in the amounts of U.S.$734 million and U.S.$2,291 million, respectively. In 2010, the Republic received disbursements of loans from the ADB and World Bank in the amounts of U.S.$965 million and U.S.$2,221 million, respectively. In 2011, the Republic received disbursements of loans from the ADB and World Bank in the amounts of U.S.$632 million and U.S.$5,726 million, respectively. In 2012, the Republic received disbursements of loans from the ADB and World Bank in the amounts of U.S.$808.13 million and U.S.$1,179.8 million.

As of December 31, 2010, the Republic's total World Bank and ADB debt outstanding was U.S.$11.4 billion and U.S.$11.2 billion, respectively. As of September 30, 2011, the Republic's total World Bank and ADB debt outstanding was U.S.$11.4 billion and U.S.$10.8 billion, respectively. The World Bank and ADB loans have been used to fund development programs in nearly all sectors of the Indonesian economy. Multilateral lending programs such as those of the World Bank and the ADB are subject to regular compliance reviews.

As of November 30, 2012, the Republic's total World Bank and ADB debt outstanding was U.S.$12.1 billion and U.S.$9.8 billion, respectively.

In October 2006, Indonesia prepaid all of its outstanding loans from the IMF. As a result, Indonesia is no longer obligated to follow the IMF's post-program monitoring. Following the Asian financial crisis, the IMF had disbursed a total of U.S.$16 billion in funds to the Republic between late 1997 and December 2003.

In 2008, the Republic drew down the following program loans: U.S.$830 million from ADB, U.S.$1.197 billion from the World Bank, U.S.$500 million from JBIC and U.S.$200 million from France. In December 2008, the Republic secured standby loan commitments, subject to certain conditions, amounting to U.S.$5.0 billion from the World Bank, ADB, Japan and Australia in anticipation of funding requirements to secure the availability of debt financing to support the finance deficit. Further, the Republic entered into a memorandum of understanding with China Export Bank for a U.S.$800 million loan in connection with the import of Chinese equipment and mechanical goods, and for the implementation of infrastructure and industrial projects to be executed by Chinese contractors.

On March 4, 2009, the World Bank approved a U.S.$2 billion standby loan commitment to the Republic, the largest contingency facility approved by the World Bank to a country not classified as being in crisis. The World Bank stated that the facility was being considered as a model for similar loans to other countries. The World Bank's commitment is part of a U.S.$5.5 billion fund supported by Japan's commitment of U.S.$1.5 billion and commitments by the ADB and by Australia of U.S.$1 billion each.

On April 7, 2009, Japan and the Republic signed a program agreement and a contingent loan agreement for financial support for the Republic of up to U.S.$1.5 billion, in the form of guarantees to be provided by JBIC in connection with Japanese yen denominated bonds of the Republic and a contingent loan facility in collaboration with the World Bank and the Republic's other development partners.

As of the end of December 2009, the amount available on the contingency facility amounted to U.S.$5.1 billion as some of the Japanese facility had been used to guarantee the Samurai issue launched by the Republic in July 2009 and November 2010.

In October and November 2011, the Republic entered into new loans with the World Bank and ADB of U.S.$790 million and U.S.$400 million, respectively. The purpose of the new loans is to further support reforms in improving the investment climate, developing infrastructure, strengthening public financial management and enhancing poverty alleviation and service delivery efforts.

In 2012, four development partners (World Bank, ADB, Japan and Australia) committed to provide funds for stand-by loans to the Republic to enhance the government's crisis preparedness to address the potential impact of ongoing volatility in financial markets.

On May 31, 2012, the Republic and the World Bank entered into an agreement for a stand-by loan of U.S.$2 billion. In July 2012, the Republic signed two agreements with ADB and Japan for commitments of U.S.$500 million and U.S.$1.5 billion, respectively. In addition, Australia gave a commitment of U.S.$1 billion in financial support.

The government has expanded its sources of external financing by accessing the international capital markets (including the Islamic financial markets) by issuing securities as follows:

- March 2004, U.S.$1 billion in 6.75% bonds due 2014 (this represented the first time Indonesia accessed the international capital markets for financing since the onset of the Asian financial crisis);
- April 2005, U.S.$1 billion in 7.25% bonds due 2015;
- October 2005, U.S.$900 million in 7.50% bonds due 2016 and U.S.$600 million in 8.50% bonds due 2035;
- March 2006, U.S.$1 billion in 6.875% bonds due 2017 and a further U.S.$1 billion issuance of 8.50% bonds due 2035;
- February 2007, U.S.$1.5 billion of 6.625% bonds due 2037;
- January 2008, U.S.$1 billion of 6.875% bonds due 2018 and U.S.$1 billion of 7.75% bonds due 2038;
- June 2008, U.S.$0.3 billion of 6.75% bonds due 2014, U.S.$0.9 billion of 6.875% bonds due 2018 and U.S.$1 billion of 7.75% bonds due 2038;
- March 2009, U.S.$1 billion of 10.375% bonds due 2014 and U.S.$2 billion of 11.625% bonds due 2019;
- April 2009, U.S.$650 million of 8.80% trust certificates (sukuk) due 2014;
- July 2009, JP¥35 billion of 2.73% Samurai bonds due 2019;
- January 2010, U.S.$2 billion of 5.875% Notes due 2020;
- November 2010, JP¥60 billion of 1.60% Samurai bonds due 2020;
- April 2011, U.S.$2.5 billion of 4.875% bonds due 2021;
- November 2011, U.S.$1 billion of 4.00% trust certificates (sukuk) due 2018;
- January 2012, U.S.$1.75 billion of 5.25% bonds due 2042; April 2012, U.S.$2 billion of 3.75% bonds due 2022 and U.S.$500 million of 5.25% bonds due 2042 (reopening).
- November 2012, U.S.$1 billion of 3.3% Islamic trust certificates (sukuk) due 2022; and
- November 2012, JP¥60 billion of 1.13% Samurai bonds due 2022.

In January 2007, Indonesia terminated the CGI, a group of donor countries and multilateral institutions, to increase the Republic's autonomy in negotiating bilateral assistance on more favorable terms. Indonesia believes that the former members of the CGI who were its primary creditors (the ADB, World Bank and JBIC) will continue to seek to provide loans to Indonesia. To that end, the Republic has engaged in bilateral dialogue with the ADB, World Bank and JBIC regarding its funding needs and developed a plan for obtaining future financing directly from these institutions in the areas formerly serviced by the CGI.

The Paris Club, an informal intergovernmental forum of official creditors for negotiating debt restructurings, played an important role in easing the Republic's foreign exchange burden in the wake of the Asian financial crisis. Between 1998 and 2000, the Republic twice rescheduled certain payments of its Paris Club foreign debt. Pursuant to an April 2002 agreement, Paris Club debt payments of principal and interest of approximately U.S.$5.4 billion that were due to certain of the Republic's creditors between April 2002 and December 2003 have been rescheduled. As a result of the government's decision to exit the IMF program in 2003, Indonesia is no longer eligible for debt rescheduling through the Paris Club and the Republic is required to repay its outstanding loans according to their repayment schedules.

Following the December 2004 earthquake and tsunami, the Paris Club offered a temporary suspension of debt service payments through December 31, 2005 to Indonesia and other nations affected by the tsunami to allow the countries affected by the tsunami to dedicate sufficient resources to address their humanitarian and reconstruction needs. Under the terms of the offer, the Paris Club permitted deferred amounts to be repaid over five years with a one-year grace period. Interest accrued during the suspension has been capitalized and is to be paid as deferred amounts. Through a series of bilateral agreements with the Paris Club members, Indonesia reduced its debt service payments by U.S.$2.6 billion in 2005. In 2006, the government resumed debt service payments to the Paris Club members. The government's debt service payments in 2006 and 2007 increased by U.S.$0.4 billion and U.S.$0.7 billion, respectively, compared to payments in 2005 because of both the resumption of payments on the Paris Club debt and because of some deferrals of 2005 Paris Club payments that came due in 2006 and 2007. In 2008, the Republic repaid U.S.$0.8 billion, U.S.$1.8 billion in 2009, U.S.$0.9 billion in 2010 and U.S.$0.9 billion in 2011, of the Paris Club debt. As of December 31, 2011, the remaining Paris Club debt amounted to U.S.$11.3 billion. In 2012, the Republic repaid U.S.$0.9 billion of its Paris Club debt. As of December 31, 2012, Indonesia's remaining Paris Club debt amounted to U.S.$10.4 billion.

The following table sets forth amounts of international development assistance received by the Republic since 2006:

International Development Assistance[(1)(2)]

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in millions of U.S. dollars)					
Bilateral loans	32,141	35,751	33,715	35,614	35,722	37,034
Multilateral loans:						
International Monetary Fund	—	—	—	—	—	—
International Bank for Reconstruction and Development	6,822	6,964	7,871	9,052	9,606	10,423
Asian Development Bank	10,177	10,867	10,885	11,149	10,798	10,377
International Development Association	1,552	2,001	2,231	2,315	2274	2,208
Islamic Development Bank	232	256	315	405	465	522
Nordic Investment Bank	91	77	64	51	33	32
European Investment Bank	102	94	86	77	68	59
International Fund for Agricultural Development	79	78	77	81	119	131
Multilateral Investment Guarantee Agency	—	—	—	—	—	—
Total multilateral loans	19,055	20,337	21,529	23,129	23,363	23,752
Total loans	51,195	56,089	55,245	58,743	59,085	60,786

Sources: Ministry of Finance and Bank Indonesia

(1) The term international development assistance includes any concessionary loans provided by international financial institutions or foreign governments, excluding grants.

(2) Foreign currency values of international development assistance have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

The following table sets forth the external public debt of the Republic by currency as of the date indicated:

Outstanding External Public Debt of the Republic by Major Currency

	As of December 31, 2011		As of December 31, 2012	
	(in millions of original currency)	(in millions of U.S. dollars[1])	(in millions of original currency)	(in millions of U.S. dollars[1])
U.S. dollars	43,747.8	43,747.8	49,775.2	49,775.2
Japanese yen	2,585,417.9	33,301.4	2,498,814.3	28,931.5
Euros	4,710.8	6,098.4	4,490.8	5,949.0
SDR	2,193.4	3,356.8	2,172.8	3,349.3
British pounds	413.3	636.6	363.5	585.6
Others	Multiple currencies	2,256.0	Multiple currencies	2,146.6
Total	N.A.	89,396.9	N.A.	90,737.2

Sources: Ministry of Finance and Bank Indonesia

(1) Calculated based on the applicable BI middle exchange rates as of June 30, 2012.

Fluctuations in exchange rates between the U.S. dollar and foreign currencies have affected, and will continue to affect, the relative composition by currency of the external public debt of the Republic in U.S. dollar terms. From mid-2007 until the end of December 2010, the U.S. dollar has generally depreciated against the Japanese yen, thereby increasing the percentage of the Republic's public external debt represented by Japanese yen-denominated debt during this period. From the end of 2010 until the end of 2012, the U.S. dollar has generally depreciated against the Japanese yen, thereby increasing the percentage of the Republic's public external debt represented by Japanese yen-denominated debt during this period.

External Debt of the Central Government

The following table sets forth information on the outstanding external debt of the central government by creditor type as of the dates indicated:

Outstanding External Debt of the Central Government by Source[1]

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in billions of U.S. dollars)					
Concessional Loans						
Multilateral creditors	19.1	20.3	21.5	23.1	23.4	23.8
Bilateral creditors	32.1	35.8	33.7	35.6	35.7	32.0
Semi-concessional Loans						
Export agency creditors	11.0	10.6	9.5	8.8	8.1	7.0
Leasing	0.0	0.0	0.0	0.0	0.0	—
Commercial[2]	7.1	11.2	15.5	18.6	22.2	28.0
Total	69.3	77.9	80.2	86.1	89.4	90.7

Source: Ministry of Finance

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

(2) Includes bonds issued in international capital markets and commercial bank borrowings.

The central government's external debt includes both fixed and floating rate obligations. As of December 31, 2012, 77.6% of the central government's external debt consisted of fixed rate loans and 22.4% consisted of floating rate loans.

The following table sets forth the external debt service requirements of the central government for the years indicated:

External Debt Service Requirements of the Central Government[1]

Period	Principal repayment	Interest repayment	Total
	(in millions of U.S. dollars)		
2007[2]	6,322.0	2,759.3	9,081.3
2008[2]	6,334.2	2,621.0	8,955.2
2009[2]	7,237.4	3,194.3	10,431.6
2010[2]	5,631.5	2,992.2	8,623.6
2011[2]	5,218.6	2,914.5	8,133.1
2012[2]	5,316.28	2,938.02	8,254.30
2013[3]	5,729.12	3,100.13	8,641.32
2014[3]	8,674.34	2,788.47	11,267.84
2015[3]	6,620.94	2,462.12	8,896.03
2016[3]	6,125.69	2,349.37	8,136.32
2017[3]	5,554.22	2,076.93	7,437.36
2018[3]	7,332.74	1,878.96	9,020.92
2019[3]	6,775.63	1,563.97	8,194.02
2020[3]	6,979.45	1,290.36	8,157.45
2021[3]	6,229.42	1,073.81	7,133.93
2022[3]	6,867.61	907.21	5,931.17
2023[3]	2,693.41	770.09	3,351.01
2024[3]	2,263.83	723.32	2,867.52
2025[3]	1,927.26	684.08	2,459.53
2026[3]	1,622.80	651.59	2,114.92
2027[3]	1,354.11	624.93	1,844.20
2028[3]	1,116.67	604.18	1,643.08
2029[3]	928.39	588.48	1,447.09
2030[3]	881.55	573.83	1,393.65
2031[3]	856.60	560.60	1,361.67
2032[3]	848.25	547.50	1,316.19
2033[3]	763.99	534.17	1,163.08
2034[3]	522.69	525.44	912.04
2035[3]	1,905.44	520.52	2,269.74
2036[3]	175.74	381.50	485.28
2037[3]	1,623.23	329.91	1,869.17
2038[3]	2,076.07	201.51	2,193.09
2039[3]	61.53	123.08	173.10
2040[3]	53.57	122.18	169.33
2041[3]	48.01	121.91	163.93
2042[3]	2,272.88	61.46	2,300.50
2043[3]	27.44	1.77	17.41
2044[3]	13.54	1.18	12.33
2045[3]	9.90	0.65	9.68
2046[3]	4.58	0.14	4.45
2047[3]	0.27	0.01	0.27
2048[3]	0.27	0.01	0.27
2049[3]	0.27	0.01	0.27
2050[3]	0.27	0.01	0.27
2051[3]	0.15	0.00	0.21
2052[3]	0.15	0.00	0.15
2053[3]	0.15	0.00	0.15
2054[3]	0.15	0.00	0.15
2055[3]	0.08	0.00	0.08

Source: Ministry of Finance

(1) Reflects the acceptance of the temporary suspension of debt service payments offered by the Paris Club members to the Republic and actual and assumed concessional interest rates on deferred debt service payments.

(2) Calculated based on the transaction exchange rate, which is a spot rate used upon settlement.

(3) Projected, based on debt outstanding and exchange rates as of December 31, 2012.

Fluctuations in external debt service requirements are dependent upon loan repayment schedules and currency movements. Debt service payments on the central government's external debt increased from U.S.$8.4 billion in 2006 to U.S.$9.1 billion in 2007 and decreased to U.S.$8.5 billion in 2008. These increases were the result of both the resumption of payments on the Paris Club debt (including deferrals of 2005 Paris Club payments to the years 2006 to 2009) and maturity management actions by the government. As shown in the table above, the debt service requirement of currently outstanding external debt declined from 2009 until 2011, but increased in 2012.

Fluctuations in exchange rates between the rupiah and foreign currencies have affected, and will continue to affect, the debt servicing requirements of the external public debt of the Republic in rupiah terms. In 2007, the rupiah depreciated against the Japanese yen, from Rp7,580 per JP¥100 as of December 31, 2006 to Rp8,307 per JP¥100 as of December 31, 2007. In 2008, the rupiah fluctuated significantly against the Japanese yen but generally depreciated against the Japanese yen to Rp12,123 per JP¥100 as of December 31, 2008. In 2009, the rupiah strengthened against the Japanese yen to Rp10,170 per JP¥100 as of December 31, 2009. In 2010, the rupiah depreciated significantly against the Japanese yen to Rp11,028 per JP¥100 as of December 31, 2010. In 2011, the rupiah generally depreciated against the Japanese yen to Rp11,680 per JP¥100 as of December 31, 2011. The rupiah further depreciated against the Japanese yen in 2012 to Rp11,197 per JP¥100 as of December 31, 2012.

In 2007, the rupiah depreciated against the euro, from Rp11,858 per €1 as of December 31, 2006 to Rp13,760 per €1 as of December 31, 2007. In 2008, the rupiah depreciated against the Euro to Rp15,432 per €1 as of December 31, 2008. In 2009, the rupiah generally strengthened against the euro to Rp13,509 per €1 as of December 31, 2009. In 2010, the rupiah appreciated against the euro to Rp11,956 per €1 as of December 31, 2010. In 2011, the rupiah generally appreciated against the euro to Rp11,739 per €1 as of December 31, 2011. In 2012 the rupiah depreciated against the euro to Rp12,810 per €1 as of December 31, 2012.

In 2007, the rupiah depreciated against the U.S. dollar. In 2008, the rupiah depreciated against the U.S. dollar from Rp9,419 per U.S. dollar as of December 31, 2007 to Rp10,950 per U.S. dollar as of December 31, 2008. In 2009, the rupiah appreciated against the U.S. dollar to Rp9,400 per U.S.$1 as of December 31, 2009. In 2010, the rupiah appreciated against the U.S. dollar to Rp8,991 per U.S.$1 as of December 31, 2010. In 2011, the rupiah generally depreciated against the U.S. dollar to Rp9,068 per U.S.$1 as of December 31, 2011. The rupiah further depreciated against the U.S. dollar in 2012 to Rp9,670 per U.S.$1 as of December 31, 2012. See "*Foreign Exchange and Reserves — Exchange Rates*."

External Debt of Bank Indonesia

In line with the Central Bank Law, Bank Indonesia has the ability to incur external debt primarily to meet balance of payments needs and maintain adequate foreign exchange reserves. From 1997 to October 2006, the majority of the external debt of Bank Indonesia was owed to the IMF, primarily as a result of the IMF lending program. Since October 2006, when the IMF loans were repaid in full, the external debt of Bank Indonesia has consisted of commercial loans. As of December 31, 2010, the total outstanding multilateral and commercial external debt of Bank Indonesia was U.S.$3,626 million, or approximately 4.0% of the Republic's total public external debt. As of December 31, 2011, the total outstanding multilateral and commercial external debt of Bank Indonesia was U.S.$3,521 million, comprising U.S.$3,031 million of multilateral debt and U.S.$490 million of commercial debt. As of December 31, 2012, the total outstanding multilateral and commercial external debt of Bank Indonesia was U.S.$3,407 million, or approximately 2.7% of the Republic's total public external debt. Total external debt of Bank Indonesia from all sources was U.S.$9,932 million as of December 31, 2012.

The following table sets forth the outstanding multilateral and commercial external debt of Bank Indonesia by type of credit as of the dates indicated:

Outstanding Multilateral and Commercial External Debt of Bank Indonesia

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in millions of U.S. dollars[1])					
Multilateral	—	—	3,093	3,050	3,031	3,053
Commercial[2]	713	678	606	576	490	354
Total	713	678	3,699	3,626	3,521	3,407

Source: Bank Indonesia

(1) Foreign currency values of outstanding external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

(2) Includes bonds issued in international capital markets and commercial bank borrowings but excludes SBI owned by non-residents, currencies and deposits and other liabilities.

The following table sets forth the external debt service requirements of Bank Indonesia for the years indicated:

External Debt Service Requirements of Bank Indonesia (2007 — 2015)[1]

Period	Principal repayment	Interest repayment	Total
	(in millions of U.S. dollars)		
2007[2]	45.5	37.0	82.5
2008[2]	71.3	30.3	101.5
2009[2]	68.0	12.2	80.2
2010[2]	48.5	8.0	56.5
2011[3]	93.8	15.9	109.7
2012[3]	128.1	9.7	137.8
2013[3]	99.5	4.0	103.5
2014[3]	15.9	4.0	19.9
2015[3]	35.0	3.8	38.8

Source: Bank Indonesia

(1) The table does not include amounts payable after 2015 in respect of multilateral financing due in 2025 or in respect of other commercial debt maturing after 2015.

(2) Calculated based on the transaction exchange rate, which is a spot rate used upon settlement.

(3) Projected, based on debt outstanding and exchange rates as of December 21, 2012.

In order to strengthen its international reserves and support its balance of payments, the Republic has entered into a swap arrangement with ASEAN as well as bilateral swap arrangements with other countries. Bank Indonesia has signed BSAs with Japan, China and the Republic of Korea. The government expects that these arrangements will contribute to greater financial stability and economic growth in East Asia, including Indonesia. See "*Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic*."

In order to maintain its balance of payments and short-term liquidity, Indonesia has entered into an ASEAN Swap Arrangement (ASA) with the ASEAN member states as well as a Bilateral Swap Agreement (BSA) with Japan. Aside from the ASA and BSA, Indonesia entered into the Chiang Mai Initiative Multilateralization (CMIM) Agreement, an ASEAN+3 reserve pooling arrangement with a total size of U.S.$120 billion which the parties have agreed to double to U.S.$240 billion. Under the ASA, BSA and CMIM, the equivalent of a total of U.S.$23.98 billion in reserves was available to the Republic as of December 31, 2012. The total amount available for Indonesia will be increased to U.S.$35.36 billion after the revised CMIM Agreement becomes effective. See "*Foreign Exchange and Reserves — Regional Swap Arrangements of the Republic.*"

Ratings History

The following table sets forth changes in the credit ratings of the Republic since 2007:

Changes in the Credit Rating of the Republic[1]

Date	Rating agency	Credit rating
April 8, 2011	Standard & Poor's	BB+
March 12, 2010	Standard & Poor's	BB
January 18, 2012	Moody's	Baa3
January 17, 2011	Moody's	Ba1
September 16, 2009	Moody's	Ba2
October 18, 2007	Moody's	Ba3
December 15, 2011	Fitch	BBB-
February 24, 2011	Fitch	BB+
January 25, 2010	Fitch	BB+
February 14, 2008	Fitch	BB

Source: Bloomberg

(1) All of the listed ratings are in respect of the Republic's 4.875% bonds due in 2021, 4.00% trustee certificates due in 2018, 5.25% bonds due in 2042, 3.75% bonds due in 2022, 5.25% bonds due in 2042, 8.80% trustee certificates due in 2014, 6.75% bonds due 2014, 7.25% bonds due 2015, 7.50% bonds due 2016, 6.875% bonds due 2017, 6.875% bonds due 2018, 8.50% bonds due 2035, 6.625% bonds due 2037, 7.75% bonds due 2038, 10.375% bonds due 2014, 11.625% bonds due 2019 and 5.875% bonds due 2020.

On January 29, 2007, Fitch revised its outlook on the foreign currency rating and local currency rating of Indonesia to positive from stable and affirmed both ratings at BB-. Fitch stated that the upward revision to the outlook reflected the government's commitment to maintain economic stability, fiscal discipline and structural reform, improvements in the government's finances and the government's efforts to tackle key investor concerns on corruption and bureaucratic and regulatory hindrances, particularly in the areas of taxation and customs.

On February 4, 2007, Moody's revised its outlook on Indonesia's foreign and domestic currency government bond ratings, foreign currency country ceiling for bonds and foreign currency ceiling for bank deposits to positive from stable and affirmed its ratings on Indonesia's foreign and domestic currency government bonds at B1, foreign currency country ceiling for bonds at Ba3, foreign currency country ceiling for bank deposits at B2 and local currency ceiling for bank deposits and local currency guidelines at Baa2. In its announcement, Moody's cited the government's prudent fiscal policy, the reduction in the government's external debt and budget deficit as a percentage of GDP, the increase in the country's international reserves and the prepayment of all of the country's remaining debts to the IMF as the reasons for the revision.

On October 18, 2007, Moody's upgraded Indonesia's ratings to reflect the country's track record of fiscal prudence and improvements in its external position as well as ongoing structural reforms and sound policy management. The government's foreign- and local-currency bond ratings were upgraded by one notch to Ba3 from B1. Indonesia's foreign-currency bond ceiling was upgraded to Ba2 from Ba3. The foreign-currency ceiling is based on the government bond rating and Moody's assessment of a high risk of a payment moratorium in the event of a government bond default. Also, the country ceiling for foreign-currency bank deposits was upgraded to B1 from B2. Both the country ceiling for local-currency bonds and the country ceiling for local-currency bank deposits had not been on review for upgrade and remain at Baa2. The outlook on all ratings is stable. Moody's explained that the reasons behind the upgrade are the declining government debt ratio, sufficient foreign exchange reserves, ongoing inflows from modest current account surpluses and FDI, declining fiscal vulnerability to sudden domestic price or rate shocks, and also political stability and the government's ongoing commitment to fight corruption and enhance transparency.

On February 14, 2008, Fitch raised Indonesia's long-term foreign and local currency ratings to BB from BB-. In announcing the improved rating, Fitch cited Indonesia's implementation of a structural reform agenda to address weaknesses in the foreign investment climate. Fitch also noted the government's efforts in 2007 to reduce corruption and regulatory hindrances to foreign investment, including passage of the New Investment Law, the introduction of other legislative initiatives and adoption of an economic policy package specifically aimed at addressing foreign investor concerns. In its report on the ratings upgrade, Fitch expressed its belief that Indonesia's positive economic growth, improvement in its balance of payments and strengthening of its international reserve base in 2007 have enabled Indonesia to manage its economy during a period of tightened global credit conditions, weaker external demand and slower global economic growth.

On September 16, 2009, Moody's upgraded Indonesia's foreign and local currency debt ratings to Ba2 from Ba3 with a stable outlook. The upgrade reflected the Indonesian economy's relative resilience in light of the global recession as well as its healthy medium-term growth prospects, and was stated to be prompted by an improving credit profile founded on Indonesia's ongoing policy prudence, structural reforms and appropriate debt management. Moody's also noted that Indonesia's macro-economic management was improving and its growth dynamic is better positioned to face medium-term global uncertainties than many of its Ba-rated peers as well as most regional economies. In addition, Moody's stated Indonesia's general government debt and private external debt were lower than the medians of its peers.

On November 11, 2009, Standard & Poor's revised Indonesia's credit outlook to positive from stable and affirmed its long-term foreign currency rating at BB-. This revision reflects Standard & Poor's stated expectation that a stronger political environment will give rise to more effective policy setting to address structural problems, while debt reduction and underlying fiscal prudence will remain key elements of macroeconomic policy.

On January 25, 2010, Fitch upgraded Indonesia's long-term foreign and local-currency credit ratings to BB+ from BB, citing the economy's resilience to the global crisis and improved finances. Fitch also stated that the outlook on both ratings is stable and the rating action reflects Indonesia's relative resilience to the severe global financial crisis of 2008-2009, which has been underpinned by continued improvements in the country's public finances, a fundamental sovereign rating strength, and a material easing of external financing constraints.

On March 12, 2010, Standard & Poor's lifted Indonesia's long-term foreign-currency rating one level to BB from BB-. Standard & Poor's stated that the ratings upgrade on Indonesia reflected improving debt metrics and growing foreign currency reserves with continued cautious fiscal management. The positive outlook on the long-term foreign currency rating reflected Standard & Poor's expectations that the broader economic and fiscal reform agenda would proceed apace once the current political distractions subsided.

On June 21, 2010, Moody's raised the outlook on Indonesia's Ba2 local- and foreign-currency sovereign ratings was changed from stable to positive. Moody's cited that the core of Indonesia's growth story is driven by a large domestic market that is appropriately managed by a well-tested economic policy framework.

On January 17, 2011, Moody's upgraded Indonesia's sovereign credit rating from Ba2 to Ba1. Moody's stated that they had upgraded the sovereign credit rating as the momentum in the economy is expected to be sustained by steady domestic demand, a reasonable pace and sequencing of policy and structural reforms, and rising foreign direct investment. Moody's also viewed Indonesia's debt position and reserve adequacy as remaining on an improving trajectory relative to most of its rating peers.

On February 24, 2011, Fitch raised its outlook on Indonesia from stable to positive. Fitch stated that the positive outlook reflects its view that Indonesia's favorable macroeconomic prospects are likely to see the credit profile strengthen further over the next 12 to 18 months, despite near-term risks from inflation and potentially volatile capital flows.

On April 8, 2011, Standard & Poor's raised Indonesia's long-term foreign-currency sovereign credit and debt ratings to BB+ from BB. Standard & Poor's stated that the ratings upgrade reflected continuing improvements in the government's balance sheet and external liquidity, against a backdrop of resilient economic performance and cautious fiscal management.

On December 15, 2011, Fitch upgraded Indonesia's long-term foreign-currency sovereign credit and debt ratings to BBB- from BB+, the highest level since the Asian financial crisis. Fitch stated that the ratings upgrade reflected Indonesia's strong and resilient economic growth, low and declining public-debt ratios, strengthened external liquidity and a prudent overall macro policy framework. Fitch also stated that the outlook on the rating is stable.

On January 18, 2012, Moody's upgraded Indonesia's long-term foreign and local currency bond rating from Ba1 to Baa3. Moody's stated that the ratings outlook is stable and the rating upgrade reflected the anticipation that the government's financial metrics will remain in line with Baa peers, Indonesia's strong and resilient economic growth and healthier banking system, the presence of policy buffers and tools that address financial vulnerabilities, Indonesia's healthy external payments position and continued policy flexibility and the adept management of economic risks and global financial market volatility.

External Debt of State-Owned Enterprises

The following table sets forth the outstanding external debt of SOEs as of the dates indicated:

Outstanding Direct External Debt of State-Owned Enterprises[1]

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in millions of U.S. dollars[1])					
Financial institutions:						
Bank	479	1,395	1,720	1,385	2,349	3,994
Non-bank	—	1	143	100	765	957
Total financial institutions	479	1,396	1,863	1,485	3,114	4,951
Non-financial institutions	3,381	3,015	6,293	7,049	12,283	14,754
Total	3,859	4,411	8,156	8,534	15,397	19,705

Source: Bank Indonesia

(1) Foreign currency values of outstanding direct external debt have been converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

External debts of SOEs are not direct obligations of the Republic unless such debts are explicitly guaranteed by the Republic. The Republic's general policy is not to guarantee external debt of SOEs. However, to encourage investment in infrastructure projects, the Republic has recently adopted a policy of providing credit support with respect to particular projects. See "*Infrastructure Development*" and "*—Contingent Liabilities*." As of December 31, 2012, the total outstanding external debt of SOEs was U.S.$19.7 billion, U.S.$14.8 billion of which was debt of non-financial institutions. Non-financial institutions, primarily in the oil and gas sector, accounted for the largest portion of the outstanding SOE external debt.

Domestic Debt of the Central Government

The following table sets forth the outstanding domestic debt of the government as of the dates indicated:

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in trillions of rupiah)					
Total domestic debt[1]	737	783	836	902	943	1,098
Total domestic public debt, as a percentage of GDP for the year indicated[2]	18.7%	15.8%	14.9%	14.0%	13.4%	13.3%

Sources: Ministry of Finance and Bank Indonesia

(1) Excludes SBI, which are obligations of Bank Indonesia and not of the government. See "*Financial System — Bank Indonesia.*"

(2) Computed using GDP data from December 31, 2007 to December 31, 2012.

Prior to 1998, all of the central government's debt was external and the government's budget policy only permitted foreign debt and foreign aid for financing the budget deficit. In 1998, however, the government began issuing domestic debt to finance the restructuring and recapitalization of Indonesia's banks undertaken by the government following the Asian financial crisis. Currently all of the government's domestic debt consists of securities. These securities include treasury bonds, which have maturities greater than one year and include fixed and floating rate bonds and zero coupon securities and sukuk; treasury bills, which have maturities of one year or less and are issued on a zero coupon basis; and promissory notes to Bank Indonesia, which may be tradable or non-tradable. As of December 31, 2010, the central government's tradable domestic debt consisted of 22.3% floating rate debt and 77.7% fixed rate debt. As of December 31, 2011, the central government's tradable domestic debt consisted of 18.7% floating rate debt and 81.3% fixed rate debt. As of December 31, 2012, the central government's tradable domestic debt consisted of 15% floating rate debt and 85% fixed rate debt. The government prefers to reduce the portion of its debt which is floating rate in order to protect against rising interest rates.

Since 2007, the proportion of tradable domestic government bonds held by non-banks has increased significantly, from 40.7% in 2007, to 46.4% in 2008, to 52.4% in 2009, to 63.4% in 2010, to 62.3% in 2011 and to 63.09% in 2012. Accordingly, the proportion of such debt held by banks declined from 56.2% in 2007, to

49.2% in 2008, to 43.7% in 2009 and to 33.9% in 2010. The proportion of such debt held by banks increased to 36.6% and 36.5% in 2011 and in 2012, respectively. In addition, the proportion of tradable domestic government bonds held by offshore residents increased from approximately 18.6% in 2009 to approximately 30.5% in 2010 and to approximately 30.8% in 2011. The proportion of offshore ownership then decreased to 33.0% in 2012.

Domestic Debt Service Requirements of the Central Government

The following table sets forth the debt service requirements for all public domestic debt of the government for the years indicated:

Direct Domestic Debt Service Requirements of the Central Government[1]

Period	Principal repayment and redemption[2][3]	Interest repayment	Total
	(in trillions of rupiah)		
2007[4]	59.9	53.2	113.1
2008	37.2	58.9	96.1
2009	49.1	62.7	111.8
2010	76.5	60.2	136.7
2011	87.4	65.6	153.0
2012	91.2	62.6	153.8
2013[5]	71.87	68.82	140.7
2014[5]	64.41	63.85	128.3
2015[5]	75.21	59.49	134.7
2016[5]	66.31	54.73	121.0
2017[5]	50.05	51.71	101.8
2018[5]	58.72	48.90	107.6
2019[5]	46.00	46.44	92.4
2020[5]	56.42	44.26	100.7
2021[5]	52.39	40.23	92.6
2022[5]	72.39	35.41	107.8
2023[5]	54.69	31.53	86.2
2024[5]	33.44	28.87	62.3
2025[5]	43.75	26.98	70.7
2026[5]	21.96	23.97	45.9
2027[5]	46.84	21.22	68.1
2028[5]	38.27	17.20	55.5
2029[5]	3.15	15.71	18.9
2030[5]	29.15	15.59	44.7
2031[5]	30.93	13.01	43.9
2032[5]	47.02	8.67	55.7
2033[5]	28.65	6.10	34.8
2034[5]	5.13	5.30	10.4
2035[5]	5.66	5.30	11.0
2036[5]	10.35	5.08	15.4
2037[5]	21.23	4.32	25.5
2038[5]	23.27	3.76	27.0
2039[5]	8.36	2.10	10.5
2040[5]	9.22	2.09	11.3
2041[5]	23.71	1.44	25.2
2042[5]	23.20	0.40	23.6
2043[5]	12.35	0.01	12.4

Source: Ministry of Finance

(1) Excludes SBI, which are obligations of Bank Indonesia and not of the government.

(2) Historical data for principal repayments and redemptions includes principal payments at maturity and redemptions through cash buybacks and asset swaps.

(3) Figures from 2006 onwards exclude principal repayment and redemption from debt switching program.

(4) Including repayment of promissory notes to Bank Indonesia of Rp2.6 trillion.

(5) Projected, based on debt outstanding as of December 31, 2012 and BI rate of 5.75%.

Domestic Debt Management by the Central Government

Since 2000, the government has sought to reduce the cost of servicing its domestic debt securities and to manage risks related to such securities such as refinancing risk and interest rate risk. To address these risks, the government has refinanced maturing bonds with new bonds having appropriately structured maturities, conducted bond exchange offers and engaged in open market repurchases. Between 2000 and 2003, the government conducted four exchange offers through which it exchanged portions of its portfolio of debt securities. These exchange offers were conducted to extend the average maturity of its outstanding debt securities and to increase liquidity of the securities in the secondary market.

Beginning in 2002, the government initiated a buyback program for its domestic debt pursuant to which it repurchases domestic debt securities with proceeds from the liquidation of assets owned or held by IBRA, proceeds from privatization and divestments of SOEs, swaps of IBRA's loan assets conducted through asset-bond swap programs and funds appropriated in the Republic's budget. From 2002 to 2010, bonds amounting to Rp32.2 trillion were repurchased pursuant to the buyback program. The government repurchased government bonds amounting to Rp2.0 trillion in April 2008, Rp0.04 trillion in October 2008, Rp0.3 trillion in November 2008, Rp3.5 trillion in 2011 and Rp1.1 trillion in 2012.

On November 7, 2008, the Minister of Finance issued Ministerial Decree No. 170/PMK.08/2008 governing the regulation, sale and issuance of debt securities in the primary market and their repurchase in the secondary market. The decree aims to stabilize the government debt securities market, manage the government debt securities portfolio, and meet the government's securities issuance target as provided for under the government budget.

Under Law No. 24 of 2002 on Government Debt Securities Law (the **Government Debt Securities Law**) in force since 2002, the issuance of debt securities by Indonesia requires prior approval of the DPR. According to the Government Debt Securities Law, the DPR approves net additional debt that can be raised by the government during each fiscal year. This provides the government with flexibility to issue and buy back government bonds in any amount, as long as the net additional debt does not exceed the level approved by the DPR. Approval by the DPR is granted when the DPR ratifies the state budget every year. The Government Debt Securities Law also establishes a "standing appropriation", which ensures that all payments of principal and interest for both new, if approved by the DPR, and certain existing debt securities of the government are provided for without additional legislative action. The Government Debt Securities Law also provides the legal basis for the government's issuance of debt securities and its development of a government bond market. In addition, several regulations have been enacted under the Government Debt Securities Law, including regulations on government securities, information and publicity. The Ministry of Finance and Bank Indonesia have also issued a number of decrees to implement the goals of the Government Debt Securities Law and to encourage the development of primary and secondary markets in domestic government debt securities.

In April 2003, the government began selling debt securities through auctions, and since February 2004 it has conducted auctions monthly. The government conducts these auctions to provide an alternative source of financing and to lower its cost of financing.

In 2006, the government did not use cash to purchase or redeem any government bonds. However, as part of the government's debt management operations, the government did undertake a debt switching program. Under this debt switching program, the government exchanged existing bonds with relatively short maturities with longer maturity bonds through auctions held regularly every two weeks. In 2006, the government exchanged Rp31.2 trillion of bonds through its debt switching program.

In 2007, the government purchased Rp1.7 trillion of government bonds in August and Rp1.2 trillion in December. In addition, through its debt switching program, in 2007 the government exchanged Rp15.8 trillion of bonds maturing between 2007 and 2012 for bonds maturing between 2018 and 2027.

In April 2008, the government purchased Rp2.0 trillion of government bonds. In addition, through its debt switching program, through June 30, 2008 the government exchanged Rp4.6 trillion of bonds maturing between 2009 and 2013 for bond maturities in 2022 and 2023. In October and November 2008, the government purchased Rp0.4 trillion and Rp0.3 trillion, respectively, of government bonds.

On October 7, 2008, the Minister of Finance announced that due in part to an anticipated decrease in the government's projected deficit consequent to declining oil prices and in part due to unstable market conditions, the government would not seek to issue further rupiah-denominated debt for the remainder of 2008. In January 2009, the government resumed bond auctions to finance its projected budget deficit for that year, despite interest

rates being higher than before the global financial crisis of 2008. In mid-2009, following recovery of the sovereign bond market, interest rates decreased and reduced the cost of domestic issuance of bonds by the government. See "*Recent Developments — Economic Recession in Developed Markets and Government Responses*."

In March 2009, the government purchased Rp8.5 trillion of government bonds. In addition, in 2009, through its debt switching program, the government exchanged Rp2.9 trillion of bonds maturing between 2009 and 2013 for bonds maturing in 2016 and 2024.

The government conducted its first direct government securities market transaction through its dealing room in December 2009, purchasing Rp10 billion of an illiquid series of government securities. In 2010, the government successfully purchased Rp3.2 trillion of total government securities. The transaction was conducted to promote efficiency in the portfolio management of government securities through direct repurchase operations via the dealing room and to increase liquidity in the secondary market.

In 2010, through its debt switching program, the government exchanged Rp2.6 trillion of bonds maturing between 2011 and 2018, thereby further reducing its refinancing risk.

In January, May and June of 2011, the government, through its debt switching program, exchanged Rp0.6 trillion of bonds maturing between 2011 and 2015 for bonds maturing in 2026.

The government conducted further debt switching programs in June, July, November and December of 2012 and exchanged Rp11.9 billion of bonds maturing between 2012 and 2017 for bonds maturing in 2027, 2018 and 2032.

Development of the Secondary Market for Domestic Securities of the Government

The following table sets forth the average daily trading volume in the domestic government debt securities market:

	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Average daily trading volume (in billions of rupiah)	5,899	4,235	3,421	4,963	7,671	9,389
Average daily number of trades	232	156	156	194	295	412

Source: Ministry of Finance

To stimulate development of the secondary domestic government debt securities market, since 2002 the government has: (1) supported the development of the Inter-Dealer Market Association to facilitate a market-based price-discovery mechanism, (2) encouraged the development of a repo market for securities lending activities, by implementation of the Master Repo Agreement to enhance market liquidity, (3) created a benchmark yield curve through regular issuances, (4) implemented government securities buyback (including debt-switching) programs, (5) enhanced the efficiency and reliability of securities clearing, settlement and registry operations and (6) taken steps to develop a transparent and efficient regulatory framework.

These actions have resulted in an increase in the volume and number of trades in the domestic government debt securities market. Average daily trading volume of government-issued domestic debt securities increased by 78.4% in 2007 and decreased by 28.2% in 2008, in each case compared with the preceding year. The average daily volume for 2007 was Rp5.9 trillion. Compared to the average for 2008, the average daily trading volume of government debt securities for 2009 decreased by 19.2%. This decrease resulted from the relief of the selling pressure on government securities which existed in 2008. The average daily trading volume of government-issued domestic debt securities increased by 54.6% in 2011 and by 22.0% in 2012. This increase resulted from large capital inflow to the domestic market and sound fundamental economics.

Government debt securities issued domestically in 1998 and initially held by the banks were recapitalized in the wake of the Asian financial crisis. As a result of the government's efforts since December 2000 to develop a secondary domestic market for government debt securities, non-bank ownership of tradable government debt securities has increased significantly from 11.4% of the total outstanding amount in December 2002 to 46.4% in December 2008. As of December 31, 2011, non-bank ownership accounted for 62.3% of total domestic tradable government debt securities. By December 31, 2012, non-bank ownership increased to account for 63.1% of total domestic tradable government debt securities. Foreign ownership of tradable government debt securities has also

increased significantly, from 0.5% of the total outstanding amount as of December 31, 2002 to 16.7% as of December 31, 2008, to 30.5% as of December 31, 2010, to 30.8% as of December 31, 2011 and to 33% as of December 31, 2012.

In March 2007, the government implemented rules under which only firms meeting specific criteria are eligible to deal in the initial offering of benchmark government securities with the goal of promoting the domestic sale and liquidity of government securities. Under the new framework, dealers are required to quote bid and ask prices, with these quotations required to fall within a certain maximum spread. In line with the policy of promoting the trading of government securities and increasing the types of instruments offered to promote investor demand, cost efficiency and market development, the government newly issued 30-year coupon bonds, zero-coupon bonds and treasury bills in 2007 and, in April 2008, began to issuing variable rate bonds. In May 2007, all domestic government securities became eligible for trading on stock exchanges. In April 2008, the government adopted a regulation changing the tax treatment of the discount on treasury bills. As a result of this new regulation, the discount amount is taxed at the time the treasury bill is sold or redeemed by the initial investor, rather than taxed as a capital gain when the treasury bill is originally issued and purchased by the initial investor as previously treated.

Additionally, in May 2008, Law No. 19 of 2008 on Sovereign Sukuk (*Surat Berharga Syariah Negara*) was enacted. Under this new law, the government is permitted to issue sharia-compliant commercial paper or sukuk. In August 2008, the government issued its inaugural domestic sukuk in an aggregate amount of Rp4.7 trillion, namely the Series IFR0001 consisted of Rp2.71 trillion of 11.80% sukuk due August 15, 2015 and IFR0002 consisted of Rp1.99 trillion of 11.95% sukuk due August 15, 2018. On February 25, 2009, the government issued its inaugural domestic retail sukuk series SR001, with an aggregate amount of Rp5.66 trillion and a three-year tenor, due February 25, 2012.

On May 7, 2009 the government, through a private placement issuance to the Ministry of Religious Affairs, issued Rp1.5 trillion sukuk ijara al khadamat, the series SDH12010A sukuk. The non-tradable sukuk was followed by other issuances of SDH12010B on June 24, 2009, due May 7, 2010, and SDH12010C due July 24, 2010 to amount of Rp1.19 trillion. Furthermore, in 2009, the government issued its inaugural domestic sukuk through auction, namely, the series IFR003 and IFR004 in a total amount of Rp1.28 trillion.

In 2010, the government issued ten series of rupiah denominated sovereign sukuk. On February 10, 2010, the second domestic retail sukuk SR002 due February 10, 2013, was issued successfully to the amount of Rp8.03 trillion at 8.7%. Subsequently, the government issued 4 series of sukuk ijarah al khadamat through private placement to the Ministry of Religious Affairs in an aggregate amount of Rp12.78 trillion and 5 series of sukuk ijarah sales and lease back through auction (1 re-opening and 4 new series) in an aggregate amount of Rp6.15 trillion.

On February 23, 2011, the government issued the third domestic retail sukuk series SR003, with an aggregate amount of Rp7.34 trillion at 8.15% and due February 23, 2014. The government also issued three series of non-tradable sukuk through private placement to the Ministry of Religious Affairs in an aggregate amount of Rp11 trillion, consisting of the series of SDHI2014D, due February 11, 2014 in the amount of Rp6 trillion, SDHI2021A, due April 11, 2021 and SDHI2021B, due October 17, 2021 in the amount of Rp3 trillion and Rp2 trillion, respectively. Subsequently, the government issued four series of sukuk ijarah sale and lease back through auction, (three re-opening and one new series) in an aggregate amount of Rp4.61 trillion.

In order to develop the Islamic financial market, and particularly to support liquidity management of Islamic banking in Indonesia through investment instrument diversification, the government issued its inaugural Islamic T-bills on August 4, 2011, namely, the series SPN-S03022012 in a total amount of Rp570 billion, due February 3, 2012. The SPN-S was followed by other issuances, including the series SPN-S24022012 on August 25, 2011 in the total amount of Rp330 billion, due February 24, 2012 and SPN-SI2042012 on October 13, 2011 in the total amount of Rp420 billion, due April 12, 2012.

In March 2011, the Indonesian Finance Minister announced that the government would begin using 3-month treasury bills or SPNs as the new reference rate for on-the-run variable rate government bonds. SBI is no longer used as the reference rate since the country's central bank stopped issuing 3-month SBIs earlier in 2011.

On January 17, 2012, the government issued the series RI0142, in the amount of U.S.$1.75 billion, at 5.25% due January 17, 2042.

On March 21, 2012, the government issued its fourth domestic retail sukuk series SR004, with an aggregate amount of Rp13.61 trillion at a coupon rate of 6.25% per annum with a maturity date of September 21, 2015.

On April 25, 2012, the government issued the series RI0422, in the amount of U.S.$2.0 billion, at 3.75% due April 25, 2022, and series RI0142 (reopening), in the amount of U.S.$500 million due January 17, 2042.

On October 10, 2012, the government issued government retail bond (ORI) series ORI009 of approximately Rp12.68 trillion to domestic citizens at a coupon rate of 6.25% per annum with a maturity date of October 15, 2015. The purpose of the ORI009 issuance is to help fund the Revised 2012 Budget and to improve the development of the domestic government bond market through diversification of domestic financing instruments and the expansion of the domestic investor base.

As of January 15, 2013 the outstanding aggregate face amount of sukuk issued by the government was Rp124.63 trillion, consisting of tradable sukuk in an aggregate face amount of Rp88.85 trillion (or 71.29% of the total face amount outstanding) and non-tradable sukuk in an aggregate face amount of Rp35.78 trillion (or 28.71% of the total face amount outstanding).

The government plans to regularly issue these Islamic base financial market instruments through auction, book-building and private placement.

The government plans to widen its sources of domestic debt financing through Government Regulation No. 54 of 2008 regarding a Procedure for Withdrawing and On Lending of Domestic Loans. The regulation facilitates loans from domestic state banks to finance certain projects, to be on lent to regional governments and SOEs through a two-step lending mechanism.

Contingent Liabilities

Since 2005, the IDIC has guaranteed third-party deposits in banks in the form of savings accounts, current accounts, time deposits, certificates of deposit, and other similar type of deposits. Since October 13, 2008, the maximum amount of deposits guaranteed is Rp2 billion for each deposit in one bank. For sharia-based banks, the IDIC insures Wadiah current accounts, Wadiah savings accounts, Mudharabah savings accounts, Mudharabah time deposits and other similar forms of deposit. The IDIC was established in September 2005 with initial capital of Rp4 trillion (about U.S.$448 million), provided by the government. Total assets of the IDIC as of December 31, 2012 were Rp34.79 trillion (about U.S.$3,514 million). The IDIC Law stated that if the IDIC encounters liquidity problems, it may borrow from the government, and if the IDIC's capital drops below its initial capital, the government, with DPR's consent, will recapitalize it.

In 2003, the government provided a liquidity facility to cover any shortfall in servicing liabilities related to Tanjung Jati B, a restructured electric power generation project, which is expected to remain outstanding for the 20-year concession period for the project. The government has established a directorate under the Ministry of Finance to manage fiscal risk, including contingent liabilities from infrastructure development and SOEs. See "*Infrastructure Development*."

In accordance with government regulations and presidential decrees issued in 2006 and 2007, the government has instructed PLN to accelerate the construction of coal power plants with an aggregate capacity of 10,000 MW and associated transmission lines. The total value of generation and transmission of the project is estimated at Rp113.9 trillion, of which approximately 85% will be financed by commercial credit. The government will provide PLN a full default risk guarantee to pay any successful claim in connection therewith within 45 days. The government set aside a reserve of Rp889 billion in the Revised 2011 Budget for any liabilities arising from this guarantee, based on possible exposure and default probabilities. By the end of 2011, there was no realization of these liabilities. The government allocated budget amounting to Rp623.3 billion in the Revised 2012 Budget to guarantee these liabilities. By the end of 2012, there had been no realization of these liabilities.

The government also supports PLN's ability to meet any liabilities from commercial credit for financing the 10,000 MW project. The government support is an effort by government to safeguard PLN from events of default and enhance PLN's soundness. These supports are in the form of increasing PLN's margin from 0% to 5% in 2009, and from 5% to 8% in 2010; increasing electricity tariff in 2010; and a policy to give a direct soft loan from the government to PLN valued at Rp7.5 trillion in 2010.

In 2008, the government indicated its support on the increase of land price of 28 toll road projects. This support is meant to drive the acceleration of toll road provision which is hindered by the problem of acquiring land for the toll roads. The problem resulted from the increase in land prices. This government support in the form of land capping was allocated with an amount of Rp4.9 trillion for 2008 to 2013. Meanwhile, in the Revised

2011 Budget, the fund allocation for land capping was set at Rp610 billion. As of December 31, 2011, the actual land capping expenditure was Rp406.1 billion (equivalent to 66.6% of funds allocated in the Revised 2011 Budget). In the Revised 2012 Budget, the fund allocation for land capping was set at Rp500 billion. By the end of 2012, the actual land capping was Rp310.1 billion (equivalent to 62.0% of funds allocated in the Revised 2012 Budget).

In order to achieve its millennium development goals in water provision, the government agreed to guarantee Perusahaan Daerah Air Minum (**PDAM**), a local government-owned water company, on credit. The government will provide a partial default risk guarantee for PDAM subject to PDAM's inability to pay the debt. Under the terms of the government guarantee, the government has agreed to pay 70% of PDAM's principal payments to the lenders. The government allocated Rp15 billion in the Revised 2011 Budget and Rp10 billion in the 2012 Budget for liabilities arising from this guarantee, based on possible exposures and default probabilities. As of December 31, 2011, the guarantee fund which was allocated in the Revised 2011 Budget fund was not realized. The guarantee fund was not realized in 2012 either. In early 2007, the government also provided a shortfall guarantee for construction of the Jakarta Monorail Project. This guarantee is no longer effective as of March 2010 because the project company did not fulfill the requirements stipulated in order to secure the guarantee.

In 2011, the government provided a guarantee for Central Java 2 x 1000 MW Steam Power Plant PPP Project using a mutual Government guarantee scheme between the Government and Indonesia Infrastructure Guarantee Fund (IIGF) which is mandated based on Presidential Regulation No. 78/2010 regarding Guarantee for Public-Private Partnership Infrastructure Project through Infrastructure Guarantee Fund. This project is the first large-scale showcase PPP project, worth more than Rp30 trillion. The Government and IIGF guarantee specific financial obligations of PLN under this program. This guarantee is expected to become effective in 2013. The government allocated Rp59.8 billion in the 2013 Budget for any liabilities arising from this guarantee, based on possible exposures and default probabilities.

The government is committed to managing contingent liabilities and has established a designated unit within the Ministry of Finance to deal with contingent liabilities and by setting aside special fund to meet these future liabilities.

Foreign Exchange and Reserves

Exchange Rates

From 1978 to 1997, Indonesia maintained a managed floating exchange rate system under which the rupiah was linked to a basket of currencies, the composition of which was based on Indonesia's main trading partners. Indonesia adopted a free floating exchange rate system under which market forces determine the exchange rate for the rupiah. See "— *Monetary Policy*."

The following table sets forth information on exchange rates between the rupiah and certain other currencies as of the end of the periods indicated.

Exchange Rates

	Rupiah per U.S. dollar	Rupiah per 100 Japanese yen	Rupiah per Euro	Rupiah per Singapore dollar
2007	9,419	8,307	13,760	6,502
2008	10,950	12,123	15,432	7,607
2009	9,400	10,170	13,510	6,699
2010	8,991	11,029	11,956	6,981
2011	9,068	11,680	11,739	6,974
2012	9,670	11,197	12,810	7,907
January 2013	9,698	10,676	13,154	7,834
February 2013	9,667	10,460	12,708	7,822

Source: Bank Indonesia

In 2007, the rupiah depreciated 4.2% against the U.S. dollar despite the weakening globally of the U.S. dollar over the same period, from Rp9,020 per U.S. dollar at the end of 2006 to Rp9,419 per U.S. dollar as of the end of 2007. On an average basis, the rupiah remained relatively stable, appreciating slightly by 0.3% from Rp9,167 per U.S. dollar in 2006 to Rp9,140 per U.S. dollar in 2007, with the strengthening of the rupiah during

the first half of 2007 being offset by the decline of the rupiah during the second half of 2007. During the start of the subprime mortgage crisis, the rupiah weakened from around Rp9,100 at the end of July to Rp9,420 at the end of August 2007. The depreciation pressure receded during September and October 2007, but resumed in November and December 2007 as the continuing crisis in the international financial and credit markets encouraged investors to reduce holdings in riskier assets, including investments in emerging market assets such as rupiah-denominated assets.

In the first half of 2008, the rupiah was relatively stable with a slight appreciation of 2.1% against the U.S. dollar, at Rp9,225 per U.S. dollar, up from Rp9,419 per U.S. dollar at the end of 2007. Appreciation of the rupiah through the end of February 2008 was primarily due to foreign capital inflows. Pressures due to the global liquidity shortage forced a minor correction in the rupiah's appreciation. In the second half, asset disposals and investment unwinding in developed markets led investors to reduce their portfolio holdings in emerging markets, including Indonesia. This resulted in pressure on emerging market currencies, including the rupiah. In the second half of 2008, the rupiah depreciated to Rp10,950 per U.S. dollar as of December 31, 2008.

In the first half of 2009, the rupiah appreciated 7.1% to Rp10,225 per U.S. dollar. This appreciation was in line with the U.S. dollar's depreciation against most hard currencies and Asian emerging market currencies. Improved investor risk appetite attracted capital inflows into emerging market assets such as rupiah denominated assets. Capital inflows into Indonesia were supported by positive macroeconomic indicators such as slowing inflation, moderate growth, an improving balance of trade and political stability. In the second half of 2009, the rupiah continued to appreciate by 8.1% against the U.S. dollar and closed at Rp9,400 per U.S. dollar on December 31, 2009.

In the first half of 2010, the rupiah appreciated 3.6% to Rp9,083 per U.S. dollar. This appreciation was in line with the U.S. dollar's depreciation against most hard currencies and Asian emerging market currencies. In the second half of 2010, the rupiah continued to appreciate by 0.9% against the U.S. dollar and closed at Rp8,991 per U.S. dollar on December 31, 2010.

In the first half of 2011, the rupiah appreciated 3.6% to Rp8,597 per U.S. dollar. The strengthening of the rupiah was closely tied to global investor funds that continued to flow into Asia's emerging markets. In the third quarter of 2011, the rupiah depreciated by 1.2% to Rp8,940 per U.S. dollar. This was in line with the depreciation of regional currencies closely tied with the prolonged financial crisis in Europe. The rupiah closed at Rp9,068 per U.S. dollar on December 31, 2011.

In the first half of 2012, the rupiah depreciated 4.5% to Rp9,480 per U.S. dollar. Pressure on the rupiah was related to the euro zone crisis which triggered a higher demand for foreign currency by non-residents for rebalancing their portfolios. Another source of pressure on the rupiah was the increase in imports in 2012. In the second half of 2012, the rupiah depreciated 2% against the U.S. dollar, closing at Rp9,670 per U.S. dollar on December 28, 2012. The slow global economic recovery and Indonesia's widening current account deficit were the main factors behind the depreciation.

Prudential Policies on Foreign Exchange and Rupiah

Foreign currency is generally freely transferable within or from Indonesia. However, to maintain the stability of the rupiah, and to prevent the utilization of the rupiah for speculative purposes by foreign parties, the rupiah is non-internationalized. Regulations prohibit banks from conducting, among others, the following transactions: (1) extensions of loans or of overdrafts in rupiah or foreign currencies to foreign parties, (2) transfers of rupiah to foreign parties or offshore banks in excess of Rp500 million and (3) purchases of rupiah-denominated securities issued by foreign parties. These regulations also restrict Indonesian banks from entering into derivative transactions with foreign parties in the form of, among others, buy and sell forex derivative transactions, with nominal amounts in excess of U.S.$1 million or its equivalent, unless they are related to an underlying investment in Indonesia. Derivative hedging transactions linked to investments in Indonesia are required to have at least a one-week tenor and are supported by required documentation.

To curb speculative derivative transactions that could destabilize the value of the rupiah, on September 15, 2005 Bank Indonesia implemented new regulations on derivative transactions. The new regulations prohibit banks from conducting margin trading on foreign currency against the rupiah and prohibit banks from holding certain derivative transaction positions with their related parties. Bank Indonesia has, however, continued to support investors who hedge their investments in Indonesia through long term derivative transaction with banks. Bank Indonesia provides this support by permitting banks to pass on their exposure under certain permitted hedging transactions entered into in respect of foreign financing for investment in infrastructure, public utilities, or factories producing input products.

Bank Indonesia may request information concerning the foreign exchange activities of all natural persons and legal entities that are domiciled, or plan to domicile, in Indonesia for at least one year. Bank Indonesia regulations also require all resident banks and non-bank financial institutions, as well as companies with total assets or total annual gross revenue over Rp100 billion, to report to it all data concerning their foreign currency activities.

In the fourth quarter of 2008, Bank Indonesia implemented certain regulations to respond to the global economic and financial crisis and provide liquidity to the market. Bank Indonesia provided foreign currency through banks to domestic companies to meet foreign currency demand by these companies. Bank Indonesia also promulgated regulations to curb excessive pressures on the rupiah exchange rate, and to discourage currency speculation. Bank Indonesia also implemented Bank Indonesia Regulation No. 10/28/PBI/2008 dated November 12, 2008 regarding Purchase of Rupiah Against Foreign Currency in Banks to address speculation in the rupiah and to assist in stabilizing the exchange rate. This regulation requires persons purchasing foreign currency in excess of U.S.$100,000 or its equivalent in a month to establish a genuine transaction in which such currency is to be used or to otherwise justify such purchase.

New Law No. 7 of 2011, dated June 28, 2011, on rupiah has been enacted to ensure the use of rupiah for every transaction which will be settled inside the jurisdiction of the Republic. This provision, however, does not apply for transactions with respect to the implementation of state budget, granting or receiving grant (*hibah*) from or to outside the Republic, international trade, bank savings in the form of foreign currency or international financings.

On September 30, 2011, Bank Indonesia issued Bank Indonesia Regulation (PBI) No. 13/20/PBI/2011 on Export Proceeds and Withdrawal of Foreign Exchange from External Debt which was revoked by Bank Indonesia Regulation No. 14/25/PBI/2012 issued on December 27, 2012. Under such regulation, all export proceeds are to be received from, and all debtors are required to withdraw their foreign borrowings through, domestic banks. Bank Indonesia also revised the regulations in the Monitoring of Bank's Activity Foreign Exchange's Flow in PBI No. 13/21/PBI/2011 and the Withdrawal of Foreign Exchange From External Debt Reporting Obligations in PBI No. 13/22/PBI/2011, and issued PBI No.14/21/PBI/2012 concerning Report on Foreign Exchange Flow, which became effective as of January 1, 2013.

On May 29, 2012, Bank Indonesia issued PBI No. 14/5/PBI/2012 dated June 8, 2012 regarding the amendment to Bank Indonesia Regulation No. 12/11/PBI/2010 concerning Monetary Operations. In the context of enhancing domestic economic resilience through liquidity management and augmentation of monetary operation instruments, the amendment was made to support the development of domestic foreign currency markets and to achieve the operational targets of monetary policy. Bank Indonesia also introduced term deposit in foreign currency to increase the foreign exchange supply in the market and to enhance monetary policy through a foreign exchange swap operation in this amendment.

International Reserves

The following table sets forth the Republic's total official international reserves, expressed in (1) U.S. dollar equivalents and (2) the number of months of imports and government external debt repayments, in each case at the end of the periods indicated. These reserves consist of foreign exchange, gold, SDRs and a reserve position with the IMF. Since May 2000, Indonesia has complied with the IMF's new Special Data Dissemination Standard requirement on international reserves and foreign exchange currency liquidity.

Official International Reserves of the Republic

	As of December 31,					
	2007	2008	2009	2010	2011	2012
	(in millions of U.S. dollars, except for months)					
Gold	1,946	2,041	2,552	3,299	3,593	3,935
SDRs[1]	9	34	2,753	2,714	2,696	2,715
Reserve position with the IMF	228	225	227	224	223	224
Foreign exchange[2] and others	54,737	49,339	60,573	89,970	103,611	105,907
Total	56,920	51,639	66,105	96,207	110,123	112,781
Total as number of months of imports and government external debt repayments	5.8	4.0	6.6	7.2	6.5	6.1

Source: Bank Indonesia

(1) The increase in SDRs is due to certain refunds from the IMF.

(2) Converted into U.S. dollars at the applicable BI middle exchange rates as of the respective dates indicated.

Indonesia's foreign exchange reserves decreased from U.S.$56.9 billion as of December 31, 2007 to U.S.$51.6 billion as of December 31, 2008, equal to 4.0 months of imports and government debt repayments. This decrease in international reserves was in line with the pressures on Indonesia's balance of payments, particularly on the capital and financial account side. Indonesia's foreign currency reserves increased to U.S.$66.1 billion as of December 31, 2009 following increases in oil and gas receipts. Moreover, in 2009, there was a marked rise in SDR holdings along with additional SDR allocation from the IMF to its member countries, including Indonesia, for increasing global liquidity. As of December 31, 2010 Indonesia's foreign exchange reserves increased to U.S.$96.2 billion, equal to seven months of imports and government debt repayments. This substantial increase was due to significant surplus of balance of payments for 2010, contributed to primarily by the capital and financial account surplus. As of December 31, 2011, Indonesia's international reserves increased to U.S.$110.1 billion due to an increase in oil and gas export receipts and an increase in foreign currency reserve requirements. As of December 31, 2012, Indonesia's international reserves increased to U.S.$112.8 billion, in line with the recovery of commodities' prices. See "*Financial System — Strengthening the Banking System*."

Regional Swap Arrangements of the Republic

Following the experience of the Asian crisis in 1997 to 1998, ASEAN recognized a need to strengthen regional self-help and support mechanisms in East Asia and endeavor to prevent future financial crises. As a start, in the year 2000, it was agreed to strengthen the existing cooperative frameworks among monetary authorities through the Chiang Mai Initiative (**CMI**). The CMI involves an expanded ASA (extending its coverage to all members of ASEAN and increasing the size) and a network of BSAs among ASEAN+3 countries. The objectives of these bilateral swap arrangements are to address short-term liquidity difficulties in the region and to supplement existing international financial arrangements.

The ASA was originally created by five ASEAN member states in 1977 with the size of U.S.$100 million. After the CMI, it has been enlarged to include all ten ASEAN countries and increased in size to U.S.$2 billion.

Since CMI's inception in 2000, ASEAN+3 member countries undertook a review to explore ways of enhancing its effectiveness. On 2010, ASEAN+3 member countries entered in to a multilateral currency swap contract which covers all ASEAN+3 member countries with a total size of U.S.$120 billion (the CMI Multilateralization or CMIM). CMIM was developed from the CMI-BSA network to facilitate prompt and simultaneous currency swap transactions through establishing a common decision making mechanism under a single contract. The CMIM objectives are the same as the BSAs. In May 2012 and in response to the global and regional economic developments, the ASEAN+3 Finance Ministers and Central Bank Governors agreed to strengthen the CMIM as a regional financial safety net by doubling the total size to U.S.$240 billion and launching a crisis prevention program called the CMIM Precautionary Line (CMIM-PL). In addition to the role of providing liquidity support for ASEAN+3 member countries, CMIM has contributed to the development of the regional surveillance capacity by establishing the ASEAN+3 Macroeconomic Research Office (AMRO) as an ASEAN+3 independent surveillance unit since early 2011.

Under the ASA, BSA, and CMIM, a total of U.S.$24.0 billion of foreign currency swap was available to the Republic as of December 2012. The total amount available will be increased to U.S.$35.4 billion after the revision of the CMIM Agreement becomes effective. Up to 20% of the amount available under the BSAs and CMIM may be activated without participating in any IMF program, but greater amounts must be in conjunction with participation in an IMF program. We believe that these swap arrangements will contribute to greater financial stability and economic growth in the region.

DESCRIPTION OF THE NOTES

1. General

(a) The particular terms of any Notes sold will be described in an accompanying supplement to this Offering Circular (a **Pricing Supplement**). The terms and conditions set forth in "*Description of the Notes*" below will apply to each Note unless otherwise specified in the applicable Pricing Supplement and in such Note.

(b) The Notes are duly authorized issues of Notes of the Republic of Indonesia (the **Republic**) (each Note a **Note**, and collectively, the **Notes**), and are issued pursuant to an Indenture dated as of January 28, 2009, between the Republic and The Bank of New York Mellon, as Trustee (the **Trustee**), as amended by the First Supplemental Indenture dated January 5, 2010 and as further amended, supplemented and/or restated from time to time) (the **Indenture**). The terms of the Notes are subject to all the provisions contained in the Indenture, the conditions set out in the Note (as modified and supplemented by the applicable Pricing Supplement, the **Conditions**). The Pricing Supplement for each Note supplements the Conditions and may specify other terms and conditions, which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of the Note. The holders of the Notes (the **Holders**) will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Indenture. A copy of the Indenture is on file and may be inspected at the Corporate Trust Office of the Trustee in New York City. All capitalized terms used in this "Description of the Notes" but not defined herein shall have the meanings assigned to them in the Indenture and in the Pricing Supplement.

(c) The Notes are direct, unconditional, unsecured and general obligations of the Republic without preference granted by the Republic to one above the other. The Notes rank equal in right of payment among themselves and with all other unsecured and unsubordinated External Indebtedness (as defined below) of the Republic. All amounts payable under the Notes are backed by the full faith and credit of the Republic.

(d) Registered Notes are issued in fully registered form, without coupons. Registered Notes may be issued in certificated form (the **Certificated Securities**), or may be represented by one or more registered global securities (each, a **Registered Global Security**) held by or on behalf of the Depositary. Certificated Securities will be available only in the limited circumstances set forth in the Indenture. The Registered Notes, and transfers thereof, shall be registered as provided in Clause 2.6 of the Indenture. Any person in whose name a Registered Note shall be registered may (to the fullest extent permitted by applicable law) be treated at all times, by all persons and for all purposes as the absolute owner of such Registered Note regardless of any notice of ownership, theft, loss or any writing thereon.

(e) Bearer Notes are issued in bearer form, with Coupons (and, where appropriate, Talons) attached, except in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in the Conditions are not applicable. Installment Notes are issued with one or more Receipts attached. Bearer Notes may be issued in definitive form, or may be represented by one or more registered global securities held by or on behalf of the Depositary. Definitive Bearer Notes will be available only in the limited circumstances set forth in the Indenture. Any holder of any Bearer Note, Receipt, Coupon or Talon may (to the fullest extent permitted by applicable law) be treated at all times, by all persons and for all purposes as the absolute owner of such Bearer Note, Receipt, Coupon or Talon regardless of any notice of ownership, theft, loss or any writing thereon. Title to the Bearer Notes and any Coupon shall pass by delivery.

(f) Notes may be issued with the benefit of a guarantee. Details of any guarantee and the guarantor will be set out in the applicable Pricing Supplement.

2. Principal and Interest

The Republic for value received, hereby promises to pay to the Holder on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Conditions may become repayable in accordance with the Conditions) the amount payable upon redemption to the Holder under the Conditions and (unless the Note does not bear interest) to pay to the Holder interest in respect of such Note from the Interest Commencement Date in arrears at the rates, in the amounts and on the dates for payment provided for in the Conditions together with such other sums and additional amounts (if any) as may be payable under the Conditions, in accordance with the Conditions.

2A. General

The Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Installment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown in the Pricing Supplement. Details of such Interest, Redemption and/or Payment Basis not set out herein shall be set out in the Pricing Supplement.

2B. Interest and Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 2B(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 2B(h). Such Interest Payment Date(s) is/are either shown in the Pricing Supplement as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the Pricing Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the Pricing Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in the Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the Pricing Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the Pricing Supplement.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this paragraph 2B(b)(iii)(A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified in the Pricing Supplement;

(y) the Designated Maturity is a period specified in the Pricing Supplement; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the Pricing Supplement.

For the purposes of paragraph 2B(b)(iii)(A), "Floating Rate", "Calculation Agent", "Floating Rate Option", "Designated Maturity", "Reset Date" and "Swap Transaction" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes

(x) Where Screen Rate Determination is specified in the Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as of either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the Pricing Supplement as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the Pricing Supplement.

(y) If the Relevant Screen Page is not available or if, Condition 2B(b)(iii)(B)(x)(1) applies and no such offered quotation appears on the Relevant Screen Page or if Condition 2B(b)(iii)(B)(x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as of the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(z) If Condition 2B(b)(iii)(B)(y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Trustee and the Republic suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market as of 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market as of 11.00 a.m. (Brussels time), as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the provisions of Condition 2B(b)(iii)(B)(z), the Rate of Interest shall be determined as of the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that

which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified in the Pricing Supplement and interest will accrue by reference to an Index or Formula as specified in the Pricing Supplement.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortization Yield (as described in Condition 7(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified in the Pricing Supplement.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the Pricing Supplement.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in Condition 2B to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Installment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified in the Pricing Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 2B(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to Condition 2B(g)(ii).

(ii) If any Maximum or Minimum Rate of Interest, Installment Amount or Redemption Amount is specified in the Pricing Supplement, then any Rate of Interest, Installment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to the Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes **unit** means the lowest amount of such currency that is available as legal tender in the countr(y/ies) of such currency.

(h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the Pricing Supplement, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Installment**

Amounts: The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Installment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Installment Amount to be notified to the Trustee, the Republic, each of the Paying Agents, the Holders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 2B(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 6, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with Condition 2B(i) but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(j) **Determination or Calculation by Trustee:** If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Accrual Period or any Interest Amount, Installment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, the Trustee shall do so (or shall appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of Condition 2B(j), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(k) **Definitions:** For the purposes of this "*Description of the Notes*", unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Business Day" means:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial center for such currency; and/or

(ii) in the case of euro, a day on which the TARGET system is operating (a **TARGET Business Day**); and/or

(iii) in the case of a currency and/or one or more Business Centers, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Center(s) or, if no currency is indicated, generally in each of the Business Centers.

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "Calculation Period"):

(i) if "Actual/Actual" or "Actual/Actual — ISDA" is specified in the Pricing Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the Pricing Supplement, the actual number of days in the Calculation Period divided by 365;

(iii) if "Actual/360" is specified in the Pricing Supplement, the actual number of days in the Calculation Period divided by 360;

(iv) if "30/360", "360/360" or "Bond Basis" is specified in the Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1"is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2"is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(v) if "30E/360" or "Eurobond Basis" is specified in the Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vi) if "30E/360 (ISDA)" is specified in the Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y_1" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y_2" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M_1" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M_2" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D_1" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"D_2" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

(vii) if "Actual/Actual-ICMA" is specified in the Pricing Supplement:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date.

"Determination Date" means the date(s) specified as such in the Pricing Supplement or, if none is so specified, the Interest Payment Date(s).

"Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"Interest Accrual Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"Interest Amount" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the Pricing Supplement, shall mean the Fixed Coupon Amount or Broken Amount specified in the Pricing Supplement as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"Interest Commencement Date" means the Issue Date or such other date as may be specified in, or determined in accordance with the provisions of, the Pricing Supplement.

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the Pricing Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro.

"Interest Payment Date" means the date or dates specified as such in, or determined in accordance with the provisions of, the Pricing Supplement.

"Interest Period" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

"Interest Period Date" means each Interest Payment Date unless otherwise specified in the Pricing Supplement.

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the Pricing Supplement.

"Rate of Interest" means the rate or rates of interest payable from time to time in respect of the Note specified in the Pricing Supplement or calculated or determined in accordance with the Conditions and/or the provisions of the Pricing Supplement.

"Redemption Amount" means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, each as specified as such in, or determined in accordance with the provisions of, the Pricing Supplement.

"Redemption Date" means the Optional Redemption Date specified in the relevant Pricing Supplement or such other date set for redemption of the Notes pursuant to Condition 7.

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified in the Pricing Supplement. "Reference Rate" means the rate specified as such in the Pricing Supplement.

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified in the Pricing Supplement.

"Specified Currency" means the currency specified as such in the Pricing Supplement or, if none is specified, the currency in which the Notes are denominated.

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on November 19, 2007 or any successor thereto.

(l) **Calculation Agent:** The Republic shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the Pricing Supplement and for so long as any Note is outstanding (as defined in the Indenture). Where more than one Calculation Agent is appointed in respect of the Notes, references in the Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Installment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Republic shall (with the prior approval of the Trustee) appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

2C. Redenomination, Renominalization and Reconventioning

Where Redenomination, Renominalization and Reconventioning is specified in the Pricing Supplement as being Applicable in relation to Notes denominated in the currency of a member state which becomes or announces its intention to become a Participating Member State:

(i) the Republic may, without the consent of the Holders of the Notes, on giving not less than 30 days' prior notice (**Redenomination Notice**) to the Holders of the Notes in accordance with Condition 13, the Trustee and the Paying Agents, with effect from (and including) the Redenomination Date, elect that the aggregate principal amount of each Holder's holding of Notes shall be redenominated into Euro with an aggregate principal amount equal to their aggregate principal amount in the Relevant Currency and the amount of such payment shall be rounded to the nearest Euro 0.01. The rate for the conversion of the Relevant Currency (as defined below) into Euro shall be the rate established by the Council of the European Union pursuant to Article 881(4) of the Treaty establishing the European Community (the **Treaty**) (including compliance with rules relating to roundings in accordance with applicable European Community regulations).

"Participating Member State" means a Member State of the European Communities which adopts the Euro as its lawful currency in accordance with the Treaty.

"Redenomination Date" means any Interest Payment Date falling on or after the date on which the country of the Relevant Currency becomes a Participating Member State, which is specified in the Redenomination Notice.

"Relevant Currency" means the currency of denomination of the Notes shown on such Notes and which is specified in the Pricing Supplement.

On or after the Redenomination Date, notwithstanding the other provisions of the Conditions, all payments in respect of the Notes will be made solely in Euro, including payments of interest in respect of a period before the Redenomination Date. Payments will be made in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee. None of the Republic, the Trustee or any Paying Agent shall be liable to any Holder of Notes or other person for any commissions, costs, losses or expenses in relation to or resulting from the credit or transfer of Euro or any currency conversion or rounding effected in connection therewith;

(ii) provided that the Notes are represented by a Registered Global Security, the Republic may, without the consent of the Holders of the Notes, on giving at least 30 days' prior notice to the Holders of the Notes in accordance with Condition 13, the Trustee and the Paying Agents, with effect from the Redenomination Date or such later date as it may specify in that notice, procure that the denomination of the Notes shall be Euro 0.01 and integral multiples thereof;

(iii) the Republic may, without the consent of the Holders of the Notes, on giving at least 30 days' prior notice to the Holders of the Notes in accordance with Condition 13, the Trustee and the Paying Agents, with effect from the Redenomination Date or such later Interest Payment Date as it may specify in that notice, elect to amend the conventions which apply in respect of the Notes.

In particular, the Republic may procure that the definition of "Business Day" and "Financial Center" in Condition 2B shall be amended so as to be a day on which TARGET is operating, and that, if interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the actual number of days elapsed divided by 365 (or, if any of the days on the basis of the actual number of days elapsed divided by 365 (or, if any of the days elapsed fall in a leap year, the sum of (A) the number of those days falling in a leap year divided by 366 and (B) the number of those days falling in a non-leap year divided by 365) or on any other basis which is customary and which the Republic deems appropriate.

3. Payments

(a) Registered Notes

Principal of (and premium, if any, on) the Registered Notes will be payable against surrender of such Registered Notes at the Corporate Trust Office of the Trustee in New York City or, subject to applicable laws and regulations, at the office outside of the United States of a Paying Agent, by check in the Specified Currency drawn on, or by transfer to an account in the Specified Currency maintained by the Holder with, a bank located in New York City (or, the Financial Center set out in the Pricing Supplement). Unless specified in the Pricing Supplement, payment of interest (including Additional Amounts (as defined below)) on Registered Notes will be made to the persons in whose name such Registered Notes are registered at the close of business on the Clearing System Business Day immediately prior to the date for payment where "Clearing System Business Day" means Monday to Friday except December 25 and January 1; provided that if and to the extent the Republic shall default in the payment of the interest due on such Interest Payment Date, such defaulted interest shall be paid to the persons in whose names such Registered Notes are registered as of a subsequent record date established by the Republic by notice, as provided in Condition 13, by or on behalf of the Republic to the Holders not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest. Payment of interest on Certificated Securities will be made (i) by a check in the Specified Currency drawn on a bank in New York City (or, the Financial Center set out in the Pricing Supplement) mailed to the Holder at such Holder's registered address or (ii) upon application by the Holder of at least the amount specified in the Pricing Supplement in principal amount of Certificated Securities to the Trustee not later than the close of business on the Clearing System Business Day immediately prior to the date for payment, by wire transfer in immediately available funds to an account maintained by the Holder with a bank in New York City (or, the Financial Center set out in the Pricing Supplement), Payment of interest on a Registered Global Security will be made (i) by a check in the Specified Currency drawn on a bank in

New York City delivered to the Depositary at its registered address or (ii) by wire transfer in immediately available funds to an in the Specified Currency account maintained by the Depositary with a bank in New York City (or, the Financial Center set out in the Pricing Supplement).

Bearer Notes

Each Paying Agent acting through its specified office outside the United States, its territories and possessions should make payments of principal and interest in respect of Bearer Notes in accordance with the terms of the Indenture applicable to such Bearer Notes; provided, however, that:

(i) if any Temporary Global Note, Permanent Global Note, Definitive Bearer Note, Receipt or Coupon is presented or surrendered for payment to any Paying Agent and such Paying Agent has delivered a replacement therefor or has been notified that the same has been replaced, such Paying Agent should promptly notify the Republic of such presentation or surrender and shall not make payment against the same until it is so instructed by the Republic and has received the amount to be so paid;

(ii) a Paying Agent should not be obliged (but shall be entitled) to make payments of principal or interest in respect of the Bearer Notes, if it is not able to establish that the Trustee has received (whether or not at the due time) the full amount of any payment due to it;

(iii) (the relevant Paying Agent should cancel or procure the cancellation of each Temporary Global Note, Permanent Global Note, Definitive Bearer Note (together, in the case of early redemption, with such unmatured Receipts or Coupons or unexchanged Talons as are attached to such Definitive Bearer Note at the time of such redemption), Receipt, Coupon or Talon, against surrender of which it has made full payment and should (if such Paying Agent is not the Trustee) deliver or procure the delivery of each Temporary Global Note, Permanent Global Note, Definitive Bearer Note (together with, as aforesaid, such unmatured Receipts or Coupons or unexchanged Talons as are attached to or surrendered with the relevant Bearer Notes), Receipt, Coupon or Talon so cancelled by it to, or to the order of, the Trustee; or

(iv) in the case of payment of interest, principal or, as the case may be, any other amount against presentation of a Temporary Global Note, the relevant Paying Agent should note or procure that there is noted on the schedule thereto (or, in the absence of a schedule, on the face thereof) the amount of such payment and, in the case of payment of principal, the remaining principal amount of the relevant Bearer Note (which shall be the previous principal amount less the principal which has then been paid) and shall procure the signature of such notation on its behalf.

Payments of principal and interest on Bearer Global Notes will be made in a manner specified in the relevant Bearer Global Notes against presentation or surrender, as the case may be, of such Bearer Global Note at the office of the relevant Paying Agent outside of the United States. A record of each payment of principal and any payment of interest will be made on each relevant Bearer Global Note by the relevant Paying Agent and such record will be prima facie evidence that the payment in question has been made absent manifest error.

Payments of principal and interest on Definitive Bearer Notes will be made against presentation or surrender, as the case may be, of such Definitive Bearer Note at the office of the relevant Paying Agent outside of the United States. Payments of interest in respect of Definitive Bearer Notes will be made only against surrender of Coupons and payments of principal will be made only against surrender of Receipts, in each, at the office of the relevant Paying Agent outside of the United States.

Notwithstanding the provisions of Condition 3(b) and 3(c), if payments of interest and/or principal on a Bearer Note will be made in U.S. dollars, such payments may be made in the United States if:

(1) the Republic has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(2) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(3) such payment is then permitted under United States law without involving, in the opinion of the Republic, adverse tax consequences to the Republic.

A record of each payment of principal and any payment of interest will be made on each relevant Bearer Global Notes by the relevant Paying Agent and such record will be prima facie evidence that the payment in question has been made, absent manifest error.

No Paying Agent should exercise any Lien, right of set-off or similar claim against any person to whom it makes any payment under Section 309(a) in respect thereof, nor shall any commission or expenses be charged by it to any such person in respect thereof.

If a Paying Agent makes any payment in accordance with Condition 3(a)(i), it should notify the Trustee of the amount so paid by it, the serial number of the relevant Temporary Global Note, Permanent Global Note or Definitive Bearer Note against presentation or surrender of which payment of principal or interest was made and the number of Coupons by maturity against which payment of interest was made.

If at any time and for any reason a Paying Agent makes a partial payment in respect of a Temporary Global Note, Permanent Global Note, Definitive Bearer Note, Receipt or Coupon presented for payment to it, such Paying Agent should endorse thereon a statement indicating the amount and date of such payment.

(b) Unless another Business Day Convention is specified in the Pricing Supplement in any case where the date of payment of the principal of, or interest (including Additional Amounts), on the Notes shall not be a Business Day, then payment of principal or interest (including Additional Amounts) need not be made on such date at the relevant place of payment but may be made on the next succeeding Business Day. Any payment made on a date other than the date on which such payment is due as set forth herein shall have the same force and effect as if made on the date on which such payment is due, and no interest shall accrue for the period after such date.

(c) Interest in respect of any period of less than one year shall be calculated on the basis of the Day Count Fraction specified in the Pricing Supplement.

(d) All monies paid by or on behalf of the Republic to the Trustee or to any Paying Agent for payment of the principal of, or interest (including Additional Amounts) on, any Note and not applied but remaining unclaimed for two years after the date upon which such amount shall have become due and payable shall be repaid to or for the account of the Republic by the Trustee or such Paying Agent, the receipt of such repayment to be confirmed promptly in writing by or on behalf of the Republic. The Holder or Holders of such Note or Notes shall thereafter look only to the Republic for the payment that such Holder may be entitled to collect, and all liability of the Trustee or such Paying Agent with respect to such monies shall thereupon cease.

(e) If the Republic at any time defaults in the payment of any principal of, or interest (including Additional Amounts) on, the Notes, the Republic will pay interest on the amount in default (to the extent permitted by law in the case of interest on interest), calculated for each day until paid, at the rate per annum (the "Default Rate") specified in the Pricing Supplement, together with Additional Amounts, if applicable.

"Business Day" shall mean:

(i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial Center for such currency and/or

(ii) in the case of euro, a day on which the TARGET System is operating (a "TARGET Business Day"); and/or

(iii) in the case of a currency and/or one or more Business Centers a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Center(s) or, if no currency is indicated, generally in each of the Business Centers.

4. Taxation

(a) The Republic will make all principal and interest payments on the Notes, to the extent permitted by law, without withholding or deducting any present or future taxes, levies, imposts, duties, assessments or other charges of whatever nature imposed by the Republic or any of its political subdivisions ("Indonesian Taxes"). If Indonesian law requires the Republic to withhold or deduct any Indonesian Taxes, the Republic will pay the Holders of Notes such additional amounts ("Additional Amounts") necessary to ensure that they receive the same amount as they would have received without any

withholding or deduction. The Republic will not, however, pay any Additional Amounts in connection with any Indonesian Taxes that are imposed due to any of the following:

(i) the Holder has or had some connection with the Republic other than merely owning or holding the Notes or receiving principal and interest payments on the Notes;

(ii) the Holder has failed to present any such Notes for payment (where such presentment is required) within 30 days after the date on which such payment has been made available to the Holder except to the extent that the Holder thereof would have been entitled to such Additional Amounts on presenting such Note for payment on the last of such 30 days; or

(iii) the Holder is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent such payment would be required to be included in the income, for tax purposes, of a beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner who would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the Holder.

Any reference to "principal" or "interest" on the Notes includes any Additional Amounts which may be payable on the Notes,

(b) The Republic will pay any present or future stamp, court or documentary taxes or any excise or property taxes, charges or similar levies which arise in the Republic or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the Notes or any other document or instrument referred to therein.

5. Negative Pledge Covenant of the Republic

So long as any Note, Receipt or Coupon shall remain Outstanding, the Republic will not create or permit the creation of any mortgage, charge, lien, pledge or any other security interest on any of its present or future assets or revenues, or any part thereof, to secure any Public External Indebtedness (as defined below), unless the Republic shall procure that all amounts payable under the Notes are secured equally and ratably.

"Indebtedness" means any indebtedness for money borrowed or any guarantee of indebtedness for money borrowed which is issued by and in the name of the Republic and is backed by the full faith and credit of the Republic, As used in the preceding sentence, money borrowed "by and in the name of the Republic" shall not include the borrowings of any state-owned enterprise or other agency, authority, department or instrumentality which under the laws of the Republic constitutes a juridical entity or statutory body separate from the Republic so long as such Indebtedness does not carry the full faith and credit of the Republic.

"External Indebtedness" means Indebtedness which is denominated or payable by its terms in, or at the option of the holder thereof payable in, a currency or currencies other than the lawful currency of the Republic.

"Public External Indebtedness" means External Indebtedness which (i) is publicly issued or privately placed in the capital markets, (ii) is in the form of, or represented by, bonds, debentures, notes or other similar instruments or book entries and (iii) is, or is eligible to be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market.

"Security Interest" means any security interest, lien, pledge, mortgage, deed of trust, charge or other encumbrance, security interest or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind whether in effect on the date the Indenture becomes effective or at any time thereafter.

Notwithstanding the above, the Republic may create or permit the creation of any Security Interests:

(i) securing Public External Indebtedness incurred, assumed or guaranteed by the Republic solely to finance or refinance the acquisition, construction or development of the property over which such Security Interest has been created or permitted to be created, provided that such Security Interest does not extend to any other property of the Republic; however, in the case of construction, the Security Interest may extend to: unimproved real property for the construction, any trust account into which the proceeds of the offering creating such Public External Indebtedness may be temporarily deposited pending use in the construction, and the revenues to be generated by the operation of, or loss or damage to, the property to be constructed;

(ii) existing on any property or asset at the time of its acquisition (or arising after its acquisition pursuant to an agreement entered into prior to, and not in contemplation of, such acquisition), and extensions and renewals of such Security Interest limited to the original property or asset covered thereby and securing any extension or renewal of the original secured financing;

(iii) arising out of the renewal, extension or replacement of any indebtedness permitted under Condition 5(ii) above; provided, however, that the principal amount of such Public External Indebtedness is not increased;

(iv) arising in the ordinary course of borrowing activities of the Republic to secure Public External Indebtedness with a maturity of one year or less;

(v) in existence as of the date of the issuance of the Notes;

(vi) pursuant to any order of attachment, distraint or similar legal process arising in connection with court proceedings which proceedings are being contested in good faith; or

(vii) arising by operation of law, provided that any such Security Interest is not created or permitted to be created by the Republic for the purpose of securing any Public External Indebtedness.

6. Events of Default

If one or more of the following events (each an "Event of Default") shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) the Republic defaults in any payment of the principal of or interest on any of the Notes and such default is not cured within 30 days; or

(b) the Republic defaults in the performance of any other covenant in the Notes and such default continues for a period of 60 days after written notice thereof has been given to the Republic at the corporate trust office of the Trustee in The City of New York by Holders representing at least 10% of the aggregate principal amount of the Notes outstanding; or

(c) any Public External Indebtedness in a principal amount in excess of U.S.$50,000,000 (or the equivalent amount thereof in any other currency) is accelerated (other than by optional or mandatory prepayment or redemption); or

(d) the Republic defaults in the payment of principal or interest in excess of U.S.$50,000,000 (or the equivalent amount thereof in any other currency) payable (whether upon maturity, acceleration or otherwise) in connection with Public External Indebtedness beyond any applicable grace and waiver periods and such default shall not have been cured or waived within 30 days after written notice thereof has been given to the Republic by the Trustee or to the Republic at the Corporate Trust Office of the Trustee in The City of New York by any Holder; or

(e) the Republic declares a moratorium with respect to the payment of principal of or interest on any Public External Indebtedness,

then in each and every such case, upon notice in writing by the Trustee to the Republic, or upon notice in writing by the Holders (the "Demanding Holders") (acting individually or together) of not less than 25% of the aggregate Outstanding principal amount of the Notes to the Republic, with a copy to the Trustee, of any such Event of Default and its continuance, the Trustee or the Demanding Holders may declare the principal amount of all the Notes due and payable immediately, and the same shall become and shall be due and payable upon the date that such written notice is received by or on behalf of the Republic, unless prior to such date such Event or Events of Default in respect of all the Notes shall have been cured; provided that if the Event or Events of Default giving rise to such declaration, other than the nonpayment of the principal of the Notes which shall have become due solely by acceleration, shall have been cured, waived or otherwise remedied as provided herein, then, and in every such case, the Holders of at least a Majority in aggregate principal amount of the Notes then Outstanding, by written notice to the Republic and to the Trustee, may, on behalf of all of the Holders, waive all defaults and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon. Actions by Holders pursuant to Condition 6 need not be taken at a meeting pursuant to Condition 8.

7. Redemption

(a) **Redemption by Installments and Final Redemption:**

(i) Unless previously redeemed, purchased and cancelled each Note that provides for Installment Dates and Installment Amounts shall be partially redeemed on each Installment Date at the related Installment Amount specified in the Pricing Supplement. The outstanding nominal amount of each such Note shall be reduced by the Installment Amount (or, if such Installment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Installment Date, unless payment of the Installment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Installment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the Pricing Supplement at its Final Redemption Amount (which, unless otherwise provided in the Pricing Supplement, is its nominal amount) or, in the case of a Note falling within Condition 7(a)(i), its final Installment Amount.

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 7(c) or upon it becoming due and payable as provided in Condition 6 shall be the Amortized Face Amount (calculated as provided below) of such Note unless otherwise specified in the Pricing Supplement.

(B) Subject to the provisions of Condition 7(b)(i)(C), the Amortized Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortization Yield (which, if none is shown in the Pricing Supplement, shall be such rate as would produce an Amortized Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 7(c) or upon it becoming due and payable as provided in Condition 6 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortized Face Amount of such Note as defined in Condition 7(b)(i)(B), except that such Condition shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortized Face Amount in accordance with Condition 7(b)(i)(C) shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

(D) Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the Pricing Supplement.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in (i) above), upon redemption of such Note pursuant to Condition 7(c) or upon it becoming due and payable as provided in Condition 6, shall be the Final Redemption Amount unless otherwise specified in the Pricing Supplement.

(c) **Redemption for Taxation Reasons:**

The Notes may be redeemed at the option of the Republic in whole, but not in part, on any Interest Payment Date (if the Note is either a Floating Rate Note or an Index Linked Note) or at any time (if the Note is neither a Floating Rate Note nor an Index Linked Note), on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 7(b)) (together with interest accrued to the date fixed for redemption), if (i) the Republic satisfies the Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 4 as a result of any change in, or amendment to, the laws or regulations of the Republic of Indonesia or any political

subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, and (ii) such obligation cannot be avoided by the Republic taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Republic would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Before the publication of any notice of redemption pursuant to Condition 7(c), the Republic shall deliver to the Trustee a certificate signed by two Authorized Officers of the Republic stating that the obligation referred to in (i) above cannot be avoided by the Republic taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on Holders and Couponholders.

(d) **Redemption at the Option of the Republic:**

If Call Option is specified in the Pricing Supplement, the Republic may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Holders (or such other notice period as may be specified in the Pricing Supplement) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the Pricing Supplement and no greater than the Maximum Redemption Amount to be redeemed specified in the Pricing Supplement.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with Condition 7(d).

In the case of a partial redemption the notice to Holders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes selected and the holder(s) of such Registered Notes, to be redeemed, which shall have been selected in such place as the Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) **Redemption at the Option of Holders:**

If Put Option is specified in the Pricing Supplement, the Republic shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Republic (or such other notice period as may be specified in the Pricing Supplement) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit a duly completed option exercise notice ("Exercise Notice") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period with the Registrar or any Transfer Agent at its specified office, in the case of Definitive Notes together with the relevant Definitive Note representing such Note(s). No Note so deposited and option exercised may be withdrawn without the prior consent of the Republic.

(f) **Partly Paid Notes:**

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of Condition 7 and the provisions specified in the Pricing Supplement.

8. Holders' Meetings

(a) The Republic or the Trustee at any time may, and upon a request in writing (specifying the proposed action to be taken) to the Trustee made by Holders holding not less than 10% in aggregate principal amount of the Notes at the time Outstanding the Trustee shall, convene a meeting of Holders. The Republic or the Trustee, as applicable, shall give notice of each meeting of Holders, setting forth the time and place of the meeting and in general terms the topics to be discussed, or the action to be taken, at that meeting, not less than 30 nor more than 60 days prior to the date fixed for the meeting. To be entitled to vote at any meeting of Holders of Notes a Person shall be, as of the date reasonably set by

the Trustee, (i) a Holder of one or more Notes or (ii) a Person appointed by an instrument in writing as proxy by the Holder of one or more Notes. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel, the Trustee and its counsel, and any representatives of the Republic and its counsel.

(b) Holders entitled to vote a majority in aggregate principal amount of the Notes at the time Outstanding shall constitute a quorum at a meeting convened to discuss or vote on any matter other than a Reserved Matter. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than ten days. Notice of reconvening of any such meeting need be given only once but must be given not less than five days prior to the date on which the meeting is scheduled to be reconvened. Subject to the foregoing, at the reconvening of any meeting adjourned for lack of a quorum, the Holders entitled to vote 25% in aggregate principal amount of the Notes at the time Outstanding shall constitute a quorum for the taking of any action set forth in the notice of the original meeting and such quorum requirement shall be expressly stated in the notice of reconvening.

(c) Holders entitled to vote at least 75% in aggregate principal amount of the Notes at the time Outstanding shall constitute a quorum at any meeting convened to discuss or vote on a Reserved Matter. In the absence of a quorum at any such meeting, the meeting may be adjourned for a period of not less than 10 days. Notice of reconvening of any such meeting need be given only once but must be given not less than five days prior to the date on which the meeting is scheduled to be reconvened.

Further provisions for meetings of Holders, including procedures for voting, are contained in Clause 11 of the Indenture.

9. Replacement, Exchange and Transfer of Notes

(a) Upon the terms and subject to the conditions set forth in the Indenture, in case any Note shall become mutilated, defaced or be apparently destroyed, lost or stolen, the Republic will execute, and upon the request of the Republic, the Trustee or the Registrar, as applicable, shall authenticate and deliver, a new Note bearing a number not contemporaneously Outstanding, in exchange and substitution for the mutilated or defaced Note, or in lieu of and in substitution for the apparently destroyed, lost or stolen Note. In every case, the applicant for a substitute Note shall furnish to the Republic and to the Trustee such security or indemnity as may be required by each of them to indemnify, defend and to save each of them and any agent of the Republic or the Trustee harmless and, in every case of destruction, loss or theft, evidence to their satisfaction of the apparent destruction, loss or theft of such Note and of the ownership thereof. Upon the issuance of any substitute Note, the Holder of such Note, if so requested by the Republic, shall pay a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected with the preparation and issuance of the substitute Note.

(b) Upon the terms and subject to the conditions set forth in the Indenture, and subject to Condition 9(e), a Definitive Note or Notes may be changed for an equal aggregate principal amount of Certificated Securities in the Specified Denominations, and a beneficial interest in the Registered Global Security may be exchanged for Certificated Securities in the Specified Denominations or for a beneficial interest in another Registered Global Security by the Holder or Holders surrendering the Note or Notes for exchange at the Corporate Trust Office of the Trustee in The City of New York or at the office of a transfer agent, together with a written request for the exchange. Definitive Notes will only be issued in exchange for interests in a Registered Global Security pursuant to Clauses 2.5.7 through 2.5.11 of the Indenture. The exchange of the Notes will be made by the Trustee in The City of New York.

(c) Upon the terms and subject to the conditions set forth in the Indenture, and subject to Condition 9(e), a Certificated Security may be transferred in whole or in a smaller Specified Denomination by the Holder or Holders surrendering the Certificated Security for transfer at the Corporate Trust Office of the Trustee in The City of New York or at the office of a Paying Agent accompanied by an executed instrument of transfer substantially as set forth in Exhibit K to the Indenture. The registration of transfer of the Notes will be made by the Trustee in The City of New York.

(d) The costs and expenses of effecting any exchange, transfer or registration of transfer pursuant to Condition 9 will be borne by the Republic, except for the expenses of delivery (if any) not made by regular mail and the payment of a sum sufficient to cover any stamp duty, transfer tax or other governmental charge or insurance charge that may be imposed in relation thereto, which will be borne by the Holder.

(e) The Trustee may decline to accept any request for an exchange or registration of transfer of any Registered Note during the period of 15 days preceding the due date for any payment of principal of or interest on the Registered Notes.

10. Trustee

For a description of the duties and the immunities and rights of the Trustee under the Indenture, reference is made to the Indenture, and the obligations of the Trustee to the Holder of a Note are subject to such immunities and rights.

11. Paying Agents; Transfer Agents; Registrar

The Republic has initially appointed the Paying Agents, transfer agents and registrar. The Republic may at any time appoint additional or other Paying Agents, transfer agents and, in respect of Registered Notes, registrars and terminate the appointment of those or any Paying Agents, transfer agents and registrar, provided that while the Notes are Outstanding the Republic will maintain in London and, in respect of Registered Notes, New York City (i) a Paying Agent, (ii) an office or agency where the Notes may be presented for exchange, transfer and registration of transfer as provided in the Indenture and (iii) in respect of Registered Notes, a registrar. In addition, if and for so long as the Notes are listed on the SGX-ST and the rules of such exchange so require, the Republic will maintain a Paying Agent and Transfer Agent in Singapore. Notice of any such termination or appointment and of any change in the office through which any Paying Agent, transfer agent or registrar will act will be promptly given in the manner described in Condition 13.

12. Enforcement

Except as provided in Clause 4.6 of the Indenture, no Holder of any Notes shall have any right by virtue of or by availing itself of any provision of the Indenture or the Notes to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Indenture or the Notes, or for any other remedy hereunder or under the Notes, unless (a) such Holder previously shall have given to the Trustee written notice of default and of the continuance thereof with respect to the Notes, (b) the Holders of not less than 25% in aggregate principal amount Outstanding of the Notes shall have made written request to the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have provided to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby and (c) the Trustee for 60 days after its receipt of such notice, request and provision of indemnity shall have failed to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Trustee pursuant to Clause 4.8 of the Indenture, it being understood and intended, and being expressly covenanted by every Holder of Notes with every other Holder of Notes and the Trustee, that no one or more Holder shall have any right in any manner whatever by virtue or by availing itself of any provision of the Indenture or of the Notes to affect, disturb or prejudice the rights of any other Holder of Notes or to obtain priority over or preference to any other such Holder, or to enforce any right under the Indenture or under the Notes, except in the manner herein provided and for the equal, ratable and common benefit of all Holders. For the protection and enforcement of Condition 12, each and every Holder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

13. Notices

Notices by the Republic will be in writing in the English language and will be mailed to Holders of Notes at their registered addresses and shall be deemed to have been given on the date of such mailing. So long as the Notes are listed on the SGX-ST and the rules of the exchange so require, notices to Holders will be valid if published in a daily newspaper having general circulation in Singapore (which is expected to be the *Business Times*). Any such notice shall be deemed to have been given on the date of such publication, or if published more than once, on the first date on which publication is made. If publication is not practicable, the Republic will have validly given notice if it gives notice in accordance with the rules of the SGX-ST.

14. Further Issues of Notes

The Republic may, without the consent of the Holders, create and issue additional Notes with the same terms and conditions as the Notes (or that are the same except for the amount of the first interest payment and for the interest paid on the Notes prior to the issuance of the additional Notes). The Republic may

consolidate such additional Notes with the outstanding Notes to form a single Series, so long as such additional Notes do not have a greater amount of original issue discount for United States federal tax purposes than the outstanding Notes have as of the date of the issue of such additional Notes.

15. No Sinking Fund

The Notes will not be subject to any sinking fund.

16. Authentication

A Note shall not become valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Trustee or its agent.

17. Governing Law

(a) The Notes will be governed by and interpreted in accordance with the laws of the State of New York.

(b) The Republic hereby irrevocably submits to the jurisdiction of any federal court in the Southern District of New York or any state court in the Borough of Manhattan, The City of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to the Notes, and the Republic hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such New York state or federal court. The Republic hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding and any right of jurisdiction in such action or proceeding on account of the place of residence or domicile of the Republic. The Republic hereby appoints the Representative Office of Bank Indonesia in The City of New York as its authorized agent (the "Process Agent") upon which process may be served in any action by the Trustee or a Holder arising out of or based on the Notes or the Indenture which may be instituted in any federal court in the Southern District of New York or any state court in the Borough of Manhattan, The City of New York, and the Republic expressly accepts the jurisdiction of any such court in respect of such action. Such appointment shall be irrevocable until all amounts in respect of the principal and interest, due or to become due on or in respect of all the Notes have been paid by the Republic to the Trustee or unless and until the appointment of a successor as such Process Agent located in the Borough of Manhattan, The City of New York, and such successor's acceptance of such appointment. Service of process upon the Process Agent at One Liberty Plaza, 165 Broadway, 31st Floor, New York, New York 10006 (fax: 1-212-732-4003), or at such other address in the United States as may be the office of the Process Agent at the time of such service, and written notice of such service mailed or delivered to the Republic shall be deemed in every respect service of process upon the Republic. The failure of the Process Agent to advise the Republic of its receipt of such service shall have no effect on the validity or timeliness of any such service. Notwithstanding the foregoing, any action by the Trustee or a Holder arising out of or based on the Notes or the Indenture may be instituted by such Person in any competent court in the Republic.

(c) The Republic hereby waives irrevocably, to the fullest extent permitted by law, any immunity to which it might otherwise be entitled under the Immunities Act or otherwise in any action arising out of or based on the Notes or the Indenture which may be instituted as provided herein in any federal court in the Southern District of New York, any state court in the Borough of Manhattan, The City of New York or in any competent court in the Republic; such waiver shall not be subject to retraction or modification by the Republic. Notwithstanding anything to the contrary in the Indenture or the Notes, such waiver of immunity shall not be deemed or interpreted to include any waiver of immunity in respect of (i) actions brought against the Republic arising out of or based upon U.S. federal or state securities laws; (ii) attachment under Indonesian law; (iii) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961; (iv) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963; (v) any other property or assets used solely or mainly for governmental or public purposes in the Republic or elsewhere; or (vi) military property or military assets or property or assets of the Republic related thereto.

(d) Notwithstanding anything to the contrary herein, none of the provisions in Condition 17 shall apply to actions brought under the United States federal securities laws or any State securities laws.

18. Purchases of Notes by the Republic

The Republic may at any time purchase or acquire any of the Notes in any manner and at any price. The Notes which are purchased or acquired by the Republic may, at the Republic's discretion, be held, resold or surrendered to the Trustee for cancellation.

19. Modifications

(a) Any modification, amendment, supplement or waiver (each, a "Modification") to the Indenture or the terms and conditions of the Notes may be made or given pursuant to (i) a written action of the Holders without the need for a meeting, or (ii) by vote of the Holders taken at a meeting of Holders thereof, in each case in accordance with the terms of Condition 19 and the other applicable provisions of the Notes and the Indenture.

(b) Modifications to the terms and conditions of the Notes, or to the Indenture insofar as it affects the Notes, may be made, and future compliance therewith may be waived:

(i) in the case of any Non-Reserved Matter (as defined below), with the consent of the Republic and

(A) with the affirmative vote of the Holders of not less than a Majority in aggregate principal amount of the Notes at the time Outstanding that are represented at a meeting, or

(B) with the written consent of the Holders of not less than a Majority in aggregate principal amount of the Notes at the time Outstanding, or

(ii) in the case of any Reserved Matter (as defined below), with the consent of the Republic and the Holders of not less than 75% in aggregate principal amount of the Notes at the time Outstanding, voting at a meeting or by written consent.

(c) Any Modification consented to or approved by the Holders pursuant to Condition 19 will be conclusive and binding on all Holders, whether or not they have given such consent or were present at a meeting of Holders at which such action was taken, and on all future Holders whether or not notation of such Modification is made upon the Notes. Any instrument given by or on behalf of any Holder in connection with any consent to or approval of any such Modification will be conclusive and binding on all subsequent Holders.

(d) For purposes of this "Description of the Notes",

(i) "Non-Reserved Matter" means any Modification other than a Modification constituting a Reserved Matter.

(ii) "Outstanding" means, in respect of the Notes, the Notes authenticated and delivered pursuant to the Indenture except:

(A) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation or held by the Trustee for reissuance but not reissued by the Trustee;

(B) Notes that have been called for redemption in accordance with their terms or which have become due and payable at maturity or otherwise and with respect to which monies sufficient to pay the principal thereof (and premium, if any) and any interest thereon shall have been made available to the Trustee;

(C) Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to the Indenture; or

(D) Notes purchased, owned or controlled, directly or indirectly, by the Republic or by any Public Sector Instrumentality as provided in Clause 6.4.1 of the Indenture.

(iii) "Reserved Matter" means any Modification that would:

(A) change the date for payment of principal or premium of, or any installment of interest on, the Notes;

(B) reduce the principal amount or redemption price or premium, if any, payable under the Notes;

(C) reduce the Rate of Interest on the Notes;

(D) reduce the portion of the principal amount which is payable in the event of an acceleration of the maturity of the Notes;

(E) change the currency or place of payment of any amount payable under the Notes;

(F) permit early redemption of the Notes or, if early redemption is already permitted, set a redemption date earlier than the date previously specified or reduce the redemption price;

(G) change the definition of Outstanding or the percentage of votes required for the taking of any action pursuant to Condition 19 and Clause 12 of the Indenture in respect of the Notes;

(H) change the obligation of the Republic to pay Additional Amounts in respect of the Notes;

(I) change the governing law provisions of the terms and conditions of the Notes;

(J) change the courts of the jurisdiction to which the Republic has submitted, the Republic's obligation to appoint and maintain an agent for service of process or the Republic's waiver of immunity, in respect of actions or proceedings brought by any Holder as set forth in the terms and conditions of the Notes;

(K) in connection with an exchange offer, amend any Event of Default set forth in the terms and conditions of the Notes; or

(L) change the *pari passu* ranking provisions of the terms and conditions of the Notes.

(M) "Reserved Matter Modification" means any Modification constituting a Reserved Matter.

20. Transfers

(a) Restricted Global Security

Unless otherwise specified in the applicable Pricing Supplement, if (1) the owner of a beneficial interest in a Restricted Global Security wishes to transfer such interest (or portion thereof) to a Non-U.S. Person pursuant to Regulation S and (2) such Non-U.S. Person wishes to hold its interest in the Note through a beneficial interest in the Unrestricted Global Security, (x) upon receipt by the Registrar, as Transfer Agent, of:

(i) instructions from the Holder of the Restricted Global Security directing the Custodian and Registrar to credit or cause to be credited a beneficial interest in the Unrestricted Global Security equal to the principal amount of the beneficial interest in the Restricted Global Security to be transferred, and

(ii) a certificate from the transferor as to compliance with Regulation S in form and substance required by the Indenture,

and (y) subject to the rules and procedures of DTC and the common depositary for Euroclear and Clearstream, the Registrar, as Transfer Agent, shall instruct DTC to increase the Unrestricted Global Security and decrease the Restricted Global Security by such amount in accordance with the foregoing, and the Registrar, as Transfer Agent, shall instruct the common depositary for Euroclear and Clearstream, as the case may be, concurrently with such reduction, to increase the principal amount of the Unrestricted Global Security of the same Series by the aggregate principal amount of the beneficial interest in the Restricted Global Security to be so exchanged or transferred, and to credit or cause to be credited to the account of the person specified in such instructions a beneficial interest in such Unrestricted Global Security equal to the reduction in the principal amount of such Restricted Global Security.

(b) Unrestricted Global Security

Unless otherwise specified in the applicable Pricing Supplement, if the owner of an interest in a Unrestricted Global Security wishes to transfer such interest (or any portion thereof) to a QIB pursuant to Rule 144A prior to the expiration of the Distribution Compliance Period therefor, (x) upon receipt by the Registrar, as Transfer Agent, of:

(i) instructions from the Holder of the Unrestricted Global Security directing the Custodian and Registrar to credit or cause to be credited a beneficial interest in the Restricted Global Security equal to the principal amount of the beneficial interest in the Unrestricted Global Security to be transferred, and

(ii) a certificate from the transferor as to compliance with Rule 144A in form and substance required by the Indenture,

and (y) in accordance with the rules and procedures of DTC, the common depositary for Euroclear and Clearstream, the Registrar, as Transfer Agent, shall instruct DTC to increase the Restricted Global Security and decrease the Unrestricted Global Security by such amount in accordance with the foregoing and the Registrar, as Transfer Agent, shall instruct the common depositary for Euroclear and Clearstream, or the custodian for DTC, as applicable, to reduce the principal amount of the Unrestricted Global Security by the aggregate principal amount of the beneficial interest in such Unrestricted Global Security or to be exchanged or transferred, and the Registrar, as Transfer Agent, shall instruct DTC, concurrently with such reduction, to increase the principal amount of such Restricted Global Security by the aggregate principal amount of the beneficial interest in such Unrestricted Global Security to be so exchanged or transferred, and to credit or cause to be credited to the account of the person specified in such instructions a beneficial interest in the Restricted Global Security equal to the reduction in the principal amount of such Unrestricted Global Security.

(c) Other Transfers or Exchanges

Any transfer of Restricted Global Securities not described above (other than a transfer of a beneficial interest in a Global Security that does not involve an exchange of such interest for a Certificated Security or a beneficial interest in another Global Security, which must be effected in accordance with applicable law and the rules and procedures of DTC, the common depositary for Euroclear and Clearstream, but is not subject to any procedure required by the Indenture) shall be made only upon receipt by the Registrar of such opinions of counsel, certificates and/or other information reasonably required by and satisfactory to it in order to ensure compliance with the Securities Act or in accordance with the above. Certificated Securities will not be exchangeable for Bearer Notes.

USE OF PROCEEDS

Unless otherwise specified in the Pricing Supplement for any Tranche or Series of Notes, the Republic will use the net proceeds from the sale of Notes in such Tranche or Series offered pursuant to the Program to meet part of its general financing requirements.

FORMS OF THE NOTES

The Notes of each Series will be in bearer or registered form.

Unless otherwise provided with respect to a particular Series, Notes of each Series sold outside the United States in reliance on Regulation S will be represented by interests in a Temporary Global Note (as defined below), Permanent Global Note (as defined below) or by a permanent global note in registered form, without interest coupons (an **Unrestricted Global Security**), which may be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream. With respect to all offers or sales by a Dealer of an unsold allotment or subscription, beneficial interests in a Temporary Global Note or Bearer Notes issued in definitive form (**Definitive Bearer Note**) may not be offered or sold to, or for the account or benefit of, a U.S. person (unless pursuant to the Securities Act or an exemption therefrom) and may be held only through Euroclear and Clearstream, as the case may be. Temporary Global Notes, Permanent Global Notes and Unrestricted Global Securities will be exchangeable for Bearer Definitive Notes or Certificated Securities, as applicable, only in limited circumstances as more fully described in **Global Clearance and Settlement Systems**.

Notes of each Series to be issued in registered form (**Registered Notes**) may only be offered and sold in the United States in private transactions: (i) to QIBs or (ii) to Institutional Accredited Investors who agree to purchase the Notes for their own account and not with a view to the distribution thereof. Registered Notes of each Series sold in private transactions to QIBs pursuant to Rule 144A will, unless specified in the applicable Pricing Supplement, be represented by a restricted permanent global note in registered form, without coupons (a **Restricted Global Security**) deposited with a custodian for, and registered in the name of a nominee of, DTC.

Registered Notes of each Series sold to Institutional Accredited Investors will be in definitive form, registered in the name of the holder thereof, such Notes are defined as 4(2) Notes in the Indenture. Notes in fully-registered certificated form (other than a global security (as defined below) evidencing all or part of a Series of Notes (each a **Certificated Security**) will, at the request of the holder (except to the extent otherwise indicated in the applicable Pricing Supplement), be issued in exchange for interests in an Unrestricted Global Certificate or a Restricted Global Certificate (each a **Registered Global Security**) upon compliance with the procedures for exchange as described in the Indenture.

Notes of each Series to be issued in bearer form (**Bearer Notes**) will be initially represented by either a temporary global Note (a **Temporary Global Note**) or a permanent global Note (a **Permanent Global Note** and together with a Temporary Global Note, a **Bearer Global Note**) that will be deposited on the issue date thereof with a common depositary on behalf of Euroclear and Clearstream or any other agreed clearance system compatible with Euroclear and Clearstream.

Each Bearer Note, Receipt, Coupon and Talon will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Bearer Notes will be assigned a Common Code and relevant ISIN (as applicable). Registered Notes will be assigned (as applicable) a Common Code, ISIN and CUSIP number. If a further Series is issued in the case of a Temporary Global Note, the Trustee shall arrange that the Notes of such Series shall be assigned (as applicable) a CUSIP number, Common Code and a relevant ISIN that are different from the CUSIP number, Common Code and relevant ISIN, as the case may be, assigned to Notes of any other Series until such time as is required by applicable law. At the end of such period, the CUSIP number, Common Code and relevant ISIN, as the case may be, thereafter applicable to the Notes of the relevant Series will be notified by the Trustee to the relevant Dealers.

Each Temporary Global Note will be exchangeable, free of charge to the Holder, on or after its Exchange Date:

(a) if the relevant Pricing Supplement indicates that such Temporary Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable (as to which, see "*Subscription and Sale*"), in whole, but not in part, for the Definitive Bearer Notes described below; and

(b) in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Indenture for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Bearer Notes.

Each Permanent Global Note will be exchangeable, free of charge to the Holder, on or after its Exchange Date in whole but not in part for Definitive Bearer Notes:

(a) an Event of Default has occurred in respect of any Note of the relevant Series; or

(b) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

In the event that a Bearer Global Note is exchanged for Definitive Bearer Notes, such Definitive Bearer Notes shall be issued in Specified Denomination(s) only. A Holder of Notes with a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Exchange Date means the later of (i) 40 days after the Issue Date and (ii) the expiration of the period that ends 40 days after completion of the distribution of the relevant Series of Notes, as certified by the relevant Dealer(s) to the Republic and the Trustee and is a day (other than a Saturday or Sunday) on which banks in the city where the Bearer Global Note is deposited is open for business.

All Notes will be issued pursuant to the Indenture.

No beneficial owner of an interest in a Global Security will be able to exchange or transfer that interest, except in accordance with the applicable procedures of DTC, Euroclear and/or Clearstream, in each case, to the extent applicable.

So long as any Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Republic shall appoint and maintain a paying agent in Singapore, where such Notes may be presented or surrendered for payment or redemption, in the event that the Global Security representing such Notes is exchanged for definitive Notes. In addition, an announcement of such exchange will be made through the SGX-ST. Such announcement will include all material information with respect to the delivery of the definitive Notes, including details of the paying agent in Singapore.

FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement that will be completed for each Tranche of Notes issued under the Program.

Pricing Supplement dated [●]

REPUBLIC OF INDONESIA

Issue of [Aggregate Nominal Amount of Series] [Title of Notes]
(the **Notes**)
under its U.S.$20,000,000,000 Global Medium Term Note Program

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [●] [and the supplemental Offering Circular dated [●]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

[The following alternative language applies if the first issue of a Series which is being increased was issued under Offering Circular with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.]

1.	Issuer:	Republic of Indonesia (the **Republic**)
2.	[(a)] Series Number:	[ ]
	(b) [Tranche]:	[ ]
3.	Specified Currency or Currencies:	[ ]
4.	Aggregate Nominal Amount:	[ ]
5.	[(a)] Issue Price:	[ ]% of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(b) [Net proceeds:	[ ] (*Required only for listed issues*)]
6.	(a) Specified Denominations:	[ ]
	(b) Calculation Amount:	[ ]
7.	(a) Issue Date:	[ ]
	(b) Interest Commencement Date:	[*Specify*/Issue date/Not Applicable]
8.	Maturity Date:	[*specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*]

9.	(a) Interest Basis:	[●% Fixed Rate] [[*specify reference rate*] +/- ●% Floating Rate] [Zero Coupon] [Other (*specify*)] (further particulars specified below)
	(b) Default Rate:	[[ ] (*specify*/None]
10.	Redemption/Payment Basis:	[Redemption at par] [Partly Paid] [Installment] [Other (*specify*)]
11.	Change of Interest or Redemption/ Payment Basis:	[*Specify details of any* provision for convertibility of Notes into another interest or *redemption/ payment basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	(a) Status of the Notes:	[Senior]
	(b) Guarantee:	[Not Applicable/*give details*]
14.	Listing:	[[ ] (*specify*)/None]
15.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	**Fixed Rate Note Provisions:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Rate[(s)] of Interest:	[ ]% per annum [payable [annually/semi-annually/ quarterly/monthly] in arrears]
	(b) Interest Payment Date(s):	[ ] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Center(s) for the definition of Business Day*]/not adjusted]
	(c) Fixed Coupon Amount[(s)]:	[ ] per Calculation Amount
	(d) Broken Amount(s):	[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]
	(e) Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]

	(f) [Determination Dates:	[ ] in each year (*insert regular interest payment dates,* ignoring *issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))*]
	(g) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
17.	**Floating Rate Note Provisions**:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Interest Period(s):	[ ]
	(b) Specified Interest Payment Dates:	[ ]
	(c) Interest Period Date	[ ] (*Not applicable unless different from Interest Payment Date*)
	(d) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(e) Business Center(s):	[ ]
	(f) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(g) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[ ]
	(h) Screen Rate Determination:	
	— Reference Rate:	[ ]
	— Interest Determination Date(s):	[ ]
	— Relevant Screen Page:	[ ]
	(i) ISDA Determination:	
	— Floating Rate Option:	[ ]
	— Designated Maturity:	[ ]
	— Reset Date:	[ ]
	(j) Margin(s):	[+/-][ ]% per annum
	(k) Minimum Rate of Interest:	[ ]% per annum
	(l) Maximum Rate of Interest:	[% per annum
	(m) Day Count Fraction:	[ ]

(n)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[ ]
18.	**Zero Coupon Note Provisions**:	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(a)	Amortization Yield:	[ ]% per annum
(b)	Any other formula/basis of determining amount payable:	[ ]
19.	**Index-Linked Interest Note Provisions:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(a)	Index/Formula:	[*give or annex details*]
(b)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[ ]
(c)	Provisions for determining Rate of Interest and/or Interest Amount where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[ ]
(d)	Interest Periods:	[ ]
(e)	Specified Interest Payment Dates:	[ ]
(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/ other (*give details*)]
(g)	Business Center(s):	[ ]
(h)	Minimum Rate of Interest:	[ ]% per annum
(i)	Maximum Rate of Interest:	[ ]% per annum
(j)	Day Count Fraction:	[ ]
20.	**Dual Currency Note Provisions:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
(b)	Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[ ]

	(c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[ ]
	(d) Person at whose option Specified Currency(ies) is/are payable:	[ ]
21.	Default Rate:	[ ]% per annum

PROVISIONS RELATING TO REDEMPTION

22.	**Call Option:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[ ]
	(b) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(c) If redeemable in part:	
	Minimum Redemption Amount:	[ ] per Calculation Amount
	Maximum Redemption Amount:	[ ] per Calculation Amount
	(d) Notice period:	[ ]
23.	**Put Option:**	[Applicable/Not Applicable] (*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[ ]
	(b) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[ ] per Calculation Amount
	(c) Notice period:	[ ]
24.	Final Redemption Amount of each Note:	[ ] per Calculation Amount
25.	Early Redemption Amount:	[ ]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	

GENERAL PROVISIONS APPLICABLE TO THE NOTES

26.	(a) Form of Notes:	[Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]

		[Temporary Global Note exchangeable for Definitive Notes on [ ] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] *(N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "EUR50,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR99,000." In addition, the "limited circumstances specified in the Permanent Global Note" option may have to be amended to permit such Specified Denomination construction. Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.)*] [Registered Notes]
	(b) Applicable TEFRA exemption:	[C Rules/D Rules (or in respect of C Rules or D Rules, any successor U.S. Treasury regulation section, including without limitation, regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010)/Not Applicable]
27.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
28.	Financial Center(s) or other special provisions relating to Payment Dates:	[Not Applicable/give details. *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub-paragraphs 16(b), 17(d), and 19(g) relate*]
29.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Republic to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
30.	Details relating to Installment Notes: amount of each installment, date on which each payment is to be made:	[Not Applicable/*give details*]
31.	Redenomination, Renominalization and Reconventioning:	[Not Applicable/The provisions [in Condition 2C] [annexed to this Pricing Supplement] apply]
32.	Consolidation provisions:	[Not Applicable/The provisions [in Condition ●] [annexed to this Pricing Supplement] apply]
33.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

34.	(a) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b) Stabilizing Manager (if any):	[Not Applicable/*give name*]
35.	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
36.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

37.	ISIN Code:	[ ]
38.	Common Code:	[ ]
39.	Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking *société anonyme* and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
40.	Delivery:	Delivery [against/free of] payment
41.	Additional Paying Agent(s) (if any):	[ ]

[PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to the Official List of the Singapore Exchange Securities Trading Limited of the Notes described herein pursuant to the U.S.$20,000,000,000 Global Medium Term Note Program of the Republic of Indonesia.]

RESPONSIBILITY

The Republic accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of
REPUBLIC OF INDONESIA:

By : _____
Duly authorized

GLOBAL CLEARANCE AND SETTLEMENT SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear and Clearstream (together, the ***Clearing Systems****) currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. The Republic, any Arranger, Dealer, Trustee, Agent and party to the Indenture will not have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests*

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

DTC

DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the United States Securities Exchange Act of 1934, as amended. DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions among participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of security certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Indirect access to DTC is available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.

DTC will take any action permitted to be taken by the holder of a beneficial interest in a Global Security (including, without limitation, the presentation of a Global Security for exchange) only at the direction of one or more participants to whose account with DTC interests in such Registered Global Security are credited and only in respect of such portion of the aggregate principal amount of Notes in respect of which such participant or participants has or have given such direction. If an Event of Default under the Notes occurs, DTC will exchange the Global Security for Certificated Securities bearing the appropriate legend, which it will distribute to the relevant participants. DTC makes payments only in U.S. dollars.

Euroclear and Clearstream

Each of Euroclear and Clearstream holds securities for their account holders and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risks from lack of simultaneous transfers of securities.

Euroclear and Clearstream each provides various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream each also deals with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems which enables their respective account holders to settle trades with each other.

Account holders in Euroclear and Clearstream are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to both Euroclear and Clearstream is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

An account holder's contractual relations with either Euroclear or Clearstream are governed by the respective rules and operating procedures of Euroclear or Clearstream and any applicable laws.

Both Euroclear and Clearstream act under those rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective holders.

Book-Entry Ownership of Global Securities

Registered Notes

The Republic will make applications to Euroclear and/or Clearstream for acceptance in their respective book-entry systems in respect of each Tranche of Notes to be represented by an Unrestricted Global Security. Each Unrestricted Global Security will have an ISIN or Common Code, and will be subject to restrictions on transfer contained in a legend appearing on the front of such Note, as set out under "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*."

The Republic will make applications to DTC for acceptance in its book-entry settlement system of the Notes represented by a Restricted Global Security. Each Restricted Global Security will have a CUSIP number. Each Restricted Global Security will be subject to restrictions on transfer contained in a legend appearing on the front of such Note, as set out under "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*."

The custodian with whom the Global Securities are deposited (the **Custodian**) and DTC will electronically record the principal amount of the Notes represented by the Restricted Global Security held within the DTC system. Investors may hold their interests in the Unrestricted Global Security only through Clearstream or Euroclear. Investors may hold such interests in Restricted Global Securities directly through DTC if they are participants in such system, or indirectly through organizations that are participants in such system.

Payments of principal and interest in respect of Restricted Global Securities registered in the name of DTC's nominee, will be to or to the order of its nominee as the registered holder of such Restricted Global Security. The Republic expects that the nominee will, upon receipt of any such payment, immediately credit DTC participants' accounts with any such payments denominated in U.S. dollars in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Restricted Global Security as shown on the records of DTC or its nominee. In the case of any such payments which are denominated otherwise than in U.S. dollars payment of such amounts will be made to the Paying Agent on behalf of the nominee who will make payment of all or part of the amount to the beneficial holders of interests in such Restricted Global Securities directly, in the currency in which such payment was made and/or cause all or part of such payment to be converted into U.S. dollars and credited to the relevant participant's DTC account as aforesaid, in accordance with instructions received from DTC. The Republic also expects that payments by DTC participants to owners of beneficial interests in such Restricted Global Securities held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Republic, the Trustee nor any agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in the Restricted Global Securities or for maintaining, supervising or reviewing any records relating to such ownership interests.

Bearer Notes

Bearer Notes held outside the United States may be held in book-entry form through Clearstream or Euroclear. In respect of Bearer Notes, as may be specified in the applicable Pricing Supplement, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons will be deposited with a common depositary for Euroclear and Clearstream. Transfers of interests in a Temporary Global Note or a Permanent Global Note will be made in accordance with customary Euromarket practice.

Individual Certificated Securities

Registration of title to Notes in a name other than its nominee or a depositary for Euroclear and Clearstream or DTC will not be permitted unless (i) in the case of Restricted Securities, an event of default with respect to such Series has occurred and is continuing or DTC notifies us that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Securities, or ceases to be a "clearing agency" registered under the Exchange Act, or is at any time no longer eligible to act as such and the Republic is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; (ii) in the case of Unrestricted Global Securities deposited with a common depositary for Euroclear or Clearstream, Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or (iii) the Trustee has instituted or has been directed to institute any judicial proceeding in a court to enforce the rights of Holders of the Notes under the Notes and the Trustee has been advised by counsel that in connection with such proceeding it is necessary or appropriate for the Trustee to obtain possession of the Notes.

In such circumstances, the Republic will cause sufficient individual Certificated Securities to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Holder(s) of the Notes.

A person having an interest in a Global Security must provide the Registrar with:

(a) written order containing instructions and such other information as the Republic and the Registrar may require to complete, execute and deliver such individual Certificated Securities; and

(b) in the case of a Restricted Global Security only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule l44A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Certificated Securities issued pursuant to this paragraph (b) shall bear the legends applicable to transfers pursuant to Rule l44A.

Transfers of Notes represented by Global Securities

Transfers of interests in Global Securities within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. The laws in some states in the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer a beneficial interest in a Global Securities to such persons may require that such interests be exchanged for Notes in definitive form. Because DTC can only act on behalf of participants in DTC, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Security to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest may require that such interests be exchanged for Certificated Securities. The ability of the holder of a beneficial interest in any Note represented by the Global Securities to resell, pledge or otherwise transfer such interest may also be impaired if the proposed transferee of such interest is not eligible to hold the same through a participant or indirect participant in DTC.

Beneficial interests in an Unrestricted Global Security may be held through Clearstream or Euroclear. Clearstream and Euroclear will operate with respect to the Notes in accordance with customary Euromarket practice.

Secondary Trading, Same-Day Settlement and Payment

All payments made by the Republic with respect to Notes registered in the name of Cede & Co., as nominee for DTC, will be passed through to DTC in same-day funds. In relation to secondary market trading, since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser's and seller's accounts are located to ensure that settlement can be made on the desired value date.

Trading Within Same Clearing System

The following describes the transfer mechanisms between DTC, Euroclear and Clearstream. Holders should note that transfers of beneficial interests in the Restricted Global Security, or the Unrestricted Global Security is subject to limitations as set forth in "*Notice to Purchasers and Holders of Notes and Transfer Restrictions*."

Trading within DTC. If neither the seller, nor the purchaser of Notes represented by any Global Security holds or will receive (as the case may be) such Notes through a participant in DTC acting on behalf of Euroclear or Clearstream, the trade will settle in same-day funds and in accordance with DTC rules, regulations and procedures.

Trading within Euroclear or Clearstream. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Trading Between Clearing Systems

Trading between Euroclear or Clearstream seller and DTC purchaser involving only Global Securities. Due to time zone differences in their favor, Euroclear and Clearstream account holders may employ their customary procedures for transactions in which interests in a Global Security are to be transferred by Euroclear or Clearstream (as the case may be) to a participant in DTC. The seller will send instructions to Euroclear or Clearstream through a Euroclear or Clearstream account holder (as the case may be) at least one business day prior to settlement. In these cases, Euroclear or Clearstream will instruct its respective depositary to deliver the interests in the Global Security to the participant's account against payment. Payment will include interest (if any) accrued on such interests in the Note from (and including) the immediately preceding date for the payment

of interest to (and excluding) the settlement date. The payment will then be reflected in the account of the Euroclear or Clearstream account holder the following day, and receipt of cash proceeds in the Euroclear or Clearstream account holders' account would be back-valued to the value date (which would be the preceding day when settlement occurred in New York). Should the Euroclear or Clearstream account holder have a line of credit in its respective Clearing System and elect to be in debit in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (i.e. the trade fails), receipt of the cash proceeds in the Euroclear or Clearstream account holder's account would be valued instead as of the actual settlement date.

Trading between DTC seller and Euroclear or Clearstream purchaser involving only Global Securities. When interests in a Global Security are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream account holder, the purchaser will send instructions to Euroclear or Clearstream through a Euroclear or Clearstream account holder, as the case may be, at least one business day prior to settlement. Euroclear or Clearstream, as the case may be, will instruct its respective depositary to receive such interests against payment. Payment will include interest (if any) accrued on such interest in the Global Security from (and including) the immediately preceding date for the payment of interest to (and excluding) the settlement date. Payment will then be made by the depositary to the participant's account against delivery of the interests in the Note. After settlement has been completed, the interests will be credited to the respective Clearing System, and by the Clearing System, in accordance with its usual procedures, to the Euroclear or Clearstream account holder's account. The securities credit will appear the next day (Central European time) and the cash debit will be back-valued to, and any interest on the Note will accrue from, the value date (which would be the preceding day when settlement occurred in New York). If settlement is not completed on the intended value date (i.e. the trade fails), the Euroclear or Clearstream cash debit will be valued instead as of the actual settlement date.

Day traders that use Euroclear or Clearstream to purchase interests in an Unrestricted Global Security from participants for delivery to Euroclear or Clearstream account holders should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(a) borrowing through Euroclear or Clearstream for one day (until the purchase side of the day trade is reflected in their Euroclear or Clearstream accounts) in accordance with the Clearing System's customary procedures;

(b) borrowing the interests in the United States from a participant no later than one day prior to settlement, which would give the interests sufficient time to be reflected in their Euroclear or Clearstream account in order to settle the sale side of the trade; or

(c) staggering the value date for the buy and sell sides of the trade so that the value date for the purchase from the participant is at least one day prior to the value date for the sale to the Euroclear or Clearstream account holder.

Euroclear or Clearstream account holders will need to make available to the respective Clearing System the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on-hand or existing lines of credit, as such participants would for any settlement occurring within Euroclear or Clearstream. Under this approach, such participants may take on credit exposure to Euroclear or Clearstream until the interests in the Note are credited to their accounts one day later.

Alternatively, if Euroclear or Clearstream has extended a line of credit to a Euroclear or Clearstream account holder, as the case may be, such account holder may elect not to preposition funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear or Clearstream account holders purchasing interests in the Note held in DTC would incur overdraft charges for one day, assuming they cleared the overdraft when the interests in the Note were credited to their accounts. However, any interest on the Note would accrue from the value date. Therefore, in many cases the investment income on the interests in the Note held in DTC earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each account holder's particular cost of funds.

Since the settlement takes place during New York business hours, participants can employ their usual procedures for transferring interests in global Notes to the respective depositories of Euroclear or Clearstream for the benefit of Euroclear or Clearstream account holders. The sale proceeds will be available to the DTC seller on the settlement date. Thus, to the participants, a crossmarket transaction will settle no differently from a trade between participants.

Secondary trading in long-term notes and debentures of corporate issuers is generally settled in clearinghouse or next-day funds. In contrast, Notes held through participants or indirect participants will trade in DTC's Same-Day Funds Settlement System until the earliest of maturity or redemption, and secondary market trading activity in such Notes will therefore be required by DTC to settle in immediately available funds. No assurance can be given as to the effect, if any, of settlements in immediately available funds on trading activity in such Notes.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Securities among participants and account holders of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Republic, the Trustee, any agent, any Arranger or any Dealer will have the responsibility for the performance by DTC, Clearstream or Euroclear or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Security is lodged with DTC or its custodian, Notes represented by individual Certificated Securities will not be eligible for clearing or settlement through DTC, Clearstream or Euroclear.

NOTICE TO PURCHASERS AND HOLDERS OF NOTES AND TRANSFER RESTRICTIONS

As a result of the following restrictions, purchasers of Notes in the United States are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of Notes.

Each prospective purchaser of Notes that have a legend regarding restrictions on transferability by accepting delivery of this Offering Circular, will be deemed to have represented and agreed that this Offering Circular is personal to such offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes. Distribution of this Offering Circular, or disclosure of any of its contents to any person other than such offeree and those persons, if any, retained to advise such offeree with respect thereto is unauthorized, and any disclosure of any of its contents, without the prior written consent of the Republic, is prohibited.

The Securities have not been and will not be registered under the Securities Act or any other securities laws, and may not be offered or sold in the United States except pursuant to an effective registrations statement or in accordance with an applicable exemption from the registration statement requirements of the Securities Act. Accordingly, the Securities are being offered and sold in the United States only to persons reasonably believed to be QIBs. The international offering is being made outside the United States to non-U.S. persons (in the case of Bearer Notes) in offshore transactions pursuant to Regulation S.

Sales within the United States

Each purchaser of Notes within the United States pursuant to Rule 144A by accepting this Offering Circular will be deemed to have represented, agreed and acknowledged as follows:

(a) It is (a) a qualified institutional buyer within the meaning of Rule 144A (**QIB**), (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

(b) The Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States.

(c) Such Notes, for compliance with applicable law, will bear a legend to the following effect:

THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) AND APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. TERMS USED HEREIN HAVE THE MEANINGS GIVEN THEM IN REGULATION S UNDER THE SECURITIES ACT. THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF REPRESENTS AND AGREES FOR THE BENEFIT OF THE REPUBLIC AND THE DEALERS THAT (A) IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT, THAT (B) THIS NOTE MAY BE RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE 144A, (2) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER

THE SECURITIES ACT AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THAT (C) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN (B) ABOVE.

FOR THE PURPOSES OF APPLYING THE ORIGINAL ISSUE DISCOUNT RULES UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, (1) THE ISSUE DATE OF THIS NOTE IS [●]; (2) THE YIELD TO MATURITY IS [●]% (COMPOUNDED SEMIANNUALLY); (3) THIS NOTE IS BEING ISSUED WITH ORIGINAL ISSUE DISCOUNT IN THE AMOUNT OF U.S.$[●] PER U.S.$1,000 PRINCIPAL AMOUNT; (4) THE [●] METHOD SPECIFIED IN THE PROPOSED TREASURY REGULATIONS HAS BEEN USED TO DETERMINE YIELD AND THE AMOUNT OF ORIGINAL ISSUE DISCOUNT ALLOCABLE TO THE SHORT INITIAL ACCRUAL PERIOD BEGINNING [●] AND ENDING [●]; AND (5) THE AMOUNT OF ORIGINAL ISSUE DISCOUNT ALLOCATED TO SUCH ACCRUAL PERIOD IS U.S.$[●] PER U.S.$[●] PRINCIPAL AMOUNT.

(d) It understands that the Republic, the Registrar, the Arrangers, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

(e) It understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Security. Before any interest in the Restricted Global Security may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Security, it will be required to provide the Note Registrar as Transfer Agent with a written certification (in the form provided in the Indenture) as to compliance with applicable securities laws.

Each Certificated Security that is offered and sold in the United States to an Institutional Accredited Investor pursuant to Section 4(a)(2) of the Securities Act or in a transaction otherwise exempt from registration under the Securities Act will bear a legend to the following effect, in addition to such other legends as may be necessary or appropriate for compliance with applicable law:

THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**) AND UNDER APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS OF THE UNITED STATES, AND MAY NOT BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE ACKNOWLEDGES FOR THE BENEFIT OF THE REPUBLIC AND THE DEALERS THE RESTRICTIONS ON THE TRANSFER OF THIS NOTE SET FORTH BELOW AND AGREES THAT IT SHALL TRANSFER THIS NOTE ONLY AS PROVIDED IN THE INDENTURE ENTERED INTO BY THE REPUBLIC AND THE TRUSTEE AS OF JANUARY 28, 2009. THE PURCHASER REPRESENTS THAT IT IS AN INSTITUTIONAL "ACCREDITED INVESTOR" (WITHIN THE MEANING OF RULE 501(A)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT) AND IT IS ACQUIRING THIS NOTE FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO ANY RESALE OR DISTRIBUTION HEREOF, SUBJECT TO ITS ABILITY TO RESELL THIS NOTE PURSUANT TO RULE 144A OR REGULATION S UNDER THE SECURITIES ACT OR AS OTHERWISE PROVIDED BELOW AND SUBJECT IN ANY CASE TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE PROPERTY OF ANY PURCHASER SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, RESELL OR OTHERWISE TRANSFER SUCH NOTE, PRIOR TO THE DATE (THE **RESALE RESTRICTION TERMINATION DATE**) WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE REPUBLIC WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF SUCH NOTE), ONLY (A) IN THE UNITED STATES TO A PERSON WHOM IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF SUCH RULE 144A, (B) INSIDE THE UNITED STATES TO AN INSTITUTIONAL "ACCREDITED INVESTOR" (WITHIN THE MEANING OF RULE 501 (A)(1), (2), (3) or (7) UNDER THE

SECURITIES ACT) THAT IS ACQUIRING THE NOTE FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL "ACCREDITED INVESTOR", IN EACH CASE IN A MINIMUM PRINCIPAL AMOUNT OF THE NOTES OF U.S.$250,000 AND MULTIPLES OF U.S.$1,000 IN EXCESS THEREOF FOR INVESTMENT PURPOSES ONLY AND NOT WITH A VIEW TO, OR FOR OFFER OR RESALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, (C) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (D) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (E) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE REPUBLIC'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (B), (D) OR (F) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO THE REPUBLIC, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS NOTE IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE TRUSTEE AND, IN EACH OF THE FOREGOING CASES, NOT IN VIOLATION OF ANY APPLICABLE STATE SECURITIES LAWS. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE TRANSFER RESTRICTIONS REFERRED TO IN THIS PARAGRAPH.

IF REQUESTED BY THE REPUBLIC OR A DEALER, THE PURCHASER AGREES TO PROVIDE THE INFORMATION NECESSARY TO DETERMINE WHETHER THE TRANSFER OF THIS NOTE IS PERMISSIBLE UNDER THE SECURITIES ACT. THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALES OR TRANSFERS OF RESTRICTED SECURITIES GENERALLY. BY THE ACCEPTANCE OF THIS NOTE, THE HOLDER HEREOF SHALL BE DEEMED TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT.

FOR THE PURPOSES OF APPLYING THE ORIGINAL ISSUE DISCOUNT RULES UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, (1) THE ISSUE DATE OF THIS NOTE IS [●]; (2) THE YIELD TO MATURITY IS [●]% (COMPOUNDED SEMIANNUALLY); (3) THIS NOTE IS BEING ISSUED WITH ORIGINAL ISSUE DISCOUNT IN THE AMOUNT OF U.S.$[●] PER U.S.$1,000 PRINCIPAL AMOUNT; (4) THE [●] METHOD SPECIFIED IN THE PROPOSED TREASURY REGULATIONS HAS BEEN USED TO DETERMINE YIELD AND THE AMOUNT OF ORIGINAL ISSUE DISCOUNT ALLOCABLE TO THE SHORT INITIAL ACCRUAL PERIOD BEGINNING [●] AND ENDING [●]; AND (5) THE AMOUNT OF ORIGINAL ISSUE DISCOUNT ALLOCATED TO SUCH ACCRUAL PERIOD IS U.S.$[●] PER U.S.$[●] PRINCIPAL AMOUNT.

IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR AND TRANSFER AGENT SUCH CERTIFICATES AND OTHER INFORMATION AS SUCH TRANSFER AGENT MAY REASONABLY REQUIRE TO CONFIRM THAT THE TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

Each purchaser of Certificated Securities will be required to deliver to the Republic and the Registrar an investment letter substantially in the form prescribed in the Indenture. The Certificated Securities in definitive form will be subject to the transfer restrictions set forth in the above legend, such letter and in the Indenture. Inquiries concerning transfers of Notes should be made to any Dealer.

Sales outside the United States

Each purchaser of Notes outside the United States pursuant to Regulation S, by accepting delivery of this Offering Circular and the Notes will be deemed to have represented, agreed and acknowledged that:

(a) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is located outside the United States and (in the case of Bearer Notes) is not a U.S. person (as defined by the Internal Revenue Code) and it is located outside the United States and (b) it is not an affiliate of the Republic or a person acting on behalf of such an affiliate.

(b) It understands that such Notes have not been and will not be registered under the Securities Act.

(c) It understands that such Notes, unless otherwise determined by the Republic in accordance with applicable law, will bear a legend to the following:

"THIS NOTE (OR ITS PREDECESSOR) HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER, AND WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER, THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND APPLICABLE SECURITIES LAWS OF THE STATES AND OTHER JURISDICTIONS OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. TERMS USED HEREIN HAVE THE MEANINGS GIVEN THEM IN REGULATIONS UNDER THE SECURITIES ACT."

(d) It understands that the Republic, the Note Registrar, the Dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

General

Delivery of the Notes may be made against payment therefor on or about a date which will occur more than three business days after the date of pricing of the Notes which date may be specified in the Pricing Supplement. Pursuant to Rule 15c6-1 under the U.S. Securities Exchange Act of 1934 (the **Exchange Act**), trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the Notes may initially settle on or about a date which will occur more than three business days after the date of pricing of the Notes to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on the date of pricing or the next succeeding business day should consult their own advisor.

TAXATION

The following is a summary of certain Indonesian and U.S. federal income tax consequences resulting from the purchase, ownership and disposition of the Notes. This summary does not purport to consider all of the possible U.S. federal income or Indonesian tax consequences of the purchase, ownership and disposition of the Notes and is not intended to reflect the individual tax position of any beneficial owner. This summary is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (perhaps with retroactive effect in the U.S.). The legal authorities on which this summary is based are subject to various interpretations, and no rulings have been or will be sought from any tax agency with respect to the matters described herein.

Persons considering the purchase of the Notes should consult their own tax advisors concerning the application of U.S. federal income and Indonesian tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

Indonesian Taxation

The following summary of Indonesian taxation issues deals only with the implications for holders of Notes who are non-residents for Indonesian taxation purposes.

Generally, an individual is considered a non-resident of Indonesia if the individual neither:

(a) resides in Indonesia (in determining whether a person resides in Indonesia, consideration will be given to whether the person intends to reside in Indonesia); nor

(b) is present in Indonesia for more than 183 days in any 12-month period.

An entity will be considered a non-resident if it is established and domiciled outside of Indonesia.

In determining the residency of an individual or entity, consideration will be given to the provisions of any applicable income tax treaty Indonesia has concluded with another jurisdiction.

If a non-resident has a permanent establishment in Indonesia, the permanent establishment is subject to Indonesian income tax at a flat rate of 25% on all income, including but not limited to foreign source income directly or indirectly attributable to such permanent establishment. In addition, the after-tax taxable income of a permanent establishment is subject to a branch profits tax at the rate of 20% (which may be reduced under the provisions of most income tax treaties entered into by Indonesia), unless such profits are reinvested in Indonesia as a founding shareholder in an Indonesian company, as a shareholder in an Indonesian company acquiring fixed assets or intangible assets, no later than the following fiscal year and in accordance with other requirements set out in the Minister of Finance Regulation No. 14/PMK.03/2011 dated January 24, 2011. Under the Republic's income tax treaty with the U.S. (the **U.S.-Indonesia Treaty**), the branch profits tax on the after-tax taxable income of a permanent establishment is reduced to 10%.

Taxation of Interest

Payments of interest on Notes issued under the Program to non-residents will generally be subject to an Indonesian withholding tax (unless the Notes are held and owned by a permanent establishment in Indonesia, as discussed below) assessed at a rate of 20% of the gross amount of the interest payment unless reduced by an applicable tax treaty. Accordingly, subject to certain exceptions, the Republic will be required to pay Additional Amounts in respect of interest payments on the Notes. Under current practice, the Republic pays withholding tax on the amounts of interest payments it makes to non-residents, but it does not pay withholding tax on the Additional Amounts that it pays to non-residents.

If an individual or entity holds Notes through a permanent establishment in Indonesia, the permanent establishment will be taxed on the interest at a flat income tax rate of 25%. Interest payments on Notes made to the permanent establishment will be subject to a 15% withholding tax, which will be deducted by the Republic from each interest payment. If the permanent establishment in Indonesia is a bank or a government-approved pension fund, the interest payments on Notes will not be subject to withholding tax.

Taxation of Dispositions

Generally, gains resulting from the sale or other disposition of Notes by a non-resident will not be subject to income, withholding or capital gains tax, unless the Notes are held and owned through a permanent establishment in Indonesia. If Notes are held and owned by a permanent establishment in Indonesia, the permanent establishment will be taxed on any profit at a flat income tax rate of 25%.

Under the U.S.-Indonesia Treaty, a U.S. resident shall be exempt from Indonesian tax on gains derived from the sale, exchange, or other disposition of Notes held as capital assets unless:

(a) the recipient of the gain has a permanent establishment or fixed base in Indonesia and gain from the disposition of Notes is effectively connected with such permanent establishment or fixed base; or

(b) the recipient of the gain is an individual and is present in Indonesia for a period or periods aggregating 120 days or more during the taxable year.

Other Indonesian Taxes

There are no other material Indonesian taxes or duties (e.g., inheritance taxes, gift duties, stamp duty or similar taxes) that a holder of Notes will be required to pay in relation to any of the payments made by the Republic.

Certain U.S. Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE REPUBLIC IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE REPUBLIC OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

* * * * *

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the issue price that are U.S. Holders and that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term **U.S. Holder** means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organized under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisors concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The summary is based on the tax laws of the United States, including the Internal Revenue Code, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, as well as the U.S.-Indonesia Treaty, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

Bearer Notes are not being offered to U.S. Holders. A U.S. Holder who owns a Bearer Note may be subject to limitations under United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code.

Moreover, the summary deals only with Notes with a term of 30 years or less. The U.S. federal income tax consequences of owning Notes with a longer term may be discussed in the applicable Pricing Supplement.

This summary should be read in conjunction with the discussion of U.S. federal income tax consequences in the applicable Pricing Supplement. To the extent there is any inconsistency in the discussion of U.S. tax consequences to holders between this Offering Circular and the applicable Pricing Supplement, holders should rely on the tax consequences described in the applicable Pricing Supplement instead of this Offering Circular. The Issuer generally intends to treat Notes issued under the Program as debt, unless otherwise indicated in the applicable Pricing Supplement. Certain Notes, however, such as certain Index Linked Notes or Notes with extremely long maturities, may not be treated as debt for U.S. federal income tax purposes. The tax treatment of Notes to which a treatment other than as debt may apply may be discussed in the applicable Pricing Supplement. The following disclosure applies only to Notes that are treated as debt for U.S. federal income tax purposes.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING THE NOTES, INCLUDING THEIR ELIGIBILITY FOR THE BENEFITS OF THE TREATY, THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Payments of Interest

General. Interest on a Note, including the payment of any Additional Amounts, will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. Interest, including additional amounts, paid by the Republic on the Notes and original issue discount (**OID**), if any, accrued with respect to the Notes (as described below under **Original Issue Discount**) constitutes income from sources outside the United States.

Foreign Currency Denominated Interest. The amount of income recognized by a cash basis U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual basis U.S. Holder may determine the amount of income recognized with respect to an interest payment denominated in foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual basis U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the Internal Revenue Service (the **IRS**).

Upon receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in a foreign currency, the U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Effect of Indonesian Withholding Taxes. As discussed above under "*Taxation — Indonesian Taxation*", under current law payments of interest on the Notes to foreign investors are subject to Indonesian withholding taxes. The Republic is liable for the payment of Additional Amounts to U.S. Holders (see "*Description of the Notes — Taxation*"). For U.S. federal income tax purposes, U.S. Holders will be treated as having received the amount of Indonesian taxes withheld by the Republic with respect to a Note, and as then having paid over the withheld taxes to the Indonesian taxing authorities. As a result of this rule, the amount of interest income included in gross income for U.S. federal income tax purposes by a U.S. Holder with respect to a payment of interest may be greater than the amount of cash actually received (or receivable) by the U.S. Holder from the Republic with respect to the payment.

Subject to certain limitations, a U.S. Holder will generally be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Indonesian income taxes withheld by the Republic. For purposes of the foreign tax credit limitation, foreign source income is classified in one of two "baskets", and the credit for foreign taxes on income in any basket is limited to U.S. federal income tax allocable to that income. Interest, additional amounts, and OID (if any) generally will constitute foreign source income in the "passive income" basket. In certain circumstances a U.S. Holder may be unable to claim foreign tax credits (and may instead be allowed deductions) for Indonesian taxes imposed on a payment of interest if the U.S. Holder has not held the Notes for at least 16 days during the 31-day period beginning on the date that is 15 days before the date on which the right to receive the payment arises. Since a U.S. Holder may be required to include OID on the Notes in its gross income in advance of any withholding of Indonesian income taxes from payments attributable to the OID (which would generally occur when the Note is repaid or redeemed), a U.S. Holder may not be entitled to a credit or deduction for these Indonesian income taxes in the year the OID is included in the U.S. Holder's gross income, and may be limited in its ability to credit or deduct in full the Indonesian taxes in the year those taxes are withheld by the Republic. Prospective purchasers should consult their tax advisors concerning the foreign tax credit implications of the payment of these Indonesian taxes.

Original Issue Discount

General. The Notes may be considered to be issued with OID. Accordingly, a U.S. Holder may need to include a portion of the OID in gross income as interest in each taxable year or portion thereof in which the U.S. Holder holds the Notes even if the U.S. Holder has not received a cash payment in respect of the OID.

A Note, other than a Note with a term of one year or less (a **Short-Term Note**), will be treated as issued with OID (a **Discount Note**) if the excess of the Note's "stated redemption price at maturity" over its issue price is equal to or more than a *de minimis* amount (0.25 per cent. of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity). An obligation that provides for the payment of amounts other than qualified stated interest before maturity (an **installment obligation**) will be treated as a Discount Note if the excess of the Note's stated redemption price at maturity over its issue price is equal to or greater than 0.25 per cent. of the Note's stated redemption price at maturity multiplied by the weighted average maturity of the Note. A Note's weighted average maturity is the sum of the following amounts determined for each payment on a Note (other than a payment of qualified stated interest): (i) the number of complete years from the issue date until the payment is made multiplied by (ii) a fraction, the numerator of which is the amount of the payment and the denominator of which is the Note's stated redemption price at maturity. Generally, the issue price of a Note will be the first price at which a substantial amount of Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers. The stated redemption price at maturity of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest." A qualified stated interest payment is generally any one of a series of stated interest payments on a Note that are unconditionally payable at least annually at a single fixed rate (with certain exceptions for lower rates paid during some periods), or a variable rate (in the circumstances described below under "*Variable Interest Rate Notes*"), applied to the outstanding principal amount of the Note. Solely for the purposes of determining whether a Note has OID, the Issuer will be deemed to exercise any call option that has the effect of decreasing the yield on the Note, and the U.S. Holder will be deemed to exercise any put option that has the effect of increasing the yield on the Note.

U.S. holders of Notes must include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and generally will have to include in income increasingly greater amounts of OID over the life of the Notes. The amount of OID includible in income by a U.S. Holder of a Note is the sum of the daily portions of OID with respect to the Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Note (**accrued OID**). The daily portion is determined by allocating to

each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of (a) the product of the Note's adjusted issue price at the beginning of the accrual period and the Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of the payments of interest on the Note allocable to the accrual period. The "adjusted issue price" of a Note at the beginning of any accrual period is the issue price of the Note increased by (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of payments previously made on the Note that were not interest payments.

Generally, with respect to a Note denominated in a foreign currency, OID for each accrual period will be determined in such foreign currency and then translated into U.S. dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "*Payments of Interest — Foreign Currency Denominated Interest*." Upon receipt of an amount attributable to such OID (whether in connection with a payment of interest or the sale or retirement of a Note), a U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

Acquisition Premium. A U.S. Holder that purchases a Note for an amount less than or equal to the sum of all amounts payable on the Note after the purchase date, other than payments of qualified state interest, but in excess of its adjusted issue price (any such excess being **acquisition premium**) and that does not make the election described below under "Election to Treat All Interest as Original Issue Discount" is permitted to reduce the daily portions of OID by a fraction, the numerator of which is the excess of the U.S. Holder's adjusted basis in the Note immediately after its purchase over the Note's adjusted issue price, and the denominator of which is the excess of the sum of all amounts payable on the Note after the purchase date, other than payments of qualified state interest, over the Note's adjusted issue price. Generally, with respect to a Note denominated in a foreign currency, acquisition premium will be computed in units of such foreign currency, and acquisition premium that is taken into account currently will reduce interest income in units of such foreign currency.

Market Discount. A Note generally will be treated as purchased at a market discount (a **Market Discount Note**) if the Note's "revised issue price" exceeds the amount for which the U.S. Holder purchased the Note by at least 0.25% of the Note's revised issue price or principal amount, respectively, multiplied by the number of complete years from the date acquired by the U.S. Holder to the Note's maturity. If this excess is not sufficient to cause the Note to be a Market Discount Note, then the excess constitutes "*de minimis* market discount." For this purpose, the "revised issue price" of a Note generally equals its issue price, increased by the amount of any OID that has accrued on the Note.

Under current law, any gain recognized on the maturity or disposition of a Market Discount Note will be treated as ordinary income to the extent that the gain does not exceed the accrued market discount on the Note. Alternatively, a U.S. Holder of a Market Discount Note may elect to include market discount in income currently over the life of the Note. This election applies to all debt instruments with market discount acquired by the electing U.S. Holder on or after the first day of the first taxable year for which the election is made. This election may not be revoked without the consent of the IRS. A U.S. Holder of a Market Discount Note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings incurred to purchase or carry a Market Discount Note that is in excess of the interest and OID on the Note includible in the U.S. Holder's income, to the extent that this excess interest expense does not exceed the portion of the market discount allocable to the days on which the Market Discount Note was held by the U.S. Holder.

Under current law, market discount on a Market Discount Note will accrue on a straight-line basis unless the U.S. Holder elects to accrue the market discount on a constant-yield method. This election applies only to the Note with respect to which it is made and is irrevocable.

Generally, with respect to a Note denominated in a foreign currency, market discount that is accrued by a U.S. Holder will be accrued in such foreign currency. If the U.S. Holder elects to include market discount in income currently, the accrued market discount will be translated into U.S. dollars at the average exchange rate for the accrual period (or portion thereof within the U.S. Holder's taxable year). Upon the receipt of an amount

attributable to such accrued market discount, the U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) determined in the same manner as for accrued interest or OID. A U.S. Holder that does not elect to include market discount in income currently will recognize, upon the disposition or maturity of the Note, the U.S. dollar value of the amount accrued, calculated at the spot rate on that date, and no part of this accrued market discount will be treated as exchange gain or loss.

Election to Treat All Interest as Original Issue Discount. A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under "*Original Issue Discount — General*", with certain modifications. For purposes of this election, interest includes interest, OID, market discount, *de minimis* OID and *de minimis* market discount, as adjusted by any amortizable bond premium (as described below under "*Notes Purchased at a Premium*") or acquisition premium. This election generally applies only to the Note with respect to which it is made and may not be revoked without the consent of the IRS. If the election to apply the constant yield method to all interest on a Note is made with respect to a Market Discount Note, the electing U.S. Holder will be treated as having made the election described above under "*Market Discount*" to include market discount in income currently over the life of all debt instruments held at the beginning of the taxable year to which election applies or thereafter acquired by the U.S. Holder. U.S. Holders should consult their tax advisors concerning the propriety and consequences of this election.

Notes Purchased at a Premium

A U.S. Holder that purchases a Note for an amount in excess of its principal amount may elect to treat the excess as "amortizable bond premium", in which case the amount of interest on the Note required to be included in the U.S. Holder's income each year will be reduced by the amount of amortizable bond premium allocable (based on the Note's yield to maturity) to that year. The amount of amortizable bond premium for each taxable year is the sum of the daily portions of bond premium with respect to the Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Note. The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the bond premium allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note as long as (i) no accrual period is longer than one year; and (ii) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of bond premium allocable to an accrual period equals the excess of (a) the sum of the payments of interest on the Note allocable to the accrual period over (b) the product of the Note's adjusted acquisition price at the beginning of the accrual period and the Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period). The "adjusted acquisition price" of a Note at the beginning of any accrual period is the U.S. Holder's purchase price for the Note, decreased by the amount of bond premium for each prior accrual period. Generally, with respect to a Note denominated in Euro or other non U.S. dollar denominated currencies, bond premium will be computed in units of such foreign currency, and amortizable bond premium that is taken into account currently will reduce interest income in units of such foreign currency. On the date amortized bond premium offsets interest income, a U.S. Holder may recognize U.S. source exchange gain or loss (taxable as ordinary income or loss) measured by the difference between the spot rate in effect on that date, and on the date the Notes were acquired by the U.S. Holder. A U.S. Holder that does not elect to take bond premium into account currently will recognize a capital loss when the Note matures. Any election to amortize bond premium applies to all bonds (other than bonds the interest on which is excludible from gross income for U.S. federal income tax purposes) held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and is irrevocable without the consent of the IRS.

Variable Interest Rate Notes

Notes that provide for interest at variable rates (**Variable Interest Rate Notes**) generally will bear interest at a "qualified floating rate" and thus will be treated as "variable rate debt instruments" under Treasury regulations governing accrual of OID. A Variable Interest Rate Note will qualify as a "variable rate debt instrument" if (a) its issue price does not exceed the total noncontingent principal payments due under the Variable Interest Rate Note by more than a specified *de minimis* amount, (b) it provides for stated interest, paid or compounded at least annually, at (i) one or more qualified floating rates, (ii) a single fixed rate and one or more qualified floating rates, (iii) a single objective rate, or (iv) a single fixed rate and a single objective rate that is a qualified inverse floating rate, and (c) it does not provide for any principal payments that are contingent (other than as described in (a) above).

A “qualified floating rate” is any variable rate where variations in the value of the rate can reasonably be expected to measure contemporaneous variations in the cost of newly borrowed funds in the currency in which the Variable Interest Rate Note is denominated. A fixed multiple of a qualified floating rate will constitute a qualified floating rate only if the multiple is greater than 0.65 but not more than 1.35. A variable rate equal to the product of a qualified floating rate and a fixed multiple that is greater than 0.65 but not more than 1.35, increased or decreased by a fixed rate, will also constitute a qualified floating rate. In addition, two or more qualified floating rates that can reasonably be expected to have approximately the same values throughout the term of the Variable Interest Rate Note (e.g., two or more qualified floating rates with values within 25 basis points of each other as determined on the Variable Interest Rate Note’s issue date) will be treated as a single qualified floating rate. Notwithstanding the foregoing, a variable rate that would otherwise constitute a qualified floating rate but which is subject to one or more restrictions such as a maximum numerical limitation (i.e., a cap) or a minimum numerical limitation (i.e., a floor) may, under certain circumstances, fail to be treated as a qualified floating rate.

An “objective rate” is a rate that is not itself a qualified floating rate but which is determined using a single fixed formula and which is based on objective financial or economic information (e.g., one or more qualified floating rates or the yield of actively traded personal property). A rate will not qualify as an objective rate if it is based on information that is within the control of the Republic (or a related party) or that is unique to the circumstances of the Republic (or a related party), although a rate does not fail to be an objective rate merely because it is based on the credit quality of the Republic. Other variable interest rates may be treated as objective rates if so designated by the IRS in the future. Despite the foregoing, a variable rate of interest on a Variable Interest Rate Note will not constitute an objective rate if it is reasonably expected that the average value of the rate during the first half of the Variable Interest Rate Note’s term will be either significantly less than or significantly greater than the average value of the rate during the final half of the Variable Interest Rate Note’s term. A “qualified inverse floating rate” is any objective rate where the rate is equal to a fixed rate minus a qualified floating rate, as long as variations in the rate can reasonably be expected to inversely reflect contemporaneous variations in the qualified floating rate. If a Variable Interest Rate Note provides for stated interest at a fixed rate for an initial period of one year or less followed by a variable rate that is either a qualified floating rate or an objective rate for a subsequent period and if the variable rate on the Variable Interest Rate Note’s issue date is intended to approximate the fixed rate (e.g., the value of the variable rate on the issue date does not differ from the value of the fixed rate by more than 25 basis points), then the fixed rate and the variable rate together will constitute either a single qualified floating rate or objective rate, as the case may be.

A qualified floating rate or objective rate in effect at any time during the term of the instrument must be set at a “current value” of that rate. A “current value” of a rate is the value of the rate on any day that is no earlier than three months prior to the first day on which that value is in effect and no later than one year following that first day.

If a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof qualifies as a “variable rate debt instrument”, then any stated interest on the Note which is unconditionally payable in cash or property (other than debt instruments of the Republic) at least annually will constitute qualified stated interest and will be taxed accordingly. Thus, a Variable Interest Rate Note that provides for stated interest at either a single qualified floating rate or a single objective rate throughout the term thereof and that qualifies as a “variable rate debt instrument” will generally not be treated as having been issued with OID unless the Variable Interest Rate Note is issued at a “true” discount (i.e., at a price below the Note’s stated principal amount) in excess of a specified *de minimis* amount. OID on a Variable Interest Rate Note arising from “true” discount is allocated to an accrual period using the constant yield method described above by assuming that the variable rate is a fixed rate equal to (i) in the case of a qualified floating rate or qualified inverse floating rate, the value, as of the issue date, of the qualified floating rate or qualified inverse floating rate, or (ii) in the case of an objective rate (other than a qualified inverse floating rate), a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note.

In general, any other Variable Interest Rate Note that qualifies as a “variable rate debt instrument” will be converted into an “equivalent” fixed rate debt instrument for purposes of determining the amount and accrual of OID and qualified stated interest on the Variable Interest Rate Note. Such a Variable Interest Rate Note must be converted into an “equivalent” fixed rate debt instrument by substituting any qualified floating rate or qualified inverse floating rate provided for under the terms of the Variable Interest Rate Note with a fixed rate equal to the value of the qualified floating rate or qualified inverse floating rate, as the case may be, as of the Variable Interest Rate Note’s issue date. Any objective rate (other than a qualified inverse floating rate) provided for under the terms of the Variable Interest Rate Note is converted into a fixed rate that reflects the yield that is reasonably expected for the Variable Interest Rate Note. In the case of a Variable Interest Rate Note that qualifies as a

"variable rate debt instrument" and provides for stated interest at a fixed rate in addition to either one or more qualified floating rates or a qualified inverse floating rate, the fixed rate is initially converted into a qualified floating rate (or a qualified inverse floating rate, if the Variable Interest Rate Note provides for a qualified inverse floating rate). Under these circumstances, the qualified floating rate or qualified inverse floating rate that replaces the fixed rate must be such that the fair market value of the Variable Interest Rate Note as of the Variable Interest Rate Note's issue date is approximately the same as the fair market value of an otherwise identical debt instrument that provides for either the qualified floating rate or qualified inverse floating rate rather than the fixed rate. Subsequent to converting the fixed rate into either a qualified floating rate or a qualified inverse floating rate, the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument in the manner described above.

Once the Variable Interest Rate Note is converted into an "equivalent" fixed rate debt instrument pursuant to the foregoing rules, the amount of OID and qualified stated interest, if any, are determined for the "equivalent" fixed rate debt instrument by applying the general OID rules to the "equivalent" fixed rate debt instrument and a U.S. Holder of the Variable Interest Rate Note will account for the OID and qualified stated interest as if the U.S. Holder held the "equivalent" fixed rate debt instrument. In each accrual period, appropriate adjustments will be made to the amount of qualified stated interest or OID assumed to have been accrued or paid with respect to the "equivalent" fixed rate debt instrument in the event that these amounts differ from the actual amount of interest accrued or paid on the Variable Interest Rate Note during the accrual period.

If a Variable Interest Rate Note, such as a Note the payments on which are determined by reference to an index, does not qualify as a "variable rate debt instrument", then the Variable Interest Rate Note will be treated as a contingent payment debt obligation. See "Contingent Payment Debt Instruments" below for a discussion of the U.S. federal income tax treatment of such Notes.

Contingent Payment Debt Instruments

Certain Series of Notes may be treated as "contingent payment debt instruments" for U.S. federal income tax purposes (**Contingent Notes**). Under applicable U.S. Treasury regulations, interest on Contingent Notes will be treated as OID, and must be accrued on a constant-yield basis based on a yield to maturity that reflects the rate at which the Republic would issue a comparable fixed-rate non-exchangeable instrument (the **comparable yield**), in accordance with a projected payment schedule. This projected payment schedule must include each non-contingent payment on the Contingent Notes and an estimated amount for each contingent payment, and must produce the comparable yield.

The Republic is required to provide to holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments on Contingent Notes. This schedule must produce the comparable yield. The comparable yield and projected payment schedule will be available from the Republic by submitting a written request for such information.

THE COMPARABLE YIELD AND PROJECTED PAYMENT SCHEDULE WILL NOT BE DETERMINED FOR ANY PURPOSE OTHER THAN FOR THE DETERMINATION OF INTEREST ACCRUALS AND ADJUSTMENTS THEREOF IN RESPECT OF CONTINGENT NOTES FOR UNITED STATES FEDERAL INCOME TAX PURPOSES AND WILL NOT CONSTITUTE A PROJECTION OR REPRESENTATION REGARDING THE ACTUAL AMOUNTS PAYABLE TO THE HOLDERS OF THE NOTES.

The use of the comparable yield and the calculation of the projected payment schedule will be based upon a number of assumptions and estimates and will not be a prediction, representation or guarantee of the actual amounts of interest that may be paid to a U.S. Holder or the actual yield of the Contingent Notes. A U.S. Holder will generally be bound by the comparable yield and the projected payment schedule determined by the Republic, unless the U.S. Holder determines its own comparable yield and projected payment schedule and explicitly discloses such schedule to the IRS, and explains to the IRS the reason for preparing its own schedule. The Republic's determination, however, is not binding on the IRS, and it is possible that the IRS could conclude that some other comparable yield or projected payment schedule should be used instead.

A U.S. Holder of a Contingent Note will generally be required to include OID in income pursuant to the rules discussed under "*Original Issue Discount — General*" above, applied to the projected payment schedule. The "adjusted issue price" of a Contingent Note at the beginning of any accrual period is the issue price of the Note increased by the amount of accrued OID for each prior accrual period, and decreased by the projected

amount of any payments on the Note. No additional income will be recognized upon the receipt of payments of stated interest in amounts equal to the annual payments included in the projected payment schedule described above. Any differences between actual payments received by the U.S. Holder on the Notes in a taxable year and the projected amount of those payments will be accounted for as additional interest (in the case of a positive adjustment) or as an offset to interest income in respect of the Note (in the case of a negative adjustment), for the taxable year in which the actual payment is made. If the negative adjustment for any taxable year exceeds the amount of OID on the Contingent Note for that year, the excess will be treated as an ordinary loss, but only to the extent the U.S. Holder's total OID inclusions on the Contingent Note exceed the total amount of any ordinary loss in respect of the Contingent Note claimed by the U.S. Holder under this rule in prior taxable years. Any negative adjustment that is not allowed as an ordinary loss for the taxable year is carried forward to the next taxable year, and is taken into account in determining whether the U.S. Holder has a net positive or negative adjustment for that year. However, any negative adjustment that is carried forward to a taxable year in which the Contingent Note is sold, exchanged or retired, to the extent not applied to OID accrued for such year, reduces the U.S. Holder's amount realized on the sale, exchange or retirement.

Short-Term Notes

In general, an individual or other cash basis U.S. Holder of a Note with a term of one year or less is not required to accrue OID (calculated as set forth below for the purposes of this paragraph) for U.S. federal income tax purposes unless it elects to do so (but may be required to include any stated interest in income as the interest is received). Accrual basis U.S. Holders and certain other U.S. Holders are required to accrue OID on Short-Term Notes on a straight-line basis or, if the U.S. Holder so elects, under the constant-yield method (based on daily compounding). In the case of a U.S. Holder not required and not electing to include OID in income currently, any gain realized on the sale or other disposition of the Short-Term Note will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or other disposition. U.S. Holders who are not required and do not elect to accrue OID on Short-Term Notes will be required to defer deductions for interest on borrowings allocable to Short-Term Notes in an amount not exceeding the deferred income until the deferred income is realized.

For purposes of determining the amount of OID subject to these rules, all interest payments on a Short-Term Note are included in the Short-Term Note's stated redemption price at maturity. A U.S. Holder may elect to determine OID on a Short-Term Note as if the Short Term Note had been originally issued to the U.S. Holder at the U.S. Holder's purchase price for the Short-Term Note. This election shall apply to all obligations with a maturity of one year or less acquired by the U.S. Holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS.

Sale and Retirement of the Notes

U.S. dollar Notes Other than Contingent Notes

A U.S. Holder's tax basis in a Note will generally be its cost, increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID and *de minimis* market discount included in the U.S. Holder's income with respect to the Note, and reduced by (i) the amount of any payments that are not qualified stated interest payments, and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note.

A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and the tax basis of the Note. The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. Except to the extent described above under "*Original Issue Discount — Market Discount*" or "*Original Issue Discount — Short Term Notes*" or attributable to changes in exchange rates (as discussed below), gain or loss recognized on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period in the Notes exceeds one year.

Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Therefore, a U.S. Holder may have insufficient foreign source income to utilize foreign tax credits attributable to any Indonesian withholding tax imposed on a sale or disposition. Prospective purchasers should consult their tax advisors as to the availability of and limitations on any foreign tax credit attributable to this Indonesian withholding tax.

Foreign Currency Notes Other than Contingent Notes

A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Note equal to the difference between the amount realized on the sale or retirement and the tax basis of the Note. A U.S. Holder's tax basis in a Note will generally be its U.S. dollar cost (as defined below) increased by the amount of any OID or market discount included in the U.S. Holder's income with respect to the Note and reduced by (i) the amount of any principal paid on the Note, and (ii) the amount of any amortizable bond premium applied to reduce interest on the Note. The U.S. dollar cost of a Note purchased with foreign currency will generally be the U.S. dollar value of the purchase price on the date of purchase, or the settlement date for the purchase, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). The amount realized does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income. The amount realized on a sale or retirement for an amount in foreign currency will be the U.S. dollar value of this amount on the date of sale or retirement, or the settlement date for the sale, in the case of Notes traded on an established securities market, as defined in the applicable Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects). Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

A U.S. Holder will recognize U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's purchase price for the Note (or, if less, the principal amount of the Note) (i) on the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss (including any exchange gain or loss with respect to the receipt of accrued but unpaid interest) will be realized only to the extent of total gain or loss realized on the sale or retirement. Except to the extent described above under "*Original Issue Discount — Market Discount*" above or changes in exchange rates, gain or loss recognized by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realized by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source.

U.S. dollar Denominated Contingent Notes

In general, any gain recognized by a U.S. Holder on the sale, or retirement of a U.S. dollar denominated Contingent Note is interest income. Any loss so recognized by a U.S. Holder is generally ordinary loss to the extent that the total interest inclusions on such Contingent Note exceed the total net negative adjustments the U.S. Holder already accounted for as ordinary loss. Any additional loss is treated as loss from the sale, or retirement of such Contingent Note. If at the time of the sale, or retirement there are no remaining contingent payments due on such Contingent Note under the projected payment schedule, then any gain or loss recognized by the U.S. Holder is generally treated as gain or loss from the sale, or retirement of the Contingent Note.

For purposes of determining the amount realized by a U.S. Holder on the scheduled retirement of a Contingent Note, a U.S. Holder is treated as receiving the projected amount of any contingent payment due at maturity. If the amount received is different from the projected amount, the difference is treated as a positive or negative adjustment, as discussed above. The amount realized by a U.S. Holder on the retirement of a Contingent Note is reduced by any negative adjustment carryforward determined in the taxable year of the retirement. An unscheduled retirement of a Contingent Note (or the receipt of a pro-rata payment that is treated as a retirement of a portion of a Contingent Note) is treated as a repurchase of the Contingent Note by the issuer from the U.S. Holder for the amount paid. Gain or loss realized by a U.S. Holder on the sale or retirement of a Contingent Note will generally be foreign source. Prospective purchasers should consult their tax advisors as to the foreign tax credit implications of the sale or retirement of Contingent Notes.

Foreign Currency Denominated Contingent Notes

A U.S. Holder will generally recognize gain or loss on the sale or retirement of a Contingent Note equal to the difference between the amount realized on the sale or retirement and the U.S. Holder's tax basis in the Contingent Note. A U.S. Holder's tax basis in a Foreign Currency Denominated Contingent Note will equal (i) the cost thereof (translated into U.S. dollars at the spot rate on the issue date or the date the Contingent Note was purchased), (ii) increased by the amount of OID previously accrued on the Contingent Note (disregarding any positive or negative adjustments and translated into U.S. dollars using the exchange rate applicable to such OID) and (iii) decreased by the projected amount of all prior payments in respect of such Contingent Note. The

U.S. dollar amount of the projected payments described in clause (iii) of the preceding sentence is determined by (i) first allocating the payments to the most recently accrued OID to which prior amounts have not already been allocated and translating those amounts into U.S. dollars at the rate at which the OID was accrued and (ii) then allocating any remaining amount to principal and translating such amount into U.S. dollars at the spot rate on the date the Contingent Note was acquired by the U.S. Holder. For this purpose, any accrued OID reduced by a negative adjustment carry forward will be treated as principal.

The amount realized by a U.S. Holder upon the sale or retirement of a Foreign Currency Denominated Contingent Note will equal the amount of cash and the fair market value (determined in foreign currency) of any property received. If a U.S. Holder holds such a Contingent Note until its scheduled maturity, the U.S. dollar equivalent of the amount realized will be determined by separating such amount realized into principal and one or more OID components, based on the principal and OID comprising the U.S. Holder's basis, with the amount realized allocated first to OID (and allocated to the most recently accrued amounts first) and any remaining amounts allocated to principal. The U.S. dollar equivalent of the amount realized upon a sale or unscheduled retirement of such a Contingent Note will be determined in a similar manner, but will first be allocated to principal and then any accrued OID (and will be allocated to the earliest accrued amounts first). Each component of the amount realized will be translated into U.S. dollars using the exchange rate used with respect to the corresponding principal or accrued OID. The amount of any gain realized upon a sale or unscheduled retirement of such a Contingent Note will be equal to the excess of the amount realized over the holder's tax basis, both expressed in foreign currency, and will be translated into U.S. dollars using the spot rate on the payment date. Gain from the sale or retirement of such a Contingent Note will generally be treated as interest income taxable at ordinary income (rather than capital gains) rates. Any loss will be ordinary loss to the extent that the U.S. Holder's total OID inclusions to the date of sale or retirement exceed the total net negative adjustments that the U.S. Holder took into account as ordinary loss, and any further loss will be capital loss. Gain or loss realized by a U.S. Holder on the sale or retirement of a Contingent Note will generally be foreign source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Contingent Notes.

A U.S. Holder will also recognize U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the receipt of foreign currency in respect of such a Contingent Note if the exchange rate in effect on the date the payment is received differs from the rate applicable to the principal or accrued OID to which such payment relates.

Disposition of Foreign Currency

Foreign currency received as interest on a Note or on the sale or retirement of a Note will have a tax basis equal to its U.S. dollar value at the time the foreign currency is received. Foreign currency that is purchased will generally have a tax basis equal to the U.S. dollar value of the foreign currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a foreign currency (including its use to purchase Notes or upon exchange for U.S. dollars) will be U.S. source ordinary income or loss.

Backup Withholding and Information Reporting

Payments of principal, interest and accruals of OID on, and the proceeds of sale or other disposition of Notes by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments, including payments of OID, if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to report all interest and dividends required to be shown on its U.S. federal income tax returns. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Individual U.S. Holders may be required to report to the IRS certain information with respect to their beneficial ownership of certain foreign financial assets, such as the Notes, if the aggregate value of such assets exceeds U.S.$50,000 on the last day of the taxable year or an aggregate value in excess of $75,000 at any time during the taxable year (or, in certain circumstances, higher thresholds) and the Notes are not held in an account at a financial institution (in which case the account maintained by the financial institution may be reportable). U.S. Holders who fail to report required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of the information reporting and backup withholding rules to their particular circumstances.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders. In the event the acquisition, holding or disposition of Notes constitutes participation in a reportable transaction for purposes of these rules, a U.S. Holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Accordingly, if a U.S. Holder realizes a loss on any Note (or, possibly, aggregate losses from the Notes) satisfying the monetary thresholds discussed above, the U.S. Holder could be required to file an information return with the IRS, and failure to do so may subject the U.S. Holder to the penalties described above. In addition, the Republic and its advisors may also be required to disclose the transaction to the IRS, and to maintain a list of U.S. Holders, and to furnish this list and certain other information to the IRS upon written request. Prospective purchasers are urged to consult their tax advisors regarding the application of these rules to the acquisition, holding or disposition of Notes.

Prospective purchasers of Notes are advised to consult their own tax advisors as to the consequences of a purchase, ownership and disposition of Notes, including, without limitation: (i) the applicability and effect of any state, local or non-U.S. tax laws to which they may be subject and of any legislative or administrative changes in law; (ii) the U.S. federal income tax consequences of the Republic withholding of any foreign withholding taxes; and (iii) the availability of a credit or deduction of any foreign withholding taxes.

SUBSCRIPTION AND SALE

Summary of Program Agreement

Subject to the terms and on the conditions contained in a program agreement dated January 28, 2009 amended and as supplemented from time to time (the **Program Agreement**) between the Republic, the Dealers and the Arrangers, the Notes may be offered on a continuous basis by the Republic to the Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer(s). The Notes may also be sold by the Republic through the Dealers, acting as agents of the Republic. The Program Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally or severally underwritten by two or more Dealers.

The Republic will pay the relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Republic has agreed to reimburse each of the Arrangers for certain of its expenses incurred in connection with the establishment of the Program and the Dealers for certain of their activities in connection with the Program.

The Republic has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes including liabilities under the Securities Act. The Program Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Republic.

Other Relationships

The Dealers and the Arrangers and certain of their affiliates may from time to time engage in transactions with and perform services for the Republic in the ordinary course of their business.

The Dealers and the Arrangers or certain of their respective affiliates may purchase Notes and be allocated Notes for asset management and/or proprietary purposes and not with a view to distribution.

Selling Restrictions

The Notes have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Republic, the Dealers or any other person that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Circular or any supplement hereto or thereto, or any other offering material relating to the Republic or the Notes, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of Notes, and the delivery of this Offering Circular, are restricted by law in certain jurisdictions and Notes may not be offered or sold, and this Offering Circular may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

Without limiting the foregoing, prospective purchasers of Notes should be aware of the following restrictions:

United States of America

The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. Each Dealer has agreed, and each further Dealer appointed under the Program will be required to agree, that it will not offer or sell any Notes within the United States, except as permitted by the Program Agreement.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

The Notes are being offered and sold outside the United States in reliance on Regulation S. The Program Agreement provides that the Dealers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

In addition, until 40 days after the commencement of the offering of any identifiable Tranche of Notes, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering of such Tranche of Notes) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

This Offering Circular has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States and for the resale of the Notes in the United States. The Issuer and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States, other than any qualified institutional buyer within the meaning of Rule 144A to whom an offer has been made directly by one of the Dealers or its U.S. broker-dealer affiliate. Distribution of this Offering Circular by any person outside the United States or by any qualified institutional buyer in the United States to any person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such persons with respect thereto, is unauthorized and any disclosure without the prior written consent of the Issuer of any of its contents to any such person within the United States, other than any qualified institutional buyer and those persons, if any, retained to advise such persons, is prohibited.

United Kingdom

Each Dealer has represented and agreed that:

(a) in relation to any Notes having a maturity of less than one year (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Hong Kong

In relation to each Tranche of Notes issued by the Republic, each Dealer has represented and agreed that it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed that it has not directly or indirectly offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each such Member State, a **Relevant Member State**), each Dealer has represented and agreed that

with effect from (and including) the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a **Non-exempt Offer**), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable, and the issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any of the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

Singapore

This Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore, and the Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**). Accordingly, each Dealer has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the SFA, (b) to a relevant person under Section 275(1) of the SFA, or to any person pursuant to 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 of the SFA except:

(i) to an institutional investor, or to a relevant person defined in Section 275(2) of the SFA, (in the case of a corporation) where the transfer arises from an offer referred to in Section 276(3)(i)(B) of the SFA or (in the case of a trust) where the transfer arises from an offer referred to in Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) pursuant to Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investment) (Shares and Debentures) Regulations 2005 of Singapore.

General

Each Dealer has agreed or will agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Offering Circular and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Republic nor any other Dealer shall have any responsibility therefor.

Neither the Republic nor any of the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer(s) will be required to comply with such other additional restrictions as the Republic and the relevant Dealer(s) shall agree and as shall be set forth in the applicable Pricing Supplement.

Purchasers of Notes sold by the Dealers may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price and accrued interest, if any.

Each Series or Tranche of Notes is a new issue of securities with no established trading market. Any one or more of the Dealers may make a market in the Notes, but are not obliged to do so and may discontinue any market-marking, if commenced, at any time without notice. No assurance can be given as to the liquidity of the trading markets for the Notes.

Stabilization

In connection with the Issue of Notes in any Series or Tranche under the Program, the Dealer or Dealers (if any) named as the Stabilizing Manager(s) (or persons acting on behalf of any Stabilizing Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes in such a Series at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Manager (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Any stabilization will be conducted in accordance with all applicable laws and regulations.

GENERAL INFORMATION

Contact Information

The Republic can be contacted through the Ministry of Finance of the Republic of Indonesia, Jl. Lapangan Banteng Timur No. 2-4, Jakarta 10710.

Listing of Notes on the SGX-ST

Application will be made to the SGX-ST for permission to deal in and quotation of any Notes that may be issued pursuant to the Program and which are agreed at or prior to the time of issue thereof to be so listed on the SGX-ST. However, Notes may be issued under the Program that will not be listed on the SGX-ST or any other stock exchange, and the Pricing Supplement applicable to each Series or Tranche of Notes will specify whether or not the Notes will be listed on the SGX-ST or any other stock exchange.

Authorizations

The establishment of the Program was duly authorized pursuant to Indonesia's Law No. 24 of 2002, dated October 22, 2002, regarding Government Debt Securities. Any issuance of Notes under the Program is subject to, and conditional upon, (i) the existence or adoption of a law by the Indonesian Assembly authorizing the issuance of such Notes (or the underlying borrowing) and (ii) obtaining any other necessary consents, approvals and authorizations in connection with the issuance of any such Notes.

Documents on Display

So long as Notes are capable of being issued under the Program, copies of the following documents will, when published, be available and can be obtained from the specified office of the Trustee for the time being in New York:

(a) the Program Agreement, the Indenture and the Procedures Memorandum;

(b) a copy of this Offering Circular;

(c) any future offering circulars, offering memoranda, prospectuses, information memoranda and supplements, including the Pricing Supplement (except that a Pricing Supplement relating to unlisted Notes will only be available for inspection by a Holder of such Note and such Holder must produce evidence satisfactory to the Trustee as to the identity of such Holder) to this Offering Circular and any other documents incorporated herein or therein by reference; and

(d) in the case of each issue of Notes subscribed pursuant to a subscription agreement, such subscription agreement (or equivalent document).

In addition, a copy of the documents set out in (b) and (c) above can be obtained free of charge from the specified office of the relevant Paying Agent where so required by the rules of the relevant stock exchange on which any Series or Tranche of Notes is to be listed.

This Offering Circular and Pricing Supplement for Notes listed on the SGX-ST will be published on the website of the SGX-ST, being www.sgx.com.

Clearing Systems

The appropriate common code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, upon acceptance into their respective clearing systems, will be specified in the applicable Pricing Supplement. In addition, the Republic will make an application for any Restricted Securities to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS and/or Common Code and/or the ISIN for each Series of Notes will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Pricing Supplement.

Litigation

The Republic is not nor has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Republic is aware) which may have, or have had in the 12 months preceding the date of this document, significant effects on the Republic's financial position.

Significant Change

Except as disclosed in this Offering Circular, there has been no significant adverse change in the information set out in this Offering Circular under "*Republic of Indonesia*" since the applicable dates of such information. There have been no recent events relevant to the evaluation of the Republic's solvency.

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